

**FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2010**



State of Idaho Endowment Funds

**Administered by the
Endowment Fund Investment Board**



**FINANCIAL STATEMENTS – JUNE 30, 2010
STATE OF IDAHO ENDOWMENT FUNDS**

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INDEPENDENT AUDITOR'S REPORT

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

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, 2010, 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, 2010, 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 24, 2010, 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.

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

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 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.

Eide Bailly LLP

August 24, 2010
Boise, Idaho

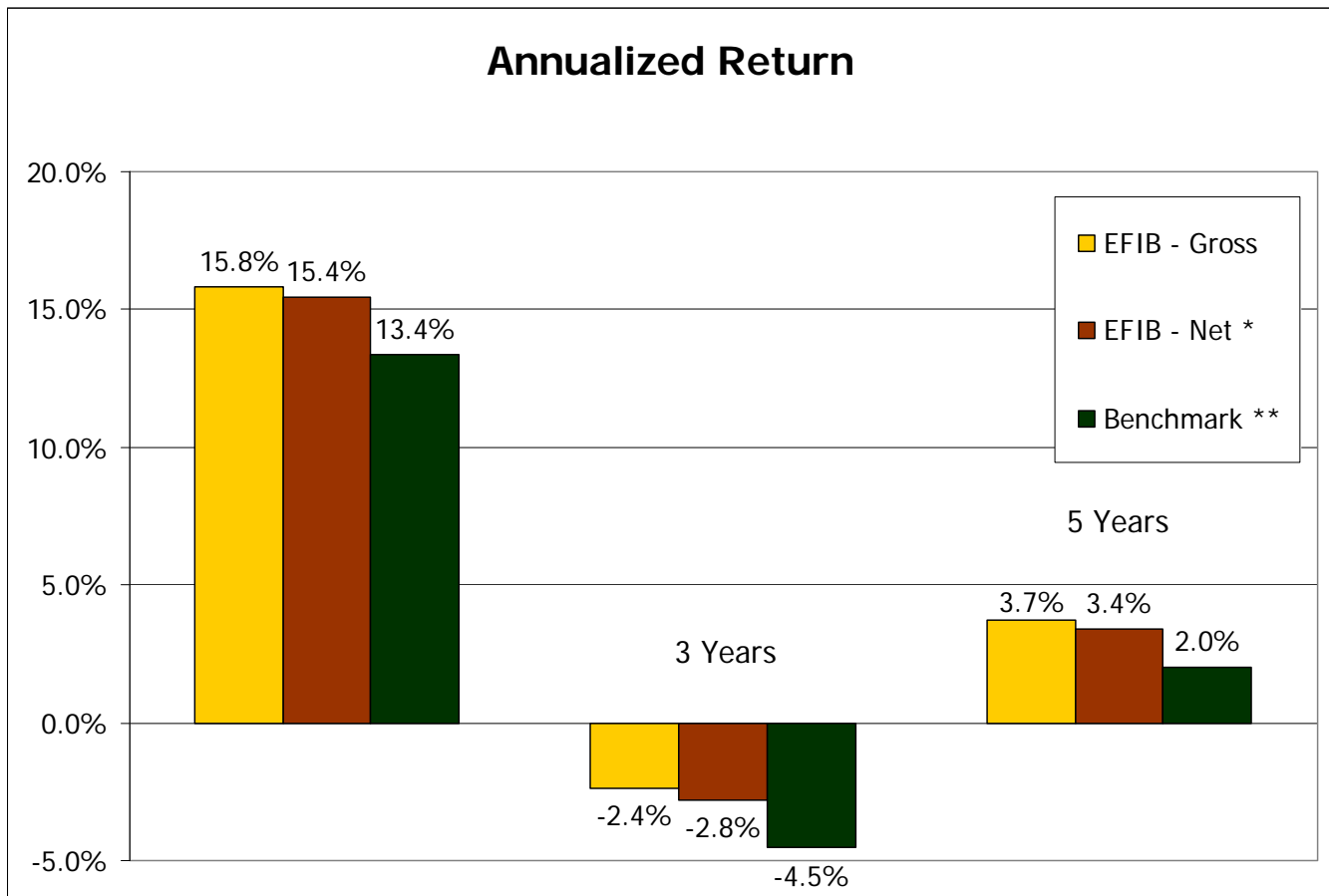
**STATE OF IDAHO ENDOWMENT FUNDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

This discussion and analysis of the State of Idaho Land Grant Endowment Funds' (the Endowment Funds) financial performance provides a summary of the financial activities of the manager of the Endowment Funds, the Endowment Fund Investment Board (the EFIB), for the year ended June 30, 2010.

FINANCIAL HIGHLIGHTS

Total of the Endowment Funds

- Net assets increased \$120.4 million, which represents a 13.1% increase from fiscal year 2009.
- Receipts to Earnings Reserves from endowment lands, decreased to \$48 million, a 23.3% decrease from fiscal year 2009.
- Net distributions to beneficiaries, excluding the Capitol Commission, increased 7.6% in fiscal year 2010 to \$45.7 million, from \$42.4 million in fiscal year 2009.
- Total investment return, before fees, was 15.8% in fiscal year 2010, compared to -18.0% in fiscal year 2009 and -2.1% in fiscal year 2008.



* Net returns are net of outside investment manager fees (approximately 35 basis points in 2010). The ratio of total fiscal year 2010 EFIB expenses to year-end net assets was 43 basis points.

