

**FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2012**



State of Idaho Endowment Funds

**Administered by the
Endowment Fund Investment Board**



**FINANCIAL STATEMENTS – JUNE 30, 2012
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, 2012, 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.

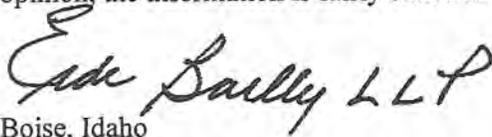
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position State of Idaho Endowment Funds administered by the EFIB, as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with 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, 2012, 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 considered in assessing 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 34 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 procedures 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.

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

Boise, Idaho
August 24, 2012

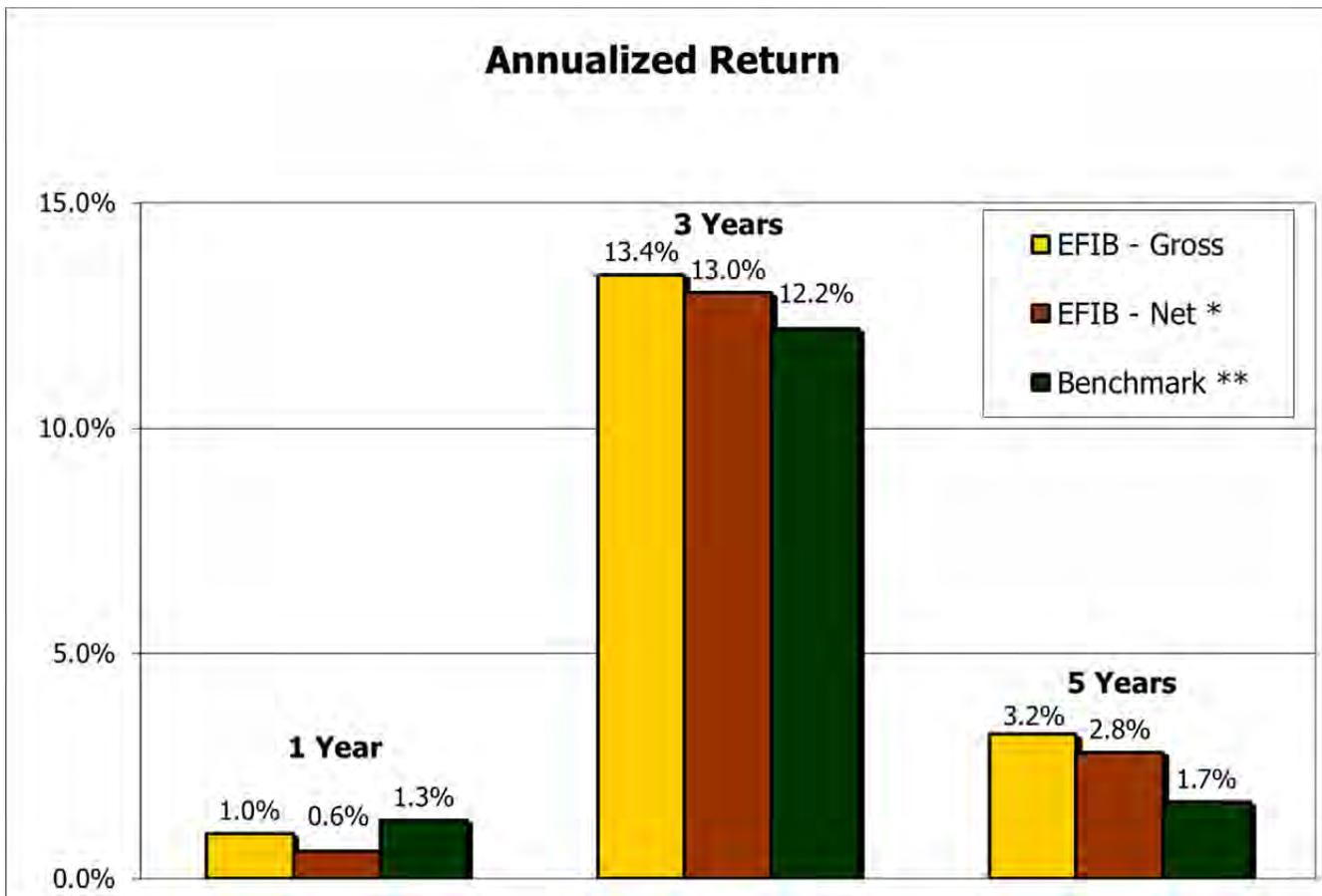
**STATE OF IDAHO ENDOWMENT FUNDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

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, 2012.

FINANCIAL HIGHLIGHTS

Total of the Endowment Funds

- Net position increased \$12.7 million, which represents a 1.0% increase from fiscal year 2011.
- Receipts to Earnings Reserves from endowment lands, decreased to \$62.6 million, a 3.1% decrease from fiscal year 2011.
- Net distributions to beneficiaries, excluding the Capitol Commission, decreased 31.5% in fiscal year 2012 to \$46.4 million, from \$67.8 million in fiscal year 2011. FY 2011 amounts included a one-time special distribution of \$22 million from the Public School Endowment Fund.
- Total investment return, before fees, was 1.0% in fiscal year 2012, compared to 24.6% in fiscal year 2011 and 15.8% in fiscal year 2010.



* Net returns are net of outside investment manager fees (approximately 37 basis points in 2012). The ratio of total fiscal year 2012 EFIB expenses to year-end assets was 45 basis points.

** Benchmark consists, as of June 30, 2012, of 49% Russell 3000 index, 21% MSCI All-Country World Index (ACWI) ex-US, & 30% Barclays Capital Aggregate index.

