

**FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2008**



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



**FINANCIAL STATEMENTS – JUNE 30, 2008  
STATE OF IDAHO ENDOWMENT FUNDS**

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## INDEPENDENT AUDITORS' REPORT

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To the 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"), a component unit of the State of Idaho, as of and for the year ended June 30, 2008, 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. 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 respective financial position State of Idaho Endowment Funds administered by the EFIB, as of June 30, 2008, 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 September 04, 2008, on our consideration of the EFIB's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal 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 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 financial statements that collectively comprise the EFIB's basic financial statements. The accompanying financial information listed as supplemental schedules in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The schedules on pages 31 through 33 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 schedules on pages 34 through 36 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Eide Bailly LLP*

Boise, Idaho  
September 04, 2008

# STATE OF IDAHO ENDOWMENT FUNDS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

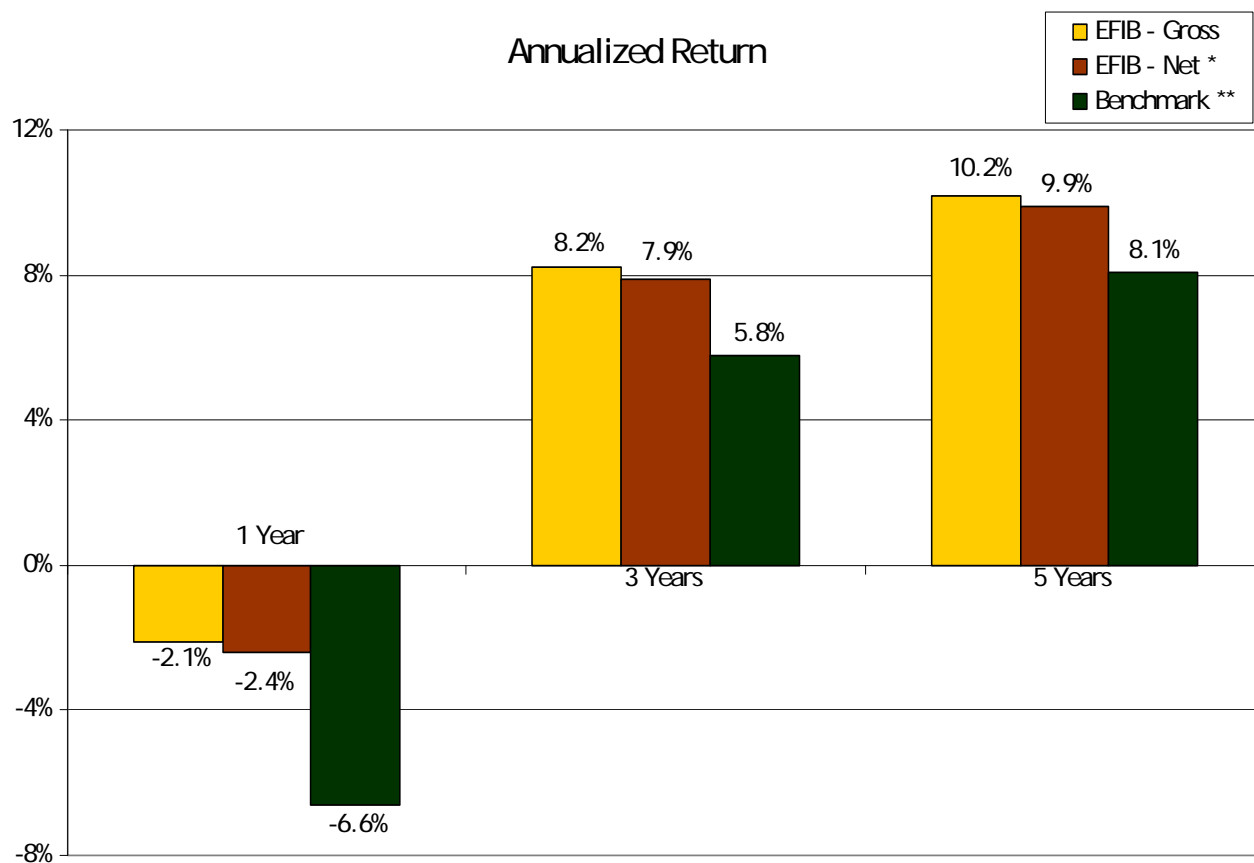
### FOR THE YEAR ENDED JUNE 30, 2008

This discussion and analysis of the State of Idaho Endowment Funds' (the Endowment Funds) financial performance provides a summary of the financial activities of the manager of the Endowment Funds, the Endowment Fund Investment Board (the EFIB), for the year ended June 30, 2008.

### FINANCIAL HIGHLIGHTS

#### *Total of the Endowment Funds*

- Net assets decreased \$12.4 million, which represents a 1.1% decrease from fiscal year 2007.
- Receipts to Earnings Reserve from endowment lands, net of one-time transfers, declined to \$70.0 million, a 1.5% decrease from fiscal year 2007.
- Net distributions to beneficiaries, excluding the Capitol Commission, increased 7.8% in fiscal year 2008 from \$35.8 million in fiscal year 2007 to \$38.6 million.
- Total investment return, before fees, was -2.1% in fiscal year 2008, compared to 16.6% in fiscal year 2007 and 10.9% in fiscal year 2006.



\* Net returns are net of outside investment manager fees (approximately .30% in 2008). The ratio of total fiscal year 2008 EFIB expenses to year-end net assets was .38%.

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



# STATE OF IDAHO ENDOWMENT FUNDS MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2008

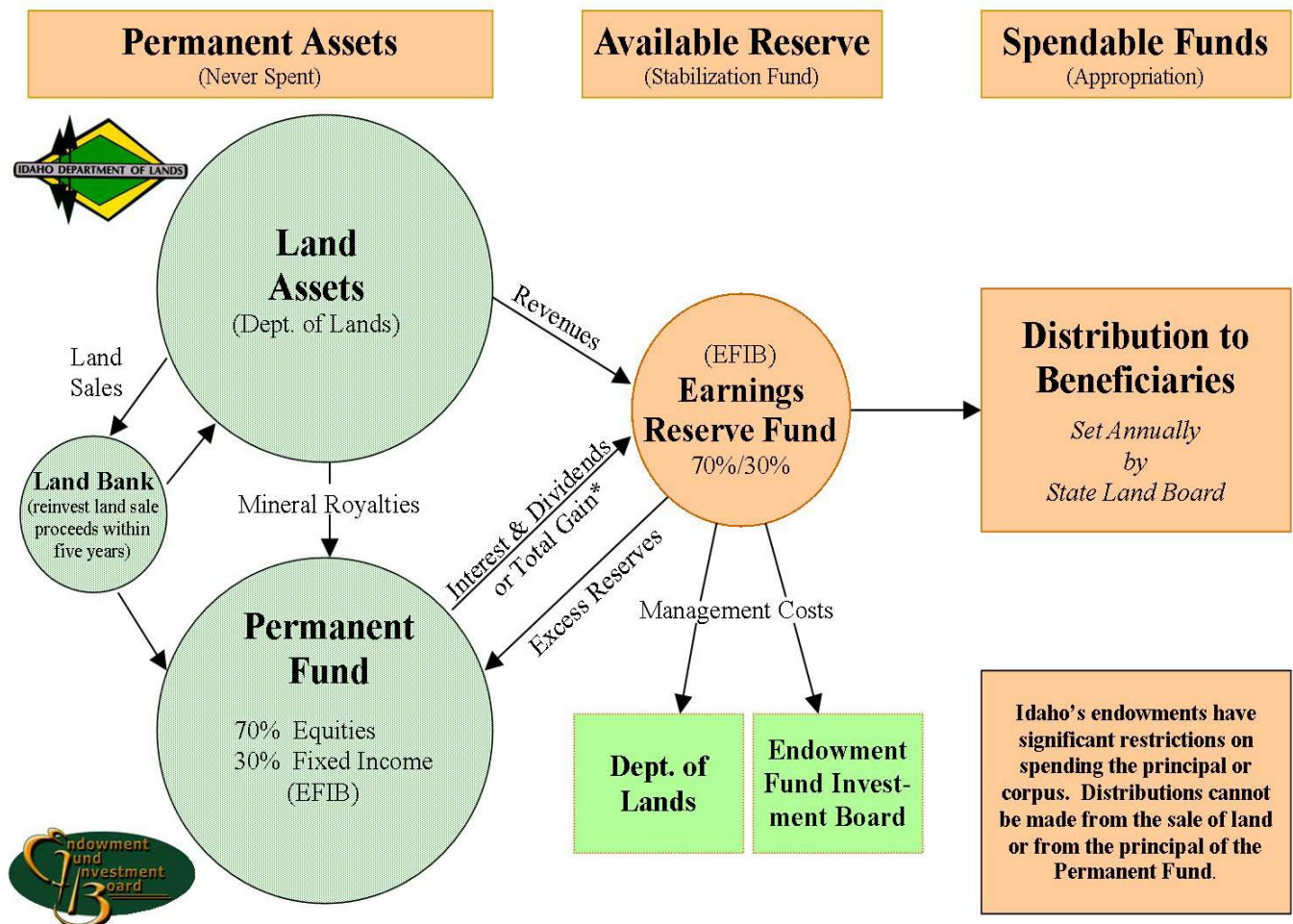
## PURPOSE OF THE STATE OF IDAHO ENDOWMENT FUNDS