** Benchmark consists, as of June 30, 2010, 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
JUNE 30, 2010**

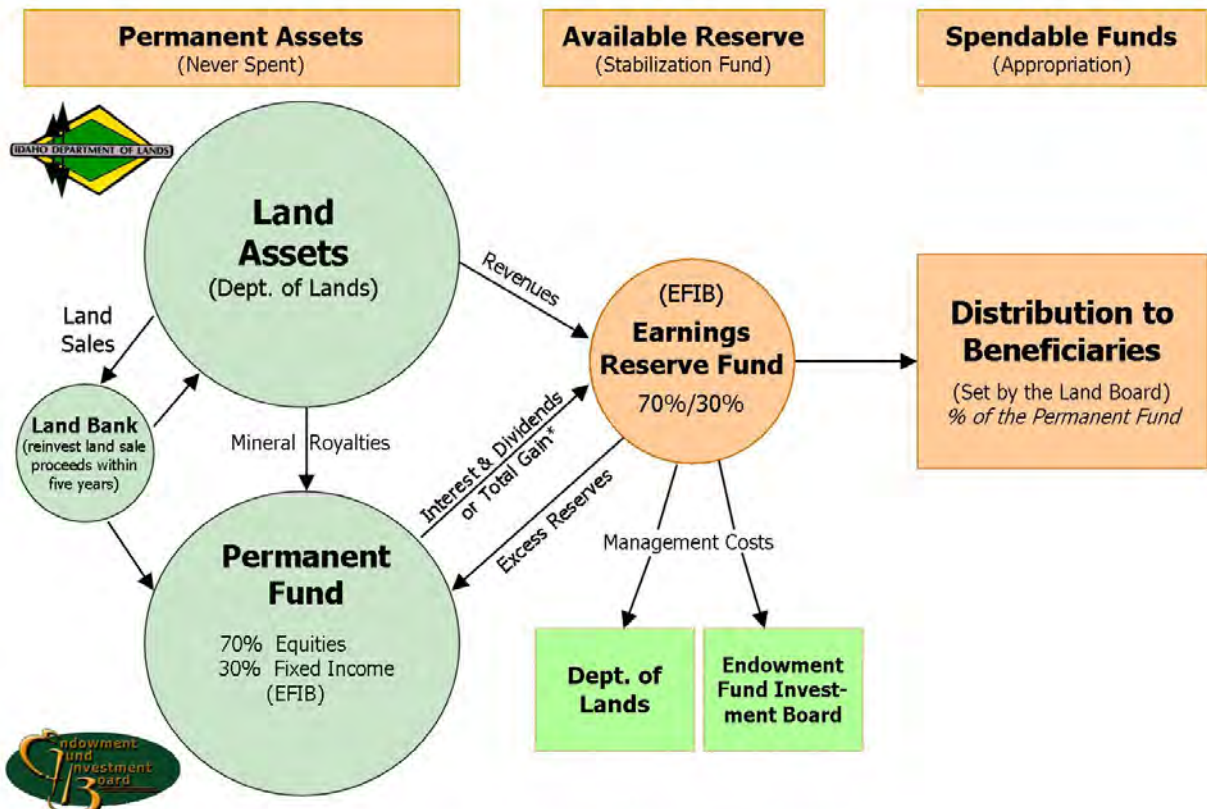
PURPOSE OF THE STATE OF IDAHO ENDOWMENT FUNDS

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
JUNE 30, 2010**

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

FINANCIAL STATEMENTS

The financial statements and notes to the financial statements are prepared by the Endowment Funds' management. The total of the Endowment Funds combines the assets of nine different endowments. The financial statements consist of a statement of net 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 exist to provide perpetual distributions to their beneficiaries. For all endowments, except Capitol Permanent, the State Board of Land Commissioners has established a distribution policy. The current policy establishes distributions at a rate of 5% of the three-year moving average Permanent Fund balance and allows for adjustments to the distributions based on factors including the amount in the Earnings Reserve and transfers to the Permanent Fund. The 2009 Idaho Legislature passed Senate Bill 1171 to appropriate the fiscal year 2010 distributions to the beneficiary institutions.

Total Fund Distributions

	2010	2009
Public School	\$ 31,292,400	\$ 29,692,900
Agricultural College	850,800	794,000
Charitable Institutions	2,964,000	2,826,100
Normal School	2,661,600	2,534,100
Penitentiary	1,040,400	794,000
School of Science	2,984,400	2,332,300
State Hospital South	1,532,400	1,258,700
University of Idaho	2,329,200	2,181,000
Subtotal	45,655,200	42,413,100
Capitol Permanent Fund	300,000	-
Total Distributions	\$ 45,955,200	\$ 42,413,100

STATE OF IDAHO ENDOWMENT FUNDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010

Statement of Net Assets

	2010	2009
Current Assets, excluding securities lending	\$ 1,125,895,750	\$ 925,724,237
Securities Lending Collateral	102,659,671	91,210,515
Total Current Assets	1,228,555,421	1,016,934,752
Liabilities, excluding securities lending	85,046,130	4,010,578
Securities Lending Collateral	102,659,671	92,500,321
Total Current Liabilities	187,705,801	96,510,899
Net Assets-Permanent Funds	875,535,344	767,235,294
Net Assets-Earnings Reserve Funds	165,314,276	153,188,559
Total Net Assets	\$ 1,040,849,620	\$ 920,423,853

Statement of Activities

	2010	2009
Program Revenues		
Receipts from Dept. of Lands		
Permanent Receipts	\$ 3,591,476	\$ 4,428,047
Earnings Reserve Receipts	44,432,471	58,149,876
Income from Investments	23,203,545	27,462,162
Increase in Value of Investments	122,659,649	(226,304,686)
Total Program Revenues	193,887,141	(136,264,601)
Program Expenses		
Distribution to Beneficiaries	45,955,200	42,413,100
Distribution for Expenses-Lands	22,982,584	23,102,997
Distribution for Expenses-EFIB	4,523,590	3,411,859
Total Program Expenses	73,461,374	68,927,956
Increase/(Decrease) in Net Assets	120,425,767	(205,192,557)
Net Program Revenue/Change in Net Assets	\$ 120,425,767	\$ (205,192,557)

Revenues reflect all receipts from endowment lands and total income from investments. During fiscal year 2010, land revenues decreased by 23.3% due primarily to lower timber harvest revenues. During the same period, income from investments also decreased 15.5% due primarily to lower interest income, as average interest rates declined. Investment gains totaled \$122.7 million due primarily to a strong recovery in equity prices after the

**STATE OF IDAHO ENDOWMENT FUNDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

sharp drop in the previous year that was 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 2010 distribution to beneficiaries, including the Capitol Commission, of \$46 million represented an 8.4% 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 the EFIB for their expenses increased 33% in fiscal year 2010 primarily because of higher investment management fees due to higher market values of invested assets and due to hiring an active manager, with higher fees, to replace an index fund for Mid Cap Growth Equity.

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. However, the Capitol Commission, because it had sufficient reserves, opted to not take a distribution for FY 2011.

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 2011. The FY 2012 approved distributions have not yet been appropriated and will be considered by the legislature in its 2011 session.

