

**FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2009**



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



**FINANCIAL STATEMENTS – JUNE 30, 2009
STATE OF IDAHO ENDOWMENT FUNDS**

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INDEPENDENT AUDITORS' REPORT

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, 2009, 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, 2009, 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 12, 2009, 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 29 through 31 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 32 through 34 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

August 12, 2009
Boise, Idaho

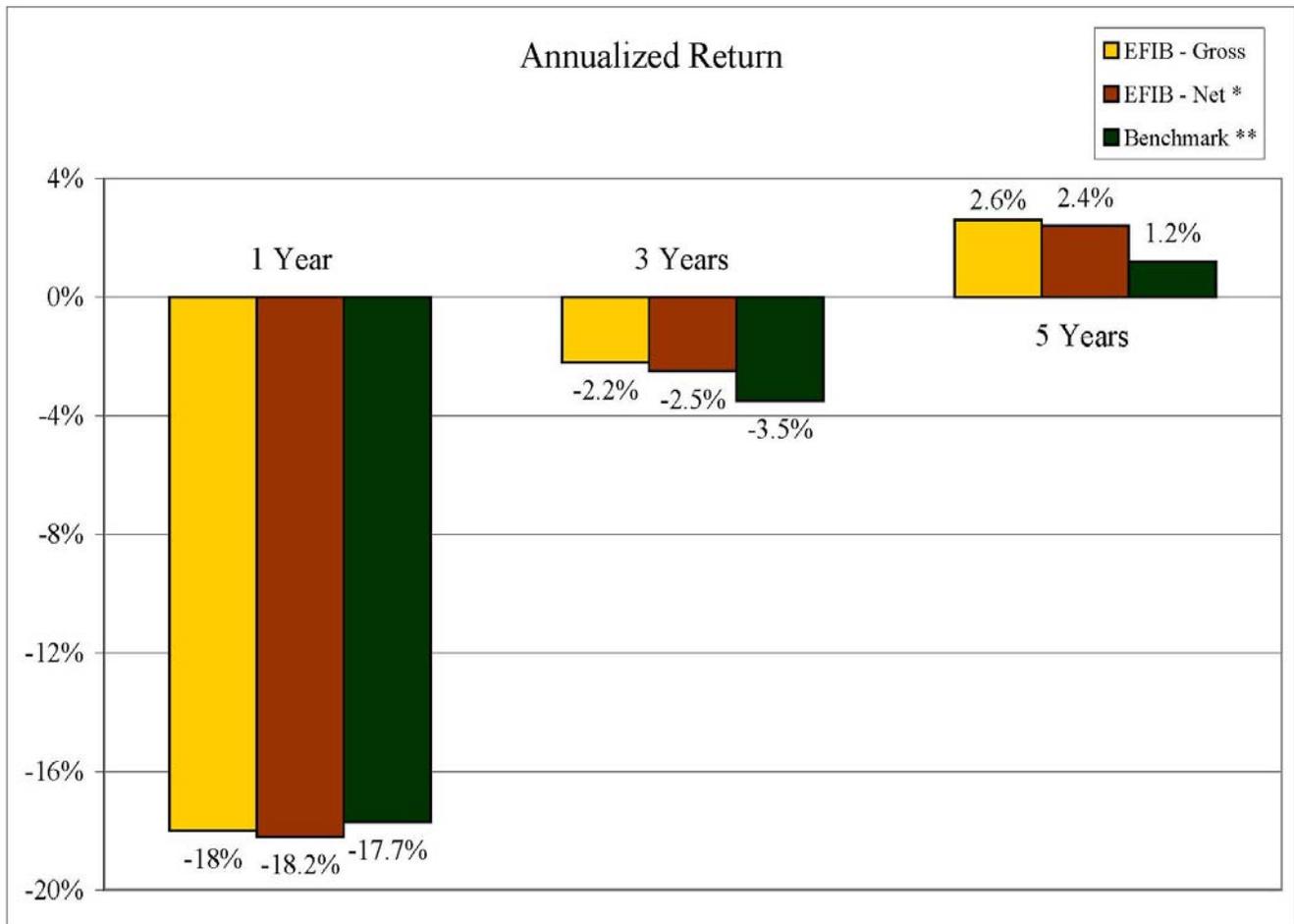
**STATE OF IDAHO ENDOWMENT FUNDS
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009**

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, 2009.

FINANCIAL HIGHLIGHTS

Total of the Endowment Funds

- Net assets decreased \$205.2 million, which represents an 18% decrease from fiscal year 2008.
- Receipts to Earnings Reserves from endowment lands, declined to \$58.1 million, a 17% decrease from fiscal year 2008.
- Net distributions to beneficiaries, excluding the Capitol Commission, increased 9.8% in fiscal year 2009 to \$42.4 million, from \$38.6 million in fiscal year 2008.
- Total investment return, before fees, was -18% in fiscal year 2009, compared to -2.1% in fiscal year 2008 and 16.6% in fiscal year 2007.



* Net returns are net of outside investment manager fees (approximately 31 basis points in 2009). The ratio of total fiscal year 2009 EFIB expenses to year-end net assets was 39 basis points.

** Benchmark consists, as of June 30, 2009, 54% Russell 3000, 16% MSCI All Country World Index (ACWI) ex-US, & 30% Barclays Capital Aggregate.