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

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

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

## STRUCTURE OF IDAHO'S ENDOWMENT ASSETS



\* 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  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008**

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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 land grant endowment funds of the state. In addition to managing the State of Idaho Endowment Funds, the EFIB also oversees the investments of the State Insurance Fund, the Judges' Retirement Fund, and the Ritter Island Endowment Fund.

**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 Funds, 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 Endowment 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.

*Total of the Endowment Funds*

The total of the Endowment Funds combines the assets of nine different endowments. For all endowments, except Capitol Permanent, distributions are pre-determined based on the distribution policy of the State Board of Land Commissioners. The 2007 Idaho Legislature passed House Bill 258 to appropriate the fiscal year 2008 distributions to the beneficiary institutions. For the Capitol Permanent Fund, the EFIB approved a distribution of \$467,109 in fiscal year 2008.

During fiscal year 2007, the EFIB became aware of a federal law, the Morrill Act adopted in 1862 that places restrictions on Idaho's Agricultural College endowment. As a result, in June 2007, investments of the Agricultural College Endowment Fund were removed from the account in which endowment funds are pooled for investment pursuant to *Idaho Code* Section 57-270 and placed in a separate account with a different asset mix. Federal legislation was enacted in August 2007 that removed the relevant restrictions allowing the EFIB to move all Agricultural College funds back to the pooled investment account. The investment return for the Agricultural College fund was -0.4% in FY 2008 compared to -2.1% for the endowment funds invested in the general pool.

**STATE OF IDAHO ENDOWMENT FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008**

The table below highlights the total distributions of the Endowment Funds, by beneficiary:

**Total Fund Distributions**

	2008	2007
Agricultural College	\$ 725,000	\$ 661,200
Charitable Institutions	2,582,000	2,361,300
Normal School	2,310,000	2,115,700
Penitentiary	728,000	809,300
School of Science	2,138,000	2,375,800
State Hospital South	1,149,000	1,051,500
University of Idaho	1,990,000	1,822,600
Public School	26,995,000	24,648,200
Subtotal	38,617,000	35,845,600
Capitol Permanent Fund	467,109	413,132
<b>Total Net Distributions</b>	<b>\$ 39,084,109</b>	<b>\$ 36,258,732</b>

**Statements of Net Assets**

	2008	2007
Current Assets, excluding securities lending	\$ 1,130,232,417	\$ 1,145,044,120
Securities Lending Collateral	146,844,067	159,382,138
Total Current Assets	1,277,076,484	1,304,426,258
Liabilities, excluding securities lending	4,616,007	7,041,077
Securities Lending Collateral	146,844,067	159,382,138
Total Current Liabilities	151,460,074	166,423,215
Net Assets-Permanent Funds	934,716,407	978,213,668
Net Assets-Earnings Reserve	190,900,003	159,789,375
<b>Total Net Assets</b>	<b>\$ 1,125,616,410</b>	<b>\$ 1,138,003,043</b>



**STATE OF IDAHO ENDOWMENT FUNDS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

**Statements of Activities**

	2008	2007
Program Revenues		
Land Department Receipts		
Permanent Receipts	\$ 5,083,834	\$ 5,739,561
Earnings Reserve Receipts	70,004,138	71,080,864
Income from Investments	33,057,065	28,815,640
Increase/Decrease in Value of Investments	(56,991,567)	132,692,126
Total Program Revenues	51,153,470	238,328,191
Program Expenses		
Distribution to Beneficiaries	39,084,109	36,258,732
Distribution for Expenses-Lands	20,213,447	17,128,001
Distribution for Expenses-EFIB	4,205,423	4,181,977
Total Program Expenses	63,502,979	57,568,710
Increase/Decrease in Net Assets before Transfers	(12,349,509)	180,759,481
Transfers of Dedicated Funds	(37,370)	7,409,273
Net Program Revenue/Change in Net Assets	\$ (12,386,879)	\$ 188,168,754

Revenues reflect all receipts from endowment lands and total income from investments. During fiscal year 2008, land revenues decreased by 2.3%. During the same period, income from investments increased 14.7% due primarily to a higher average invested balance in 2008 compared to 2007. Capital losses totaled \$57.0 million due primarily to a 9.7% decline in the U.S. equity portfolio.

Total expenses reflect distributions to beneficiaries as well as expenses paid. The fiscal year 2008 distribution to beneficiaries, including the Capitol Commission, of \$39.1 million represented a 7.8% increase. The distributions for expenses reflects the expenses paid by the EFIB to the Department of Lands for its expenses associated with the management of the lands and, to the EFIB, for the management of the investments of the Fund. Distributions to Lands for their expenses increased 18.0%, or \$3.1 million, in fiscal year 2008 primarily because \$1.8 million of spending for projects originally appropriated for 2007 was shifted to 2008.

Transfers of Dedicated Funds dropped in 2008 due to the one-time nature of the 2007 transfer. In fiscal year 2007, Lands received legislative approval to eliminate the Scaling Forest Products and Timber Road Maintenance dedicated accounts, which had been carried on Land's balance sheet. All fund balances associated with those accounts, as well as the balance in the Hazardous Materials dedicated fund associated with endowment lands, were transferred to the endowments' Earnings Reserves. In fiscal year 2008, Lands discovered that \$37,370 from the Hazardous Materials dedicated fund had been improperly transferred in 2007, so those funds were returned to them.

**STATE OF IDAHO ENDOWMENT FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008**

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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, or Permanent Fund, is to remain intact while distributions are permitted from the Earnings Reserve Fund. Both the Permanent and Earnings Reserve Funds are affected by market gains and losses of the Fund.

Under legislation passed by the 1998 Idaho Legislature for each endowment, an Earnings Reserve Fund was established to pay all expenses of the EFIB and the Department of 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 revenue from its lands as well as investment income. The EFIB authorizes distributions from the fund to the Capitol Commission, effective July 1 of each fiscal year. A distribution of \$467,109 was authorized by the EFIB for FY 2008 and a distribution of \$572,203 was authorized for FY 2009. However, the Capitol Commission opted not to take the FY 2009 distribution.

For endowments other than the Capitol Permanent Fund, the Board of Land Commissioners has approved, and the legislature has appropriated, the following distributions to beneficiaries for FY 2009. The FY 2010 approved distributions have not yet been appropriated and will be considered by the legislature in its 2009 session.