Senate Bill 1395 details the FY 2011 distributions to the beneficiaries:

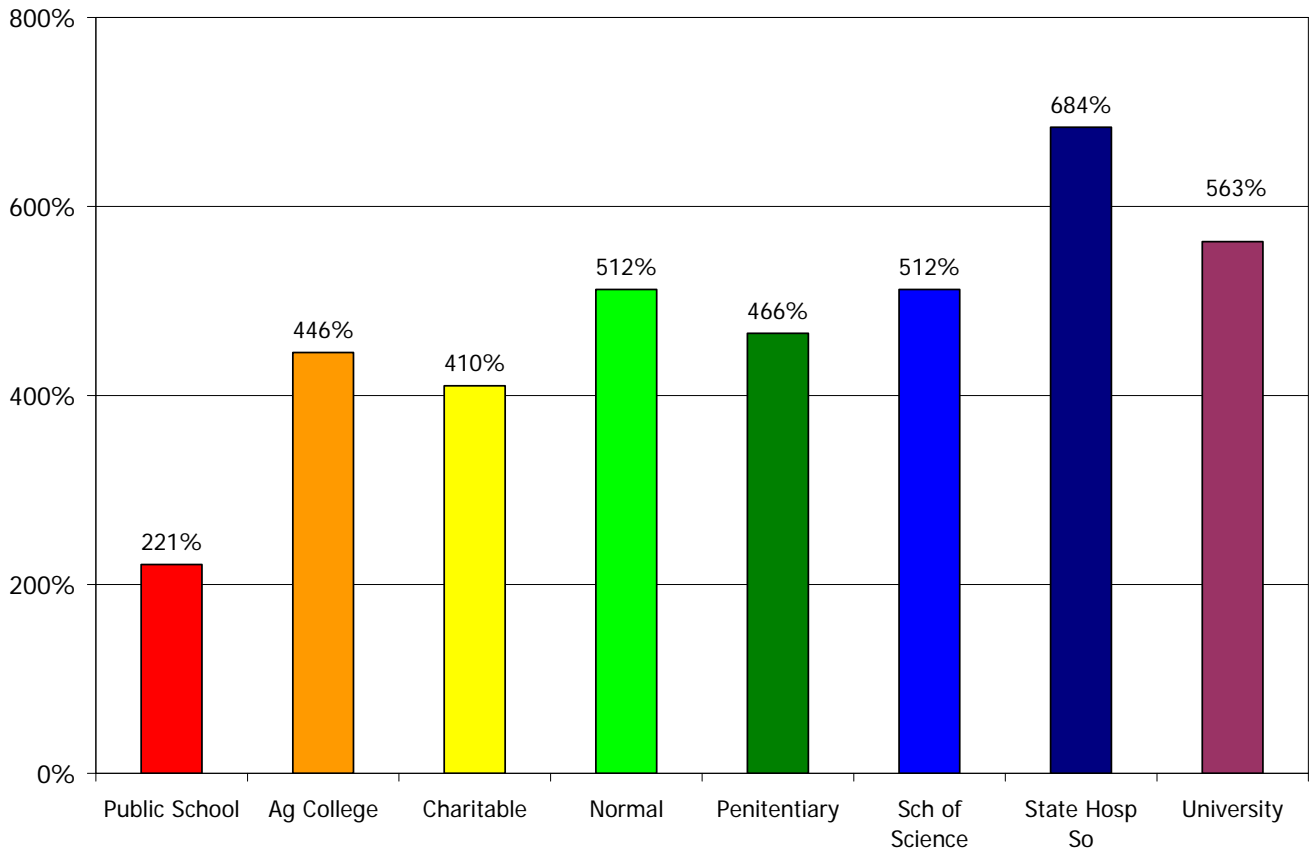
	2011
Public School	\$ 53,292,400
Agricultural College	850,800
Charitable Institutions	2,964,600
Normal School	2,661,600
Penitentiary	1,040,400
School of Science	2,984,400
State Hospital South	1,663,200
University of Idaho	2,329,200
Total	\$ 67,786,600

The Board of Land Commissioners in February 2010 approved a one-time distribution of \$22 million to the Public School Endowment Fund for FY 2011, which is included in the amount shown above.

**STATE OF IDAHO ENDOWMENT FUNDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

Even if a distribution has been approved and appropriated, it cannot be paid if there are not sufficient funds in Earnings Reserve. A measure the EFIB uses to evaluate the adequacy of reserves is the "Coverage Ratio", (Annual Distribution divided by Reserves). Based on these coverage ratios, the EFIB believes that Earnings Reserves are sufficient to permit payment of approved distributions to all endowments in FY 2011.

Coverage Ratio June 30, 2010



The Public School ratio is adjusted for the one-time \$22 million distribution in FY2011

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 17, 2010, the Board of Land Commissioners approved the transfer of certain excess Earnings Reserves to the respective Permanent Funds of four endowments.

**STATE OF IDAHO ENDOWMENT FUNDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

TOTAL COST OF INVESTMENT MANAGEMENT

In fiscal year 2010, the EFIB had cash expenditures of \$4,523,590 to manage the Endowment Funds.

Investment Management Operating Costs	Expense	Basis Points*
Internal investment oversight	\$ 238,195	2
Internal accounting	128,259	1
Outside investment manager fees**	3,676,910	35
Custody expense	270,624	3
Consultant and auditor fees	232,306	2
Subtotal	4,546,294	43
Less manager fees deducted from NAV**	(239,434)	
Total Cash Expenditures	4,306,860	
Plus reimbursement and accrual	216,730	
Total Accrual Basis Expense	\$ 4,523,590	

* Relative to total fiscal-year end 2010 assets of \$1,040,849,620.

