

**FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2011**



# **State of Idaho Endowment Funds**

**Administered by the  
Endowment Fund Investment Board**



**FINANCIAL STATEMENTS – JUNE 30, 2011  
STATE OF IDAHO ENDOWMENT FUNDS**

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the State of Idaho Endowment Funds administered by the Endowment Fund Investment Board (the EFIB), a component unit of the State of Idaho, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the management of the EFIB. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position State of Idaho Endowment Funds administered by the EFIB, as of June 30, 2011, 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 23, 2011, 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 30 through 35 have been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

August 23, 2011  
Boise, Idaho

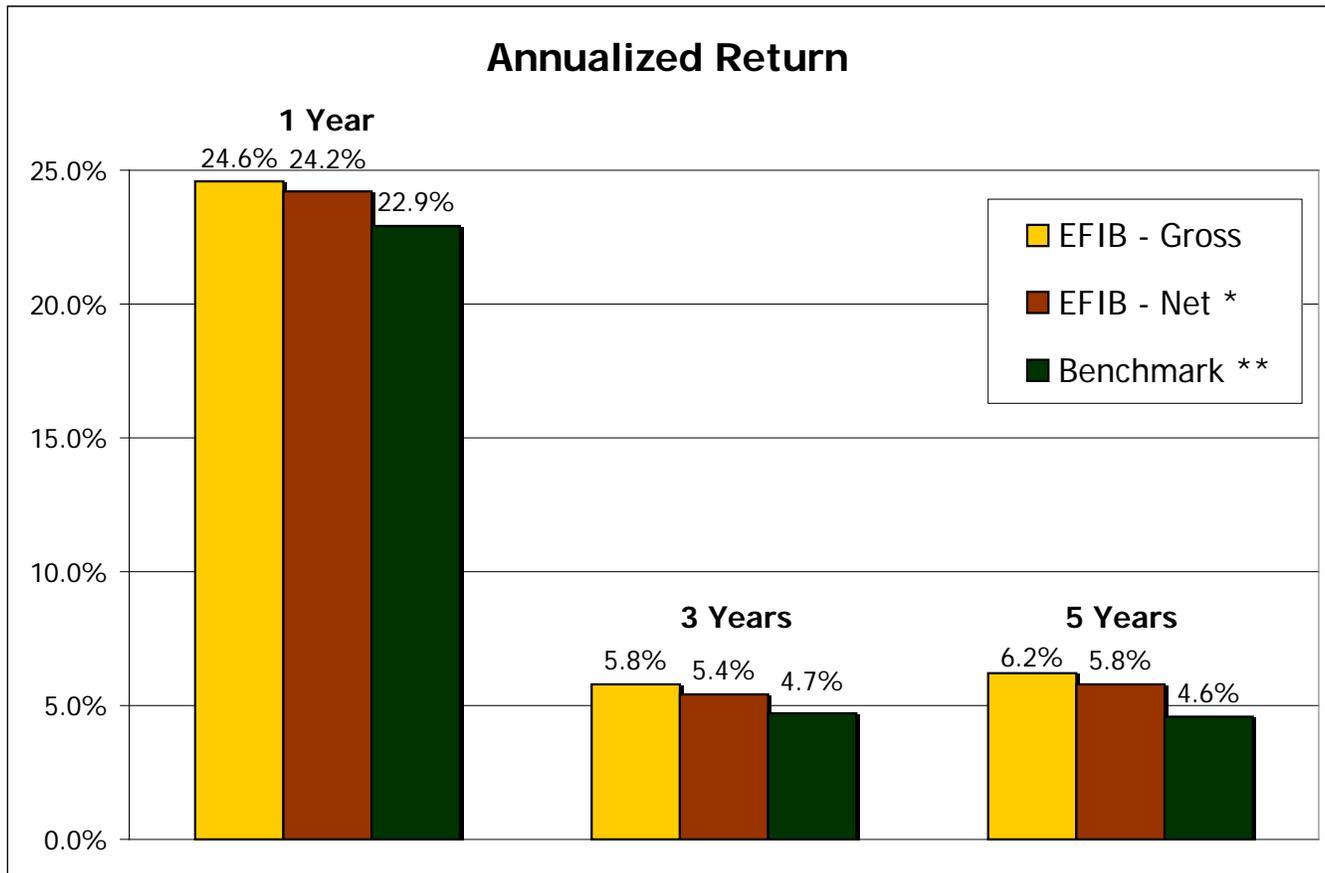
**STATE OF IDAHO ENDOWMENT FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011**

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 Endowment Funds, and its manager, the Endowment Fund Investment Board (the EFIB), for the year ended June 30, 2011.

**FINANCIAL HIGHLIGHTS**

*Total of the Endowment Funds*

- Net assets increased \$226.9 million, which represents a 21.8% increase from fiscal year 2010.
- Receipts to Earnings Reserves from endowment lands, increased to \$64.6 million, a 45.5% increase from fiscal year 2010.
- Net distributions to beneficiaries, excluding the Capitol Commission, increased 48.5% in fiscal year 2011 to \$67.8 million, from \$45.7 million in fiscal year 2010. FY 2011 amounts include a one-time special distribution of \$22 million from the Public School Endowment Fund.
- Total investment return, before fees, was 24.6% in fiscal year 2011, compared to 15.8% in fiscal year 2010 and -18.0% in fiscal year 2009.



\* Net returns are net of outside investment manager fees (approximately 35 basis points in 2011). The ratio of total fiscal year 2011 EFIB expenses to year-end assets was 43 basis points.

\*\* Benchmark consists, as of June 30, 2011, 49% Russell 3000, 21% MSCI All-Country World Index (ACWI) ex-US, & 30% Barclays Capital Aggregate.

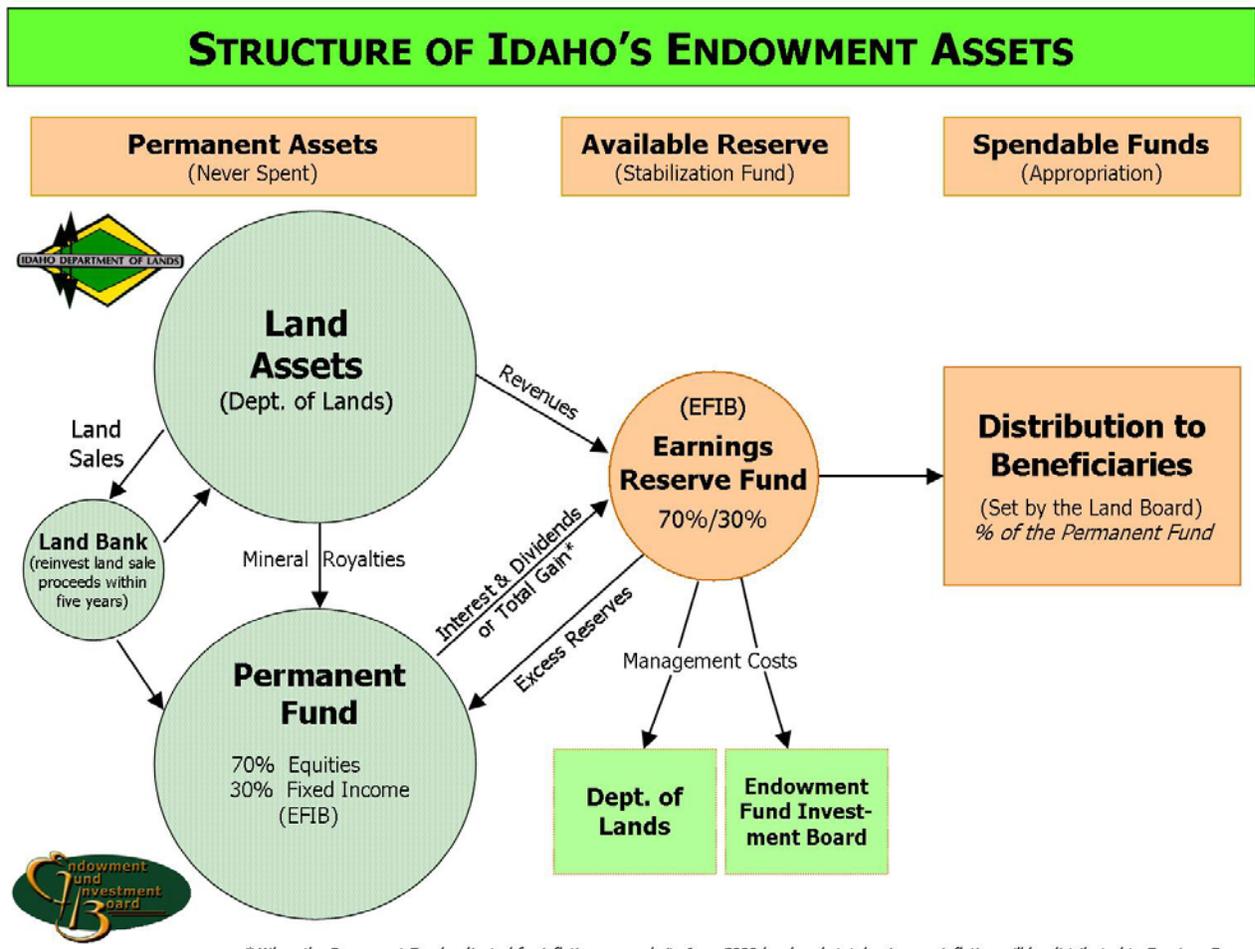
**STATE OF IDAHO ENDOWMENT FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011**