Senate Bill 1499 details the FY 2009 distributions to the beneficiaries:

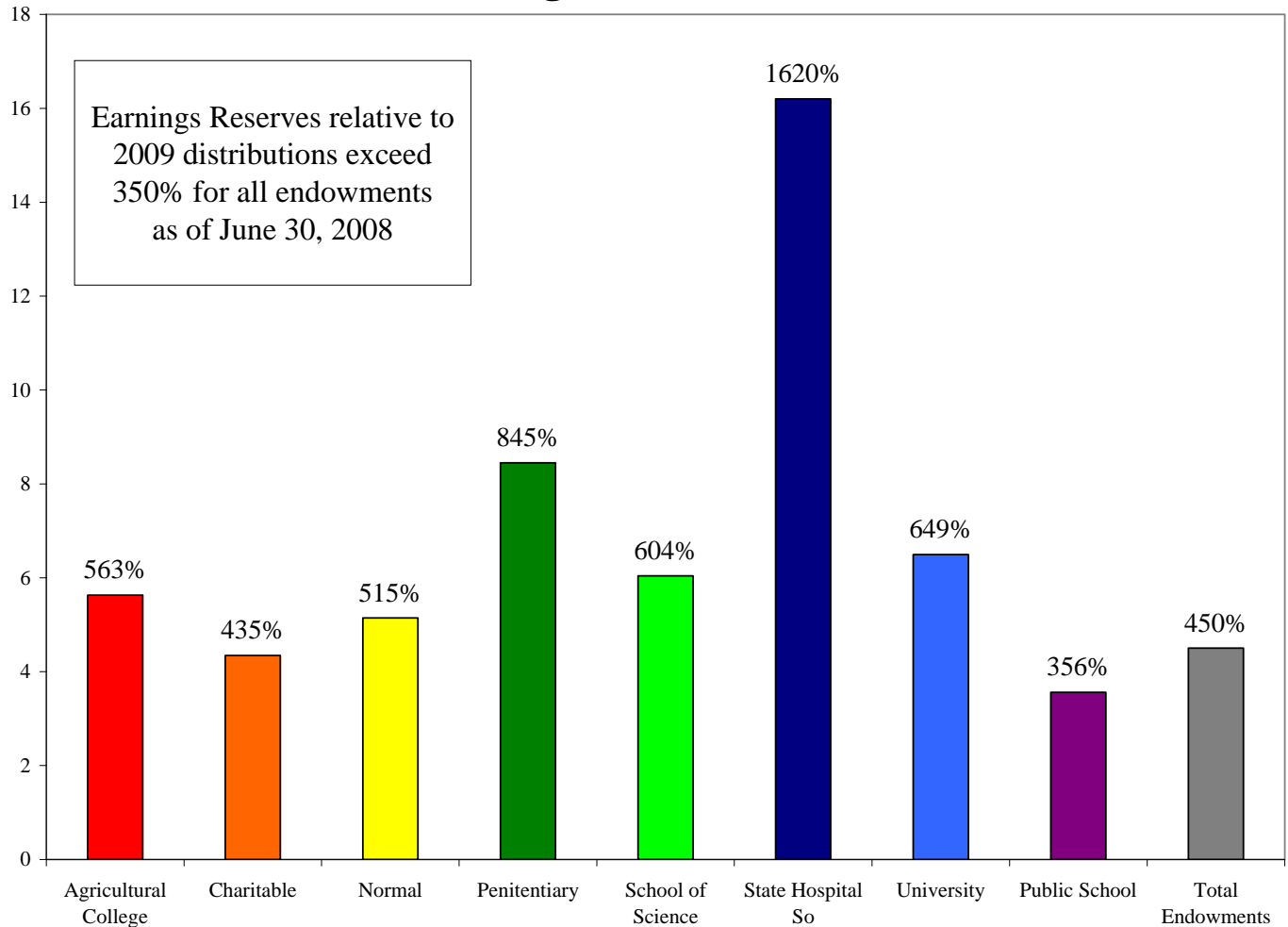
2009	
Public Schools	\$ 29,692,900
Agricultural College	794,000
Charitable Institutions	2,826,100
Normal School	2,534,100
Penitentiary	794,000
School of Science	2,332,300
State Hospital South	1,258,700
University of Idaho	2,181,000
<b>Total</b>	<b>\$ 42,413,100</b>

Even if a distribution has been approved and appropriated, it cannot be paid if there are not sufficient funds in Earnings Reserve. A measure the EFIB uses to evaluate the adequacy of reserves is the "Coverage Ratio", shown on the next page (Annual Distribution divided by Reserves). Based on these coverage ratios, the EFIB believes that Earnings Reserves are sufficient to permit payment of these distributions to all endowments in FY 2009.

**STATE OF IDAHO ENDOWMENT FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008**

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**Coverage Ratio June 2008**



In August 2008, the Board of Land Commissioners approved the transfer of certain excess Earnings Reserves to the respective Permanent fund for the Agricultural College, Penitentiary, State Hospital South and University endowments.

On July 17, 2008, the Board of Land Commissioners further clarified their distribution policy for the endowment funds. Current distributions are 5% of the three-year rolling average Permanent Fund balance, adjusted for the amount in the Earnings Reserve, transfers to the Permanent Fund, and other factors. The level of Earnings Reserves deemed adequate is five years of future distributions and any excess may be transferred from the Earnings Reserve Fund to the corresponding Permanent Fund.

**STATE OF IDAHO ENDOWMENT FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008**

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**TOTAL COST OF INVESTMENT MANAGEMENT**

In fiscal year 2008, the EFIB had cash expenditures of \$4,288,856 to manage the endowment funds.

<b>Investment Management Operating Costs</b>	<b>Expense</b>	<b>Basis Points*</b>
Internal investment oversight	\$ 271,778	2
Internal accounting	146,342	1
Outside investment manager fees	3,378,210	30
Custody expense	260,257	2
Consultant and auditor fees	232,269	2
Total Cash Expenditures	<u>4,288,856</u>	38
Less reimbursement and accrual	<u>(83,433)</u>	
Total Accrual Basis Expense	<u><b>\$ 4,205,423</b></u>	

\* Relative to total fiscal-year end 2008 assets.



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

***FINANCIAL STATEMENTS***

**JUNE 30, 2008**

**STATE OF IDAHO ENDOWMENT FUNDS**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2008**

<b>Current Assets:</b>	
Cash with Treasurer	\$ 1,153,186
Investments, at Fair Value	1,117,302,474
Receivable for Unsettled Trades	4,660,741
Receivable From Idaho Department of Lands	4,750,918
Accrued Interest and Dividends Receivable	2,365,098
Securities Lending Collateral	146,844,067
<b>Total Assets</b>	<b>1,277,076,484</b>
<b>Current Liabilities:</b>	
Securities Lending Collateral	146,844,067
Payable for Unsettled Trades	3,681,472
Investment Manager Expenses Payable	934,535
<b>Total Liabilities</b>	<b>151,460,074</b>
<b>Restricted Net Assets:</b>	
Nonexpendable Restricted Net Assets - Permanent Funds	
Agricultural College	17,558,273
Charitable Institutions	59,646,260
Normal School	53,677,330
Penitentiary	20,418,951
School of Science	60,074,869
State Hospital South	26,563,234
University of Idaho	46,002,889
Public School	633,149,828
Capitol Permanent Fund	17,624,773
<b>Total Permanent Net Assets</b>	<b>934,716,407</b>
<b>Expendable Net Assets - Earnings Reserve</b>	
Agricultural College	4,470,813
Charitable Institutions	12,280,708
Normal School	13,037,997
Penitentiary	6,707,648
School of Science	14,090,731
State Hospital South	20,390,658
University of Idaho	14,164,819
Public School	105,756,629
Total Earnings Reserve Net Assets	190,900,003
<b>Total Net Assets</b>	<b>\$ 1,125,616,410</b>