**STATE OF IDAHO ENDOWMENT FUNDS
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009**

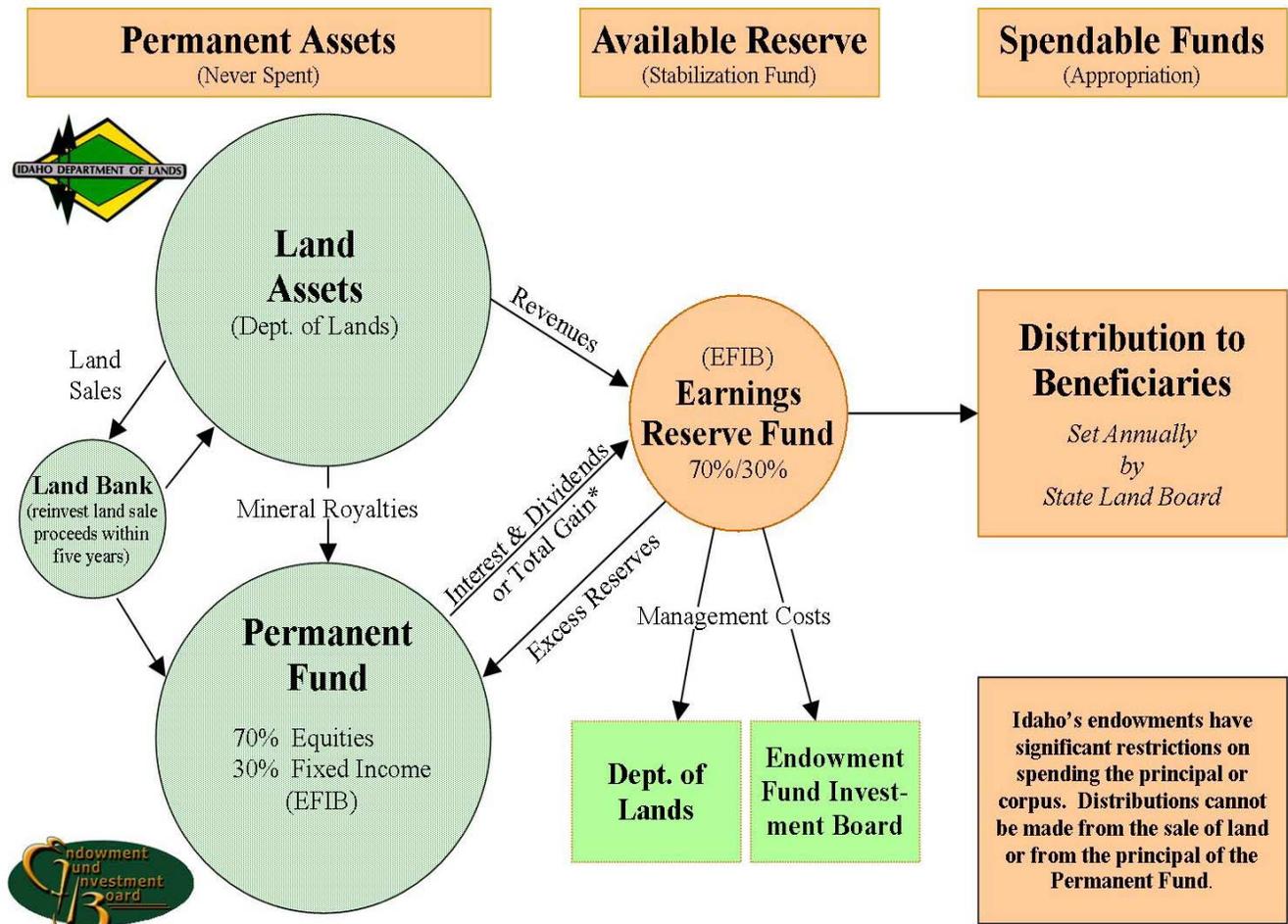
PURPOSE OF THE STATE OF IDAHO ENDOWMENT FUNDS

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, 2009**

ROLE OF THE ENDOWMENT FUND INVESTMENT BOARD

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

USING THIS ANNUAL REPORT

The annual report consists of the independent auditors' report, the financial statements, the notes to the financial statements, supplemental schedules, and examination of management assertions. These statements are organized to give the reader a complete understanding of the total Endowment 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. The total of the Endowment Funds combines the assets of nine different endowments. 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.

DISTRIBUTIONS TO THE BENEFICIARIES

The Endowment Funds exists to provide perpetual distributions to their beneficiaries. For all endowments, except Capitol Permanent, the State Board of Land Commissioners has established a distribution policy. The current policy establishes distributions at a rate of 5% of the three-year moving average Permanent Fund balance and allows for an adjustment to the distributions based on factors including the amount in the Earnings Reserve and transfers to the Permanent Fund. The 2008 Idaho Legislature passed Senate Bill 1499 to appropriate the fiscal year 2009 distributions to the beneficiary institutions.

Total Fund Distributions

	2009	2008
Public School	\$ 29,692,900	\$ 26,995,000
Agricultural College	794,000	725,000
Charitable Institutions	2,826,100	2,582,000
Normal School	2,534,100	2,310,000
Penitentiary	794,000	728,000
School of Science	2,332,300	2,138,000
State Hospital South	1,258,700	1,149,000
University of Idaho	2,181,000	1,990,000
Subtotal	42,413,100	38,617,000
Capitol Permanent Fund	-	467,109
Total Distributions	\$ 42,413,100	\$ 39,084,109

**STATE OF IDAHO ENDOWMENT FUNDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009**

Statement of Net Assets

	2009	2008
Current Assets, excluding securities lending	\$ 925,724,237	\$ 1,130,232,417
Securities Lending Collateral	91,210,515	146,844,067
Total Current Assets	1,016,934,752	1,277,076,484
Liabilities, excluding securities lending	4,010,578	4,616,007
Securities Lending Collateral	92,500,321	146,844,067
Total Current Liabilities	96,510,899	151,460,074
Net Assets-Permanent Funds	767,235,294	934,716,407
Net Assets-Earnings Reserve Funds	153,188,559	190,900,003
Total Net Assets	\$ 920,423,853	\$ 1,125,616,410

Statement of Activities

	2009	2008
Program Revenues		
Receipts from Dept. of Lands		
Permanent Receipts	\$ 4,428,047	\$ 5,083,834
Earnings Reserve Receipts	58,149,876	70,004,138
Income from Investments	27,462,162	33,057,065
Decrease in Value of Investments	(226,304,686)	(56,991,567)
Total Program Revenues	(136,264,601)	51,153,470
Program Expenses		
Distribution to Beneficiaries	42,413,100	39,084,109
Distribution for Expenses-Lands	23,102,997	20,213,447
Distribution for Expenses-EFIB	3,411,859	4,205,423
Total Program Expenses	68,927,956	63,502,979
Decrease in Net Assets before Transfers	(205,192,557)	(12,349,509)
Transfers of Dedicated Funds	-	(37,370)
Net Program Revenue/Change in Net Assets	\$ (205,192,557)	\$ (12,386,879)

Revenues reflect all receipts from endowment lands and total income from investments. During fiscal year 2009, land revenues decreased by 17% due primarily to lower timber harvest revenues. During the same period, income from investments also decreased 17% due primarily to lower interest income, as both invested balances and average interest rates declined. Investment losses totaled \$226.3 million due primarily to a severe decline in

**STATE OF IDAHO ENDOWMENT FUNDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009**

equity prices associated with an economic downturn and an unprecedented liquidity crisis in fixed income markets.

Total expenses reflect distributions to beneficiaries as well as expenses paid. The fiscal year 2009 distribution to beneficiaries, including the Capitol Commission, of \$42.4 million represented an 8.5% increase. The distributions for expenses reflect the expenses paid by the Endowment Funds to the Department of Lands for its expenditures associated with the management of the lands and to the EFIB for the management of the investments of the Funds. Distributions to Department of Lands for their expenses increased 14.3%, or \$2.9 million, in fiscal year 2009 primarily because of an increased appropriation, including \$1.8 million for development and entitlement work on endowment properties.

FACTORS THAT MAY AFFECT FINANCIAL POSITION

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

Under legislation passed by the 1998 Idaho Legislature 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 up to \$600,000 was authorized by the EFIB for FY 2010 and the Capitol Commission opted to take \$300,000.

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 2010. The FY 2011 approved distributions have not yet been appropriated and will be considered by the legislature in its 2010 session.