**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, Juvenile Corrections Center, 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.



\* 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, 2011**

**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 (6% for State Hospital South) and allows for adjustments to the distributions based on factors including the amount in the Earnings Reserve and transfers to the Permanent Fund. The 2010 Idaho Legislature passed Senate Bill 1395 to appropriate the fiscal year 2011 distributions to the beneficiary institutions.

**Total Fund Distributions**

	2011	2010
Public School	\$ 53,292,400	\$ 31,292,400
Agricultural College	850,800	850,800
Charitable Institutions	2,964,600	2,964,000
Normal School	2,661,600	2,661,600
Penitentiary	1,040,400	1,040,400
School of Science	2,984,400	2,984,400
State Hospital South	1,663,200	1,532,400
University of Idaho	2,329,200	2,329,200
Subtotal	67,786,600	45,655,200
Capitol Permanent Fund	-	300,000
<b>Total Distributions</b>	<b>\$ 67,786,600</b>	<b>\$ 45,955,200</b>

STATE OF IDAHO ENDOWMENT FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011

Statement of Net Assets

	2011	2010
Current Assets, excluding securities lending	\$ 1,291,614,747	\$ 1,125,895,750
Securities Lending Collateral	-	102,659,671
<b>Total Current Assets</b>	<b>1,291,614,747</b>	<b>1,228,555,421</b>
Liabilities, excluding securities lending	23,811,971	85,046,130
Securities Lending Collateral	-	102,659,671
<b>Total Current Liabilities</b>	<b>23,811,971</b>	<b>187,705,801</b>
Net Assets-Permanent Funds	1,063,561,450	875,535,344
Net Assets-Earnings Reserve Funds	204,241,326	165,314,276
<b>Total Net Assets</b>	<b>\$ 1,267,802,776</b>	<b>\$ 1,040,849,620</b>

Statement of Activities

	2011	2010
<b>Program Revenues</b>		
Receipts from Dept. of Lands		
Permanent Receipts	\$ 4,656,220	\$ 3,591,476
Earnings Reserve Receipts	64,641,777	44,432,471
Income from Investments	27,465,809	23,203,545
Increase in Value of Investments	227,044,909	122,659,649
<b>Total Program Revenues</b>	<b>323,808,715</b>	<b>193,887,141</b>
<b>Program Expenses</b>		
Distribution to Beneficiaries	67,786,600	45,955,200
Distribution for Expenses-Lands	23,740,021	22,982,584
Distribution for Expenses-EFIB	5,328,938	4,523,590
<b>Total Program Expenses</b>	<b>96,855,559</b>	<b>73,461,374</b>
<b>Net Program Revenue/Change in Net Assets</b>	<b>\$ 226,953,156</b>	<b>\$ 120,425,767</b>

Revenues reflect all receipts from endowment lands and total income from investments. During fiscal year 2011, land revenues increased by 44.4% due primarily to higher timber harvest revenues, attributable primarily to higher harvest levels. During the same period, income from investments increased 18.4%, which is attributable to higher dividend rates and a higher average invested balance of fixed income. Investment gains totaled \$226.6 million due primarily to a strong growth in stock prices.

**STATE OF IDAHO ENDOWMENT FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011**

Total expenses reflect distributions to beneficiaries as well as expenses paid. The fiscal year 2011 distribution to beneficiaries of \$67.8 million represented a 48.5% increase over the previous years, due to the Board of Land Commissioners' approval of a one-time special distribution of \$22 million to the Public School Endowment Fund for FY 2011.

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 5.7% in fiscal year 2011 primarily because of higher investment management fees driven by higher market values of invested assets.

**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, an Earnings Reserve Fund was established to pay distributions to beneficiaries and expenses of the EFIB and the Department of Lands. Most lands revenue is an addition 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 for seven of the endowments. For State Hospital South, the proportionate change in market value is allocated to its Earnings Reserve fund as well as the cumulative total return above inflation of its Permanent Fund. These allocation methodologies are specified 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 2012. The FY 2013 distributions approved by the Board of Land Commissioners on August 16, 2011, have not yet been appropriated and will be considered by the legislature in its 2012 session.

Senate Bill 1150 and House Bill 341 details the FY 2012 distributions to the beneficiaries:

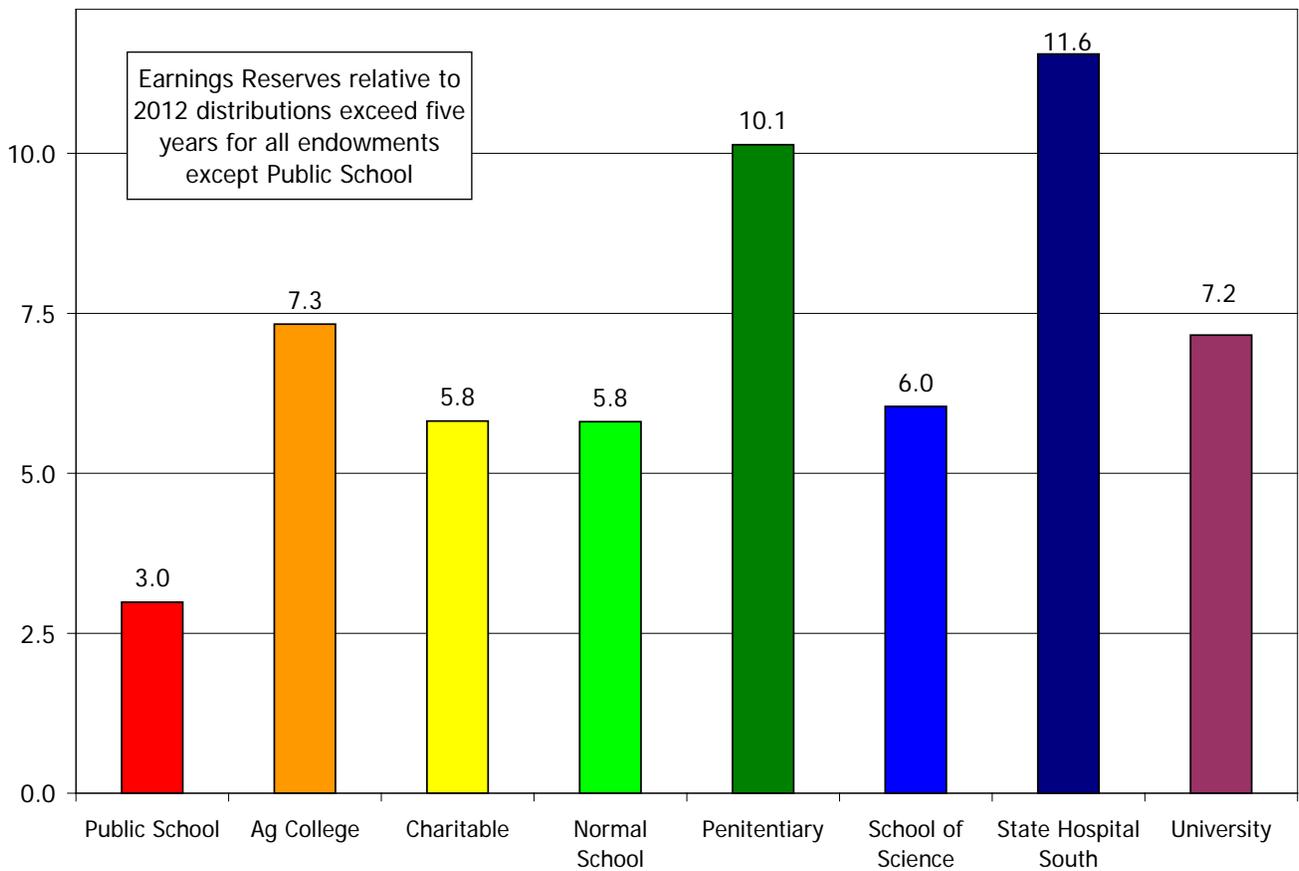
	<b>2012</b>
Public School	\$ 31,292,400
Agricultural College	850,800
Charitable Institutions	2,964,600
Normal School	2,661,600
Penitentiary	1,040,400
School of Science	2,984,400
State Hospital South	2,301,600
University of Idaho	2,329,200
<b>Total</b>	<b>\$ 46,425,000</b>