**STATE OF IDAHO ENDOWMENT FUNDS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	Public School	Agricultural College	Charitable Institutions	Normal School
<b>PERMANENT NET ASSETS</b>				
Permanent Net Assets, beginning of year	\$ 662,500,453	\$ 17,740,425	\$ 62,769,934	\$ 56,370,079
Program Revenues:				
Receipts from Dept. of Lands	4,090,835	815	36,818	146,907
Net Decrease in Fair Value of Investments	(33,441,460)	(182,967)	(3,160,492)	(2,839,656)
Capitol Permanent Fund Income	-	-	-	-
Capitol Permanent Distributions	-	-	-	-
Decrease in Net Assets	(29,350,625)	(182,152)	(3,123,674)	(2,692,749)
Permanent Net Assets, end of year	633,149,828	17,558,273	59,646,260	53,677,330
<b>EARNINGS RESERVE ASSETS</b>				
Earnings Reserve Net Assets, beginning of year	97,712,127	3,262,575	8,503,804	9,259,661
Program Revenues:				
Receipts from Dept. of Lands	35,579,622	1,624,711	6,090,044	6,376,884
Net Decrease in Fair Value of Investments	(4,986,543)	(56,313)	(487,878)	(531,523)
Income from Investments	21,854,908	689,907	2,086,459	1,910,906
Total Program Revenues	52,447,987	2,258,305	7,688,625	7,756,267
Program Expenses:				
Distribution for Expenses-Lands	14,547,341	249,975	1,056,806	1,418,559
Distribution for Expenses-EFIB	2,833,942	74,568	270,703	247,831
Distributions to Beneficiaries	26,995,000	725,000	2,582,000	2,310,000
Total Program Expenses	44,376,283	1,049,543	3,909,509	3,976,390
Transfer of Hazard, Scaling, Roads	(27,202)	(524)	(2,212)	(1,541)
Increase in Net Assets	8,044,502	1,208,238	3,776,904	3,778,336
Earnings Reserve Net Assets, end of year	105,756,629	4,470,813	12,280,708	13,037,997
<b>TOTAL NET ASSETS</b>	<b>\$ 738,906,457</b>	<b>\$ 22,029,086</b>	<b>\$ 71,926,968</b>	<b>\$ 66,715,327</b>

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

Penitentiary	School of Science	State Hospital South	University of Idaho	*Capitol Permanent Fund	Total
\$ 21,500,739	\$ 63,229,900	\$ 27,966,828	\$ 48,433,254	\$ 17,702,056	\$ 978,213,668
347	27,863	4,042	7,444	768,763	5,083,834
(1,082,135)	(3,182,894)	(1,407,636)	(2,437,809)	(887,378)	(48,622,427)
-	-	-	-	508,441	508,441
-	-	-	-	(467,109)	(467,109)
(1,081,788)	(3,155,031)	(1,403,594)	(2,430,365)	(77,283)	(43,497,261)
20,418,951	60,074,869	26,563,234	46,002,889	17,624,773	934,716,407
4,260,712	10,058,890	14,807,349	11,924,257		159,789,375
3,174,788	5,883,220	7,180,057	4,094,812		70,004,138
(256,658)	(572,676)	(838,560)	(638,989)		(8,369,140)
784,088	2,169,065	1,294,953	1,758,338		32,548,624
3,702,218	7,479,609	7,636,450	5,214,161		94,183,622
424,755	1,026,321	735,700	753,990		20,213,447
101,585	281,248	167,483	228,062		4,205,422
728,000	2,138,000	1,149,000	1,990,000		38,617,000
1,254,340	3,445,569	2,052,183	2,972,052		63,035,869
(942)	(2,199)	(958)	(1,547)		(37,125)
2,446,936	4,031,841	5,583,309	2,240,562		31,110,628
6,707,648	14,090,731	20,390,658	14,164,819		190,900,003
\$ 27,126,599	\$ 74,165,600	\$ 46,953,892	\$ 60,167,708	\$ 17,624,773	\$ 1,125,616,410

**STATE OF IDAHO ENDOWMENT FUNDS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

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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 (Agricultural College, Charitable Institutions, Normal School, Penitentiary, School of Science, State Hospital South, University of Idaho), and the Capitol Permanent Fund, all 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 according to an investment policy established by the EFIB. Effective June 1, 2007, the Agricultural College funds were removed from the general investment pool and placed in a separate account with their own investment policy to ensure compliance with federal law. Subsequent to fiscal year end, federal legislation was enacted that removed investment restrictions, so the funds were moved back to the general investment pool.

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

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

*Endowment Funds Investment Reform Legislation*

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

The legislation provides that:

- (1) The EFIB, as trustees, will control, manage and invest 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 to be paid from earnings of the Endowment Funds instead of from annual General Fund appropriations.
- (5) Distributions to beneficiaries are determined by the State Board of Land Commissioners and are to be paid from the Earnings Reserve Funds, which include investment earnings, net capital gains and receipts from the 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, i.e., the land grant endowments of the State.

## NOTES TO FINANCIAL STATEMENTS

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The Endowment Funds are part of the State of Idaho reporting entity based on certain criteria in GASB Statement No. 14. These statements present only the Endowment Funds 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 Endowment Funds are accounted for and reported as a Permanent Fund as defined by GASB Statement No. 34 and use the modified accrual basis of accounting. Under this method, revenues are recognized when they are earned, and expenses are recognized when they are incurred. The statement of net assets and the statement of activities display information about the Endowment Funds and include the financial activity of the overall reporting entity. These statements report all activities of the Endowment Funds as a governmental type activity. Given the type of assets and liabilities held by Endowment Funds, there are no adjustments required to convert from modified accrual basis to full accrual basis as required by GASB 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*

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

- (1) Domestic equities and high yield bonds
- (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 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.

## NOTES TO FINANCIAL STATEMENTS

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The EFIB may allow the Endowment Funds 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, 2008.

The Endowment Funds periodically invest 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. The Endowment Funds' use of these securities is limited to small positions in the Endowment Funds' international and domestic equity portfolios established primarily for hedging or passive rebalancing. The portfolio at June 30, 2008 held 76 S&P 500 contracts with fair value of \$24.3 million. The mark-to-market receivable as of that date was \$37,308, which was received on July 1, 2008.

Any idle monies after cash flow transactions are swept into the Idle pool for overnight investment. The Idle Pool is managed by the State of Idaho Treasurer's office. The funds of the pool are invested pursuant to *Idaho Code* 67-1210 and 67-1210A, and generally invest in US Treasury and US Government Agency obligations, investment grade corporate obligations, high quality commercial paper, and bank certificates of Deposit. For performance evaluation, the fund is compared to the 90-day Treasury constant maturity rate. All investments are held in trust by a safekeeping bank. An annual audit of the Idaho Treasurer's office 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.

### *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*

Gains or losses on the sale of investments are accounted for in accordance with Section 57-724 of the *Idaho Code*.

Unrealized gains and losses to the 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 in Principal of the Permanent Endowment Funds*

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

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

- (1) The State Board of Land Commissioners may transfer any funds in the Public School Earnings Reserve Fund that they determine will not be needed for administrative costs or scheduled distributions to the

## NOTES TO FINANCIAL STATEMENTS

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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 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, 2008, Public School Endowment Fund was \$60.3 million above the loss benchmark as defined by statute.

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

Federal law also requires that losses to the Agricultural College fund must be made up by the state, but the methodology for restoring losses to that endowment has not been established; see Note 13 – Agricultural College.

### *Distributions to Beneficiaries*

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

### *Expendable and Nonexpendable Net Assets*

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

### *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 the portfolio investments, monitoring investment grade and quality, and, in fixed income portfolios, 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 allows the Endowment Funds to engage in securities lending activities, whereby securities are loaned to specific entities. The securities borrower will pay a stated premium to the Endowment Funds that is remitted monthly. At the time the securities are loaned, cash or other collateral is received by the Endowment Funds. Securities lending collateral is comprised of cash and approved securities, and is received valued at a required margin of 102% of the domestic securities loaned and 105% of international securities. The securities lending agreement requires daily monitoring of the market value



## NOTES TO FINANCIAL STATEMENTS

of the securities loaned and collateral received with additional collateral obtained as necessary to meet margin requirements.

The EFIB and the Endowment Funds are indemnified for fraudulent or negligent acts performed by Northern Trust Company (the Trustee), and should loaned securities not be returned as specified, the Trustee would be required to make the Endowment Funds whole. As such, credit risk exposure is limited for these transactions.

### 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, 2008, all of the Endowment Funds' investments were insured or registered investments, or investments held by the EFIB or their agent in the EFIB's name.