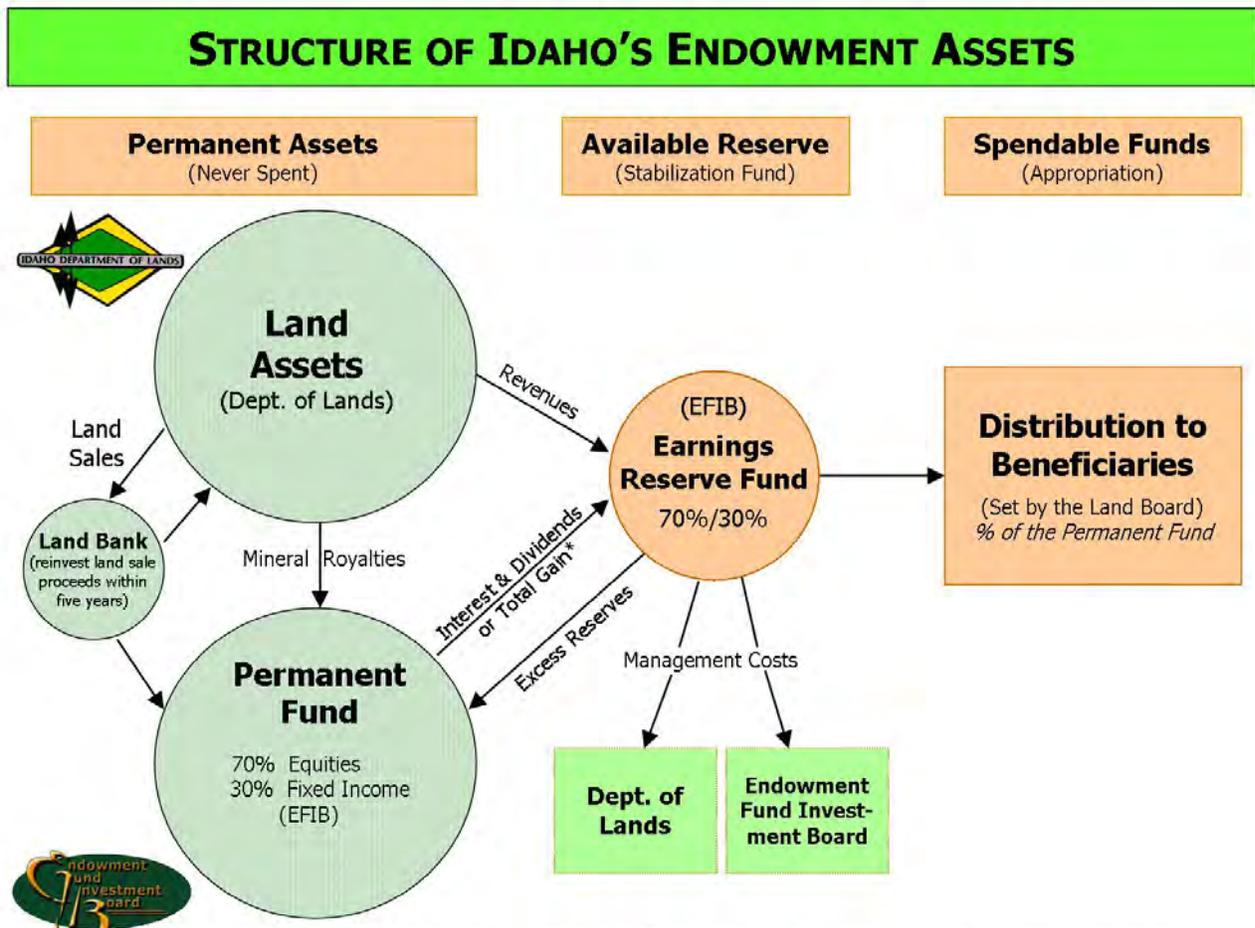
**STATE OF IDAHO ENDOWMENT FUNDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

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, 2012**

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'Alene's Endowment Fund.

USING THIS ANNUAL REPORT

The annual report consists of the independent auditor's 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 position 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 2011 Idaho Legislature passed Senate Bill 1150 to appropriate the fiscal year 2012 distributions to the beneficiary institutions.

Total Fund Distributions

	2012	2011
Public School	\$ 31,292,400	\$ 53,292,400
Agricultural College	850,800	850,800
Charitable Institutions	2,964,600	2,964,600
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	2,301,600	1,663,200
University of Idaho	2,329,200	2,329,200
Subtotal	46,425,000	67,786,600
Capitol Permanent Fund	-	-
Total Distributions	\$ 46,425,000	\$ 67,786,600

STATE OF IDAHO ENDOWMENT FUNDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

Statement of Net Position

	2012	2011
Total Current Assets	\$ 1,311,621,408	\$ 1,291,614,747
Total Current Liabilities	31,142,913	23,811,971
Net Position-Permanent Funds	1,082,941,558	1,063,561,450
Net Position-Earnings Reserve Funds	197,536,937	204,241,326
Total Net Position	\$ 1,280,478,495	\$ 1,267,802,776

Statement of Activities

	2012	2011
Program Revenues		
Receipts from Dept. of Lands		
Permanent Receipts	\$ 2,935,528	\$ 4,656,220
Earnings Reserve Receipts	62,615,438	64,641,777
Income from Investments	29,084,592	27,465,809
Increase/Decrease in Value of Investments	(16,197,506)	227,044,909
Total Program Revenues	78,438,052	323,808,715
Program Expenses		
Distribution to Beneficiaries	46,425,000	67,786,600
Distribution for Expenses-Lands	22,673,106	23,740,021
Distribution for Expenses-EFIB	5,407,160	5,328,938
Total Program Expenses	74,505,266	96,855,559
Recognition of Prepaid Expenses	8,742,933	-
Net Program Revenue/Change in Net Position	\$ 12,675,719	\$ 226,953,156

Revenues reflect all receipts from endowment lands and total income from investments. During fiscal year 2012, land revenues decreased by 5.4% as higher timber harvest volume was more than offset by lower realizations. During the same period income from investments increased 5.9%, which is attributable to higher dividend rates, partly offset by lower interest rates. Market value losses of \$16.2 million were due primarily to declines in international stock prices.

Total expenses reflect distributions to beneficiaries as well as expenses paid. The fiscal year 2012 distribution to beneficiaries of \$46.4 million represented a 31.5% decrease over the previous years, due to the Board of Land Commissioners' approval of a one-time special distribution of \$22 million from the Public School Endowment Fund in FY 2011.

**STATE OF IDAHO ENDOWMENT FUNDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

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 decreased 4.5% in fiscal year 2012.

From FY 2001 to FY 2010, Lands expended \$8.7 million less in land management expenses than it had been paid by the EFIB. This is presented as a one-time "Recognition of Prepaid Expenses" in FY 2012. The difference between what was paid to Lands and what they actually spent for FY 2011 and FY 2012 is included in the annual "Distribution for Expenses-Lands".

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. The Agricultural College and Penitentiary endowments will adopt this methodology in FY 2013, and the University of Idaho endowment will adopt it in FY 2014. 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 2012.

For endowments other than the Capitol Permanent Fund, the Board of Land Commissioners has approved, and the legislature has appropriated in Senate Bill 1360, the following distributions to beneficiaries for FY 2013.