**STATE OF IDAHO ENDOWMENT FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011**

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 2012.

The following Coverage Ratio chart illustrates the number of years of coverage.

**Coverage Ratio June 30, 2011**



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 16, 2011, the Board of Land Commissioners approved the transfer of certain excess Earnings Reserves to the respective Permanent Funds of seven endowments. The amount of the transfers was determined based on leaving five to six years of approved 2013 distributions in Earnings Reserve based on June 30, 2011 balances (see Note 14, page 26). The transfers are expected to occur in September, 2011.

**STATE OF IDAHO ENDOWMENT FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011**

**TOTAL COST OF INVESTMENT MANAGEMENT**

In fiscal year 2011, the EFIB had expenditures of \$5,328,938 to manage the Endowment Funds.

<b>Investment Management Operating Costs</b>	<b>Expense</b>	<b>Basis Points*</b>
Internal investment oversight	\$ 254,416	2
Internal accounting	136,993	1
Outside investment manager fees**	4,454,583	35
Custody expense	332,536	3
Consultant and auditor fees	248,735	2
Subtotal	5,427,263	43
Less manager fees deducted from NAV**	<u>(226,380)</u>	
Total Cash Expenditures	5,200,883	
Plus reimbursement and accrual	<u>128,055</u>	
<b>Total Accrual Basis Expense</b>	<b><u>\$ 5,328,938</u></b>	

\* Relative to total fiscal-year end 2011 assets of \$1,267,802,776.

\*\* 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, 2011**

**Administered by the  
Endowment Fund Investment Board**

STATE OF IDAHO ENDOWMENT FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2011

Current Assets:	
Cash with Treasurer	\$ -
Investments, at Fair Value	1,272,768,875
Receivable for Unsettled Trades	10,144,631
Receivable From Idaho Department of Lands	4,138,954
Accrued Interest and Dividends Receivable	4,212,786
Prepaid Expenses to the Department of Lands	349,501
<b>Total Assets</b>	<b>1,291,614,747</b>
Current Liabilities:	
Payable for Unsettled Trades	22,496,302
Investment Manager Expenses Payable	1,315,669
<b>Total Liabilities</b>	<b>23,811,971</b>
Nonexpendable Restricted Net Assets - Permanent Funds:	
Public School	714,690,423
Agricultural College	19,675,273
Charitable Institutions	66,147,706
Normal School	60,679,655
Penitentiary	24,291,806
School of Science	67,037,665
State Hospital South	33,609,233
University of Idaho	55,489,967
Capitol Permanent Fund	21,939,722
<b>Total Permanent Net Assets</b>	<b>1,063,561,450</b>
Expendable Net Assets - Earnings Reserves:	
Public School	93,468,348
Agricultural College	6,235,407
Charitable Institutions	17,241,036
Normal School	15,456,300
Penitentiary	10,545,384
School of Science	18,034,351
State Hospital South	26,588,528
University of Idaho	16,671,972
<b>Total Earnings Reserve Net Assets</b>	<b>204,241,326</b>
<b>Total Net Assets</b>	<b>\$ 1,267,802,776</b>

**STATE OF IDAHO ENDOWMENT FUNDS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

	<b>Public School</b>	<b>Agricultural College</b>	<b>Charitable Institutions</b>	<b>Normal School</b>
<b>PERMANENT NET ASSETS</b>				
Permanent Net Assets, beginning of year	\$ 583,075,344	\$ 16,157,761	\$ 54,309,545	\$ 49,368,782
Transfer from Earnings Reserve	-	-	-	323,000
Transfer to Earnings Reserve	-	-	-	-
Program Revenues:				
Receipts from Dept. of Lands	3,843,950	-	12,387	139,668
Income from Investments	127,771,129	3,517,512	11,825,774	10,848,205
Increase (Decrease) in Net Assets	131,615,079	3,517,512	11,838,161	11,310,873
Permanent Net Assets, end of year	714,690,423	19,675,273	66,147,706	60,679,655
<b>EARNINGS RESERVE NET ASSETS</b>				
Earnings Reserve Net Assets, beginning of year	91,121,257	3,790,486	12,157,408	13,631,327
Transfer to Permanent Fund	-	-	-	(323,000)
Transfer from Permanent Fund	-	-	-	-
Program Revenues:				
Receipts from Dept. of Lands	38,853,097	2,039,037	4,690,807	4,311,298
Income from Investments	34,664,565	1,658,905	4,897,095	4,458,526
Total Program Revenues	73,517,662	3,697,942	9,587,902	8,769,824
Program Expenses:				
Distribution for Expenses-Lands	14,395,954	297,153	1,187,999	3,631,403
Distribution for Expenses-EFIB	3,482,217	105,068	351,675	328,848
Distributions to Beneficiaries	53,292,400	850,800	2,964,600	2,661,600
Total Program Expenses	71,170,571	1,253,021	4,504,274	6,621,851
Increase (Decrease) in Net Assets	2,347,091	2,444,921	5,083,628	1,824,973
Earnings Reserve Net Assets, end of year	93,468,348	6,235,407	17,241,036	15,456,300
<b>TOTAL NET ASSETS</b>	<b>\$ 808,158,771</b>	<b>\$ 25,910,680</b>	<b>\$ 83,388,742</b>	<b>\$ 76,135,955</b>

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

\*\* Income for the State Hospital South Fund is allocated using a different methodology (see Note 5).

Penitentiary	School of Science	State Hospital South**	University of Idaho	Capitol Permanent Fund*	Total
\$ 19,948,737	\$ 54,679,953	\$ 36,907,750	\$ 44,095,165	\$ 16,992,307	\$ 875,535,344
-	368,000	1,782,000	1,461,000	-	3,934,000
-	-	(5,712,908)	-	-	(5,712,908)
222	4,833	5,991	13,400	635,769	4,656,220
4,342,847	11,984,879	626,400	9,920,402	4,311,646	185,148,794
4,343,069	12,357,712	(3,298,517)	11,394,802	4,947,415	188,026,106
24,291,806	67,037,665	33,609,233	55,489,967	21,939,722	1,063,561,450
4,845,589	15,289,511	11,372,165	13,106,533		165,314,276
-	(368,000)	(1,782,000)	(1,461,000)		(3,934,000)
-	-	5,712,908	-		5,712,908
4,766,757	2,545,169	3,487,625	3,947,987		64,641,777
2,596,894	5,110,326	11,440,121	4,535,492		69,361,924
7,363,651	7,655,495	14,927,746	8,483,479		134,003,701
485,841	1,188,786	1,726,296	826,589		23,740,021
137,615	369,469	252,795	301,251		5,328,938
1,040,400	2,984,400	1,663,200	2,329,200		67,786,600
1,663,856	4,542,655	3,642,291	3,457,040		96,855,559
5,699,795	2,744,840	15,216,363	3,565,439		38,927,050
10,545,384	18,034,351	26,588,528	16,671,972		204,241,326
<b>\$ 34,837,190</b>	<b>\$ 85,072,016</b>	<b>\$ 60,197,761</b>	<b>\$ 72,161,939</b>	<b>\$ 21,939,722</b>	<b>\$1,267,802,776</b>

**STATE OF IDAHO ENDOWMENT FUNDS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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**NOTE 1 - GENERAL DESCRIPTION OF THE FUNDS**

*Accounts Under Jurisdiction of the Endowment Fund Investment Board*

The Endowment Fund Investment Board (the EFIB) is charged with the administration and investment of the Permanent Endowment and Earnings Reserve Funds of the State of Idaho (the State), comprised of the Public School, 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 Fund 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.