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

Investments at June 30, 2008:

<b>Fund Investments</b>	<b>COST</b>	<b>FAIR VALUE</b>
Marketable Securities:		
Northern Money Market Funds	\$ 8,156,331	\$ 8,156,331
Northern Fixed Income Index Funds		
Lehman Aggregate Bond	321,150,339	314,338,144
U.S. TIPS	31,347,360	36,325,632
Northern Equity Index Funds		
Russell 1000 Growth	9,074,925	11,416,975
Russell 1000 Value	6,759,163	6,491,075
S&P 400	67,171,024	60,362,558
S&P 500	130,641,539	121,007,187
Other Equity Funds		
Barrow, Hanley, Mewhinney & Strauss	30,425,684	29,832,726
Clearwater Advisors	2,258,254	2,258,254
Eagle Asset Management	36,203,967	33,982,407
INTECH	56,506,552	57,222,197
LSV Asset Management	65,834,984	58,009,795
Marvin & Palmer	80,909,608	100,970,953
Metropolitan West	54,550,118	65,712,876
Sands Capital	48,958,437	57,398,203
Systematic Financial Management	64,241,252	64,592,048
Tradewinds Global Investors	88,878,361	90,204,382
<b>Total Fund Investments</b>	<b>\$ 1,103,067,898</b>	<b>\$ 1,118,281,743</b>

## NOTES TO FINANCIAL STATEMENTS

**CONCENTRATION OF CREDIT RISK** – The EFIB minimizes exposure to concentration of credit risk by establishing concentration of credit risk limits in investment manager portfolio guidelines. As of June 30, 2008, the Endowment Funds did not hold any credit positions exceeding 5% of the total portfolio.

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

Cash Equivalents: Treasury bills, money market funds, short-term investment 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:

- Assets are to be invested only in investment grade bonds rated BBB (or equivalent) or better.
- Assets may be invested only in commercial paper rated A1 (or equivalent) or better.
- The fixed income weighted average portfolio maturity may not exceed that of the Lehman Aggregate Index by more than .5 years.
- Money market funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poor's, and/or Moody's.

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

FUND INVESTMENTS	Fair Value	Modified Duration	Average Rating
Northern Money Market Fund	\$ 8,156,331	Not Applicable	A+/A1
Lehman Aggregate Bond	314,338,144	4.7	AAA/AA1
U.S. TIPS	36,325,632	7	AAA/Aaa
<b>Total</b>	<b>\$ 358,820,107</b>		

## 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 Endowment Funds’ exposure to foreign currency risk is as follows:

Investment and Country	Currency	Fair Value
Common Stock		
Australia	AUD	\$ 5,893,822
Canada	CAD	1,654,857
Denmark	DKK	6,588,429
Europe	EUR	49,759,628
Great Britain	GBP	13,929,830
Japan	JPY	38,892,526
Norway	NOK	7,344,320
Singapore	SGD	2,739,499
South Africa	ZAR	1,477,600
Switzerland	CHF	10,974,087
<b>Total Fund Investments</b>		<b>\$ 139,254,598</b>

One of the Endowment Funds’ 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, 2008.

### NOTE 4 – SECURITIES LENDING

EFIB policies permit lending Endowment Fund 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 Endowment Funds’ custodian, lends securities for collateral in the form of cash, irrevocable letters of credit or other securities worth at least 102% of the lent securities’ fair value, (105% for international securities).

At year-end, the Endowment Funds had no credit risk exposure to borrowers because the amount the Endowment Funds owe to the borrowers exceeds the amounts the borrowers owe to the Endowment Funds. The contract with the Endowment Funds’ custodian requires it to indemnify the Endowment Funds if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Endowment Funds 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 EFIB or the borrower, although the average term of the loans is less than 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 42 days.

The relationship between the maturities of the investment pool and Endowment Funds’ loans is affected by the maturities of the securities loans made by other entities that use the agent’s pool, which the EFIB cannot determine. The EFIB cannot pledge or sell collateral securities unless the borrower defaults.

## NOTES TO FINANCIAL STATEMENTS

	Outstanding Loans as of June 30, 2008
Fair Value of Securities Loaned for Cash Collateral	\$ 139,502,359
Fair Value of Securities Loaned for Non-Cash Collateral	2,234,130
<b>Total Fair Value of Securities Loaned</b>	<b>\$ 141,736,489</b>
Fair Value of Cash Collateral from Borrowers	144,529,477
Fair Value of Non-Cash Collateral from Borrowers	2,314,590
<b>Total Fair Value of Collateral from Borrowers</b>	<b>\$ 146,844,067</b>

### 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*. The definition of “income” to be allocated and distributed from the Permanent Fund depends on whether or not the Permanent Fund portion of an endowment fund has exceeded its “gain benchmark” as defined in statute (June 30, 2000 level, adjusted for inflation and deposits). All endowments that remained below their statutory gain benchmark at June 30, 2008, will continue to receive dividends and interest from their Permanent funds. Once a Permanent fund for an endowment exceeds the statutory gain benchmark at the end of a fiscal year, then, beginning two fiscal years later, income distributed to the endowment’s Earnings Reserve would include the total gain (interest, dividends and capital gains/losses) above inflation from its Permanent Fund.

Income from investments is allocated and distributed to each fund in the same ratio that each fund’s average daily balance bears to the total daily balance of all participating funds. Income from investments is recorded on an accrual basis.

Income From Investments	
Short-term Investments, Fixed Income, Securities Lending	\$ 19,741,750
Equity Funds	13,315,315
<b>Total</b>	<b>\$ 33,057,065</b>

### NOTE 6 – EXPENSES

Expenses of the EFIB are paid from the Earnings Reserve Funds and by the EFIB’s three other clients: the State Insurance Fund, the Supreme Court and the Ritter Island Endowment Fund. These portions are paid under investment management contracts. The portions paid by the other clients are not considered an expenditure of the Endowment Funds and are therefore not included as expenditures or as reimbursements in these financial statements. Total expenses for fiscal year 2008 paid by the other clients were \$115,195.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 7 – DISTRIBUTIONS

Pursuant to Section 66-1106 of the *Idaho Code*, Charitable Institutions Endowment Fund income is distributed to five institutions according to the factors shown below. Distributions to these sharing institutions at June 30, 2008 were as follows:

#### Charitable Institutions Distributions

	Factor	Beneficiaries	Lands Expenses	EFIB Expenses
Idaho State University Fund	8/30	\$ 688,533	\$ 281,815	\$ 72,187
State Juvenile Corrections Institutions	8/30	688,533	281,815	72,187
School for the Deaf and Blind Fund	1/30	86,068	35,227	9,025
Veterans Home Fund	5/30	430,333	176,134	45,117
State Hospital North Fund	8/30	688,533	281,815	72,187
<b>Total</b>		<b>\$ 2,582,000</b>	<b>\$ 1,056,806</b>	<b>\$ 270,703</b>

Pursuant to Section 33-3301 of the *Idaho Code*, Normal School Endowment Fund Income is distributed to the two institutions shown below. Distributions to these sharing institutions at June 30, 2008 were as follows:

#### Normal School Distributions

	%	Beneficiaries	Lands Expenses	EFIB Expenses
Idaho State University, Pocatello	50%	\$ 1,155,000	\$ 709,280	\$ 123,915
Lewis-Clark State College, Lewiston	50%	1,155,000	709,279	123,916
<b>Total</b>		<b>\$ 2,310,000</b>	<b>\$ 1,418,559</b>	<b>\$ 247,831</b>

### 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 *Idaho Code* Section 57-782 and in conjunction with *Idaho Code* Chapter 53, Title 33, requires the Public School Endowment Fund to purchase up to \$200 million in notes of the State of Idaho that are issued to avoid a default in a voter approved bond issued by a school district. The terms of the purchase are set forth in *Idaho Code* Section 57-781. 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, 2008, the EFIB had not been required to purchase any notes and was not aware of any purchase commitments.

### 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) from the Earnings Reserve Funds is approved by the legislature on an annual basis. Expenses for consulting fees, bank custodial fees, and portfolio-related external costs are continually appropriated by the Idaho Legislature. The EFIB is not required by law to adopt or publish an overall budget for operations.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 10 – TRANSFER OF DEDICATED FUNDS

For fiscal year 2007, the Idaho State Legislature eliminated the Scaling Forest Products and Timber Road Maintenance dedicated accounts, which had been accounted for by Lands. 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 Funds' Earnings Reserves. In fiscal year 2008, it was discovered that \$37,370 from the Hazardous Materials dedicated fund, including \$245 for the Capitol Permanent Fund, had been improperly transferred in 2007 and was returned to Lands.