	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
Total	\$ 47,508,600

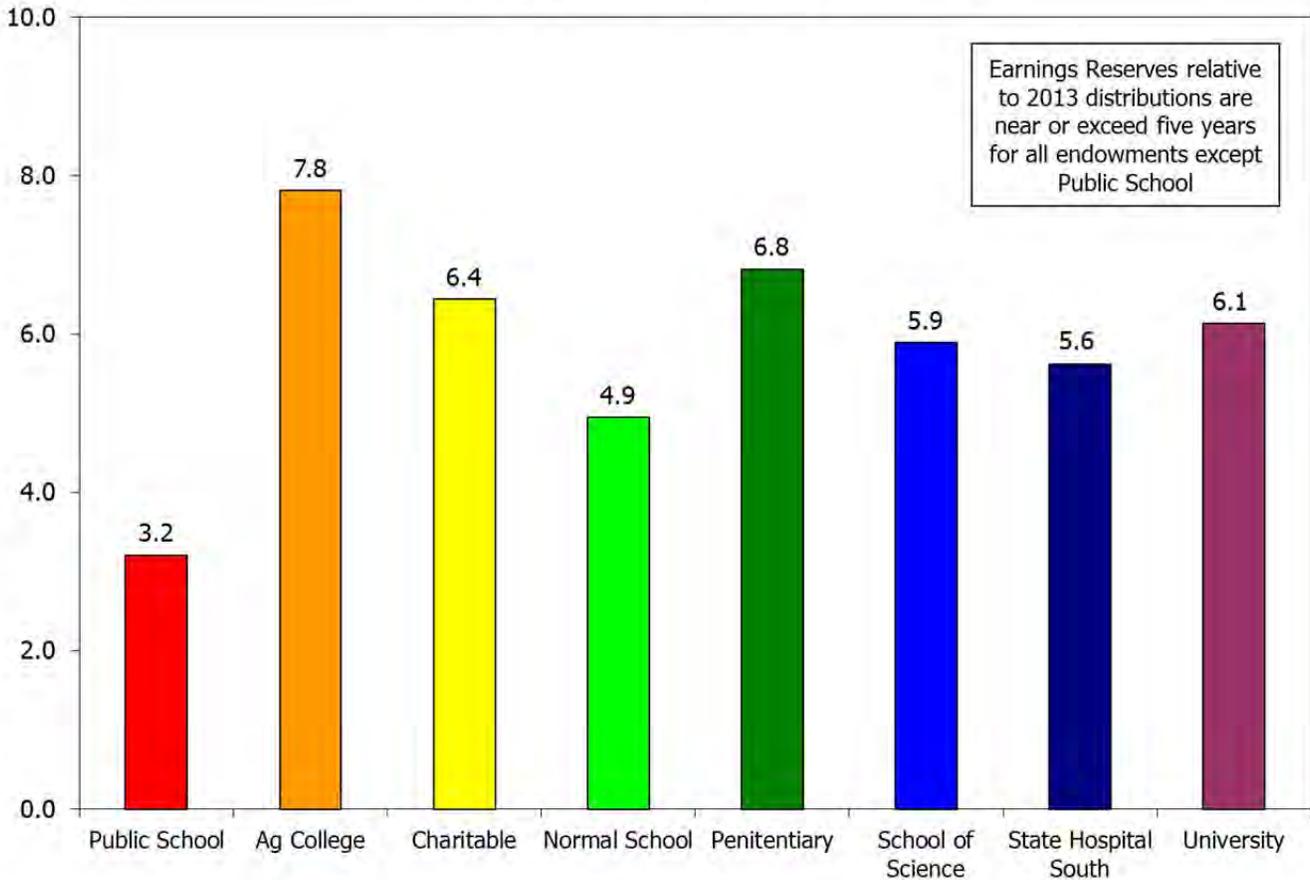
The FY 2014 distributions approved by the Board of Land Commissioners on August 21, 2012 (see Note 14, page 26), have not yet been appropriated and will be considered by the legislature in its 2013 session.

**STATE OF IDAHO ENDOWMENT FUNDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

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 2013.

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

Coverage Ratio June 30, 2012



By Board of Land Commissioners' Policy, the level of Earnings Reserves deemed adequate is at least five years of future distributions and any excess may be transferred from the Earnings Reserve Fund to the corresponding Permanent Fund. Based on this policy, on August 21, 2012, the Board of Land Commissioners approved the transfer of certain excess Earnings Reserves to the respective Permanent Funds of all endowments except Public School and Normal School (see Note 14, page 26). The transfers are expected to occur in September, 2012.

**STATE OF IDAHO ENDOWMENT FUNDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

TOTAL COST OF INVESTMENT MANAGEMENT

In fiscal year 2012, the EFIB had expenditures of \$5,407,160 to manage the Endowment Funds.

Investment Management Operating Costs	Expense	Basis Points*
Internal investment oversight	\$ 246,315	2
Internal accounting	132,630	1
Outside investment manager fees**	4,794,307	37
Custody expense	376,935	3
Consultant and auditor fees	256,530	2
Subtotal	5,806,717	45
Less manager fees deducted from NAV**	<u>(210,824)</u>	
Total Cash Expenditures	5,595,893	
Less reimbursement and accrual	<u>(188,733)</u>	
Total Accrual Basis Expense	<u>\$ 5,407,160</u>	

* Relative to total fiscal-year end 2012 assets of \$1,280,478,495.

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



FINANCIAL STATEMENTS

JUNE 30, 2012

**Administered by the
Endowment Fund Investment Board**

STATE OF IDAHO ENDOWMENT FUNDS
STATEMENT OF POSITION
JUNE 30, 2012

Current Assets:	
Cash with Treasurer	\$ 528,300
Investments, at Fair Value	1,276,031,796
Receivable for Unsettled Trades	20,019,310
Receivable from Idaho Department of Lands	4,438,541
Accrued Interest and Dividends Receivable	4,083,490
Prepaid Expenses to the Department of Lands	6,519,971
Total Assets	<u>1,311,621,408</u>
Current Liabilities:	
Payable for Unsettled Trades	29,918,459
Investment Manager Expenses Payable	1,224,454
Total Liabilities	<u>31,142,913</u>
Restricted Nonexpendable Net Position - Permanent Funds:	
Public School	708,395,945
Agricultural College	19,972,919
Charitable Institutions	67,722,305
Normal School	62,172,295
Penitentiary	28,248,677
School of Science	69,220,614
State Hospital South	46,326,411
University of Idaho	58,669,471
Capitol Permanent Fund	22,212,921
Total Permanent Net Position	<u>1,082,941,558</u>
Restricted Expendable Net Position- Earnings Reserves:	
Public School	100,168,001
Agricultural College	7,157,515
Charitable Institutions	19,081,721
Normal School	13,192,304
Penitentiary	8,500,294
School of Science	17,655,248
State Hospital South	16,120,561
University of Idaho	15,661,293
Total Earnings Reserve Net Position	<u>197,536,937</u>
Total Net Position	<u>\$ 1,280,478,495</u>