In March 2004, legislation was enacted which establishes an objective that the Permanent Funds of each endowment grow from June 2000 levels at least at the cumulative rate of inflation plus deposits. Further, it provided that any market appreciation of the Permanent Fund could not be transferred to the Earnings Reserve if that objective had not been achieved.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

*Financial Reporting Entity*

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

## NOTES TO FINANCIAL STATEMENTS

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

### *Basis of Presentation*

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

### *Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### *Investments*

According to policies established by the Board of Land Commissioners, the EFIB is authorized to invest the Endowment Funds in certain fixed income and equity investments as defined by the policy of the EFIB and consistent with Section 57-723 of the *Idaho Code*. This section states in part, "The EFIB and its investment manager(s) or custodian(s) shall be governed by the Idaho Uniform Prudent Investor Act (Chapter 5, Title 68, *Idaho Code*), and shall invest and manage the assets of the respective trusts in accordance with that act and the Idaho constitution." In accordance with this code section and the EFIB's investment policy, the Endowment Funds may be invested in equities (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) Cash Equivalents: Treasury bills; money market funds; STIF funds; commercial paper; banker's acceptances; repurchase agreements; certificates of deposit.
- (2) Fixed Income: US government and agency securities; corporate notes and bonds; mortgage backed bonds; fixed income securities of foreign governments and corporations; planned amortization class collateralized mortgage obligations; or other "early tranche" CMOs; asset backed securities.
- (3) Mutual or Collective Funds: Registered funds or Delaware Business Trusts only.
- (4) Equities: Common stocks; convertible notes and bonds; convertible preferred stocks; American depository receipts (ADR's); stocks of non-US companies (ordinary shares); non-investment grade bonds, preferred stocks.
- (5) Futures, Options & certain Derivatives: Financial index futures and options used to adjust the overall effective asset allocation of the entire portfolio and for use as hedges, and certain derivatives as approved by the EFIB.

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

## NOTES TO FINANCIAL STATEMENTS

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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 2011, 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.

The tables below summarize the various contracts in the portfolio as of June 30, 2011. 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 2011	145	\$ 17,737,578	\$ (47,422)	\$ 188,500

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.

### *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.

### *Income from Investments*

Income from investments is recognized when earned and includes interest, dividends, other income, and market appreciation (realized and unrealized). 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.

Within each endowment, income from investments is further allocated to its Permanent Fund and Earnings Reserve Fund in accordance with Sections 57-723A and 57-724A of the *Idaho Code*. The definition of "income" to be allocated 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. If the Permanent Fund balance of an endowment has never achieved its Gain Benchmark at fiscal year end, interest and dividends from its Permanent Fund assets are allocated to its Earnings Reserve Fund and any market appreciation or depreciation from its Permanent Fund assets is retained by its Permanent Fund.

The Gain Benchmark, as specified in *Idaho Code* 57-724, represents the desired or targeted value of principal or corpus in each endowment fund (excluding Capitol Permanent). It is determined by starting with the ending balance at June 30, 2000 and adding deposits (mainly extracted minerals from endowment land), the annual impact of inflation (based on CPI), and certain reinvested income (transfers from Earnings Reserve designated by the Land Board as a permanent increase in corpus). The level of the Gain Benchmark determines whether

## NOTES TO FINANCIAL STATEMENTS

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market appreciation in the Permanent Fund should be retained to offset inflation and previous losses or is eligible to be transferred to the Earnings Reserve as distributable income.

Once the Permanent Fund balance of an endowment has achieved or exceeded its Gain Benchmark at fiscal year end for the first time, then total cumulative income in excess of inflation of its Permanent Fund (including market appreciation) will be transferred each year to its Earnings Reserve Fund. This alternative methodology for allocating income is implemented two years after a Permanent Fund first crosses the Gain Benchmark. The two year delay in implementing the cumulative total return allocation method accommodates the lead times inherent in the state's budget and appropriation process.

### *Losses in Principal of the Permanent 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 deposits – primarily revenues from extracted minerals and proceeds of land sales).

A loss in principal of the Public School Permanent 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 in the following fiscal year to the Public School Permanent Fund, to make up for any prior losses in value.
- (2) If funds transferred from the Earnings Reserve Fund are insufficient to make up all losses in value to the Public School Permanent Fund, the remaining loss shall be made up, within ten years, by legislative transfer or appropriation. If subsequent gains, as determined pursuant to the statute, or transfers from the Earnings Reserve Fund, make up for any remaining loss before this ten year period expires, then no legislative transfer or appropriation shall be necessary.

At June 30, 2011, the market value of the Public School Permanent Fund was \$131.0 million above the loss benchmark as defined by statute.

A loss in principal of the Permanent Funds other than the Public School Permanent or Capitol Permanent 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 requirement to restore losses to that endowment has not been established in statute. As of June 30, 2011, the market value of the Permanent Fund portion of the Agricultural College endowment was \$4.8 million above the principal or Loss Benchmark level as defined in statute.

There is no statutory requirement to make up losses in the Capitol Permanent Fund.

### *Distributions to Beneficiaries*

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

### *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*.

## NOTES TO FINANCIAL STATEMENTS

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 EFIB ceased all securities lending activities in January 2011. Until that time, the securities borrower paid a stated premium to the Endowment Funds that was remitted monthly. At the time the securities were loaned, cash or other collateral was received by the Endowment Funds. Securities lending collateral was comprised of cash and approved securities, and was received valued at a required margin of 102% of the domestic securities loaned and 105% of international securities. The securities lending agreement required 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 were indemnified for fraudulent or negligent acts performed by Northern Trust Company (the Trustee), and should loaned securities not been returned as specified, the Trustee would have been required to make the Endowment Funds whole. However, the Endowment Funds were exposed to the risk of losses in the investment of borrowers' collateral.

### NOTE 3 - INVESTMENTS

Investments at June 30, 2011:

Fund Investments	COST	FAIR VALUE
Marketable Securities:		
Northern Money Market Funds	\$ 2,138,045	\$ 2,138,045
State Street Global Advisors Fixed Income Index Funds		
Barclays Capital Aggregate Bond & U.S. TIPS	352,071,670	343,398,755
Northern Equity Index Funds		
S&P 500	131,395,467	133,854,613
Other Equity Funds		
Aberdeen Asset Management	55,434,658	60,146,132
Barrow, Hanley, Mewhinney & Strauss	20,225,055	28,264,281
Capital International	5,913,247	13,195,179
Clearwater Advisors	2,597,322	2,597,322
Eagle Asset Management	22,133,161	31,379,442
Grantham, Mayo, Van Otterloo	6,356,936	13,240,568
INTECH	61,041,313	69,644,386
Lazard Asset Management	58,385,844	59,218,391
LSV Asset Management	65,374,664	67,876,459
Marvin & Palmer	74,256,500	92,996,538
Robeco Boston Investment Management	67,042,951	68,754,865
Sands Capital Management	43,180,286	68,721,249
Systematic Financial Management	52,330,090	59,263,989
TimesSquare Capital Management	43,558,759	59,119,444
Tradewinds Global Investors	85,779,057	86,607,546
<b>Total Fund Investments</b>	<b>1,149,215,025</b>	<b>1,260,417,204</b>
Pending Trades		
Receivable for Investments sold	(8,596,717)	(10,144,631)
Payable for Investments purchased	22,496,302	22,496,302
<b>Total Net Investments</b>	<b>\$ 1,163,114,610</b>	<b>\$ 1,272,768,875</b>

## NOTES TO FINANCIAL STATEMENTS

**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, 2011, 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, 2011, the Endowment Funds did not hold any credit positions exceeding 5% of the total portfolio, other than securities issued or guaranteed by the United States government.