### NOTE 11 – MISCELLANEOUS REVENUE

Certain miscellaneous revenue for the Public School Permanent Fund is included in Receipts from Department of Lands. Pursuant to Idaho Constitution Section 4 Article IX, unclaimed estates, dividends and stock certificates from Idaho corporations are to be deposited into the Public School Permanent Fund. Also, five percent of federal land sales is paid to the state for addition to the Public School Permanent Fund pursuant to Section 7 of the Idaho Admission Bill and proceeds from sales of unclaimed livestock are transferred to the Public School Permanent Fund pursuant to *Idaho Code* Section 25-1174. The Public School Permanent Fund received \$60,515 in FY 2008 representing 5% of the net proceeds from the sale of federal land in Idaho and \$20,627 from unclaimed livestock. There were no revenues from unclaimed dividends and shares of Idaho corporations, excess anonymous political contributions, or unqualified election expenses.

On July 2, 2007, \$351,500 was transferred from the State of Idaho General Fund to the Public School Permanent Fund to repay monies deposited in the General Fund between July 1, 1996 and June 30, 2007 from unclaimed estates that escheated or reverted to the state. Later in fiscal year 2007, the Public School Permanent Fund received an additional \$6,629 from unclaimed estates. Changes to state statutes in 1996 inadvertently deposited these funds into the General Fund. Senate Bill 1098 was enacted in the 2007 legislative session to require that future unclaimed estates, stocks and dividends be deposited in the Public School Permanent Fund effective July 1, 2007.

### NOTE 12 – PENSION AND OTHER POST-EMPLOYMENT BENEFITS

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

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

The contribution requirements of the EFIB and its employees are established and may be amended by the PERSI Board of Trustees. For the year ending June 30, 2008, the required contribution rate as a percentage of covered payroll for members was 6.23%. The employer rate as a percentage of covered payroll was 10.39%. The EFIB employer contributions required and paid were \$30,053.



## NOTES TO FINANCIAL STATEMENTS

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

### NOTE 13 - AGRICULTURAL COLLEGE

During fiscal year 2007, the EFIB became aware of a federal law, the Morrill Act (Title 7, Chapter 13 of United States Code), adopted in 1862, that places restrictions on Idaho's Agricultural College endowment which are not included in State statutes. Among other things, the act forbids payment of management expenses from endowment assets, requires that any related endowment funds should only be invested in "bonds of the United States or of the States or some other safe bonds", and requires the State to make up any loss of principal on any portion of the endowment fund.

Since July 1, 2000, the Endowment Funds, including Agricultural College, have been invested partly in equities and management expenses for both the land and the fund have been paid from endowment assets. Some expenses were also paid from endowment assets prior to July 1, 2000, primarily for land management. While consistent with State statute, these activities may have been contrary to the Morrill Act.

After reviewing the discrepancy between state and federal law, the EFIB decided, during fiscal year 2007, to invest the Agricultural College Endowment Fund only in bonds allowed under the Morrill Act. In June 2007, \$20,799,994, the estimated value of the Agricultural College Endowment Fund as of May 31, 2007, was transferred to a separately managed account invested only in bonds permitted under the Morrill Act.

On August 13, 2007, federal legislation (Public Law 110-77) was enacted that removed the Morrill Act's investment restrictions and authorized the payment of management expenses from the Agricultural College Endowment Fund. This law was retroactive to October 1998. As a result, later in August, the EFIB liquidated the bond investments and moved all Agricultural College funds back to the general endowment pool.

The new federal legislation does not change the Morrill Acts' requirement that a loss of principal of the Agricultural College Endowment Fund must be made up by the state. However, the EFIB believes that, under the new legislation, the determination of whether a loss of principal has occurred is now prescribed by state law. At June 30, 2008, the Agricultural College Endowment Fund was \$2.7 million above the level of principal or corpus as defined by statute.

If a loss of principal were ever to occur, state statute permits, but does not require, the loss to be made up from monies transferred from the Earnings Reserve Fund by the State Board of Land Commissioners. If no such transfer is made or if a transfer is insufficient to make up a loss in principal of the Agricultural College Endowment Fund, then the State Legislature would have to make up the loss. However, there is currently no statutory provision specifying the Legislature's process to make up a loss in principal of the Agricultural College Endowment Fund.

## NOTES TO FINANCIAL STATEMENTS

For further information on the statutory process for determining and making up losses, see Note 2 – Significant Accounting Policies – Gains and Losses on Sale of Investments.

### NOTE 14 – COMMITMENTS

For endowments other than the Capitol Permanent Fund, the Board of Land Commissioners has approved, and the legislature has appropriated, the following distributions to beneficiaries for FY 2009.

	2009
Public School	\$ 29,692,900
Agricultural College	794,000
Charitable Institutions	2,826,100
Normal School	2,534,100
Penitentiary	794,000
School of Science	2,332,300
State Hospital South	1,258,700
University of Idaho	2,181,000
<b>Total</b>	<b>\$ 42,413,100</b>

The EFIB authorizes distributions from the Capital Permanent Fund to the Capitol Commission, effective July 1 of each fiscal year. A distribution of \$467,109 was authorized by the EFIB for FY 2008 and a distribution of \$572,203 was authorized for FY 2009. However, the Capitol Commission opted not to take the FY 2009 distribution.

### NOTE 15 - SUBSEQUENT EVENTS

#### Endowment Distributions

For endowments other than the Capitol Permanent Fund, on August 19, 2008, the Board of Land Commissioners approved the following distributions to beneficiaries for FY 2010. The FY 2010 approved distributions have not yet been appropriated by the legislature and will be considered by the legislature in its 2009 session.

	2010
Public School	\$ 31,292,400
Agricultural College	850,800
Charitable Institutions	2,964,000
Normal School	2,661,600
Penitentiary	1,040,400
School of Science	2,984,400
State Hospital South	1,532,400
University of Idaho	2,329,200
<b>Total</b>	<b>\$ 45,655,200</b>

## NOTES TO FINANCIAL STATEMENTS

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In August 2008, the Board of Land Commissioners also approved the following transfers from Earnings Reserves to the Permanent funds, effective September 1, 2008:

Agricultural College	\$ 200,000
Penitentiary	1,500,000
State Hospital South	12,700,000
University of Idaho	1,900,000
<b>Total</b>	<b>\$ 16,300,000</b>



CPAs & BUSINESS ADVISORS

**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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To the 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, 2008, and have issued our report thereon dated September 04, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the EFIB's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the EFIB's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the EFIB's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the EFIB's financial statements that is more than inconsequential will not be prevented or detected by the EFIB's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the EFIB's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### *Compliance and Other Matters*

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, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 cursive script that reads "Eide Bailly LLP".

Boise, Idaho  
September 04, 2008



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

***SUPPLEMENTAL SCHEDULES***



**STATE OF IDAHO ENDOWMENT FUNDS  
SCHEDULE OF EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2008**

<b>CASH BASIS EXPENDITURES FROM THE STATE OF IDAHO REPORTING SYSTEM</b>		<b>Expenditures</b>
<b>PERSONNEL</b>		
Regular Employees	\$	288,349
Board/Commission Members		2,300
Total Benefits		86,850
Subtotal Personnel Expenditures		377,499
<b>OPERATING</b>		
Postage		651
Telephone and Data Line Charges		6,733
Publications & Subscriptions		12,315
Employee Training		13,779
Audit		47,600
Travel and Board Meeting Expenses		26,059
Office and Other Materials and Supplies		7,545
Office Space		36,603
Computer Programming and Software		2,458
Governmental Overhead - State		43,860
Other Expenses		1,664
Subtotal Operating Expenditures		199,267
<b>CAPITAL OUTLAY</b>		
Furniture		1,572
Other Office Equipment		1,265
Computer Equipment		1,312
Subtotal Capital Expenditures		4,149
<b>TOTAL APPROPRIATED EXPENSES</b>		580,915
Less Payments made by other Clients*		(115,195)
Subtotal		465,720
<b>CONTINUOUS APPROPRIATION</b>		
Consultant, Custodial and Manager Billings		
Callan Associates		131,250
Barrow, Hanley, Mewhinney & Strauss		208,088
Clearwater Advisors		41,603
Eagle Asset Management		78,765
INTECH		289,330
LSV Asset Management		358,868
Marvin & Palmer Associates		603,169
Metropolitan West Capitol Management		299,488
Nicholas Applegate		150,972
Northern Trust		351,964
RBC Dain Rauscher		53,419
Sands Capital Management		413,132
Systematic Financial Management		341,462
Tradewinds NWQ		501,626
Total Consultant, Custodial, and Manager Fees		3,823,136
<b>Total Endowment Cash Expenditures</b>		4,288,856
Less Reimbursement of Capitol Permanent Fund Expenses		(62,177)
Change in Manager Fee Accrual		(21,256)
<b>Total Accrual Basis Expense - EFIB</b>		<b>\$ 4,205,423</b>