Senate Bill 1171 details the FY 2010 distributions to the beneficiaries:

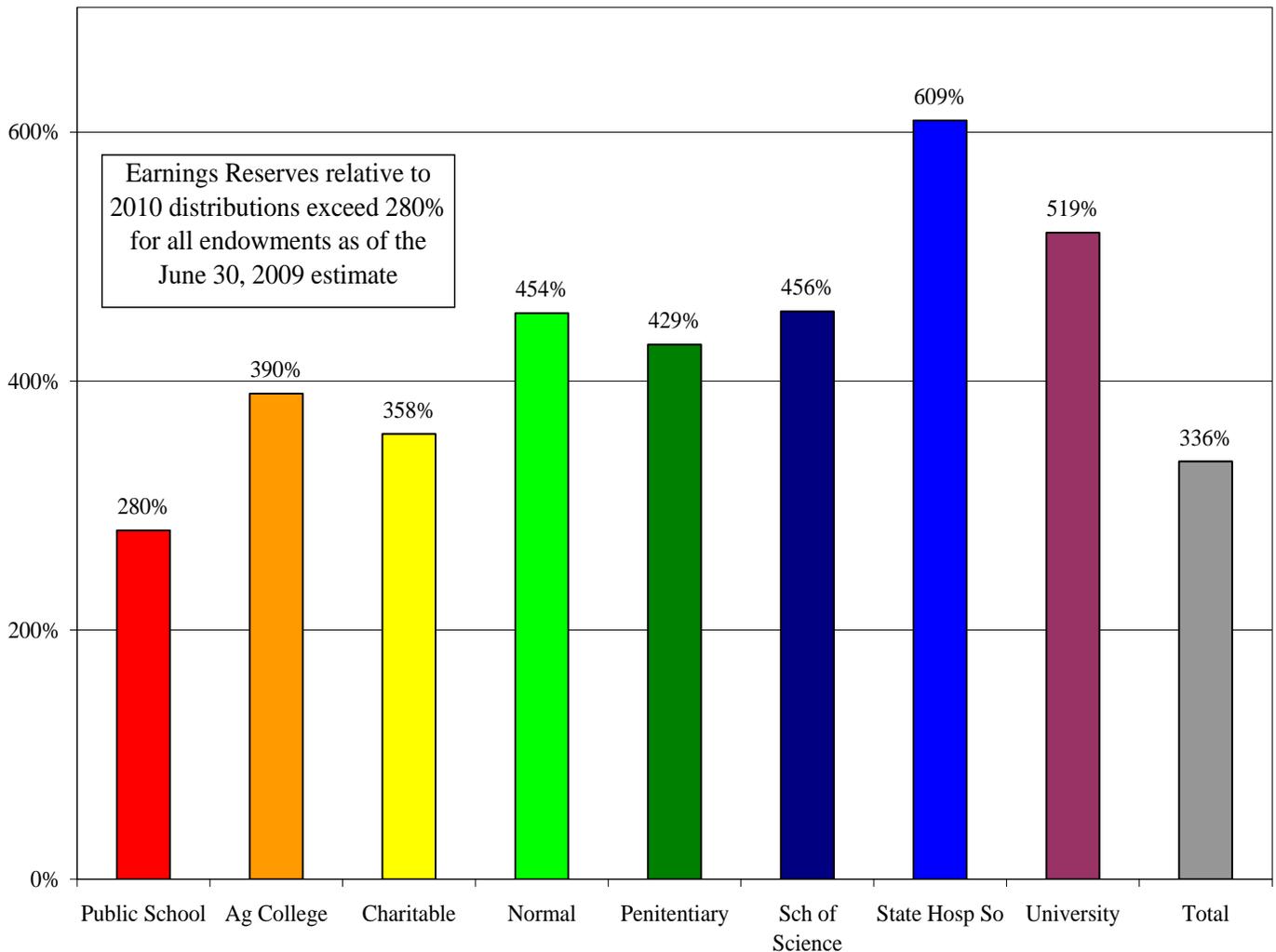
	2010
Public School	\$ 31,292,400
Agricultural College	850,800
Charitable Institutions	2,964,000
Normal School	2,661,600
Penitentiary	1,040,400
School of Science	2,984,400
State Hospital South	1,532,400
University of Idaho	2,329,200
Total	\$ 45,655,200

**STATE OF IDAHO ENDOWMENT FUNDS
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009**

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 approved distributions to all endowments in FY 2010.

By Board of Land Commissioners’ Policy 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. On August 18, 2009, the Board of Land Commissioners approved the transfer of certain excess Earnings Reserves to the respective Permanent Funds of the State Hospital South and University endowments.

Coverage Ratio June 30, 2009



**STATE OF IDAHO ENDOWMENT FUNDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009**

TOTAL COST OF INVESTMENT MANAGEMENT

In fiscal year 2009, the EFIB had cash expenditures of \$3,411,859 to manage the Endowment Funds.

Investment Management Operating Costs	Expense	Basis Points*
Internal investment oversight	\$ 254,300	3
Internal accounting	136,931	1
Outside investment manager fees	2,820,518	31
Custody expense	220,629	2
Consultant and auditor fees	221,538	2
Subtotal	<u>3,653,916</u>	39
Less manager fees deducted from NAV**	<u>(63,043)</u>	
Total Cash Expenditures	3,590,873	
Less reimbursement and accrual	<u>(179,014)</u>	
Total Accrual Basis Expense	<u>\$ 3,411,859</u>	

* Relative to total fiscal-year end 2009 assets.

** Fees for investments in mutual funds are deducted directly from the fund by the investment manager and are not paid by the EFIB.



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

FINANCIAL STATEMENTS

JUNE 30, 2009

STATE OF IDAHO ENDOWMENT FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2009

Current Assets:	
Cash with Treasurer	\$ 121
Investments, at Fair Value	890,804,436
Receivable for Unsettled Trades	29,733,376
Receivable From Idaho Department of Lands	3,727,391
Accrued Interest and Dividends Receivable	1,458,913
Invested Securities Lending Collateral	91,210,515
Total Assets	1,016,934,752
Current Liabilities:	
Securities Lending Collateral	92,500,321
Payable for Unsettled Trades	3,195,475
Investment Manager Expenses Payable	815,103
Total Liabilities	96,510,899
Nonexpendable Restricted Net Assets - Permanent Funds	
Public School	511,571,551
Agricultural College	14,253,711
Charitable Institutions	47,883,435
Normal School	43,204,185
Penitentiary	17,598,157
School of Science	48,225,270
State Hospital South	31,526,246
University of Idaho	38,451,424
Capitol Permanent Fund	14,521,315
Total Permanent Net Assets	767,235,294
Expendable Net Assets - Earnings Reserve:	
Public School	87,666,633
Agricultural College	3,317,664
Charitable Institutions	10,601,636
Normal School	12,095,857
Penitentiary	4,467,415
School of Science	13,608,769
State Hospital South	9,337,915
University of Idaho	12,092,670
Total Earnings Reserve Net Assets	153,188,559
Total Net Assets	\$ 920,423,853