**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" CMOs 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 Aggregate Bond 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	\$ 2,138,045	Not Applicable	A1+
State Street Global Advisors			
Barclays Capital Aggregate Bond	305,395,996	5.2	Aa1/AA2
U.S. TIPS	38,002,760	4.7	AAA/Aaa
<b>Total</b>	<b>\$ 345,536,801</b>		

## NOTES TO FINANCIAL STATEMENTS

FOREIGN CURRENCY RISKS – The EFIB’s Investment Policy Statement permits investing approximately 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
Equities		
Australia	AUD	\$ 8,933,618
Brazil	BRL	2,401,615
Canada	CAD	6,626,503
Switzerland	CHF	17,982,907
Denmark	DKK	2,020,089
Europe	EUR	51,040,104
Great Britain	GBP	39,973,696
Hong Kong	HKD	15,646,426
Indonesia	IDR	2,023,908
Japan	JPY	45,850,662
South Korean	KRW	2,103,311
Norway	NOK	4,462,719
Philippines	PHP	1,670,602
Swedish	SEK	6,798,255
Singapore	SGD	4,133,456
Taiwan	TWD	2,249,643
South Africa	ZAR	3,017,180
<b>Total Fund Investments</b>		<b>\$ 216,934,694</b>

### 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. However, the Endowment Funds, as of January 2011, had terminated all involvement in securities lending.

### NOTE 5 – INCOME FROM INVESTMENTS

Per *Idaho Code* Section 57-724A, once the balance of an endowment’s Permanent Fund 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 Permanent Fund’s total cumulative income (interest, dividends and market appreciation/depreciation) above its Gain Benchmark.

State Hospital South’s Permanent Fund passed its Gain Benchmark in FY 2009 and therefore, in FY 2011, began allocating the total cumulative gain or loss of its Permanent Fund according to this alternative methodology.

## NOTES TO FINANCIAL STATEMENTS

The components of income from investments for FY 2011 and their allocation are shown below.

### Permanent Net Assets

Endowment	Net Increase in Fair Value	Income Retained to Offset Inflation or Losses	Capitol Permanent Income from Investments**	Income from Investments
Public School	\$ 127,771,129			\$ 127,771,129
Agricultural College	3,517,512			3,517,512
Charitable	11,825,774			11,825,774
Normal School	10,848,205			10,848,205
Penitentiary	4,342,847			4,342,847
School of Science	11,984,879			11,984,879
State Hospital South*		\$ 626,400		626,400
University	9,920,402			9,920,402
Cap Perm Fund	3,837,596		\$ 474,050	4,311,646
<b>Total</b>	<b>\$ 184,048,344</b>	<b>\$ 626,400</b>	<b>\$ 474,050</b>	<b>\$ 185,148,794</b>

\* For State Hospital South, any cumulative total income vs. the Gain Benchmark is allocated to its Earnings Reserve Fund as part of Allocation of Permanent Fund Gain or (Loss) in the table below. State Hospital South's Net Increase in Fair Value was \$8,423,984 in FY 2011. \$626,400 of this increase was retained in the Permanent Fund to offset the effect of inflation and the remainder, \$7,797,584, was allocated to the Earnings Reserve Fund.

\*\* The Capitol Permanent Fund does not have an Earnings Reserve account, so its Permanent Fund retains all interest, dividends and other income.

### Earnings Reserve Net Assets

Endowment	Net Increase in Fair Value	Interest, Dividends and Other Income	Allocation of Permanent Fund Gain or (Loss)*	Income from Investments
Public School	\$ 16,710,111	\$ 17,954,454		\$ 34,664,565
Agricultural College	1,114,755	544,150		1,658,905
Charitable	3,082,323	1,814,772		4,897,095
Normal School	2,763,251	1,695,275		4,458,526
Penitentiary	1,885,286	711,608		2,596,894
School of Science	3,224,150	1,886,176		5,110,326
State Hospital South	2,338,069	1,304,468	\$ 7,797,584	11,440,121
University	2,980,586	1,554,906		4,535,492
<b>Total</b>	<b>\$ 34,098,531</b>	<b>\$ 27,465,809</b>	<b>\$ 7,797,584</b>	<b>\$ 69,361,924</b>

\* State Hospital South's Earnings Reserve Fund is allocated the Permanent Fund's total cumulative income vs. the Gain Benchmark or the Permanent Fund's total cumulative loss up to the amount of Interest, Dividends and Other Income attributable to the Permanent Fund.

## NOTES TO FINANCIAL STATEMENTS

The components of Interest, Dividends and Other Income are shown below.

Interest, Dividends, and Other Income	
Securities Lending	\$ 96,052
Short-term, Fixed Income & Other Income	12,867,251
Equity Funds	14,976,556
<b>Total *</b>	<b>\$ 27,939,859</b>

\* The total includes Capitol Permanent Fund income from investments.

Because there is a two-year delay in switching to the alternative total cumulative income method of allocating Permanent Fund earnings, at the beginning of the fiscal year the new method is implemented, the Permanent Fund will contain a previously undistributed transition gain or loss versus the Gain Benchmark. This deferred gain or loss (an approximately \$5.7 million gain in the case of State Hospital South), becomes available for allocation to Earnings Reserves in the year the total cumulative income vs. the Gain Benchmark method is implemented and is in addition to any gain, or is an offset to any loss, experienced in the fiscal year of implementation. This one-time allocation to Earnings Reserve of the gain attributable to FY 2009 and FY 2010 for State Hospital South is shown in the Statement of Activities as a transfer from the Permanent Fund to the Earnings Reserve Fund.

### 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 2011 paid by the other clients were \$123,612.

Distributions for Expenses for Lands represent the Department of Lands' actual expenses for the managing endowment land. In FY 2011, the EFIB paid Lands \$349,501 more than Lands' expended, which is reported as a prepaid expense.

### 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 for the year ended June 30, 2011 were as follows:

#### Charitable Institutions Distributions

	Factor	Beneficiaries	Lands Expenses	EFIB Expenses
Idaho State University Fund	8/30	\$ 790,560	\$ 316,800	\$ 93,780
State Juvenile Corrections Institutions	8/30	790,560	316,800	93,780
School for the Deaf and Blind Fund	1/30	98,820	39,600	11,722
Veterans Home Fund	5/30	494,100	198,000	58,612
State Hospital North Fund	8/30	790,560	316,799	93,781
<b>Total</b>		<b>\$ 2,964,600</b>	<b>\$ 1,187,999</b>	<b>\$ 351,675</b>

## NOTES TO FINANCIAL STATEMENTS

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, 2011 were as follows:

### Normal School Distributions

	%	Beneficiaries	Lands Expenses	EFIB Expenses
Idaho State University, Pocatello	50%	\$ 1,330,800	\$ 1,815,701	\$ 164,424
Lewis-Clark State College, Lewiston	50%	1,330,800	1,815,702	164,424
<b>Total</b>		<b>\$ 2,661,600</b>	<b>\$ 3,631,403</b>	<b>\$ 328,848</b>

### 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, 2011, 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. \$568.3 million of bonds guaranteed by the Credit Enhancement Program remained outstanding as of June 30, 2011. Expected principal and interest payments on the outstanding bonds for the year ending June 30, 2012 will total \$64.3 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. Application fees for FY 2011 totaled \$6,000 and guaranty fees totaled \$20,674 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.

## NOTES TO FINANCIAL STATEMENTS

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### 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)
- Five percent 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 2011, the Public School Permanent Fund received \$123,674 representing five percent of the net proceeds from the sale of federal land in Idaho, \$69,978 from unclaimed estates, \$65,785 from unclaimed livestock, \$6,217 from unclaimed dividends and stock certificates, and \$100 from anonymous political contributions. In addition, there was a donation of \$2,450 to the Public School Permanent Fund. These miscellaneous revenues are included in Receipts from Department of Lands. There were no revenues from 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](http://www.persi.idaho.gov)).