**STATE OF IDAHO ENDOWMENT FUNDS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

	Public School	Agricultural College	Charitable Institutions	Normal School
PERMANENT NET POSITION				
Permanent Net Position, beginning of year	\$ 714,690,423	\$ 19,675,273	\$ 66,147,706	\$ 60,679,655
Program Revenues:				
Receipts from Dept. of Lands	2,669,972	395	13,596	174,404
Income from Investments	(8,964,450)	(252,749)	(856,997)	(786,764)
Total Program Revenue	(6,294,478)	(252,354)	(843,401)	(612,360)
Transfer from Earnings Reserve	-	550,000	2,418,000	2,105,000
Increase (Decrease) in Net Position	(6,294,478)	297,646	1,574,599	1,492,640
Permanent Net Position, end of year	708,395,945	19,972,919	67,722,305	62,172,295
EARNINGS RESERVE NET POSITION				
Earnings Reserve Net Position, beginning of year	93,468,348	6,235,407	17,241,036	15,456,300
Program Revenues:				
Receipts from Dept. of Lands	36,280,477	1,988,591	6,347,002	2,543,524
Income from Investments	17,237,256	519,596	1,682,669	1,551,188
Total Program Revenues	53,517,733	2,508,187	8,029,671	4,094,712
Program Expenses:				
Distribution for Expenses-Lands	15,407,308	309,880	1,280,432	1,939,876
Distribution for Expenses-EFIB	3,504,254	114,529	361,355	328,944
Distributions to Beneficiaries	31,292,400	850,800	2,964,600	2,661,600
Total Program Expenses	50,203,962	1,275,209	4,606,387	4,930,420
Net Program Revenue	3,313,771	1,232,978	3,423,284	(835,708)
Recognition of Prepaid Expenses	3,385,882	239,130	835,401	676,712
Transfer to Permanent Fund	-	(550,000)	(2,418,000)	(2,105,000)
Increase (Decrease) in Net Position	6,699,653	922,108	1,840,685	(2,263,996)
Earnings Reserve Net Position, end of year	100,168,001	7,157,515	19,081,721	13,192,304
TOTAL NET POSITION	\$ 808,563,946	\$ 27,130,434	\$ 86,804,026	\$ 75,364,599

* 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
\$ 24,291,806	\$ 67,037,665	\$ 33,609,233	\$ 55,489,967	\$ 21,939,722	\$ 1,063,561,450
346	9,906	14,131	10,940	41,838	2,935,528
(357,475)	(875,957)	453,047	(742,436)	231,361	(12,152,420)
(357,129)	(866,051)	467,178	(731,496)	273,199	(9,216,892)
4,314,000	3,049,000	12,250,000	3,911,000	-	28,597,000
3,956,871	2,182,949	12,717,178	3,179,504	273,199	19,380,108
28,248,677	69,220,614	46,326,411	58,669,471	22,212,921	1,082,941,558
10,545,384	18,034,351	26,588,528	16,671,972		204,241,326
2,995,933	4,202,948	4,301,713	3,955,250		62,615,438
713,292	1,724,728	137,773	1,473,004		25,039,506
3,709,225	5,927,676	4,439,486	5,428,254		87,654,944
533,281	1,241,526	1,045,694	915,109		22,673,106
153,226	368,903	261,053	314,896		5,407,160
1,040,400	2,984,400	2,301,600	2,329,200		46,425,000
1,726,907	4,594,829	3,608,347	3,559,205		74,505,266
1,982,318	1,332,847	831,139	1,869,048		13,149,678
286,592	1,337,050	950,894	1,031,272		8,742,933
(4,314,000)	(3,049,000)	(12,250,000)	(3,911,000)		(28,597,000)
(2,045,090)	(379,103)	(10,467,967)	(1,010,679)		(6,704,389)
8,500,294	17,655,248	16,120,561	15,661,293		197,536,937
\$ 36,748,971	\$ 86,875,862	\$ 62,446,972	\$ 74,330,764	\$ 22,212,921	\$1,280,478,495

**STATE OF IDAHO ENDOWMENT FUNDS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

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

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 position 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. The EFIB early adopted Governmental Accounting Standards Boards Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB No. 63). GASB No. 63 modifies the presentation of the financial statement, and includes different classifications of certain assets and liabilities. The implementation of GASB No. 63 did not result in significant changes to the financial statements.

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

NOTES TO FINANCIAL STATEMENTS

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 2012, 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, 2012. The notional value of these instruments is not recorded in the financial statements.

Futures	Expiration Date	Contracts	Notional Value	Unrealized G/L	Required Margin
10-Year Treasury Nt.	Sept 2012	88	\$ 11,737,000	\$ (14,551)	\$ 96,800
S&P 500	Sept 2012	335	22,719,700	542,606	1,172,500
Totals		423	\$ 34,456,700	\$ 528,055	\$ 1,269,300

Forwards	Expiration Date	Cost	Market Value	Unrealized G/L
EUR/USD	Sept 2012	\$ (7,853,183)	\$ (7,754,873)	\$ 98,310

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 Position

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

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"

NOTES TO FINANCIAL STATEMENTS

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 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, 2012, the market value of the Public School Permanent Fund was \$122 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, 2012, the market value of the Permanent Fund portion of the Agricultural College endowment was \$5.1 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.

NOTES TO FINANCIAL STATEMENTS

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.

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.

NOTE 3 - INVESTMENTS

Investments at June 30, 2012:

Fund Investments	COST	FAIR VALUE
Marketable Securities:		
Northern Treasury Money Market Funds*	\$ 8,223,939	\$ 8,223,939
State Street Global Advisors Fixed Income Index Funds		
Barclays Capital Aggregate Bond & U.S. TIPS	355,821,915	361,909,111
Equity Funds		
Aberdeen Asset Management	57,317,286	59,510,069
Barrow, Hanley, Mewhinney & Strauss	27,494,108	32,566,580
Capital International	7,313,247	11,201,285
Clearwater Advisors	4,394,670	4,394,670
Eagle Asset Management	24,476,036	28,693,560
Grantham, Mayo, Van Otterloo	7,191,575	10,857,859
INTECH	65,428,115	72,821,176
Lazard Asset Management	58,856,850	56,351,146
LSV Asset Management	68,246,680	68,303,379
Marvin & Palmer	71,278,638	80,276,020
Northern Equity Index Funds S&P 500	132,333,472	138,124,111
Robeco Boston Investment Management	67,954,485	71,710,270
Sands Capital Management	46,284,465	75,823,579
Systematic Financial Management	52,728,637	56,384,974
TimesSquare Capital Management	47,265,662	59,877,163
Tradewinds Global Investors	111,233	111,233
Vanguard ACWI ex-US IMI	72,260,396	68,992,522
Total Fund Investments	1,174,981,409	1,266,132,646
Pending Trades		
Receivable for Investments sold	(19,018,290)	(20,019,309)
Payable for Investments purchased	29,918,459	29,918,459
Total Net Investments	\$ 1,185,881,578	\$ 1,276,031,796

*This is cash that is not allocated to an investment manager

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, 2012, 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, 2012, 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 and 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" commercial mortgage obligations (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 Trust Money Market Fund	\$ 8,223,939	Not Applicable	AAA/AA+
State Street Global Advisors			
Barclays Capital Aggregate Bond	307,838,861	5.2	Aa1/AA-
U.S. TIPS	54,070,250	5.0	AAA/AA+
Total	\$ 370,133,050		

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	\$ 6,793,192
Brazil	BRL	880,289
Canada	CAD	4,445,603
Switzerland	CHF	16,208,419
Denmark	DKK	2,607,115
Europe	EUR	11,408,680
Great Britain	GBP	36,145,974
Hong Kong	HKD	12,570,653
Indonesia	IDR	974,142
Japan	JPY	18,271,047
South Korea	KRW	4,160,623
Norway	NOK	1,423,444
Philippines	PHP	2,617,182
Sweden	SEK	6,562,068
Singapore	SGD	4,796,913
Thailand	THB	220,863
Taiwan	TWD	1,532,380
South Africa	ZAR	563,728
Total Fund Investments		\$ 132,182,315

NOTE 4 – 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.