\* State Insurance Fund, Supreme Court, Ritter Island Endowment Fund

**STATE OF IDAHO ENDOWMENT FUNDS**  
**SCHEDULE OF PUBLIC SCHOOL AND OTHER ENDOWMENT FUND NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	Public School	Other	Total Endowment Funds
<b>Current Assets</b>			
Cash with Treasurer	\$ 116,729	\$ 1,036,457	\$ 1,153,186
Investments, at Fair Value	734,801,023	382,501,451	1,117,302,474
Receivable for Unsettled Trades	3,996,747	663,994	4,660,741
Receivable From Idaho Department of Lands	1,746,375	3,004,543	4,750,918
Accrued Interest and Dividends Receivable	2,028,154	336,944	2,365,098
Securities Lending Collateral	125,923,886	20,920,181	146,844,067
<b>Total Assets</b>	<b>868,612,914</b>	<b>408,463,570</b>	<b>1,277,076,484</b>
<b>Current Liabilities</b>			
Securities Lending Collateral	125,923,886	20,920,181	146,844,067
Payable for Unsettled Trades	3,156,990	524,482	3,681,472
Investment Manager Expense Payable	625,581	308,954	934,535
<b>Total Liabilities</b>	<b>129,706,457</b>	<b>21,753,617</b>	<b>151,460,074</b>
<b>Total Net Assets</b>	<b>738,906,457</b>	<b>386,709,953</b>	<b>1,125,616,410</b>
<b>Restricted Net Assets</b>			
Nonexpendable Net Assets - Permanent Funds			
Agricultural College		17,558,273	17,558,273
Charitable Institutions		59,646,260	59,646,260
Normal School		53,677,330	53,677,330
Penitentiary		20,418,951	20,418,951
School of Science		60,074,869	60,074,869
State Hospital South		26,563,234	26,563,234
University of Idaho		46,002,889	46,002,889
Public School	633,149,828		633,149,828
Capitol Permanent Fund		17,624,773	17,624,773
<b>Total Permanent Net Assets</b>	<b>633,149,828</b>	<b>301,566,579</b>	<b>934,716,407</b>
Expendable Net Assets - Earnings Reserve			
Agricultural College		4,470,813	4,470,813
Charitable Institutions		12,280,708	12,280,708
Normal School		13,037,997	13,037,997
Penitentiary		6,707,648	6,707,648
School of Science		14,090,731	14,090,731
State Hospital South		20,390,658	20,390,658
University of Idaho		14,164,819	14,164,819
Public School	105,756,629		105,756,629
<b>Total Earnings Reserve Net Assets</b>	<b>105,756,629</b>	<b>85,143,374</b>	<b>190,900,003</b>
<b>Total Net Assets</b>	<b>\$ 738,906,457</b>	<b>\$ 386,709,953</b>	<b>\$ 1,125,616,410</b>

**STATE OF IDAHO ENDOWMENT FUNDS**  
**SCHEDULE OF GAINS AND (LOSSES) ON FAIR VALUE OF PERMANENT FUNDS' INVESTMENTS**  
**THROUGH THE YEAR ENDED JUNE 30, 2008**

Summary Schedule of Gains and (Losses) on Fair Value of Investments					
Public School Endowment Fund					
Fiscal Year	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	2,190,629	443,739,660	436,160,540	(7,579,120)
2004	436,160,540	840,647	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
2007	581,893,579	3,358,272	585,251,851	662,500,453	77,248,602
2008	662,500,453	4,090,835	666,591,288	633,149,828	(33,441,460)
<b>TOTAL</b>					<b>\$ 60,292,387</b>

Summary Schedule of Gains and (Losses) on Fair Value of Investments					
Other Endowment Funds (excluding Capitol Permanent Fund)					
Fiscal Year	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
2007	262,932,012	301,929	263,233,941	298,011,159	34,777,218
2008	298,011,159	224,236	298,235,395	283,941,807	(14,293,589)
<b>TOTAL</b>					<b>\$ 27,154,180</b>

**STATE OF IDAHO ENDOWMENT FUNDS**  
**SCHEDULE OF WEIGHTED INVESTMENT RETURNS BY ASSET MANAGER**  
**GROSS OF FEES**  
**PERIODS ENDING JUNE 30, 2008**

<b>Gross of Fees</b>	<b>FY 2008</b>	<b>2-Yr. Annual</b>	<b>3-Yr. Annual</b>	<b>4-Yr. Annual</b>	<b>5-Yr. Annual</b>
<b>Total Account</b>	<b>(2.1)</b>	<b>6.8</b>	<b>8.2</b>	<b>8.6</b>	<b>10.2</b>
<i>Benchmark</i>	<i>(6.6)</i>	<i>4.4</i>	<i>5.8</i>	<i>6.5</i>	<i>8.1</i>
Total fund benchmark consists 56% Russell 3000, 14% MSCI EAFE, & 30% Lehman Aggregate.					
<b>Total Fixed Income</b>	<b>8.5</b>	<b>7.2</b>	<b>4.5</b>	<b>5.1</b>	<b>4.1</b>
NTGI Aggregate Bond	7.8	6.8	4.3	4.9	4.0
LB U.S. Aggregate Index	7.1	6.6	4.1	4.8	3.9
NTGI TIPS	15.7	9.7	5.8	6.7	
LB US TIPS Index	15.1	9.4	5.6	6.5	6.0
<b>Total Domestic Equity</b>	<b>(9.7)</b>	<b>3.8</b>	<b>6.8</b>	<b>7.4</b>	<b>10.7</b>
<i>Russell 3000 Index</i>	<i>(12.7)</i>	<i>2.4</i>	<i>4.7</i>	<i>5.6</i>	<i>8.4</i>
<b>Large Cap Core</b>	<b>(12.8)</b>	<b>2.6</b>	<b>4.6</b>	<b>5.0</b>	<b>7.7</b>
NTGI S&P 500	(12.8)	2.6	4.6	5.0	7.7
S&P 500 Index	(13.1)	2.4	4.4	4.9	7.6
<b>Large Growth</b>	<b>(2.5)</b>	<b>4.9</b>	<b>5.2</b>	<b>4.1</b>	
INTECH	(3.8)	4.2	5.2		
NTGI Russell 1000 Growth	(6.0)	5.8	5.9	4.9	7.3
Sands Capital	(0.3)	5.4	4.8		
Russell 1000 Growth Index	(6.0)	5.8	5.9	4.8	7.3
<b>Large Cap Value</b>	<b>(15.4)</b>	<b>1.6</b>	<b>6.8</b>	<b>9.2</b>	
LSV Asset Management	(22.3)	(1.9)	3.4	6.8	
Metropolitan West	(7.7)	5.2	10.9	12.2	16.9
NTGI Russell 1000 Value	(18.7)	(0.4)	3.6	6.1	8.6
Russell 1000 Value Index	(18.8)	(0.5)	3.5	6.1	8.9
<b>Mid Cap</b>	<b>(6.7)</b>	<b>6.2</b>	<b>8.6</b>	<b>9.0</b>	<b>12.5</b>
Systematic Financial	(6.2)	8.8	12.3	14.5	16.2
NTGI S&P 400	(7.2)				
Russell Mid Cap Index	(11.2)	3.6	6.8	9.3	13.1
<b>Small Cap</b>	<b>(9.9)</b>	<b>3.9</b>	<b>10.9</b>	<b>10.8</b>	<b>15.1</b>
Eagle Asset Management	(6.3)*				
Barrow, Hanley M & S	(16.0)	0.3	7.5	8.8	
Russell 2000 Index	(16.2)	(1.2)	3.8	5.2	10.3
<b>International Equity</b>	<b>4.8</b>	<b>15.1</b>	<b>18.9</b>	<b>18.1</b>	<b>19.3</b>
Marvin & Palmer	8.5	18.7	21.3	18.1	18.6
Tradewinds	1.0	11.4	16.3	17.9	
MSCI EAFE Index	(10.6)	6.6	12.8	13.0	16.7

\* Performance from January 2008 to June 2008

**Manager changes in FY 2008:**

**Managers Hired:** Eagle Asset Management – Small Cap Growth - January 2008

**Managers Discharged:** Nicholas Applegate – Small Cap Growth – December 2007

**Other Changes:** Callan & Associates replaced RBC Dain Rauscher as our consultant in July 2007

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

Results are gross of management fees and expenses.