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

The contribution requirements of the EFIB and its employees are established and may be amended by the PERSI Board of Trustees. For the year ending June 30, 2011, 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 \$30,868.

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

## 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 2012.

	<b>2012</b>
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	2,301,600
University of Idaho	2,329,200
<b>Total</b>	<b>\$ 46,425,000</b>

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 2012.

### NOTE 13 – LAND BANK

The Land Bank Fund was established under *Idaho Code* Section 58-133 to allow the State Board of Land Commissioners to hold proceeds from the sale of state endowment land pending the purchase of other land for the benefit of the beneficiaries of that endowment. These proceeds may be held for a period not to exceed five years from the effective date of the sale. Funds in the Land Bank are invested in the State Treasurer's Idle Pool and any investment earnings are added to the original proceeds. Land Bank Fund assets are not included in the balances of the Endowment Funds since they are being held primarily for purchase of land that will be managed by Lands.

As of June 30, 2011 the Land Bank Fund balance was as follows:

<b>Land Bank Fund</b>	<b>2011</b>
Public School	\$ 45,167
Normal School	551
State Hospital South	80,456
<b>Total</b>	<b>\$ 126,174</b>

If by the end of the fifth year, the proceeds from a land sale have not been spent or encumbered to purchase other land within the State, the proceeds are deposited in the Permanent Fund along with accumulated investment earnings. In FY 2011, \$168 of land sale proceeds for State Hospital South reached the five year limit and were deposited in its Permanent Fund as Receipts from Department of Lands.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 14 – SUBSEQUENT EVENTS

#### Endowment Distributions

For endowments other than the Capitol Permanent Fund, on August 16, 2011, the Board of Land Commissioners approved the following distributions to beneficiaries for FY 2013. The FY 2013 approved distributions have not yet been appropriated by the legislature and will be considered by the legislature in its 2012 session.

2013	
Public School	\$ 31,292,400
Agricultural College	916,800
Charitable Institutions	2,964,600
Normal School	2,670,000
Penitentiary	1,246,800
School of Science	2,997,600
State Hospital South	2,868,000
University of Idaho	2,552,400
<b>Total</b>	<b><u>\$ 47,508,600</u></b>

On August 16, 2011, the Board of Land Commissioners also approved the following transfers from Earnings Reserves to the Permanent Funds, effective September 1, 2011:

Agricultural College*	\$ 550,000
Charitable	2,418,000
Normal School	2,105,000
Penitentiary*	4,314,000
School of Science	3,049,000
State Hospital South*	12,250,000
University of Idaho	3,911,000
<b>Total</b>	<b><u>\$ 28,597,000</u></b>

\* The transfers for Penitentiary and State Hospital South were designated as increases in permanent principal and will increase their respective Gain Benchmarks. The transfers for the other endowments will have the effect of making up for inflation or past investment losses and will not impact the Gain Benchmark.

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

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

We have audited the accompanying financial statements of the State of Idaho Endowment Funds administered by the Endowment Fund Investment Board (the EFIB), as of and for the year ended June 30, 2011, and have issued our report thereon dated August 23, 2011. 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.

Boise, Idaho  
August 23, 2011



# ***SUPPLEMENTAL SCHEDULES***

**State of Idaho  
Endowment Funds**

**STATE OF IDAHO ENDOWMENT FUNDS  
SCHEDULE OF EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2011**

		<b>Expenditures</b>
<b>PERSONNEL</b>		
Regular Employees	\$	295,595
Board/Commission Members		1,400
Total Benefits		87,704
Subtotal Personnel Expenditures		<u>384,699</u>
<b>OPERATING</b>		
Telephone and Data Line Charges		4,605
Publications & Subscriptions		13,919
Employee Training		7,654
Audit		58,900
Travel and Board Meeting Expenses		23,991
Office and Other Materials and Supplies (postage included)		4,534
Office Space		38,977
Governmental Overhead – State		27,550
Other Expenses		3,200
Subtotal Operating Expenditures		<u>183,330</u>
<b>CAPITAL OUTLAY</b>		
Furniture and Other Office Equipment		4,201
Computer Equipment		1,690
Subtotal Capital Expenditures		<u>5,891</u>
<b>Total Appropriated Expenses</b>		573,920
Less Payments Made by Other Clients*		(123,612)
Subtotal (paid by the Endowment Funds)		<u>450,308</u>
<b>CONTINUOUS APPROPRIATION – Consultant, Custodial and Manager Fees**</b>		
Callan Associates		189,835
Aberdeen Asset Management		246,040
Barrow, Hanley, Mewhinney & Strauss		181,475
Clearwater Advisors		42,868
Eagle Asset Management		213,064
INTECH Investment Management		331,725
Lazard Asset Management		256,263
LSV Asset Management		335,815
Marvin & Palmer Associates		503,060
Metropolitan West Capital Management		289,383
Northern Trust		374,846
Sands Capital Management		459,682
State Street Global Advisors		120,103
Systematic Financial Management		283,328
TimesSquare Capital Management		439,164
Tradewinds Global Investors		483,921
Total Consultant, Custodial, and Manager Fees		<u>4,750,572</u>
<b>Total Endowment Cash Expenditures</b>		<b>5,200,880</b>
Less Reimbursement of Capitol Permanent Fund Expenses		(88,882)
Change in Manager Fee Accrual		216,940
<b>TOTAL ACCRUAL BASIS EXPENSE – Endowment Funds</b>		<b>\$ 5,328,938</b>

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

\*\* Fees of \$87,270 & \$139,110 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 THE GAIN BENCHMARK  
FOR THE YEAR ENDED JUNE 30, 2011**

The table below summarizes the status of each endowment's Permanent Fund compared to its Gain Benchmark. See Note 2, *Income from Investments*, for more information on the methodology used to calculate the Gain Benchmark and the statutory provisions that govern its use.

The Public School, Charitable Institutions, Normal School, School of Science and University endowments have never achieved their Gain Benchmarks. Therefore, their Earnings Reserve Funds receive dividends and interest (but not market appreciation) from their Permanent Funds. However, once an endowment has achieved its Gain Benchmark for the first time, then cumulative total income in excess of inflation of its Permanent Fund (including market appreciation) will be transferred each year to its Earnings Reserve Fund. This new methodology for allocating total income is implemented two years after the fund first crosses the Gain Benchmark.

The State Hospital South endowment achieved its Gain Benchmark in FY 2009, so it began implementing an alternative income allocation methodology in FY 2011. Under this alternative, total cumulative income in excess of inflation of the Permanent Fund (including market appreciation) will be transferred each year to its Earnings Reserve Fund. There is a two year delay in implementing this alternative method for the first time.

The Agricultural College and Penitentiary Permanent Funds passed their Gain Benchmarks at the end FY 2011 and will follow the new method beginning in FY 2013. At June 30, 2011, the Permanent Funds of the Agricultural College and Penitentiary endowments included undistributed cumulative total income vs. benchmark that will either be allocated to Earnings Reserves in FY 2013 or be used to offset any decrease in fair value of the Permanent Fund which might occur in FY 2012 or FY 2013.