The Agricultural College and Penitentiary endowments passed their Gain Benchmark in FY 2011 and will utilize the alternative methodology in FY 2013. The University of Idaho endowment passed its Gain Benchmark in FY 2012.

NOTES TO FINANCIAL STATEMENTS

The components of income from investments for FY 2012 and their allocation are shown below.

Permanent Fund Income

Endowment	Net Decrease in Fair Value	Income Retained to Offset Inflation or Losses	Capitol Permanent Income from Investments**	Income from Investments
Public School	\$ (8,964,450)			\$ (8,964,450)
Agricultural College	(252,749)			(252,749)
Charitable	(856,997)			(856,997)
Normal School	(786,764)			(786,764)
Penitentiary	(357,475)			(357,475)
School of Science	(875,957)			(875,957)
State Hospital South*	(573,253)	\$ 1,026,300		453,047
University	(742,436)			(742,436)
Cap Perm Fund**	(274,691)		\$ 506,052	231,361
Total	\$ (13,684,772)	\$ 1,026,300	\$ 506,052	\$ (12,152,420)

* For State Hospital South, when cumulative total income falls short of its Gain Benchmark, all interest and dividend income from the Permanent Fund is retained in the Permanent Fund to offset the shortfall.

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

Earnings Reserve Fund Income

Endowment	Net Decrease in Fair Value	Interest, Dividends and Other Income	Allocation of Permanent Fund Gain or (Loss)*	Income from Investments
Public School	\$ (1,267,585)	\$ 18,504,841		\$ 17,237,256
Agricultural College	(90,575)	610,171		519,596
Charitable	(241,471)	1,924,140		1,682,669
Normal School	(166,943)	1,718,131		1,551,188
Penitentiary	(107,568)	820,860		713,292
School of Science	(223,420)	1,948,148		1,724,728
State Hospital South*	(216,985)	1,381,058	\$ (1,026,300)	137,773
University	(198,187)	1,671,191		1,473,004
Total	\$ (2,512,734)	\$ 28,578,540	\$ (1,026,300)	\$ 25,039,506

* 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	
Short-term, Fixed Income & Other Income	\$ 12,066,897
Equity Funds	17,017,695
Total *	\$ 29,084,592

* 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. Any undistributed or deferred gain (\$0.05 and \$1.5 million gains in the case of Agricultural College and University, respectively), 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. Any undistributed or deferred loss (\$0.5 million in the case of State Hospital South) must first be offset by future income before any income from the Permanent Fund can accrue to the Earnings Reserve after implementation.

NOTE 5 – 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 2012 paid by the other clients were \$133,271.

Distributions for Expenses for Lands represent the Department of Lands' actual expenses for the managing endowment land. In FY 2012, the EFIB paid Lands \$2,572,463 less than Lands' expended, which is reported as a reduction of prepaid expense.

NOTE 6 – 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, 2012 were as follows:

Charitable Institutions Distributions

	Factor	Beneficiaries	Lands Expenses	EFIB Expenses
Idaho State University Fund	8/30	\$ 790,560	\$ 341,448	\$ 96,361
State Juvenile Corrections Institutions	8/30	790,560	341,448	96,361
School for the Deaf and Blind Fund	1/30	98,820	42,683	12,045
Veterans Home Fund	5/30	494,100	213,405	60,226
State Hospital North Fund	8/30	790,560	341,448	96,362
Total		\$ 2,964,600	\$ 1,280,432	\$ 361,355

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, 2012 were as follows:

Normal School Distributions

	%	Beneficiaries	Lands Expenses	EFIB Expenses
Idaho State University, Pocatello	50%	\$ 1,330,800	\$ 969,938	\$ 164,472
Lewis-Clark State College, Lewiston	50%	1,330,800	969,938	164,472
Total		\$ 2,661,600	\$ 1,939,876	\$ 328,944

NOTE 7 – 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, 2012, 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. \$543 million of bonds guaranteed by the Credit Enhancement Program remained outstanding as of June 30, 2012. Expected principal and interest payments will total \$66 million.

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

Since July 2009, the EFIB has charged 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 2012 totaled \$10,000 and guaranty fees totaled \$30,586 and are included in Income from Investments.

NOTE 8 – BUDGETARY COMPARISON

Budgets are adopted on a cash basis for the Endowment Funds. The budget for administrative expenses (personnel, operating and capital outlay) from the Earnings Reserve Funds is approved by the legislature on an annual basis. Expenses for consulting fees, bank custodial fees, and portfolio-related external costs are continually appropriated by the Idaho Legislature on an annual basis. The EFIB is not required by law to adopt or publish an overall budget for operations.

NOTES TO FINANCIAL STATEMENTS

NOTE 9 – 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 2012, the Public School Permanent Fund received \$44,290 representing five percent of the net proceeds from the sale of federal land in Idaho. These miscellaneous revenues are included in Receipts from Department of Lands. There were no revenues from unqualified election expenses, unclaimed estates, unclaimed livestock, unclaimed dividends and stock certificates and anonymous political contributions.

NOTE 10 – PENSION AND OTHER POST-EMPLOYMENT BENEFITS

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

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

The contribution requirements of the EFIB and its employees are established and may be amended by the PERSI Board of Trustees. For the year ending June 30, 2012, the required contribution rate as a percentage of covered payroll for members was 6.23%. The employer rate as a percentage of covered payroll was 10.39%. The EFIB employer contributions required and paid were \$31,242.

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 Controller's Office, P.O. Box 83720, Boise, ID 83720-0011.

NOTES TO FINANCIAL STATEMENTS

NOTE 11– 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 2013.

	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
Total	\$ 47,508,600

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 2013.

NOTE 12 – 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. The authority to acquire land using Land Bank assets rests with the State Board of Land Commissioners.

As of June 30, 2012 the Land Bank Fund balance was as follows:

Land Bank Fund	2012
Public School	\$ 45,526
Normal School	41,115
State Hospital South	565,838
Total	\$ 652,479

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. There were no land sale proceeds deposited in FY 2012 and since the Land Bank became operational in FY 2001, there have been no material deposits to any of the Permanent Funds.

NOTES TO FINANCIAL STATEMENTS

NOTE 13 – CHANGE IN ACCOUNTING METHOD FOR THE ENDOWMENT FUNDS

Beginning in FY 2011, the EFIB changed its accounting method for expenses by reporting Lands' actual spending as land management expense and recording the difference paid to Lands as an increase or decrease in prepaid expense.

Prior to 2011, the EFIB treated all payments as expense at the time of the payment. At the end of FY 2010, Lands had expended \$8.7 million less than it had been paid. This difference between what was paid to Lands and what was actually spent by Lands is presented as a one-time, "Recognition of Prepaid Expenses" that is included in the Statement of Activities and presented as Prepaid Expense on the Statement of Position.