**STATE OF IDAHO ENDOWMENT FUNDS**  
**SCHEDULE OF WEIGHTED INVESTMENT RETURNS BY ASSET MANAGER**  
**NET OF FEES**  
**PERIODS ENDING JUNE 30, 2008**

<b>Net of Fees</b>	<b>FY 2008</b>	<b>2-Yr. Annual</b>	<b>3-Yr. Annual</b>	<b>4-Yr. Annual</b>	<b>5-Yr. Annual</b>
<b>Total Account</b>	<b>(2.4)</b>	<b>6.4</b>	<b>7.9</b>	<b>8.5</b>	<b>9.9</b>
<i>Benchmark</i>	<i>(6.6)</i>	<i>4.4</i>	<i>5.8</i>	<i>6.5</i>	<i>8.1</i>
Total fund benchmark consists 56% Russell 3000, 14% MSCI EAFE, & 30% Lehman Aggregate.					
<b>Total Fixed Income</b>	<b>8.4</b>	<b>7.2</b>	<b>4.5</b>	<b>5.1</b>	<b>4.1</b>
NTGI Aggregate Bond	7.7	7.0	4.3	4.9	4.0
<i>LB U.S. Aggregate Index</i>	<i>7.1</i>	<i>6.6</i>	<i>4.1</i>	<i>4.8</i>	<i>3.9</i>
NTGI TIPS	15.6	9.6	5.8	6.6	
<i>LB US TIPS Index</i>	<i>15.1</i>	<i>9.4</i>	<i>5.6</i>	<i>6.5</i>	<i>6.0</i>
<b>Total Domestic Equity</b>	<b>(9.8)</b>	<b>3.6</b>	<b>6.6</b>	<b>7.2</b>	<b>10.5</b>
<i>Russell 3000 Index</i>	<i>(12.7)</i>	<i>2.4</i>	<i>4.7</i>	<i>5.6</i>	<i>8.4</i>
<b>Large Cap Core</b>	<b>(12.9)</b>	<b>2.6</b>	<b>4.6</b>	<b>5.0</b>	
NTGI S&P 500	(12.9)	2.6	4.6	5.0	
<i>S&amp;P 500 Index</i>	<i>(13.1)</i>	<i>2.4</i>	<i>4.4</i>	<i>4.9</i>	<i>7.6</i>
<b>Large Cap Growth</b>	<b>(2.5)</b>	<b>4.9</b>	<b>5.1</b>	<b>4.0</b>	
INTECH	(4.3)	3.7	4.7		
NTGI Russell 1000 Growth	(6.1)	5.8	5.9	4.8	7.3
Sands Capital	(1.0)	4.7	4.0		
<i>Russell 1000 Growth Index</i>	<i>(6.0)</i>	<i>5.8</i>	<i>5.9</i>	<i>4.8</i>	<i>7.3</i>
<b>Large Cap Value</b>	<b>(15.4)</b>	<b>1.5</b>	<b>6.7</b>	<b>9.0</b>	
LSV Asset Management	(22.8)	(2.4)	2.8	6.3	
Metropolitan West	(8.2)	4.8	10.5	11.8	16.5
NTGI Russell 1000 Value	(18.7)	(0.5)	3.5	6.1	8.6
<i>Russell 1000 Value Index</i>	<i>(18.8)</i>	<i>(0.5)</i>	<i>3.5</i>	<i>6.1</i>	<i>8.9</i>
<b>Mid Cap</b>	<b>(6.7)</b>	<b>6.0</b>	<b>8.4</b>	<b>8.8</b>	
Systematic Financial	(6.7)	8.3	11.8	14.0	15.7
NTGI S&P 400	(7.2)				
<i>Russell Mid Cap Index</i>	<i>(11.2)</i>	<i>3.6</i>	<i>6.8</i>	<i>9.3</i>	<i>13.1</i>
<b>Small Cap</b>	<b>(9.9)</b>	<b>3.9</b>	<b>10.8</b>	<b>10.8</b>	
Eagle Asset Management	(6.5)*				
Barrow, Hanley M & S	(16.7)	0.4	6.9	8.1	
<i>Russell 2000 Index</i>	<i>(16.2)</i>	<i>(1.2)</i>	<i>3.8</i>	<i>5.2</i>	<i>10.3</i>
<b>International Equity</b>	<b>4.7</b>	<b>15.0</b>	<b>18.8</b>	<b>18.0</b>	<b>18.8</b>
Marvin & Palmer	7.9	18.1	20.7	17.5	18.6
Tradewinds	0.4	10.8	15.8	17.3	
<i>MSCI EAFE Index</i>	<i>(10.6)</i>	<i>6.6</i>	<i>12.8</i>	<i>13.0</i>	<i>16.7</i>

\* Performance from January 2008 to June 2008

**Manager changes in FY 2008:**

**Managers Hired:** Eagle Asset Management – Small Cap Growth - January 2008

**Managers Discharged:** Nicholas Applegate – Small Cap Growth – December 2007

**Other Changes:** Callan & Associates replaced RBC Dain Rauscher as our consultant in July 2007

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

Results are net of management fees and expenses, but gross of other investment-related expenses.

**STATE OF IDAHO ENDOWMENT FUNDS**  
**BROKERAGE SCHEDULE**  
**FOR THE YEAR ENDED JUNE 30, 2008**

**SCHEDULE OF BROKERAGE COMMISSIONS**

<b>Broker Name</b>	<b>Shares</b>	<b>Commissions</b>	<b>Per Share</b>
UBS	2,822,717	\$ 81,159	\$ 0.029
Credit Suisse	2,203,199	58,375	0.026
Bear Stearns	3,282,719	49,745	0.015
Merrill Lynch	1,932,784	47,420	0.025
Broadcort Capital	1,210,800	42,378	0.035
CitiGroup	2,848,665	40,280	0.014
Goldman Sachs	1,182,377	34,611	0.029
Morgan Stanley	1,139,128	30,658	0.027
Lynch, Jones & Ryan	794,655	28,216	0.036
JP Morgan	791,406	28,161	0.036
Liquidnet	1,277,950	26,950	0.021
Deutsche Bank	506,895	19,605	0.039
Lehman Bros.	718,110	18,632	0.026
Investment Technology Group	939,655	16,176	0.017
Rosenblatt Securities	446,100	10,920	0.024
Jefferies & Co.	331,446	9,903	0.030
Societe Generale	369,480	9,256	0.025
Banc America	256,454	7,855	0.031
Guzman & Co.	295,800	7,215	0.024
Instinet	270,970	7,035	0.026
Capital Institutional	194,030	5,002	0.026
All other brokerage firms (under \$5,000)	7,468,120	208,734	0.028
	<b>31,283,460</b>	<b>\$ 788,286</b>	<b>\$ 0.025</b>



**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**

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

We have examined management's assertions about the State of Idaho Endowment Funds' (the Endowment 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, 2008, 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, 2008, 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  
September 04, 2008

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**STATE OF IDAHO ENDOWMENT FUNDS**  
**STATEMENT OF MANAGEMENT'S ASSERTIONS**  
**YEAR ENDED JUNE 30, 2008**

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Investment securities held at June 30, 2008, 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, 2008 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 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, 2008, as required by Chapter 7, Title 57-720, of the Code.