**STATE OF IDAHO ENDOWMENT FUNDS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009**

	Public School	Agricultural College	Charitable Institutions	Normal School
PERMANENT NET ASSETS				
Permanent Net Assets, beginning of year	\$ 633,149,828	\$ 17,558,273	\$ 59,646,260	\$ 53,677,330
Transfer from Earnings Reserve	-	200,000	-	-
Program Revenues:				
Receipts from Dept. of Lands	4,201,860	-	10,279	149,472
Net Decrease in Fair Value of Investments	(125,780,137)	(3,504,562)	(11,773,104)	(10,622,617)
Capitol Permanent Investment Income	-	-	-	-
Capitol Permanent Distributions	-	-	-	-
Decrease in Net Assets	(121,578,277)	(3,504,562)	(11,762,825)	(10,473,145)
Permanent Net Assets, end of year	511,571,551	14,253,711	47,883,435	43,204,185
EARNINGS RESERVE ASSETS				
Earnings Reserve Net Assets, beginning of year	105,756,629	4,470,813	12,280,708	13,037,997
Transfer to Permanent Fund	-	(200,000)	-	-
Program Revenues:				
Receipts from Dept. of Lands	33,756,501	462,828	3,374,305	5,102,713
Net Decrease in Fair Value of Investments	(21,554,602)	(815,714)	(2,606,625)	(2,974,010)
Income from Investments	17,959,605	530,518	1,753,169	1,631,625
Total Program Revenues	30,161,504	177,632	2,520,849	3,760,328
Program Expenses:				
Distribution for Expenses-Lands	16,285,034	269,558	1,152,594	1,963,592
Distribution for Expenses-EFIB	2,273,566	67,223	221,227	204,776
Distributions to Beneficiaries	29,692,900	794,000	2,826,100	2,534,100
Total Program Expenses	48,251,500	1,130,781	4,199,921	4,702,468
Decrease in Net Assets	(18,089,996)	(953,149)	(1,679,072)	(942,140)
Earnings Reserve Net Assets, end of year	87,666,633	3,317,664	10,601,636	12,095,857
TOTAL NET ASSETS	\$ 599,238,184	\$ 17,571,375	\$ 58,485,071	\$ 55,300,042

* 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
\$ 20,418,951	\$ 60,074,869	\$ 26,563,234	\$ 46,002,889	\$ 17,624,773	\$ 934,716,407
1,500,000	-	12,700,000	1,900,000	-	16,300,000
6,066	7,552	14,372	2,590	35,856	4,428,047
(4,326,860)	(11,857,151)	(7,751,360)	(9,454,055)	(3,570,357)	(188,640,203)
-	-	-	-	431,043	431,043
-	-	-	-	-	-
(4,320,794)	(11,849,599)	(7,736,988)	(9,451,465)	(3,103,458)	(183,781,113)
17,598,157	48,225,270	31,526,246	38,451,424	14,521,315	767,235,294
6,707,648	14,090,731	20,390,658	14,164,819		190,900,003
(1,500,000)	-	(12,700,000)	(1,900,000)		(16,300,000)
1,054,748	4,709,490	5,197,551	4,491,740		58,149,876
(1,098,404)	(3,345,989)	(2,295,914)	(2,973,225)		(37,664,483)
651,669	1,842,609	1,171,899	1,490,025		27,031,119
608,013	3,206,110	4,073,536	3,008,540		47,516,512
471,727	1,124,708	1,022,462	813,322		23,102,997
82,519	231,064	145,117	186,367		3,411,859
794,000	2,332,300	1,258,700	2,181,000		42,413,100
1,348,246	3,688,072	2,426,279	3,180,689		68,927,956
(740,233)	(481,962)	1,647,257	(172,149)		(21,411,444)
4,467,415	13,608,769	9,337,915	12,092,670		153,188,559
\$ 22,065,572	\$ 61,834,039	\$ 40,864,161	\$ 50,544,094	\$ 14,521,315	\$ 920,423,853

**STATE OF IDAHO ENDOWMENT FUNDS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE 1 - GENERAL DESCRIPTION OF THE FUNDS

Accounts Under Jurisdiction of the Endowment Fund Investment Board

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

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

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

Endowment Funds Investment Reform Legislation

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

The legislation provides that:

- (1) The EFIB, as trustees, will control, manage and invest Endowment Funds according to policies established by the State Board of Land Commissioners.
- (2) The application of the Uniform Prudent Investor Act replaces the previous, more restrictive, investment criteria.
- (3) An Earnings Reserve Fund is established to create a buffer to preserve the Permanent 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 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

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 (67% to 73% of the investment portfolio with a current target of 70%) and fixed income (27% to 33% of the investment portfolio, with a current target of 30%).

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

- (1) 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

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, 2009.

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, 2009 held 42 S&P 500 contracts with fair value of \$9.6 million and 460 10-year treasury contracts with a fair value of 53.5 million. The mark-to-market payable as of that date was \$16,305 which was paid on July 1, 2009.

Any idle monies after cash flow transactions are swept into the Idle Pool for overnight investment. The Idle Pool is managed by the State of Idaho Treasurer's office. The funds of the Idle Pool are invested pursuant to *Idaho Code* 67-1210 and 67-1210A, and 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 allocated between Endowment Funds in accordance with Section 57-724 of the *Idaho Code*.

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 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

NOTES TO FINANCIAL STATEMENTS

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, 2009, Public School Endowment Fund was \$65.5 million below the loss benchmark as defined by statute for the first consecutive year.

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.

Distributions to Beneficiaries

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

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 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.

NOTES TO FINANCIAL STATEMENTS

However, the Endowment Funds are exposed to the risk of losses in the investment of borrowers' collateral.

NOTE 3 - INVESTMENTS

Investments at June 30, 2009:

Fund Investments	COST	FAIR VALUE
Marketable Securities:		
Northern Money Market Funds	\$ 58,646,696	\$ 58,646,696
Northern Fixed Income Index Funds		
Barclays Capital Aggregate Bond	174,978,174	175,331,543
U.S. TIPS	24,649,389	27,654,021
Northern Equity Index Funds		
S&P 500	160,000,358	118,860,961
Other Equity Funds		
Barrow, Hanley, Mewhinney & Strauss	32,330,640	26,803,511
Capital International	8,000,000	12,080,899
Clearwater Advisors	8,421,213	8,421,213
Eagle Asset Management	27,444,867	25,317,613
Grantham, Mayo, Van Otterloo	8,000,000	12,290,792
INTECH	60,098,574	57,555,448
LSV Asset Management	77,804,715	56,586,052
Marvin & Palmer	52,755,718	56,601,631
Metropolitan West	59,881,657	57,231,136
Sands Capital	60,589,566	56,179,463
Systematic Financial Management	50,895,866	48,466,949
TimesSquare Capital Management	42,635,151	47,432,295
Tradewinds Global Investors	78,486,123	71,882,115
Total Fund Investments	985,618,707	917,342,338
Unsettled Trades		
Receivable for Investments sold	(29,935,445)	(29,733,376)
Payable for Investments purchased	3,195,474	3,195,474
Total Net Investments	\$ 958,878,736	\$ 890,804,436

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, 2009, 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.

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, 2009, the Endowment Funds did not hold any credit positions exceeding 5% of the total portfolio.

(continued on next page)

NOTES TO FINANCIAL STATEMENTS

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 Barclays Capital Index by more than 0.5 years.
- Money market funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poor’s, and/or Moody’s.

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

FUND INVESTMENTS	Fair Value	Modified Duration	Average Rating
Northern Money Market Fund	\$ 58,646,696	Not Applicable	A1+
Barclays Capital Aggregate Bond	175,331,543	4.35	AA1/AA2
U.S. TIPS	27,654,021	4.20	AAA/Aaa
Total	<u>\$ 261,632,260</u>		

At June 30, 2009, the Endowment Funds had \$91,210,515 invested in a comingled securities lending collateral pool that has an average rating of A1+ and a modified duration of less than a year.