NOTE 14 – SUBSEQUENT EVENTS

Endowment Distributions

For endowments other than the Capitol Permanent Fund, on August 21, 2012, the Board of Land Commissioners approved the following distributions to beneficiaries for FY 2014. The FY 2014 approved distributions have not yet been appropriated by the legislature and will be considered by the legislature in its 2013 session.

	2014
Public School	\$ 31,292,400
Agricultural College	967,200
Charitable Institutions	3,348,000
Normal School	2,670,000
Penitentiary	1,422,000
School of Science	3,338,400
State Hospital South	2,946,000
University of Idaho	2,860,800
Total	\$ 48,844,800

On August 21, 2012, the Board of Land Commissioners also approved the following transfers from Earnings Reserves to the Permanent Funds, effective September 1, 2012:

Agricultural College*	\$ 384,000
Charitable Institutions	2,398,000
Penitentiary*	1,392,000
School of Science	964,000
State Hospital South*	1,391,000
University of Idaho*	1,360,000
Total	\$ 7,889,000

* All of the transfers for Agricultural College and University of Idaho, \$859,000 of Penitentiary's and \$770,000 of State Hospital South's were designated as increases in permanent principal and will increase their respective Gain Benchmarks. The remaining transfers 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*

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, 2012, and have issued our report thereon dated August 24, 2012. 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

Management of the EFIB is responsible for establishing and maintaining effective 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.

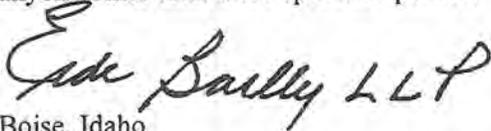
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination 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, 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Boise, Idaho
August 24, 2012



SUPPLEMENTAL SCHEDULES

**State of Idaho
Endowment Funds**

**STATE OF IDAHO ENDOWMENT FUNDS
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2012**

		Expenditures
PERSONNEL		
Regular Employees	\$	299,394
Board/Commission Members		1,100
Total Benefits		88,513
Subtotal Personnel Expenditures		<u>389,007</u>
OPERATING		
Telephone and Data Line Charges		6,444
Publications & Subscriptions		13,999
Employee Training		6,348
Audit		61,000
Travel and Board Meeting Expenses		18,314
Office and Other Materials and Supplies (postage included)		5,357
Office Space		39,804
Governmental Overhead – State		28,694
Other Expenses		417
Subtotal Operating Expenditures		<u>180,377</u>
CAPITAL OUTLAY		
Furniture and Other Office Equipment		1,445
Computer Equipment		2,387
Subtotal Capital Expenditures		<u>3,832</u>
Total Appropriated Expenses		573,216
Less Payments Made by Other Clients*		(133,271)
Subtotal (paid by the Endowment Funds)		<u>439,945</u>
CONTINUOUS APPROPRIATION – Consultant, Custodial and Manager Fees**		
Callan Associates		195,530
Aberdeen Asset Management		397,740
Barrow, Hanley, Mewhinney & Strauss		190,921
Clearwater Advisors		39,152
Eagle Asset Management		209,926
INTECH Investment Management		335,394
Lazard Asset Management		448,662
LSV Asset Management		335,721
Marvin & Palmer Associates		496,148
Northern Trust		419,471
Robeco Boston Investments		298,560
Sands Capital Management		450,416
State Street Global Advisors		135,844
Systematic Financial Management		271,565
TimesSquare Capital Management		443,406
Tradewinds Global Investors		487,492
Total Consultant, Custodial, and Manager Fees		<u>5,155,948</u>
Total Endowment Cash Expenditures		5,595,893
Less Reimbursement of Capitol Permanent Fund Expenses		(97,518)
Change in Manager Fee Accrual		(91,215)
TOTAL ACCRUAL BASIS EXPENSE – Endowment Funds	\$	<u>5,407,160</u>

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

** Fees of \$73,204, \$121,223, & 16,397 were paid to Capital International, Grantham Mayo and Vanguard, 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, 2012**

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 and School of Science 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 the alternative income allocation methodology in FY 2011.

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. The University endowment passed its Gain Benchmark at the end of FY 2012. At June 30, 2012, the Permanent Funds of the Agricultural College and University endowments included undistributed cumulative total income vs. benchmark that will either be allocated to Earnings Reserves in FY 2013 (and FY 2014 for University) or be used to offset any future decrease in market value. At June 30, 2012, the Penitentiary endowment was in a cumulative total loss position vs. its benchmark. This loss must offset before any future income from its Permanent Fund can transfer to its Earnings Reserve.

<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>
Public School	2001-2011	555,954,750	27,739,375	-	172,586,390	756,280,515
	2012	756,280,515	2,669,972		22,158,093	781,108,580
<i>Actual Permanent Fund Balance Over (Under) Benchmark at June 30, 2012</i>						<i>(72,712,635)</i>
Agricultural College	2001-2011	14,787,041	36,903	-	4,529,903	19,353,027
	2012	19,353,027	395	-	567,020	19,920,442
<i>Actual Permanent Fund Balance Over (Under) Benchmark at June 30, 2012</i>						<i>52,477</i>
Charitable Institution	2001-2011	54,513,960	211,949	-	16,704,134	71,430,044
	2012	71,430,044	13,596	-	2,092,812	73,536,452
<i>Actual Permanent Fund Balance Over (Under) Benchmark at June 30, 2012</i>						<i>(5,814,147)</i>
Normal School	2001-2011	47,258,942	1,330,318	-	14,580,405	63,169,666
	2012	63,169,666	174,404	-	1,850,793	65,194,863
<i>Actual Permanent Fund Balance Over (Under) Benchmark at June 30, 2012</i>						<i>(3,022,568)</i>
Penitentiary	2001-2011	18,258,289	11,435	-	5,587,240	23,856,964
	2012	23,856,964	346	4,314,000	698,980	28,870,290
<i>Actual Permanent Fund Balance Over (Under) Benchmark at June 30, 2012</i>						<i>(621,613)</i>
School of Science	2001-2011	54,836,451	199,212	-	16,796,883	71,832,546
	2012	71,832,546	9,906		2,104,605	73,947,057
<i>Actual Permanent Fund Balance Over (Under) Benchmark at June 30, 2012</i>						<i>(4,726,443)</i>
State Hospital South	2001-2011	23,442,162	148,107	2,805,000	7,213,964	33,609,233
	2012	33,609,233	14,130	12,250,000	984,708	46,858,071
<i>Actual Permanent Fund Balance Over (Under) Benchmark at June 30, 2012</i>						<i>(531,660)</i>
University	2001-2011	42,442,536	77,657	-	12,996,073	55,516,266
	2012	55,516,266	10,940	-	1,626,559	57,153,765
<i>Actual Permanent Fund Balance Over (Under) Benchmark at June 30, 2012</i>						<i>1,515,706</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, 2012