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



FINANCIAL STATEMENTS

JUNE 30, 2010

**Administered by the
Endowment Fund Investment Board**

STATE OF IDAHO ENDOWMENT FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2010

Current Assets:	
Cash with Treasurer	\$ -
Investments, at Fair Value	1,043,910,525
Receivable for Unsettled Trades	75,415,614
Receivable From Idaho Department of Lands	2,918,072
Accrued Interest and Dividends Receivable	3,651,539
Invested Securities Lending Collateral	102,659,671
Total Assets	1,228,555,421
Current Liabilities:	
Securities Lending Collateral	102,659,671
Payable for Unsettled Trades	83,947,401
Investment Manager Expenses Payable	1,098,729
Total Liabilities	187,705,801
Nonexpendable Restricted Net Assets - Permanent Funds:	
Public School	583,075,344
Agricultural College	16,157,761
Charitable Institutions	54,309,545
Normal School	49,368,782
Penitentiary	19,948,737
School of Science	54,679,953
State Hospital South	36,907,750
University of Idaho	44,095,165
Capitol Permanent Fund	16,992,307
Total Permanent Net Assets	875,535,344
Expendable Net Assets - Earnings Reserve:	
Public School	91,121,258
Agricultural College	3,790,486
Charitable Institutions	12,157,408
Normal School	13,631,327
Penitentiary	4,845,588
School of Science	15,289,511
State Hospital South	11,372,165
University of Idaho	13,106,533
Total Earnings Reserve Net Assets	165,314,276
Total Net Assets	\$ 1,040,849,620

**STATE OF IDAHO ENDOWMENT FUNDS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

	Public School	Agricultural College	Charitable Institutions	Normal School
PERMANENT NET ASSETS				
Permanent Net Assets, beginning of year	\$ 511,571,551	\$ 14,253,711	\$ 47,883,435	\$ 43,204,185
Transfer from Earnings Reserve	-	-	-	-
Program Revenues:				
Receipts from Dept. of Lands	2,790,873	344	27,366	347,973
Net Increase in Fair Value of Investments	68,712,920	1,903,706	6,398,744	5,816,624
Capitol Permanent Investment Income	-	-	-	-
Capitol Permanent Distributions	-	-	-	-
Increase in Net Assets	<u>71,503,793</u>	<u>1,904,050</u>	<u>6,426,110</u>	<u>6,164,597</u>
Permanent Net Assets, end of year	<u>583,075,344</u>	<u>16,157,761</u>	<u>54,309,545</u>	<u>49,368,782</u>
EARNINGS RESERVE NET ASSETS				
Earnings Reserve Net Assets, beginning of year	<u>87,666,633</u>	<u>3,317,664</u>	<u>10,601,636</u>	<u>12,095,857</u>
Transfer to Permanent Fund	-	-	-	-
Program Revenues:				
Receipts from Dept. of Lands	25,872,565	794,110	3,041,494	4,518,036
Net Increase in Fair Value of Investments	10,738,248	447,051	1,434,014	1,607,815
Income from Investments	15,064,795	442,307	1,482,007	1,403,344
Total Program Revenues	<u>51,675,608</u>	<u>1,683,468</u>	<u>5,957,515</u>	<u>7,529,195</u>
Program Expenses:				
Distribution for Expenses-Lands	13,951,318	272,694	1,143,930	3,052,790
Distribution for Expenses-EFIB	2,977,266	87,152	293,813	279,335
Distributions to Beneficiaries	31,292,400	850,800	2,964,000	2,661,600
Total Program Expenses	<u>48,220,984</u>	<u>1,210,646</u>	<u>4,401,743</u>	<u>5,993,725</u>
Increase in Net Assets	<u>3,454,624</u>	<u>472,822</u>	<u>1,555,772</u>	<u>1,535,470</u>
Earnings Reserve Net Assets, end of year	<u>91,121,257</u>	<u>3,790,486</u>	<u>12,157,408</u>	<u>13,631,327</u>
TOTAL NET ASSETS	<u>\$ 674,196,601</u>	<u>\$ 19,948,247</u>	<u>\$ 66,466,953</u>	<u>\$ 63,000,109</u>

* 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
\$ 17,598,157	\$ 48,225,270	\$ 31,526,246	\$ 38,451,424	\$ 14,521,315	\$ 767,235,294
-	-	1,023,000	447,000	-	1,470,000
222	12,297	10,037	1,454	400,910	3,591,476
2,350,358	6,442,386	4,348,467	5,195,287	2,002,032	103,170,524
-	-	-	-	368,050	368,050
-	-	-	-	(300,000)	(300,000)
2,350,580	6,454,683	4,358,504	5,196,741	2,470,992	106,830,050
19,948,737	54,679,953	36,907,750	44,095,165	16,992,307	875,535,344
4,467,415	13,608,769	9,337,915	12,092,670		153,188,559
-	-	(1,023,000)	(447,000)		(1,470,000)
882,953	2,754,059	4,609,323	1,959,931		44,432,471
571,487	1,803,220	1,341,567	1,545,723		19,489,125
554,468	1,562,749	1,052,602	1,273,223		22,835,495
2,008,908	6,120,028	7,003,492	4,778,877		86,757,091
480,681	1,143,930	2,202,353	734,888		22,982,584
109,653	310,956	211,489	253,926		4,523,590
1,040,400	2,984,400	1,532,400	2,329,200		45,655,200
1,630,734	4,439,286	3,946,242	3,318,014		73,161,374
378,174	1,680,742	3,057,250	1,460,863		13,595,717
4,845,589	15,289,511	11,372,165	13,106,533		165,314,276
\$ 24,794,326	\$ 69,969,464	\$ 48,279,915	\$ 57,201,698	\$ 16,992,307	\$1,040,849,620

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - GENERAL DESCRIPTION OF THE FUNDS

Accounts Under Jurisdiction of the Endowment Fund Investment Board

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

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

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

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

Endowment Funds Investment Reform Legislation

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

The legislation provides that:

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

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.

NOTES TO FINANCIAL STATEMENTS

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.

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

In fiscal year 2010, the EFIB utilized foreign currency forwards to hedge currency exposure and equity and fixed-income index futures for cash equitization and passive rebalancing. Index futures obligate the buyer to purchase an asset (or the seller to sell an asset) at a predetermined future date and price. Futures contracts detail the quality and quantity of the underlying asset and are standardized to facilitate trading on a futures exchange. Similarly, foreign currency forwards obligate the buyer to buy or seller to sell a currency at a specified price, at a specified quantity and on a specified future date.

NOTES TO FINANCIAL STATEMENTS

The tables below summarize the various contracts in the portfolio as of June 30, 2010. The notional value of these instruments is not recorded in the financial statements.

Futures	Expiration	Contracts	Notional Value	Unrealized G/L	Required Margin
10-Year Treasury Nt.	Sept 2010	55	\$ 6,740,078	\$ 98,281	\$ 71,500
S&P 500 Index	Sept 2010	331	16,990,230	(473,507)	1,489,500

Forwards	Expiration Date	Cost	Market Value	Unrealized Gain/Loss
EUR/USD	July 2010	\$ (5,386,605)	\$ (5,328,756)	\$ 57,849

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

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 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.