NOTES TO FINANCIAL STATEMENTS

FOREIGN CURRENCY RISKS – The EFIB’s Investment Policy Statement permits investing up to 16% 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	\$ 3,198,406
Canada	CAD	520,565
Switzerland	CHF	8,734,892
Denmark	DKK	1,529,910
Europe	EUR	26,338,650
Great Britain	GBP	10,257,345
Hong Kong	HKD	7,143,084
Japan	JPY	32,729,687
South Korean won	KRW	1,598,176
Norway	NOK	1,129,518
Swedish krona	SEK	514,304
Singapore	SGD	1,272,761
South Africa	ZAR	2,442,927
Total Fund Investments		\$ 97,410,225

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, 2009.

NOTE 4 – SECURITIES LENDING

EFIB policies permit the Endowment Funds to participate in a securities lending program administered by Northern Trust Company, the Endowment Funds’ custodian. Securities owned by the Endowment Funds are loaned to participating brokers-dealers, who must provide collateral in the form of cash, securities, and irrevocable letters of credit. Under the terms of the agreement, collateral is initially pledged at 102% of the fair market value of the loaned securities for U.S. securities’ and 105% of the fair market value for non-U.S. securities. The Endowment Funds cannot pledge or sell non-cash collateral received unless the borrower defaults.

The Endowment Funds participate in two types of securities lending – “direct” lending of individual securities owned by the Endowment Funds in its segregated investment accounts and “indirect” lending of comingled index funds in which the Endowment Funds own units. In indirect lending, loaned securities are not owned directly by the Endowment Funds, but rather by a comingled index fund pool which the Endowment Funds own a share of.

At June 30, 2009, the Endowment Funds had no credit risk exposure to borrowers because the amounts the Endowment Funds owe the borrowers equal or exceed the amounts the borrowers owe the Endowment Funds. Furthermore, the contract with the custodian requires it to indemnify the Endowment Funds if the borrowers fail to return the securities, if the collateral received is insufficient to replace the securities, or if the borrowers fail to pay the Endowment Funds for income distributions by the securities issuers while the securities are out on loan.

All loans of securities can be terminated on demand by either the Endowment Funds or the borrower. At June 30, 2009 the average term of a loan was 46 days.

(continued on next page)

NOTES TO FINANCIAL STATEMENTS

Cash collateral received is invested in two comingled collateral pools (the Pools), direct and indirect, managed by the custodian. The relationship between the maturities of the Pools and Endowment Funds' loans is affected by the maturities of the loans of securities made by other entities that use the Pools, which the EFIB cannot determine. At June 30, 2009, the direct and indirect cash collateral pools have a weighted average maturity of 232 days and 173 days, respectively, and 17 days and 11 days, based on interest rate reset date.

Prior to September 2008, the Pools were accounted for on a constant \$1 net asset value basis, in which securities were valued on an amortized cost basis. However, in mid-September 2008, following the default of Lehman Brothers, the market value of certain assets held in the Pools fell materially below their amortized cost, requiring the custodian to recognize the unrealized loss. Recognition of the loss caused the value of the Pools to fall below the commitments owed to the borrowers. As of June 30, 2009, the Endowment Funds have recognized net unrealized losses of \$1,289,806 and \$1,643,750 for the direct and indirect pools, respectively. In an effort to mitigate these losses, the custodian contributed \$357,640 to the Endowment Funds (\$155,540 for the direct program and \$202,190 for the indirect program). This contribution is included in Income from Investments in the Statement of Activities.

There were no violations of legal or contractual provisions, no borrower or lending agent default losses known to the securities lending agent, and no dividends or coupon payments owing on the securities lent. Securities lending earnings are credited to participating clients on approximately the fifteenth day of the following month.

The following represents amounts associated with the direct lending program.

	Outstanding Loans as of June 30, 2009
Fair Value of Securities Loaned for Cash Collateral	\$ 89,255,512
Fair Value of Securities Loaned for Non-Cash Collateral	92,233
Total Fair Value of Securities Loaned	\$ 89,347,745
Fair Value of Cash Collateral from Borrowers	\$ 92,405,095
Fair Value of Non-Cash Collateral from Borrowers	95,226
Total Fair Value of Collateral from Borrowers	\$ 92,500,321

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, at the end of the fiscal year, its "gain benchmark" as defined in statute (June 30, 2000 level, adjusted for inflation and deposits). State Hospital South's Permanent Endowment Fund passed the benchmark for the first time as of June 30, 2009. All other endowments have never exceeded their statutory gain benchmarks and 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. The State Hospital South Endowment Fund will experience this change in earnings allocation beginning in FY 2011.

NOTES TO FINANCIAL STATEMENTS

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	
Securities Lending	\$ 658,987
Short-term & Fixed Income	14,080,948
Equity Funds	12,722,227
Total	\$ 27,462,162

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 two endowments associated with the Department of Parks and Recreation. 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 2009 paid by the other clients were \$119,796.

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, 2009 were as follows:

Charitable Institutions Distributions

	Factor	Beneficiaries	Lands Expenses	EFIB Expenses
Idaho State University Fund	8/30	\$ 753,626	\$ 307,359	\$ 58,994
State Juvenile Corrections Institutions	8/30	753,627	307,358	58,994
School for the Deaf and Blind Fund	1/30	94,203	38,420	7,374
Veterans Home Fund	5/30	471,017	192,099	36,871
State Hospital North Fund	8/30	753,627	307,358	58,994
Total		\$ 2,826,100	\$ 1,152,594	\$ 221,227

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, 2009 were as follows:

NOTES TO FINANCIAL STATEMENTS

Normal School Distributions

	%	Beneficiaries	Lands Expenses	EFIB Expenses
Idaho State University, Pocatello	50%	\$ 1,267,050	\$ 981,796	\$ 102,388
Lewis-Clark State College, Lewiston	50%	1,267,050	981,796	102,388
Total		\$ 2,534,100	\$ 1,963,592	\$ 204,776

NOTE 8 – CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICT BONDS

On July 1, 2002, the State of Idaho's Credit Enhancement Program for school district bonds became effective. This program, in accordance with *Idaho Code* Section 57-728 and in conjunction with *Idaho Code* Chapter 53, Title 33, requires the Public School Endowment Fund to purchase up to \$200 million in notes of the State of Idaho that are issued to avoid the default of a voter-approved school district bond that has been guaranteed by the program. This program results in a higher credit rating for qualifying school bonds and, through lower interest costs, saves school districts thousands of dollars throughout the life of the bond issue. As of June 30, 2009, the Public School Endowment Fund had not been required to purchase any notes and the EFIB was not aware of any purchase commitments.

The outstanding principal amount of debt guaranteed by the Credit Enhancement Program is limited to four times the amount made available by the Public School Endowment Fund, or \$800 million. Participation in the Credit Enhancement Program is limited to \$20 million per school district, with the exception that any guarantees exceeding the \$20 million limit prior to July 1, 2007 remain in effect. \$617.6 million of bonds guaranteed by the Credit Enhancement Program remained outstanding as of June 30, 2009. Expected principal and interest payments on the outstanding bonds for the year ending June 30, 2010 will total \$66 million.