Summary Schedule of Gains and (Losses) on Fair Value of Investments					
Public School Permanent Endowment Fund					
Fiscal Year	Deposits to Original Corpus	Adjusted Original Corpus	Actual Ending Fund Balance	Annual Net Gain (Loss)	Cumulative Net Gain (Loss)
2000		\$ 555,954,750			
2001	\$ 1,742,339	557,697,089	\$ 511,726,709	\$ (45,970,380)	\$ (45,970,380)
2002	1,369,675	559,066,764	441,549,031	(71,547,353)	(117,517,733)
2003	2,190,629	561,257,393	436,160,540	(7,579,120)	(125,096,853)
2004	840,647	562,098,040	500,618,909	63,617,722	(61,479,131)
2005	1,551,570	563,649,610	537,181,394	35,010,915	(26,468,216)
2006	1,758,724	565,408,334	581,893,579	42,953,461	16,485,245
2007	3,358,272	568,766,606	662,500,453	77,248,602	93,733,847
2008	4,090,835	572,857,441	633,149,828	(33,441,460)	60,292,387
2009	4,201,860	577,059,301	511,571,551	(125,780,137)	(65,487,750)
2010	2,790,873	579,850,174	583,075,344	68,712,920	3,225,170
2011	3,843,950	583,694,124	714,690,423	127,771,129	130,996,299
2012	2,669,972	586,364,096	708,395,945	(8,964,450)	122,031,849
TOTAL	\$ 30,409,346			\$ 122,031,849	

The Adjusted Original Corpus above is the same as the Loss Benchmark as defined by Section 57-724 of *Idaho Code*. Any cumulative loss in the Public School Permanent Fund (vs. the Loss Benchmark) that remains after ten years must be made up by the State. At the end of FY 2012, the Fund had a cumulative gain above principal or corpus of \$122 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, 2012

Gross of Fees	FY 2012	2-Yr. Annual	3-Yr. Annual	4-Yr. Annual	5-Yr. Annual
Total Account	1.0	12.2	13.4	4.6	3.2
<i>Benchmark</i>	<i>1.3</i>	<i>11.6</i>	<i>12.2</i>	<i>3.8</i>	<i>1.7</i>
Total fund benchmark consists of 49% Russell 3000, 21% MSCI ACWI ex-US, & 30% Barclays Capital Aggregate Bond					
Total Fixed Income	8.2	6.2	7.2	6.9	7.2
State Street Bond Fund	8.2	6.2	-	-	-
<i>Fixed Income Benchmark</i>	<i>8.1</i>	<i>6.2</i>	<i>7.3</i>	<i>6.8</i>	<i>7.0</i>
<i>BC U.S. Aggregate Index</i>	<i>7.5</i>	<i>5.7</i>	<i>6.9</i>	<i>6.7</i>	<i>6.8</i>
<i>BC US TIPS Index</i>	<i>11.7</i>	<i>9.7</i>	<i>9.6</i>	<i>6.8</i>	<i>8.4</i>
Total fixed income benchmark: 85% BC Aggregate and 15% BC U.S. TIPS					
Total Domestic Equity	2.6	18.0	18.8	5.3	2.1
<i>Russell 3000 Index</i>	<i>3.8</i>	<i>17.2</i>	<i>16.7</i>	<i>4.0</i>	<i>0.4</i>
Large Cap Core	5.6	17.5	16.5	4.1	0.5
NTGI S&P 500	5.6	17.5	16.5	4.1	0.5
<i>S&P 500 Index</i>	<i>5.5</i>	<i>17.4</i>	<i>16.4</i>	<i>3.9</i>	<i>0.2</i>
Large Cap Growth	7.4	23.1	21.9	7.8	5.7
INTECH	4.5	19.0	16.9	5.1	3.3
Sands Capital Management	10.3	27.2	27.0	11.0	8.6
<i>Russell 1000 Growth Index</i>	<i>5.8</i>	<i>19.5</i>	<i>17.5</i>	<i>5.2</i>	<i>2.9</i>
Large Cap Value	2.5	15.9	16.4	4.0	(0.2)
LSV Asset Management	0.7	13.8	14.9	2.8	(2.8)
Robeco Investment Mgmt	4.3	-	-	-	-
<i>Russell 1000 Value Index</i>	<i>3.0</i>	<i>15.3</i>	<i>15.8</i>	<i>2.5</i>	<i>(2.2)</i>
Mid Cap	(1.7)	15.2	17.7	3.0	1.0
Systematic Financial Mgmt	(4.8)	14.8	18.1	4.5	2.2
TimesSquare	1.3	15.6	17.3	-	-
<i>Russell Mid Cap Index</i>	<i>(1.7)</i>	<i>16.7</i>	<i>19.4</i>	<i>4.4</i>	<i>1.1</i>
Small Cap	(7.2)	16.6	23.5	9.0	4.9
Eagle Asset Management	(8.5)	17.5	21.3	7.4	-
Barrow, Hanley	(7.0)	15.0	24.6	9.6	3.9
<i>Russell 2000 Index</i>	<i>(2.1)</i>	<i>16.0</i>	<i>17.8</i>	<i>5.2</i>	<i>0.5</i>
Global Equity	(3.0)	10.7	-	-	-
Aberdeen	(1.2)	13.7	-	-	-
Lazard	(4.9)	7.7	-	-	-
<i>MSCI ACWI Index</i>	<i>(6.5)</i>	<i>10.3</i>	<i>10.8</i>	<i>(1.0)</i>	<i>(2.7)</i>
International Equity	(16.6)	3.2	5.7	(4.9)	(3.0)
Marvin & Palmer	(13.6)	8.1	8.9	(7.8)	(4.7)
Vanguard Total Int'l Stock Mkt*	-	-	-	-	-
Capital International**	(21.7)	(1.4)	6.1	-	-
GMO***	(18.0)	5.0	10.3	-	-
<i>MSCI ACWI ex-US Index</i>	<i>(14.6)</i>	<i>5.3</i>	<i>7.0</i>	<i>(4.1)</i>	<i>(4.6)</i>

* Purchased in April 2012

** Annual performance net of 0.7% manager fees

*** Annual performance net of 1.1% manager fees

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

Manager changes in FY 2012:

Managers Hired: Vanguard Total International Stock Fund

Managers Discharged: Tradewinds Global Investors – International Value

**STATE OF IDAHO ENDOWMENT FUNDS
SCHEDULE OF WEIGHTED INVESTMENT RETURNS BY ASSET MANAGER
NET OF FEES
PERIODS ENDING JUNE 30, 2012**