NOTES TO FINANCIAL STATEMENTS

At June 30, 2010, the market value of the Public School Permanent Fund was \$3.2 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 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 in statute. As of June 30, 2010, the market value of the Permanent Fund portion of the Agricultural College endowment was \$1.3 million above the principal or "loss benchmark" level as defined in statute.

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.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - INVESTMENTS

Investments at June 30, 2010:

Fund Investments	COST	FAIR VALUE
Marketable Securities:		
Northern Money Market Funds	\$ 10,235,935	\$ 10,215,248
State Street Global Advisors Fixed Income Index Funds		
Barclays Capital Aggregate Bond & U.S. TIPS	297,711,720	305,106,400
Northern Equity Index Funds		
S&P 500	140,066,898	113,944,927
Other Equity Funds		
Aberdeen Asset Management	25,208,264	22,586,117
Barrow, Hanley, Mewhinney & Strauss	21,660,019	23,788,291
Capital International	5,913,247	10,803,304
Clearwater Advisors	2,508,480	2,508,480
Eagle Asset Management	24,030,730	26,587,611
Grantham, Mayo, Van Otterloo	5,833,361	10,724,338
INTECH	61,820,162	60,386,916
Lazard Asset Management	25,141,001	22,545,382
LSV Asset Management	67,211,070	58,595,857
Marvin & Palmer	73,052,312	76,260,347
Metropolitan West Capital Management	55,392,938	60,382,120
Sands Capital Management	50,695,870	58,780,021
Systematic Financial Management	48,887,929	48,131,621
TimesSquare Capital Management	42,383,038	49,799,655
Tradewinds Global Investors	81,510,374	74,232,103
Total Fund Investments	1,039,263,348	1,035,378,738
Pending Trades		
Receivable for Investments sold	(75,769,176)	(75,415,614)
Payable for Investments purchased	83,947,401	83,947,401
Total Net Investments	\$ 1,047,441,573	\$ 1,043,910,525

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, 2010, 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, 2010, 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:

NOTES TO FINANCIAL STATEMENTS

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	\$ 10,215,248	Not Applicable	A1+
State Street Global Advisors			
Barclays Capital Aggregate Bond	274,724,384	4.2	Aa1/AA+
U.S. TIPS	30,382,016	3.9	AAA/Aaa
Total	\$ 315,321,648		

At June 30, 2010, the Endowment Funds had \$101,193,966 invested in a comingled securities lending collateral pool that has an average rating of A1+ and a weighted average maturity of 131 days (see Note 4- Securities Lending).

NOTES TO FINANCIAL STATEMENTS

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

Investment and Country	Currency	Fair Value
Common Stock		
Australia	AUD	\$ 4,673,070
Brazil	BRL	1,108,946
Canada	CAD	2,121,810
Switzerland	CHF	7,835,142
Denmark	DKK	1,478,721
Europe	EUR	32,952,833
Great Britain	GBP	20,918,042
Hong Kong	HKD	6,338,425
Indonesia	IDR	1,332,292
Japan	JPY	35,126,484
South Korean	KRW	2,926,189
Norway	NOK	820,387
Swedish	SEK	3,314,573
Singapore	SGD	1,966,500
South Africa	ZAR	2,535,022
Total Fund Investments		\$ 125,448,436

One of the Endowment Funds’ International Equity managers has authority to enter into foreign currency transactions to hedge a portion of their portfolio. On June 30, 2010 that manager had a Euro/U.S. Dollar hedge in place valued at (\$5,328,756) with an unrealized gain of \$57,849.

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 may 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, 2010, the Endowment Funds had no investments in comingled investment funds which participate in securities lending.

At June 30, 2010, the Endowment Funds had no credit risk exposure to borrowers because the amounts of the borrowers’ collateral held by the Endowment Funds equals or exceeds 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.

NOTES TO FINANCIAL STATEMENTS

All loans of securities can be terminated on demand by either the Endowment Funds or the borrower. At June 30, 2010 the average term of a loan was 53 days.

Cash collateral received is invested in a comingled collateral pool (the Pool), managed by the custodian. The relationship between the maturities of the Pool and Endowment Funds' loans is affected by the maturities of the loans of securities made by other entities that use the Pool, which the EFIB cannot determine. At June 30, 2010, the Pool has a weighted average maturity of 131 days, (27 days, based on interest rate reset date).

As of June, 30, 2010, the market value of the securities in the Pool was approximately equal to their amortized cost. During the year, the Fund realized losses on securities in the pool of \$68,385.

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 as of June 30, 2010
Fair Value of Securities Loaned for Cash Collateral	\$ 97,739,674
Fair Value of Securities Loaned for Non-Cash Collateral	1,423,889
Total Fair Value of Securities Loaned	\$ 99,163,563
Fair Value of Cash Collateral from Borrowers	\$ 101,193,966
Fair Value of Non-Cash Collateral from Borrowers	1,465,705
Total Fair Value of Collateral from Borrowers	\$ 102,659,671

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 in FY 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 cumulative gain (interest, dividends and market appreciation/depreciation) above inflation from its Permanent Fund. The State Hospital South Endowment Fund will experience this change in earnings allocation beginning in FY 2011.

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	\$ 357,359
Short-term, Fixed Income & Fees	10,230,803
Equity Funds	12,615,383
Total	\$ 23,203,545

NOTES TO FINANCIAL STATEMENTS

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. The portions paid by the other clients are paid under investment management contracts and are not considered an expenditure of the Endowment Funds and are therefore not included as expenditures or as reimbursements in these financial statements. Total expenses for fiscal year 2010 paid by the other clients were \$133,081.