<i>Endowment</i>	<i>Fiscal Years</i>	<i>Beginning Benchmark</i>	<i>Deposits</i>	<i>Reinvested Income</i>	<i>Inflation Impact</i>	<i>Ending Benchmark</i>
<b>Public School</b>	2001-2010	555,954,750	23,895,425	-	157,774,736	737,624,911
	2011	737,624,911	3,843,950	-	14,811,654	756,280,515
<i>Actual Permanent Fund Balance Over (Under) Benchmark at June 30, 2011</i>						<i>(41,590,092)</i>
<b>Agricultural College</b>	2001-2010	14,787,041	36,093	-	4,148,930	18,972,064
	2011	18,972,064	-	-	380,963	19,353,027
<i>Actual Permanent Fund Balance Over (Under) Benchmark at June 30, 2011</i>						<i>322,246</i>
<b>Charitable Institution</b>	2001-2010	54,513,960	199,563	-	15,298,283	70,011,806
	2011	70,011,806	12,387	-	1,405,851	71,430,044
<i>Actual Permanent Fund Balance Over (Under) Benchmark at June 30, 2011</i>						<i>(5,282,338)</i>
<b>Normal School</b>	2001-2010	47,258,942	1,190,650	-	13,339,665	61,789,257
	2011	61,789,257	139,668	-	1,240,741	63,169,666
<i>Actual Permanent Fund Balance Over (Under) Benchmark at June 30, 2011</i>						<i>(2,490,011)</i>
<b>Penitentiary</b>	2001-2010	18,258,289	11,213	-	5,117,622	23,387,124
	2011	23,387,124	222	-	469,618	23,856,964
<i>Actual Permanent Fund Balance Over (Under) Benchmark at June 30, 2011</i>						<i>434,842</i>
<b>School of Science</b>	2001-2010	54,836,451	194,378	-	15,382,960	70,413,789
	2011	70,413,789	4,833	-	1,413,924	71,832,546
<i>Actual Permanent Fund Balance Over (Under) Benchmark at June 30, 2011</i>						<i>(4,794,881)</i>
<b>State Hospital South</b>	2001-2010	23,442,162	142,116	1,023,000	6,587,564	31,194,842
	2011	31,194,842	5,991	1,782,000	626,400	33,609,233
<i>Actual Permanent Fund Balance Over (Under) Benchmark at June 30, 2011</i>						<i>-</i>
<b>University</b>	2001-2010	42,442,536	64,257	-	11,903,504	54,410,297
	2011	54,410,297	13,400	-	1,092,570	55,516,267
<i>Actual Permanent Fund Balance Over (Under) Benchmark at June 30, 2011</i>						<i>(26,300)</i>

**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, 2011**

<b>Summary Schedule of Gains and (Losses) on Fair Value of Investments</b>					
<b>Public School Permanent Fund</b>					
<b>Fiscal Year</b>	<b>Beginning Corpus</b>	<b>Additions to Corpus</b>	<b>Adjusted Beginning Corpus</b>	<b>Ending Corpus</b>	<b>Net Gain (Loss)</b>
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	2,790,873	514,362,424	583,075,344	68,712,920
2011	583,075,344	3,843,950	586,919,294	714,690,423	127,771,129
<b>TOTAL</b>		<u>\$ 27,739,374</u>			<u>\$ 130,996,299</u>

Any loss in the Public School Permanent Fund that remains after ten years must be made up by the State. At the end of FY 2011, the Fund had a cumulative gain above principal of \$131 million. See Note 2, *Losses in Principal of the Permanent Funds* for more information.

STATE OF IDAHO ENDOWMENT FUNDS  
SCHEDULE OF WEIGHTED INVESTMENT RETURNS BY ASSET MANAGER  
GROSS OF FEES  
PERIODS ENDING JUNE 30, 2011

Gross of Fees	FY 2011	2-Yr. Annual	3-Yr. Annual	4-Yr. Annual	5-Yr. Annual
<b>Total Account</b>	<b>24.6</b>	<b>20.1</b>	<b>5.8</b>	<b>3.7</b>	<b>6.2</b>
<i>Benchmark</i>	<i>22.9</i>	<i>18.0</i>	<i>4.7</i>	<i>1.8</i>	<i>4.6</i>
Total fund benchmark consists of 49% Russell 3000, 21% MSCI ACWI ex-US, & 30% Barclays Capital Aggregate Bond					
<b>Total Fixed Income</b>	<b>4.2</b>	<b>6.8</b>	<b>6.4</b>	<b>6.9</b>	<b>6.8</b>
State Street Bond Fund	4.2	-	-	-	-
<i>Fixed Income Benchmark*</i>	<i>4.3</i>	<i>6.9</i>	<i>6.4</i>	<i>6.7</i>	<i>6.6</i>
<i>BC U.S. Aggregate Index</i>	<i>3.9</i>	<i>6.7</i>	<i>6.5</i>	<i>6.6</i>	<i>6.5</i>
<i>BC US TIPS Index</i>	<i>7.7</i>	<i>8.6</i>	<i>5.3</i>	<i>7.7</i>	<i>6.9</i>
<b>Total Domestic Equity</b>	<b>35.7</b>	<b>27.9</b>	<b>6.2</b>	<b>2.0</b>	<b>5.2</b>
<i>Russell 3000 Index</i>	<i>32.4</i>	<i>23.8</i>	<i>4.0</i>	<i>(0.5)</i>	<i>3.4</i>
<b>Large Cap Core</b>	<b>30.7</b>	<b>22.4</b>	<b>3.6</b>	<b>(0.8)</b>	<b>3.2</b>
NTGI S&P 500	30.7	22.4	3.6	(0.8)	3.2
<i>S&amp;P 500 Index</i>	<i>30.7</i>	<i>22.3</i>	<i>3.3</i>	<i>(1.1)</i>	<i>2.9</i>
<b>Large Growth</b>	<b>41.0</b>	<b>29.9</b>	<b>8.0</b>	<b>5.3</b>	<b>6.7</b>
INTECH	35.5	23.6	5.3	2.9	4.8
Sands Capital Management	46.5	36.3	11.2	8.2	8.8
<i>Russell 1000 Growth Index</i>	<i>35.0</i>	<i>23.9</i>	<i>5.0</i>	<i>2.2</i>	<i>5.3</i>
<b>Large Cap Value</b>	<b>31.0</b>	<b>24.0</b>	<b>4.5</b>	<b>(0.9)</b>	<b>3.3</b>
LSV Asset Management	28.7	22.8	3.5	(3.6)	1.3
Robeco Investment Mgmt**	(3.1)				
<i>Russell 1000 Value Index</i>	<i>28.9</i>	<i>22.8</i>	<i>2.3</i>	<i>(3.5)</i>	<i>1.2</i>
<b>Mid Cap</b>	<b>35.1</b>	<b>28.8</b>	<b>4.7</b>	<b>1.7</b>	<b>5.3</b>
Systematic Financial Mgmt	38.5	31.4	7.8	4.1	8.2
TimesSquare	31.9	26.2	-	-	-
<i>Russell Mid Cap Index</i>	<i>38.5</i>	<i>31.6</i>	<i>6.5</i>	<i>1.7</i>	<i>5.3</i>
<b>Small Cap</b>	<b>46.5</b>	<b>42.5</b>	<b>15.0</b>	<b>8.2</b>	<b>10.4</b>
Eagle Asset Management	50.9	39.7	13.3	-	-
Barrow, Hanley	42.1	44.2	15.7	6.8	9.3
<i>Russell 2000 Index</i>	<i>37.4</i>	<i>29.2</i>	<i>7.8</i>	<i>1.2</i>	<i>4.1</i>
<b>Global Equity</b>	<b>26.3</b>	-	-	-	-
Aberdeen	30.9	-	-	-	-
Lazard	22.0	-	-	-	-
<i>MSCI ACWI Index</i>	<i>30.1</i>	<i>20.6</i>	<i>0.9</i>	<i>(1.7)</i>	<i>3.2</i>
<b>International Equity</b>	<b>27.7</b>	<b>18.9</b>	<b>(0.6)</b>	<b>0.7</b>	<b>5.4</b>
Marvin & Palmer	35.2	22.2	(5.7)	(2.4)	3.4
Tradewinds	19.8	13.4	0.9	0.9	5.0
Capital International***	24.9	24.2	-	-	-
GMO****	35.6	29.1	-	-	-
<i>MSCI ACWI ex-US Index</i>	<i>29.7</i>	<i>19.7</i>	<i>(0.4)</i>	<i>(2.0)</i>	<i>3.7</i>

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

\*\* Performance from 05/01/11 to 06/30/11 for Robeco Investment Management

\*\*\* Annual performance includes a 0.7% adjustment to add back manager 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 2011:**

**Managers Hired:** Robeco Investment Management

**Managers Discharged:** Metropolitan West Capital Management

**STATE OF IDAHO ENDOWMENT FUNDS  
SCHEDULE OF WEIGHTED INVESTMENT RETURNS BY ASSET MANAGER  
NET OF FEES  
PERIODS ENDING JUNE 30, 2011**