Net of Fees	FY 2012	2-Yr. Annual	3-Yr. Annual	4-Yr. Annual	5-Yr. Annual
Total Account	0.6	11.8	13.0	4.2	2.8
<i>Benchmark</i>	<i>1.3</i>	<i>11.6</i>	<i>12.2</i>	<i>3.8</i>	<i>1.7</i>
Total fund benchmark consists of 49% Russell 3000, 21% MSCI ACWI ex-US, & 30% Barclays Capital Aggregate Bond					
Total Fixed Income	8.2	6.2	7.2	6.9	7.2
State Street Bond Fund	8.2	6.2	-	-	-
<i>Fixed Income Benchmark</i>	<i>8.1</i>	<i>6.2</i>	<i>7.3</i>	<i>6.8</i>	<i>7.0</i>
<i>BC U.S. Aggregate Index</i>	<i>7.5</i>	<i>5.7</i>	<i>6.9</i>	<i>6.7</i>	<i>6.8</i>
<i>BC US TIPS Index</i>	<i>11.7</i>	<i>9.7</i>	<i>9.6</i>	<i>6.8</i>	<i>8.4</i>
<i>Total fixed income benchmark: 85% BC Aggregate and 15% BC U.S. TIPS</i>					
Total Domestic Equity	2.1	17.5	18.3	4.8	1.7
<i>Russell 3000 Index</i>	<i>3.8</i>	<i>17.2</i>	<i>16.7</i>	<i>4.0</i>	<i>0.4</i>
Large Cap Core	5.6	17.5	16.5	4.1	0.4
NTGI S&P 500	5.6	17.5	16.5	4.1	0.4
<i>S&P 500 Index</i>	<i>5.5</i>	<i>17.4</i>	<i>16.4</i>	<i>3.9</i>	<i>0.2</i>
Large Cap Growth	6.8	22.4	21.2	7.2	5.1
INTECH	4.0	18.5	16.4	4.6	2.8
Sands Capital Management	9.7	26.5	26.3	10.3	7.9
<i>Russell 1000 Growth Index</i>	<i>5.8</i>	<i>19.5</i>	<i>17.5</i>	<i>5.2</i>	<i>2.9</i>
Large Cap Value	2.0	15.3	15.8	3.5	(0.7)
LSV Asset Management	0.1	13.3	14.4	2.3	(3.3)
Robeco Investment Mgmt	3.8	-	-	-	-
<i>Russell 1000 Value Index</i>	<i>3.0</i>	<i>15.3</i>	<i>15.8</i>	<i>2.5</i>	<i>(2.2)</i>
Mid Cap	(2.4)	14.5	17.0	2.4	0.5
Systematic Financial Mgmt	(5.3)	14.3	17.6	4.0	1.7
TimesSquare	0.5	14.8	16.5	-	-
<i>Russell Mid Cap Index</i>	<i>(1.7)</i>	<i>16.7</i>	<i>19.4</i>	<i>4.4</i>	<i>1.1</i>
Small Cap	(7.9)	15.8	22.7	8.2	4.2
Eagle Asset Management	(9.3)	16.8	20.6	6.6	-
Barrow, Hanley	(7.6)	14.3	23.9	8.9	3.2
<i>Russell 2000 Index</i>	<i>(2.1)</i>	<i>16.0</i>	<i>17.8</i>	<i>5.2</i>	<i>0.5</i>
Global Equity	(3.7)	9.9	-	-	-
Aberdeen	(1.9)	13.0	-	-	-
Lazard	(5.6)	7.0	-	-	-
<i>MSCI ACWI Index</i>	<i>(6.5)</i>	<i>10.3</i>	<i>10.8</i>	<i>(1.0)</i>	<i>(2.7)</i>
International Equity	(17.1)	2.7	5.1	(5.4)	(3.6)
Marvin & Palmer	(14.2)	7.5	8.3	(8.4)	(5.3)
Vanguard Total Int'l Stock Mkt*	-	-	-	-	-
Capital International	(21.7)	(1.4)	6.1	-	-
GMO	(18.0)	5.0	10.3	-	-
<i>MSCI ACWI ex-US Index</i>	<i>(14.6)</i>	<i>5.3</i>	<i>7.0</i>	<i>(4.1)</i>	<i>(4.6)</i>

* Purchased in April 2012

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

Manager changes in FY 2012:

Managers Hired: Vanguard Total International Stock Fund

Managers Discharged: Tradewinds Global Investors – International Value

STATE OF IDAHO ENDOWMENT FUNDS
 BROKERAGE SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2012

SCHEDULE OF BROKERAGE COMMISSIONS*

Broker Name	Shares Traded	Dollar Volume of Trades	Commissions	
			Dollar Amount	Per Share
Merrill Lynch	5,657,480	\$ 65,560,517	\$ 64,571	\$ 0.011
Lynch Jones & Ryan	1,844,888	42,920,175	54,161	0.029
Credit Suisse	3,041,621	55,297,637	48,246	0.016
UBS	2,995,366	39,542,067	44,478	0.015
Goldman Sachs	1,200,806	25,688,140	26,537	0.022
Jefferies	2,188,424	45,019,542	25,528	0.012
Knight Trading	985,786	44,345,683	24,921	0.025
Deutsche Bank	1,499,450	33,107,852	23,606	0.016
Investment Technology Group	1,685,425	41,450,734	22,686	0.013
Liquidnet	1,473,920	37,986,352	21,645	0.015
Societe Generale	5,652,198	26,609,952	17,284	0.003
JP Morgan	1,169,348	11,511,070	15,298	0.013
CitiGroup	714,144	11,615,883	14,482	0.020
Bear Stearns	552,089	10,855,248	11,701	0.021
Bernstein	423,662	18,178,592	10,854	0.026
Barclays Capital	475,482	9,229,481	10,634	0.022
Numora	310,905	6,876,605	10,400	0.033
RBC	310,832	9,412,301	9,308	0.030
CAPIS	369,000	18,507,566	9,254	0.025
Stifel Nicolaus	270,967	6,480,535	9,018	0.033
Credit Agricole	537,563	3,753,110	8,566	0.016
Exane	373,297	4,570,635	7,892	0.021
Robert Baird	219,707	6,325,970	7,756	0.035
Weeden & Co.	279,918	14,290,011	7,276	0.026
Bloomberg Tradebook	339,921	6,903,228	6,509	0.019
Baypoint Trading	131,490	5,036,217	6,497	0.049
Macquarie	424,178	3,903,406	6,216	0.015
Instinet	261,653	8,804,863	5,330	0.020
Other Brokers <\$5,000	5,546,985	112,268,181	115,639	0.021
Totals	40,936,505	\$ 726,051,553	\$ 646,293	\$ 0.016

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



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

**State of Idaho
Endowment Funds**



CPAs & BUSINESS ADVISORS

Independent Accountants' 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, 2012, 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, 2012, 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, 2012

**STATE OF IDAHO ENDOWMENT FUNDS
STATEMENT OF MANAGEMENT'S ASSERTIONS
YEAR ENDED JUNE 30, 2012**

Investment securities held at June 30, 2012 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, 2012 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, 2012, as required by *Idaho Code* 57-720.

At June 30, 2012, there was one unfilled vacancy on the nine-member Investment Board that is specified in *Idaho Code* 57-718.

During the year ended June 30, 2012, the Investment Board met at least quarterly, as required by *Idaho Code* 57-719.