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, 2010 were as follows:

Charitable Institutions Distributions

	Factor	Beneficiaries	Lands Expenses	EFIB Expenses
Idaho State University Fund	8/30	\$ 790,400	\$ 305,048	\$ 78,350
State Juvenile Corrections Institutions	8/30	790,400	305,048	78,350
School for the Deaf and Blind Fund	1/30	98,800	38,131	9,794
Veterans Home Fund	5/30	494,000	190,655	48,969
State Hospital North Fund	8/30	790,400	305,048	78,350
Total		\$ 2,964,000	\$ 1,143,930	\$ 293,813

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, 2010 were as follows:

Normal School Distributions

	%	Beneficiaries	Lands Expenses	EFIB Expenses
Idaho State University, Pocatello	50%	\$ 1,330,800	\$ 1,526,395	\$ 139,668
Lewis-Clark State College, Lewiston	50%	1,330,800	1,526,395	139,667
Total		\$ 2,661,600	\$ 3,052,790	\$ 279,335

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

NOTES TO FINANCIAL STATEMENTS

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. \$607.4 million of bonds guaranteed by the Credit Enhancement Program remained outstanding as of June 30, 2010. Expected principal and interest payments on the outstanding bonds for the year ending June 30, 2011 will total \$65 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.

Beginning in July 2009, the EFIB began charging an application fee to offset administrative costs and a guaranty fee that is deposited in the Public School Endowment Fund for providing the ongoing credit enhancement. Total application fees for FY2010 totaled \$1,000 and total guaranty fees totaled \$7,149 and are included in Income from Investments.

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.

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 2010, the Public School Permanent Fund received \$109,741 representing five percent of the net proceeds from the sale of federal land in Idaho, \$4,638 from unclaimed estates and \$5 from 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).

NOTES TO FINANCIAL STATEMENTS

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, 2010, 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 \$30,975.

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.

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 2011.

	2011
Public School	\$ 53,292,400
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	\$ 67,786,600

The Board of Land Commissioners, in February 2010, approved a one-time distribution of \$22 million to the Public School Endowment Fund for FY 2011, which is included in the amount shown above.

The EFIB authorizes distributions from the Capitol Permanent Fund to the Capitol Commission, effective July 1 of each fiscal year. However, the Capitol Commission, because it had sufficient reserves, opted to not take a distribution for FY 2011.

NOTES TO FINANCIAL STATEMENTS

NOTE 13 – SUBSEQUENT EVENTS

Endowment Distributions

For endowments other than the Capitol Permanent Fund, on August 17, 2010, the Board of Land Commissioners approved the following distributions to beneficiaries for FY 2012. The FY 2012 approved distributions have not yet been appropriated by the legislature and will be considered by the legislature in its 2011 session.

	2012
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	1,917,600
University of Idaho	2,329,200
Total	\$ 46,041,000

On August 17, 2010, the Board of Land Commissioners also approved the following transfers from Earnings Reserves to the Permanent Funds, effective September 1, 2010:

Normal School	\$ 323,000
School of Science	368,000
State Hospital South	1,782,000
University of Idaho	1,461,000
Total	\$ 3,934,000



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***

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, 2010, and have issued our report thereon dated August 24, 2010. 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 opinion 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the EFIB's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 Board of Land Commissioners, management of EFIB and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Boise, Idaho
August 24, 2010



SUPPLEMENTAL SCHEDULES

**State of Idaho
Endowment Funds**

STATE OF IDAHO ENDOWMENT FUNDS
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2010

CASH BASIS EXPENDITURES FROM THE STATE OF IDAHO REPORTING SYSTEM		Expenditures
PERSONNEL		
Regular Employees		\$ 296,712
Board/Commission Members		1,600
Total Benefits		92,887
Subtotal Personnel Expenditures		391,199
OPERATING		
Telephone and Data Line Charges		5,684
Publications & Subscriptions		14,904
Employee Training		4,224
Audit		48,000
Travel and Board Meeting Expenses		18,251
Office and Other Materials and Supplies (postage included)		4,999
Office Space		38,174
Governmental Overhead – State		13,816
Other Expenses		1,491
Subtotal Operating Expenditures		149,543
CAPITAL OUTLAY		
Furniture and Other Office Equipment		5,255
Computer Equipment		1,539
Subtotal Capital Expenditures		6,794
Total Appropriated Expenses		547,536
Less Payments Made by Other Clients *		(133,081)
Subtotal (paid by the Endowment Funds)		414,455
CONTINUOUS APPROPRIATION		
Consultant, Custodial and Manager Fees **		
Callan Associates		184,306
Aberdeen Asset Management		9,418
Barrow, Hanley, Mewhinney & Strauss		197,254
Clearwater Advisors		84,785
Eagle Asset Management		203,604
INTECH Investment Management		305,293
LSV Asset Management		325,208
Marvin & Palmer Associates		376,705
Metropolitan West Capital Management		263,162
Northern Trust		320,901
Sands Capital Management		433,114
State Street Global Advisors		55,904
Systematic Financial Management		275,846
TimesSquare Capital Management		405,874
Tradewinds Global Investors		451,031
Total Consultant, Custodial, and Manager Fees		3,892,405
Total Endowment Cash Expenditures		4,306,860
Less Reimbursement of Capitol Permanent Fund Expenses		(66,896)
Change in Manager Fee Accrual		283,626
TOTAL ACCRUAL BASIS EXPENSE – Endowment Funds		\$ 4,523,590

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

** Fees of \$94,028 & \$145,406 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 GAINS AND (LOSSES) ON FAIR VALUE OF PUBLIC SCHOOL PERMANENT FUND
INVESTMENTS THROUGH THE YEAR ENDED JUNE 30, 2010**

Summary Schedule of Gains and (Losses) on Fair Value of Investments					
Public School Permanent 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)
2010	511,571,551	<u>2,790,873</u>	514,362,424	583,075,344	<u>68,712,920</u>
TOTAL		<u>\$ 23,895,424</u>			<u>\$ 3,225,170</u>

See Note 2, *Losses in Principal of the Permanent Endowment Funds* for more information.