The Public School Endowment Fund would only be required to loan monies to the State to make payments on school bonds after several other potential funding sources have been exhausted. If a school district does not make timely prepayment of debt service on guaranteed bonds, the State Treasurer is required to make the payment, if possible, by intercepting monies due to that school district from the State, including General Fund payments and distributions from the Public School Endowment Fund. If these funds are not sufficient to meet the debt service payment, the State Treasurer is required to utilize any available funds from the state sales tax account. If all these sources prove insufficient to make the payment, the Treasurer may borrow the remaining amount from the Public School Endowment Fund, at a rate of 400 basis points above one-year Treasury Bills. This loan from the Endowment Fund would be repaid by the intercept of future state funds due to the school district and other sources.

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 on an annual basis. The EFIB is not required by law to adopt or publish an overall budget for operations.

NOTES TO FINANCIAL STATEMENTS

NOTE 10 – MISCELLANEOUS REVENUE

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

- Unclaimed estates, dividends and stock certificates from Idaho corporations (Idaho Constitution Section 4 Article IX)
- 5.0% of federal land sales (Section 7 of the Idaho Admission Bill)
- Proceeds from sales of unclaimed livestock (*Idaho Code* Section 25-1174)
- Anonymous political contributions in excess of \$50 (*Idaho Code* Section 67-6610)
- Unqualified election expenses of political parties paid from state income tax funds (*Idaho Code* Section 34-2505)

In FY 2009, the Public School Permanent Fund received \$109,595 representing five percent of the net proceeds from the sale of federal land in Idaho, \$46,965 from unclaimed estates, and \$100 from excess anonymous political contributions. These miscellaneous revenues are included in Receipts from Department of Lands. There were no revenues from unclaimed livestock, unclaimed dividends and shares of Idaho corporations, or unqualified election expenses.

NOTE 11 – PENSION AND OTHER POST-EMPLOYMENT BENEFITS

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

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

The contribution requirements of the EFIB and its employees are established and may be amended by the PERSI Board of Trustees. For the year ending June 30, 2009, 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 \$31,798.

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 or obtained by contacting: State Controllers Office, P.O. Box 83720, Boise, ID 83720-0011.

NOTES TO FINANCIAL STATEMENTS

NOTE 12– 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 2010.

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
Total	\$ 45,655,200

The EFIB authorizes distributions from the Capitol Permanent Fund to the Capitol Commission, effective July 1 of each fiscal year. A distribution of \$600,000 was authorized by the EFIB for FY 2010 and the Capitol Commission chose to take \$300,000.

NOTE 13 – SUBSEQUENT EVENTS

Endowment Distributions

For endowments other than the Capitol Permanent Fund, on August 18, 2009, the Board of Land Commissioners approved the following distributions to beneficiaries for FY 2011. The FY 2011 approved distributions have not yet been appropriated by the legislature and will be considered by the legislature in its 2010 session.

2011	
Public School	\$ 31,292,400
Agricultural College	850,800
Charitable Institutions	2,964,600
Normal School	2,661,600
Penitentiary	1,040,400
School of Science	2,984,400
State Hospital South	1,663,200
University of Idaho	2,329,200
Total	\$ 45,786,600

On August 18, 2009, the Board of Land Commissioners also approved the following transfers from Earnings Reserves to the Permanent Funds, effective September 1, 2009:

State Hospital South	\$ 1,023,000
University of Idaho	447,000
Total	\$ 1,470,000

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

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

We have audited 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, 2009, and have issued our report thereon dated August 12, 2009. 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 black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
August 12, 2009



**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, 2009**

CASH BASIS EXPENDITURES FROM THE STATE OF IDAHO REPORTING SYSTEM	Expenditures
PERSONNEL	
Regular Employees	\$ 297,956
Board/Commission Members	2,400
Total Benefits	92,938
Subtotal Personnel Expenditures	393,294
OPERATING	
Postage	240
Telephone and Data Line Charges	6,287
Publications & Subscriptions	11,850
Employee Training	6,913
Audit	42,600
Travel and Board Meeting Expenses	25,280
Office and Other Materials and Supplies	5,418
Office Space	37,379
Computer Programming and Software	141
Governmental Overhead – State	19,486
Other Expenses	1,697
Subtotal Operating Expenditures	157,291
CAPITAL OUTLAY	
Furniture and Other Office Equipment	1,444
Computer Equipment	1,598
Subtotal Capital Expenditures	3,042
TOTAL APPROPRIATED EXPENSES	553,627
Less Payments Made by Other Clients *	(119,796)
Subtotal	433,831
CONTINUOUS APPROPRIATION	
Consultant, Custodial and Manager Fees **	
Callan Associates	178,938
Barrow, Hanley, Mewhinney & Strauss	168,813
Clearwater Advisors	48,157
Eagle Asset Management	203,995
INTECH Investment Management	243,875
LSV Asset Management	269,163
Marvin & Palmer Associates	457,366
Metropolitan West Capital Management	233,635
Northern Trust	308,852
Sands Capital Management	339,468
Systematic Financial Management	276,243
Tradewinds Global Investors	428,537
Total Consultant, Custodial, and Manager Fees	3,157,042
Total Endowment Cash Expenditures	3,590,873
Less Reimbursement of Capitol Permanent Fund Expenses and Cash	(59,582)
Change in Manager Fee Accrual	(119,432)
Total Accrual Basis Expense - EFIB	\$ 3,411,859

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

** Fees of \$37,979 & \$25,064 were paid to Capital International and Grantham Mayo, respectively, on an indirect basis as deductions from Net Asset Value of their mutual funds and are not reported as EFIB expenditures.

**STATE OF IDAHO ENDOWMENT FUNDS
SCHEDULE OF PUBLIC SCHOOL AND OTHER ENDOWMENT FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009**

	Public School	Other	Total Endowment Funds
Current Assets			
Cash with Treasurer	\$ 121	\$ -	\$ 121
Investments, at Fair Value	580,611,498	310,192,938	890,804,436
Receivable for Unsettled Trades	19,357,793	10,375,583	29,733,376
Receivable From Idaho Department of Lands	1,770,696	1,956,695	3,727,391
Accrued Interest and Dividends Receivable	949,819	509,094	1,458,913
Invested Securities Lending Collateral	59,381,281	31,829,234	91,210,515
Total Assets	662,071,208	354,863,544	1,016,934,752
Current Liabilities			
Securities Lending Collateral	60,221,955	32,278,366	92,500,321
Payable for Unsettled Trades	2,080,400	1,115,075	3,195,475
Investment Manager Expense Payable	530,669	284,434	815,103
Total Liabilities	62,833,024	33,677,875	96,510,899
Total Net Assets	599,238,184	321,185,669	920,423,853
Nonexpendable Restricted Net Assets - Permanent Funds			
Public School	511,571,551		511,571,551
Agricultural College		14,253,711	14,253,711
Charitable Institutions		47,883,435	47,883,435
Normal School		43,204,185	43,204,185
Penitentiary		17,598,157	17,598,157
School of Science		48,225,270	48,225,270
State Hospital South		31,526,246	31,526,246
University of Idaho		38,451,424	38,451,424
Capitol Permanent Fund		14,521,315	14,521,315
Total Permanent Net Assets	511,571,551	255,663,743	767,235,294
Expendable Net Assets - Earnings Reserve			
Public School	87,666,633		87,666,633
Agricultural College		3,317,664	3,317,664
Charitable Institutions		10,601,636	10,601,636
Normal School		12,095,857	12,095,857
Penitentiary		4,467,415	4,467,415
School of Science		13,608,769	13,608,769
State Hospital South		9,337,915	9,337,915
University of Idaho		12,092,670	12,092,670
Total Earnings Reserve Net Assets	87,666,633	65,521,926	153,188,559
Total Net Assets	\$ 599,238,184	\$ 321,185,669	\$ 920,423,853