<b>Net of Fees</b>	<b>FY 2011</b>	<b>2-Yr. Annual</b>	<b>3-Yr. Annual</b>	<b>4-Yr. Annual</b>	<b>5-Yr. Annual</b>
<b>Total Account</b>	<b>24.2</b>	<b>19.7</b>	<b>5.4</b>	<b>3.4</b>	<b>5.8</b>
<i>Benchmark</i>	<i>22.9</i>	<i>18.0</i>	<i>4.7</i>	<i>1.8</i>	<i>4.6</i>
Total fund benchmark consists of 49% Russell 3000, 21% MSCI ACWI ex-US, & 30% Barclays Capital Aggregate Bond					
<b>Total Fixed Income</b>	<b>4.2</b>	<b>6.7</b>	<b>6.4</b>	<b>6.9</b>	<b>6.7</b>
State Street Bond Fund	4.2	-	-	-	-
<i>Fixed Income Benchmark*</i>	<i>4.3</i>	<i>6.9</i>	<i>6.4</i>	<i>6.7</i>	<i>6.6</i>
<i>BC U.S. Aggregate Index</i>	<i>3.9</i>	<i>6.7</i>	<i>6.5</i>	<i>6.6</i>	<i>6.5</i>
<i>BC US TIPS Index</i>	<i>7.7</i>	<i>8.6</i>	<i>5.3</i>	<i>7.7</i>	<i>6.9</i>
<b>Total Domestic Equity</b>	<b>35.1</b>	<b>27.3</b>	<b>5.8</b>	<b>1.6</b>	<b>4.8</b>
<i>Russell 3000 Index</i>	<i>32.4</i>	<i>23.8</i>	<i>4.0</i>	<i>(0.5)</i>	<i>3.4</i>
<b>Large Cap Core</b>	<b>30.7</b>	<b>22.4</b>	<b>3.6</b>	<b>(0.8)</b>	<b>3.2</b>
NTGI S&P 500	30.7	22.4	3.6	(0.8)	3.2
<i>S&amp;P 500 Index</i>	<i>30.7</i>	<i>22.3</i>	<i>3.4</i>	<i>(1.1)</i>	<i>(2.9)</i>
<b>Large Growth</b>	<b>40.2</b>	<b>29.2</b>	<b>7.4</b>	<b>4.7</b>	<b>6.2</b>
INTECH	35.0	23.1	4.8	2.5	4.3
Sands Capital Management	45.9	35.6	10.5	7.5	8.1
<i>Russell 1000 Growth Index</i>	<i>35.0</i>	<i>23.9</i>	<i>5.0</i>	<i>2.2</i>	<i>5.3</i>
<b>Large Cap Value</b>	<b>30.4</b>	<b>23.4</b>	<b>4.0</b>	<b>(1.3)</b>	<b>2.8</b>
LSV Asset Management	28.2	22.2	3.0	(4.2)	0.8
Robeco Investment Mgmt**	(3.2)				
<i>Russell 1000 Value Index</i>	<i>28.9</i>	<i>22.8</i>	<i>2.3</i>	<i>(3.5)</i>	<i>1.2</i>
<b>Mid Cap</b>	<b>34.3</b>	<b>28.0</b>	<b>4.1</b>	<b>1.2</b>	<b>4.7</b>
Systematic Financial Mgmt	38.0	30.9	7.3	3.6	7.7
TimesSquare	31.1	25.4	-	-	-
<i>Russell Mid Cap Index</i>	<i>38.5</i>	<i>31.6</i>	<i>6.5</i>	<i>1.7</i>	<i>5.3</i>
<b>Small Cap</b>	<b>45.6</b>	<b>41.6</b>	<b>14.2</b>	<b>7.5</b>	<b>9.7</b>
Eagle Asset Management	50.2	38.9	12.5	-	-
Barrow, Hanley	41.4	43.5	15.0	6.1	8.6
<i>Russell 2000 Index</i>	<i>37.4</i>	<i>29.2</i>	<i>7.8</i>	<i>1.2</i>	<i>4.1</i>
<b>Global Equity</b>	<b>25.4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Aberdeen*	30.2	-	-	-	-
Lazard*	21.2	-	-	-	-
<i>MSCI ACWI Index</i>	<i>30.1</i>	<i>20.6</i>	<i>0.9</i>	<i>(1.7)</i>	<i>3.2</i>
<b>International Equity</b>	<b>27.1</b>	<b>18.4</b>	<b>(1.2)</b>	<b>0.2</b>	<b>4.8</b>
Marvin & Palmer	34.6	21.6	(6.3)	(3.0)	2.8
Tradewinds	19.3	12.8	0.3	0.3	4.4
Capital International	24.2	23.5	-	-	-
GMO	34.5	28.0	-	-	-
<i>MSCI ACWI ex-US Index</i>	<i>29.7</i>	<i>19.7</i>	<i>(0.4)</i>	<i>(2.0)</i>	<i>3.7</i>

\* 90% BC Aggregate and 10% BC U.S. Tips

\*\* Performance from 05/01/11 to 06/30/11 for Robeco Investment Management

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

**Active Manager changes in FY 2011:**

**Managers Hired:** Robeco Investment Management

**Managers Discharged:** Metropolitan West Capital Management

**STATE OF IDAHO ENDOWMENT FUNDS  
BROKERAGE SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2011**

**SCHEDULE OF BROKERAGE COMMISSIONS\***

Broker Name	Shares Traded	Dollar Volume of Trades	Commissions	
			Dollar Amount	Per Share
Lynch Jones & Ryan	3,416,849	82,752,041	93,116	0.027
Credit Suisse	7,244,113	187,128,609	70,955	0.010
Merrill Lynch	4,025,526	56,218,746	61,316	0.015
UBS	5,933,435	59,930,893	59,858	0.010
Deutsch Banke	3,083,150	66,993,819	38,361	0.012
CITIGROUP	3,374,722	31,368,433	30,478	0.009
Goldman Sachs	1,443,931	23,019,761	27,304	0.019
LIQUIDNET	1,748,641	48,381,773	25,318	0.014
JP Morgan	1,161,296	14,625,222	24,455	0.021
Investment Technology Group	1,188,688	34,868,317	17,385	0.015
Weeden & Co	770,810	29,944,214	15,110	0.020
Bear Stearns	555,685	15,105,058	14,191	0.026
Numora	329,061	9,313,593	13,577	0.041
Jefferies & Company	615,300	19,810,041	12,585	0.020
Barclays	369,674	10,813,106	12,506	0.034
Broadcoard Capital	381,109	6,112,768	11,613	0.030
Bloomberg Tradebook	471,867	9,842,164	9,411	0.020
Morgan Stanley	977,744	7,950,200	9,399	0.010
Knight Securities	562,803	10,111,139	8,525	0.015
Stifel Nicolaus	222,651	6,616,884	8,238	0.037
Cap Institutional Services, Inc	371,300	17,279,857	7,563	0.020
Societe Generale	115,075	4,219,964	7,204	0.063
Mizhuo Securities	178,090	4,818,286	7,095	0.040
CLSA Securities	250,714	4,484,444	7,088	0.028
Chevreur de Virieu	203,521	3,889,216	6,385	0.031
Macquarie	149,806	4,788,256	6,206	0.041
Sanford Bernstein & Co.	209,480	10,146,234	6,092	0.029
Oppenheimer & Co.	124,645	5,323,134	5,743	0.046
Wachovia Capital	147,650	3,561,205	5,710	0.039
Robert W. Baird	165,419	5,455,399	5,586	0.034
ABG Securities	166,900	3,038,475	5,408	0.032
INSTINET	298,200	7,848,501	5,405	0.018
Rochdale Securities	180,005	4,660,074	5,352	0.030
Alpha Management	155,800	6,480,547	5,336	0.034
All other brokerage firms (under \$5,000)	5,863,631	136,127,546	138,890	0.024
<b>Totals</b>	<b>46,457,291</b>	<b>953,027,919</b>	<b>788,764</b>	<b>0.017</b>

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



*EXAMINATION OF  
MANAGEMENT'S ASSERTIONS*

**State of Idaho  
Endowment Funds**

**INDEPENDENT ACCOUNTANTS' REPORT ON EXAMINATION OF MANAGEMENT'S  
ASSERTIONS**

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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, 2011, 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, 2011, 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.

Boise, Idaho  
August 23, 2011

Investment securities held at June 30, 2011 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, 2011 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 Funds for the year ended June 30, 2011, as required by *Idaho Code* 57-720.