**STATE OF IDAHO ENDOWMENT FUNDS
SCHEDULE OF WEIGHTED INVESTMENT RETURNS BY ASSET MANAGER
GROSS OF FEES
PERIODS ENDING JUNE 30, 2010**

Gross of Fees	FY 2010	2-Yr. Annual	3-Yr. Annual	4-Yr. Annual	5-Yr. Annual
Total Account	15.8	(2.5)	(2.4)	2.0	3.7
<i>Benchmark</i>	<i>13.4</i>	<i>(3.4)</i>	<i>(4.5)</i>	<i>0.4</i>	<i>2.0</i>
Total fund benchmark consists of 54% Russell 3000, 16% MSCI ACWI ex-US, & 30% Barclays Capital Aggregate Bond					
Total Fixed Income	9.4	7.6	7.9	7.4	5.7
State Street Bond Fund *	5.6	-	-	-	-
<i>Fixed Income Benchmark **</i>	<i>9.5</i>	<i>7.4</i>	<i>7.6</i>	<i>7.2</i>	<i>5.5</i>
<i>BC U.S. Aggregate Index</i>	<i>9.5</i>	<i>7.8</i>	<i>7.6</i>	<i>7.2</i>	<i>5.5</i>
<i>BC US TIPS Index</i>	<i>9.5</i>	<i>4.1</i>	<i>7.6</i>	<i>6.7</i>	<i>5.0</i>
Total Domestic Equity	20.5	(6.0)	(7.3)	(1.2)	1.5
<i>Russell 3000 Index</i>	<i>15.7</i>	<i>(7.8)</i>	<i>(9.5)</i>	<i>(2.9)</i>	<i>(0.5)</i>
Large Cap Core	14.6	(7.8)	(9.5)	(2.7)	(0.6)
NTGI S&P 500	14.6	(7.8)	(9.5)	(2.7)	(0.6)
<i>S&P 500 Index</i>	<i>14.4</i>	<i>(8.1)</i>	<i>(9.8)</i>	<i>(3.0)</i>	<i>(0.8)</i>
Large Growth	19.7	(5.5)	(4.5)	(0.4)	0.8
INTECH	12.8	(7.2)	(6.1)	(1.7)	0.1
Sands Capital Management	26.7	(3.2)	(2.2)	1.0	1.5
<i>Russell 1000 Growth Index</i>	<i>13.6</i>	<i>(7.4)</i>	<i>(6.9)</i>	<i>(1.0)</i>	<i>0.4</i>
Large Cap Value	17.4	(6.7)	(9.7)	(2.6)	1.2
LSV Asset Management	17.1	(7.2)	(12.5)	(4.6)	(1.0)
Metropolitan West Cap Mgmt	17.7	(4.6)	(5.6)	0.2	4.4
<i>Russell 1000 Value Index</i>	<i>16.9</i>	<i>(8.9)</i>	<i>(12.3)</i>	<i>(4.8)</i>	<i>(1.6)</i>
Mid Cap	22.8	(7.9)	(7.5)	(1.0)	1.7
Systematic Financial Mgmt	24.8	(4.9)	(5.4)	1.7	5.0
TimesSquare	20.8	-	-	-	-
<i>Russell Mid Cap Index</i>	<i>25.1</i>	<i>(6.7)</i>	<i>(8.2)</i>	<i>(1.7)</i>	<i>1.2</i>
Small Cap	38.6	1.9	(2.2)	2.9	7.2
Eagle Asset Management	29.3	(1.9)	-	-	-
Barrow, Hanley	46.4	4.4	(2.9)	2.4	6.3
<i>Russell 2000 Index</i>	<i>21.5</i>	<i>(4.6)</i>	<i>(8.6)</i>	<i>(2.9)</i>	<i>0.4</i>
Global Equity	(9.8)	-	-	-	-
Aberdeen *	(9.8)	-	-	-	-
Lazard *	(9.7)	-	-	-	-
<i>MSCI ACWI ex-US Index *</i>	<i>(12.1)</i>	-	-	-	-
International Equity	10.8	(12.3)	(7.0)	0.4	5.2
Marvin & Palmer	10.5	(21.3)	(12.4)	(3.3)	2.0
Tradewinds	7.3	(7.4)	(4.7)	1.5	6.2
Capital International ***	23.5	-	-	-	-
GMO ****	22.8	-	-	-	-
<i>MSCI ACWI ex-US Index</i>	<i>10.4</i>	<i>(12.7)</i>	<i>(10.7)</i>	<i>(2.0)</i>	<i>3.4</i>

* Performance from 10/1/09 to 6/30/10 for State Street and from 4/1/10 to 6/30/10 for Aberdeen & Lazard

** 90% BC Aggregate and 10% BC U.S. TIPS

*** Annual performance includes at 0.7% adjustment to add back mgr. fees deducted from N.A.V.

**** Annual performance includes a 1.1% adjustment to add back manager fees deducted from N.A.V.

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

Active Manager changes in FY 2010:

Managers Hired: Aberdeen Asset Management, Lazard Asset Management and State Street Global Advisors
Other Changes: Investments in the NTGI TIPS and Aggregate Index Funds were discontinued

**STATE OF IDAHO ENDOWMENT FUNDS
SCHEDULE OF WEIGHTED INVESTMENT RETURNS BY ASSET MANAGER
NET OF FEES
PERIODS ENDING JUNE 30, 2010**