**STATE OF IDAHO ENDOWMENT FUNDS
SCHEDULE OF GAINS AND (LOSSES) ON FAIR VALUE OF PERMANENT FUNDS' INVESTMENTS
THROUGH THE YEAR ENDED JUNE 30, 2009**

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)
2009	633,149,828	4,201,860	637,351,688	511,571,551	(125,780,137)
TOTAL					\$ (65,487,750)

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	(14,293,588)
2009	283,941,807	16,490,331	300,432,138	241,142,428	(59,289,710)
TOTAL					\$ (32,135,529)

* The Capitol Permanent Fund is not included in the table because it has no Earnings Reserve Fund and there is no provision in statute for restoring losses in its corpus.

STATE OF IDAHO ENDOWMENT FUNDS
SCHEDULE OF WEIGHTED INVESTMENT RETURNS BY ASSET MANAGER
GROSS OF FEES
PERIODS ENDING JUNE 30, 2009

Gross of Fees	FY 2009	2-Yr. Annual	3-Yr. Annual	4-Yr. Annual	5-Yr. Annual
Total Account	(18.0)	(10.4)	(2.2)	0.9	2.6
<i>Benchmark</i>	<i>(17.7)</i>	<i>(12.3)</i>	<i>(3.5)</i>	<i>(0.6)</i>	<i>1.2</i>
Total fund benchmark consists of 54% Russell 3000, 16% MSCI ACWI ex-US, & 30% Barclays Capital Aggregate Bond					
Total Fixed Income	5.8	7.1	6.8	4.8	5.2
NTGI Aggregate Bond	6.6	7.2	6.9	4.9	5.3
<i>BC U.S. Aggregate Index</i>	<i>6.1</i>	<i>6.6</i>	<i>6.4</i>	<i>4.6</i>	<i>5.0</i>
NTGI TIPS	(2.0)	6.5	5.6	3.8	4.9
<i>BC US TIPS Index</i>	<i>(1.1)</i>	<i>6.7</i>	<i>5.8</i>	<i>3.9</i>	<i>4.9</i>
Total Domestic Equity	(26.7)	(18.6)	(7.6)	(2.8)	(0.5)
<i>Russell 3000 Index</i>	<i>(26.6)</i>	<i>(19.9)</i>	<i>(8.4)</i>	<i>(4.2)</i>	<i>(1.8)</i>
Large Cap Core	(25.8)	(19.6)	(7.9)	(4.0)	(2.0)
NTGI S&P 500	(25.8)	(19.6)	(7.9)	(4.0)	(2.0)
<i>S&P 500 Index</i>	<i>(26.2)</i>	<i>(19.9)</i>	<i>(8.2)</i>	<i>(4.3)</i>	<i>(2.2)</i>
Large Growth	(25.4)	(14.7)	(6.4)	(3.5)	(2.7)
INTECH	(23.6)	(14.3)	(6.1)	(2.9)	--
Sands	(26.0)	(14.1)	(6.3)	(4.0)	--
<i>Russell 1000 Growth Index</i>	<i>(24.5)</i>	<i>(15.7)</i>	<i>(5.5)</i>	<i>(2.7)</i>	<i>(1.8)</i>
Large Cap Value	(25.8)	(20.8)	(8.5)	(2.5)	1.0
LSV	(26.4)	(24.4)	(10.8)	(5.0)	(0.8)
Metropolitan West	(22.7)	(15.5)	(5.1)	1.3	4.2
<i>Russell 1000 Value Index</i>	<i>(29.0)</i>	<i>(24.1)</i>	<i>(11.1)</i>	<i>(5.8)</i>	<i>(2.1)</i>
Mid Cap	(30.9)	(19.7)	(7.9)	(3.0)	(0.5)
Systematic	(27.6)	(17.6)	(5.0)	0.6	4.5
TimesSquare *	9.6	--	--	--	--
<i>Russell Mid Cap Index</i>	<i>(30.4)</i>	<i>(21.4)</i>	<i>(9.3)</i>	<i>(4.0)</i>	<i>(0.1)</i>
Small Cap	(25.1)	(17.9)	(6.8)	0.5	2.5
Eagle	(25.5)				
Barrow, Hanley	(25.5)	(20.9)	(9.2)	(1.9)	0.9
<i>Russell 2000 Index</i>	<i>(25.0)</i>	<i>(20.7)</i>	<i>(9.9)</i>	<i>(4.3)</i>	<i>(1.7)</i>
International Equity	(30.6)	(14.7)	(2.8)	3.9	6.2
Marvin & Palmer	(43.9)	(22.0)	(7.6)	0.0	1.8
Tradewinds	(20.2)	(10.2)	(0.3)	5.9	9.0
Capital International **	51.2	--	--	--	--
GMO ***	54.0	--	--	--	--
<i>MSCI ACWI ex-US Index</i>	<i>(30.9)</i>	<i>(19.7)</i>	<i>(5.8)</i>	<i>1.7</i>	<i>4.5</i>

* Performance from April 15, 2009 to June 30, 2009

** Performance from March 6, 2009 to June 30, 2009, includes 0.21% adjustment to gross up performance

*** Performance from March 6, 2009 to June 30, 2009, includes 0.31% adjustment to gross up performance

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.

Active Manager changes in FY 2009:

Managers Hired: Capital International, Grantham Mayo, Van Otterloo (GMO) and TimesSquare Capital Management

Managers Discharged: None

Other Changes: Investments in the NTGI Russell 1000 Growth, Russell 1000 Value, and S&P 400 Index Funds were discontinued

STATE OF IDAHO ENDOWMENT FUNDS
SCHEDULE OF WEIGHTED INVESTMENT RETURNS BY ASSET MANAGER
NET OF FEES
PERIODS ENDING JUNE 30, 2009

Net of Fees	FY 2009	2-Yr. Annual	3-Yr. Annual	4-Yr. Annual	5-Yr. Annual
Total Account	(18.2)	(10.7)	(2.5)	0.6	2.4
<i>Benchmark</i>	<i>(17.7)</i>	<i>(12.3)</i>	<i>(3.5)</i>	<i>(0.6)</i>	<i>1.2</i>
Total fund benchmark consists of 54% Russell 3000, 16% MSCI ACWI ex-US, & 30% Barclays Capital Aggregate Bond					
Total Fixed Income	5.8	7.1	6.7	4.8	5.2
NTGI Aggregate Bond	6.6	7.2	6.8	4.9	5.2
<i>BC U.S. Aggregate Index</i>	<i>6.1</i>	<i>6.6</i>	<i>6.4</i>	<i>4.6</i>	<i>5.0</i>
NTGI TIPS	(2.0)	6.4	5.6	3.8	4.8
<i>BC US TIPS Index</i>	<i>(1.1)</i>	<i>6.7</i>	<i>5.8</i>	<i>3.9</i>	<i>4.9</i>
Total Domestic Equity	(26.9)	(18.8)	(7.8)	(2.7)	(0.5)
<i>Russell 3000 Index</i>	<i>(26.6)</i>	<i>(19.9)</i>	<i>(8.4)</i>	<i>(4.2)</i>	<i>(1.8)</i>
Large Cap Core	(25.8)	(19.6)	(7.9)	(4.0)	(2.1)
NTGI S&P 500	(25.8)	(19.6)	(7.9)	(4.0)	2.1
<i>S&P 500 Index</i>	<i>(26.2)</i>	<i>(19.9)</i>	<i>(8.2)</i>	<i>(4.3)</i>	<i>(2.2)</i>
Large Growth	(25.5)	(14.8)	(6.4)	(3.5)	(2.7)
INTECH	(24.1)	(14.8)	(6.6)	(3.4)	--
Sands	(26.8)	(14.8)	(7.1)	(4.7)	--
<i>Russell 1000 Growth Index</i>	<i>(24.5)</i>	<i>(15.7)</i>	<i>(5.5)</i>	<i>(2.7)</i>	<i>(1.8)</i>
Large Cap Value	(25.9)	(20.8)	(8.6)	(2.6)	0.9
LSV	(26.9)	(24.9)	(11.4)	(5.6)	(1.4)
Metropolitan West	(23.1)	(16.0)	(5.5)	0.9	3.8
<i>Russell 1000 Value Index</i>	<i>(29.0)</i>	<i>(24.1)</i>	<i>(11.1)</i>	<i>(5.8)</i>	<i>(2.1)</i>
Mid Cap	(31.0)	(19.8)	(8.1)	(3.2)	(0.6)
Systematic	(28.1)	(18.1)	(5.5)	0.1	4.0
TimesSquare *	9.5	--	--	--	--
<i>Russell Mid Cap Index</i>	<i>(30.4)</i>	<i>(21.4)</i>	<i>(9.3)</i>	<i>(4.0)</i>	<i>(0.1)</i>
Small Cap	(25.2)	(17.9)	(6.9)	0.5	2.5
Eagle	(26.3)	--	--	--	--
Barrow, Hanley	(26.2)	(21.6)	(9.8)	(2.6)	0.2
<i>Russell 2000 Index</i>	<i>(25.0)</i>	<i>(20.7)</i>	<i>(9.9)</i>	<i>(4.3)</i>	<i>(1.7)</i>
International Equity	(30.7)	(14.8)	(2.9)	3.8	6.1
Marvin & Palmer	(44.5)	(22.6)	(8.2)	(0.6)	1.2
Tradewinds	(20.8)	(10.8)	(0.9)	5.3	8.4
Capital International **	51.0	--	--	--	--
GMO ***	53.6	--	--	--	--
<i>MSCI ACWI ex-US Index</i>	<i>(30.9)</i>	<i>(19.7)</i>	<i>(5.8)</i>	<i>1.7</i>	<i>4.5</i>

* Performance from April 15, 2009 to June 30, 2009, gross performance reduced by 0.16% ITD fee

** Performance from March 6, 2009 to June 30, 2009

*** Performance from March 6, 2009 to June 30, 2009

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.

Active Manager changes in FY 2009:

Managers Hired: Capital International, Grantham Mayo, Van Otterloo (GMO) and TimesSquare Capital Management

Managers Discharged: None

Other Changes: Investments in the NTGI Russell 1000 Growth, Russell 1000 Value, and S&P 400 Index Funds were discontinued.

**STATE OF IDAHO ENDOWMENT FUNDS
BROKERAGE SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2009**

SCHEDULE OF BROKERAGE COMMISSIONS

Broker Name	Shares	Commissions	Per Share
UBS	6,724,960	\$ 80,461	\$ 0.012
Lynch, Jones & Ryan	2,432,202	69,766	0.029
Merrill Lynch	3,426,783	61,125	0.018
Broadcoart Capital	1,711,385	56,354	0.033
Credit Suisse	3,612,887	47,942	0.013
Goldman Sachs	2,198,727	46,199	0.021
Liquidnet	1,990,519	38,175	0.019
Citigroup	2,265,002	35,268	0.016
JP Morgan	1,198,531	39,773	0.033
Deutsche Bank Securities	956,107	26,905	0.028
Morgan Stanley	818,458	26,572	0.032
Investment Technology Group	1,191,905	20,340	0.017
Capital Institutional	1,760,577	18,685	0.011
Societe General	264,976	15,025	0.057
Jeffries & Co.	525,088	10,830	0.021
Weeden & Co.	957,653	10,621	0.011
Barclays Capital	335,005	7,520	0.022
Robert W. Baird & Co.	192,730	7,397	0.038
Autranet Inc., Equity	144,400	6,278	0.043
Exane Paris	71,700	6,264	0.087
Bernstein, Sanford C. & Co.	203,294	6,152	0.030
Banc America Securities	234,215	6,042	0.026
Rochdale Securities	201,760	6,022	0.030
Lehman Bros.	667,627	5,834	0.009
CLSA Singapore	504,600	5,693	0.011
Raymond James	152,600	5,628	0.037
Cantor Fitzgerald	837,342	5,626	0.007
Macquarie Securities	218,277	5,517	0.025
All other brokerage firms (under \$5,000)	10,157,950	180,712	0.018
	45,957,260	\$ 858,726	\$ 0.018



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

EXAMINATION OF MANAGEMENT'S ASSERTIONS

INDEPENDENT AUDITORS' REPORT ON EXAMINATION OF MANAGEMENT'S ASSERTIONS

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

We have examined management's assertions about the State of Idaho Endowment Funds' (the Endowment Funds) compliance with certain requirements of the Idaho Code, Chapter 7, Investment of Permanent Endowment Funds, and of the State of Idaho Endowment Fund Variable Spending Policy, during the year ended June 30, 2009, included in the accompanying Statement of Management's Assertions. Management is responsible for the Endowment Funds' compliance with these requirements. Our responsibility is to express an opinion on management's assertions about the Endowment Funds' compliance based on our examination.

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

In our opinion, management's assertions that the Endowment Fund complied with the aforementioned requirements for the year ended June 30, 2009, 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.

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

Boise, Idaho
August 12, 2009

**STATE OF IDAHO ENDOWMENT FUNDS
STATEMENT OF MANAGEMENT'S ASSERTIONS
YEAR ENDED JUNE 30, 2009**

Investment securities held at June 30, 2009 were in compliance with *Idaho Code* Chapter 7, Title 57, and with the State of Idaho Endowment Fund Investment Board Statement of Investment Policy. The following control procedure was in place for the year ended June 30, 2009 to help ensure compliance with the Code and Policy:

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

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

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

The Investment Board has employed Eide Bailly, LLP, an independent certified public accounting firm, to audit the books and records of the Endowment Fund for the year ended June 30, 2009, as required by *Idaho Code 57-720*.