Net of Fees	FY 2010	2-Yr. Annual	3-Yr. Annual	4-Yr. Annual	5-Yr. Annual
Total Account	15.5	(2.8)	(2.7)	1.7	3.5
<i>Benchmark</i>	<i>13.4</i>	<i>(3.4)</i>	<i>(4.5)</i>	<i>0.4</i>	<i>2.0</i>
Total fund benchmark consists of 54% Russell 3000, 16% MSCI ACWI ex-US, & 30% Barclays Capital Aggregate Bond					
Total Fixed Income	9.4	7.6	7.9	7.4	5.7
State Street Bond Fund *	5.5	-	-	-	-
<i>Fixed Income Benchmark **</i>	<i>9.5</i>	<i>7.4</i>	<i>7.6</i>	<i>7.2</i>	<i>5.5</i>
<i>BC U.S. Aggregate Index</i>	<i>9.5</i>	<i>7.8</i>	<i>7.6</i>	<i>7.2</i>	<i>5.5</i>
<i>BC US TIPS Index</i>	<i>9.5</i>	<i>4.1</i>	<i>7.6</i>	<i>6.7</i>	<i>5.0</i>
Total Domestic Equity	20.1	(6.3)	(7.5)	(1.5)	1.5
<i>Russell 3000 Index</i>	<i>15.7</i>	<i>(7.8)</i>	<i>(9.5)</i>	<i>(2.9)</i>	<i>(0.5)</i>
Large Cap Core	14.5	(7.8)	(9.5)	(2.8)	(0.6)
NTGI S&P 500	14.4	(7.8)	(9.5)	(2.8)	(0.6)
<i>S&P 500 Index</i>	<i>14.4</i>	<i>(8.1)</i>	<i>(9.8)</i>	<i>(3.0)</i>	<i>(0.8)</i>
Large Growth	19.4	(5.7)	(4.6)	(0.6)	0.7
INTECH	12.3	(7.7)	(6.6)	(2.2)	(0.4)
Sands Capital Management	26.0	(3.9)	(2.9)	0.3	0.8
<i>Russell 1000 Growth Index</i>	<i>13.6</i>	<i>(7.4)</i>	<i>(6.9)</i>	<i>(1.0)</i>	<i>0.4</i>
Large Cap Value	17.2	(6.7)	(9.8)	(2.7)	1.1
LSV Asset Management	16.6	(7.7)	(13.0)	(5.1)	(1.5)
Metropolitan West Cap Mgmt	17.3	(5.0)	(6.1)	(0.2)	4.0
<i>Russell 1000 Value Index</i>	<i>16.9</i>	<i>(8.9)</i>	<i>(12.3)</i>	<i>(4.8)</i>	<i>(1.6)</i>
Mid Cap	22.5	(8.0)	(7.6)	(1.3)	1.5
Systematic Financial Mgmt	24.3	(5.4)	(5.9)	1.2	4.5
TimesSquare	20.0	-	-	-	-
<i>Russell Mid Cap Index</i>	<i>25.1</i>	<i>(6.7)</i>	<i>(8.2)</i>	<i>(1.7)</i>	<i>1.2</i>
Small Cap	38.3	1.7	(2.3)	2.8	7.1
Eagle Asset Management	28.5	(2.6)	-	-	-
Barrow, Hanley	45.7	3.8	(3.6)	1.7	5.6
<i>Russell 2000 Index</i>	<i>21.5</i>	<i>(4.6)</i>	<i>(8.6)</i>	<i>(2.9)</i>	<i>0.4</i>
Global Equity	(9.9)	-	-	-	-
Aberdeen *	(10.0)	-	-	-	-
Lazard *	(9.9)	-	-	-	-
<i>MSCI ACWI ex-US Index*</i>	<i>(12.1)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
International Equity	10.5	(12.5)	(7.1)	0.3	5.1
Marvin & Palmer	9.9	(21.9)	(13.0)	(3.9)	1.4
Tradewinds	6.7	(8.0)	(5.3)	1.0	5.6
Capital International	22.8	-	-	-	-
GMO	21.7	-	-	-	-
<i>MSCI ACWI ex-US Index</i>	<i>10.4</i>	<i>(12.7)</i>	<i>(10.7)</i>	<i>(2.0)</i>	<i>3.4</i>

* Performance from 10/1/09 to 6/30/10 for State Street and from 4/1/10 to 6/30/10 for Aberdeen & Lazard

** 90% BC Aggregate and 10% BC U.S. TIPS

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

Active Manager changes in FY 2010:

Managers Hired: Aberdeen Asset Management, Lazard Asset Management and State Street Global Advisors

Other Changes: Investments in the NTGI TIPS and Aggregate Index Funds were discontinued

**STATE OF IDAHO ENDOWMENT FUNDS
BROKERAGE SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010**

SCHEDULE OF BROKERAGE COMMISSIONS*

Broker Name	Shares Traded	Dollar Volume of Trades	Commissions	
			Dollar Amount	Per Share
Lynch Jones & Ryan	2,430,784	57,187,902	72,313	0.0297
Broadcort Capital	2,038,950	41,673,372	62,165	0.0305
UBS	6,347,985	68,113,969	61,097	0.0096
Credit Suisse First Boston	2,819,619	67,568,224	60,477	0.0214
Merrill Lynch	4,366,066	67,952,182	57,522	0.0132
Goldman Sachs	1,998,484	38,922,965	38,018	0.0190
Liquidnet Inc	2,065,849	54,238,300	34,524	0.0167
JP Morgan	1,525,082	26,815,163	33,853	0.0222
Investment Technology Group	1,355,221	37,317,448	25,621	0.0189
Citigroup	2,935,905	45,373,878	24,886	0.0085
Deutsche Bank	756,788	24,812,269	21,226	0.0280
Jefferies & Company	757,197	25,451,430	15,819	0.0209
Weeden & Company	776,210	22,383,668	15,121	0.0195
Morgan Stanley	379,649	10,462,324	14,463	0.0381
Barclays Capital	426,705	11,270,098	13,912	0.0326
Oppenheimer	245,194	7,580,705	11,244	0.0459
Bernstein	383,318	8,391,105	11,220	0.0293
Nomura	410,496	7,495,957	10,324	0.0252
Robert W Baird & Company	297,594	6,849,371	9,183	0.0309
Suntrust Robinson Humphrey	303,461	4,868,396	9,144	0.0301
Instinet	442,256	14,827,415	7,902	0.0179
Wachovia	231,175	5,360,754	7,481	0.0324
Societe Generale	238,529	4,571,072	7,269	0.0305
Rosenblatt Securities	417,100	16,092,883	7,258	0.0174
Stifel Nicolaus	183,463	6,424,984	7,134	0.0389
Pershing	189,946	4,055,567	5,714	0.0301
Morgan Keegan & Company	160,270	2,951,428	5,554	0.0347
Knight Securities	229,872	4,211,446	5,425	0.0236
All other brokerage firms (under \$5,000)	8,138,288	163,375,864	184,593	0.0227
	42,851,456	\$856,600,139	\$ 840,462	0.0196

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



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

**State of Idaho
Endowment Funds**



INDEPENDENT ACCOUNTANT'S REPORT ON EXAMINATION OF MANAGEMENT'S ASSERTIONS

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

We have examined management's assertions about the State of Idaho Endowment Funds' (the Endowment Funds) compliance with certain requirements of the *Idaho Code*, Chapter 7, Investment of Permanent Endowment Funds, and of the State of Idaho Endowment Fund Investment Board Statement of Investment Policy, during the year ended June 30, 2010, 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, 2010, are fairly stated, in all material respects.

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

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

Boise, Idaho
August 24, 2010

**STATE OF IDAHO ENDOWMENT FUNDS
STATEMENT OF MANAGEMENT'S ASSERTIONS
YEAR ENDED JUNE 30, 2010**

Investment securities held at June 30, 2010, 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, 2010 to help ensure compliance with the Code and Policy:

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

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

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

The Investment Board has employed Eide Bailly, LLP an independent certified public accounting firm, to audit the books and records of the Endowment Fund for the year ended June 30, 2010, required by *Idaho Code* 57-720.