

**FINANCIAL STATEMENTS  
JUNE 30, 2007**

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

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

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the State of Idaho Endowment Funds administered by the Endowment Fund Investment Board (the "EFIB"), a component unit of the State of Idaho, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the management of the EFIB. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position State of Idaho Endowment Funds administered by the EFIB, as of June 30, 2007, 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 27, 2007, on our consideration of the EFIB's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the EFIB's basic financial statements. The accompanying financial information listed as supplemental schedules in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The schedules on pages 29 through 31 have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole. The schedules on pages 32 and 33 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Eide Bailly LLP*

Boise, Idaho  
August 27, 2007

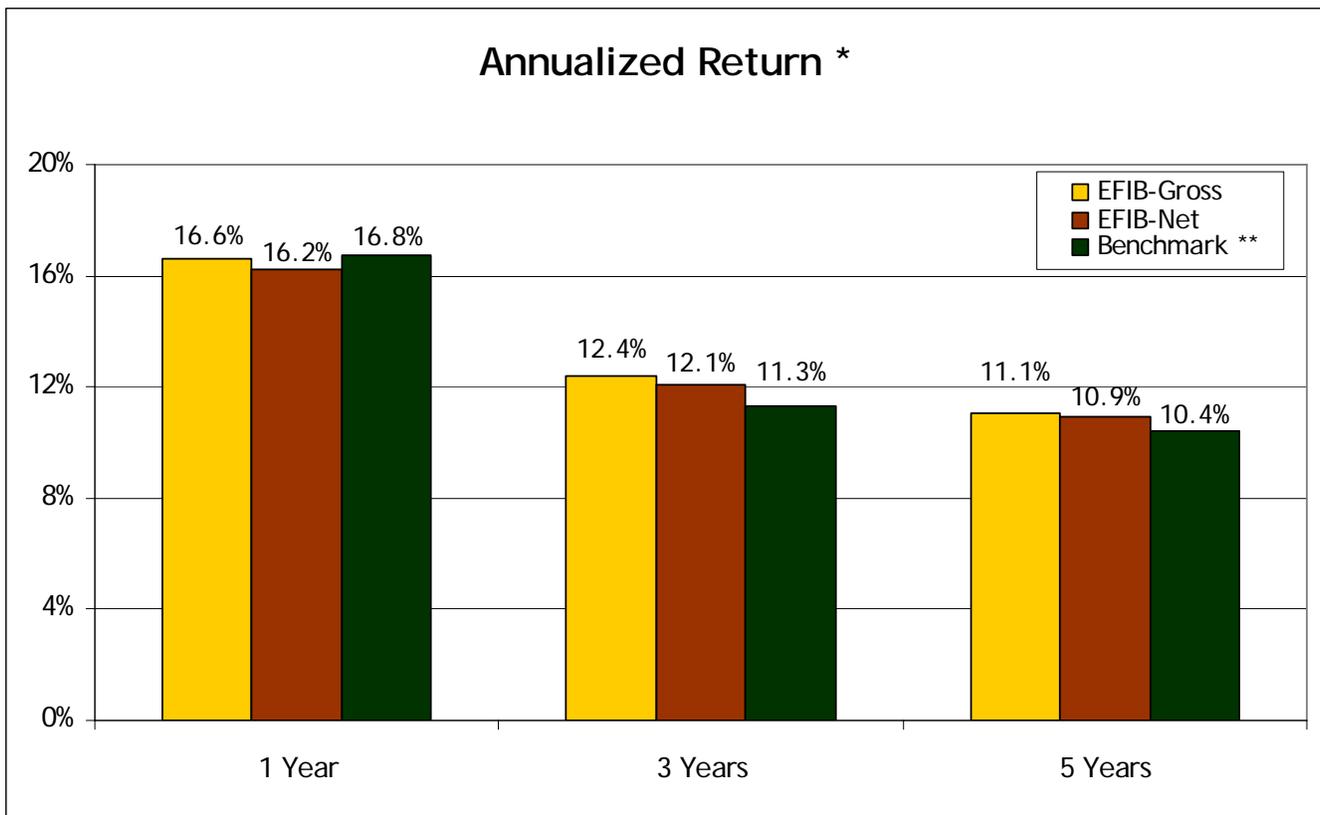
**STATE OF IDAHO ENDOWMENT FUNDS  
ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

This discussion and analysis of the State of Idaho Endowment Funds’ (the Endowment Funds) financial performance provides a summary of the financial activities of the manager of the Endowment Funds, the Endowment Fund Investment Board (the EFIB), for the year ended June 30, 2007. This summary includes a financial summary, an overview of the Endowment Funds, the management of the Endowment Funds and the detailed status of the Endowment Funds and their components.

**FINANCIAL HIGHLIGHTS**

*Total of the Endowment Funds*

- Net assets increased \$188.2 million, which represents a 19.8% increase from fiscal year 2006.
- Receipts to Earnings Reserve from endowment lands, net of one-time transfers, rose to \$71.1 million, a 13% increase from fiscal year 2006.
- Net distributions to beneficiaries, excluding the Capitol Commission, increased 0.3% in fiscal year 2007 from \$35.7 million in fiscal year 2006 to \$35.8 million.
- Total investment return, before fees, was 16.6% in fiscal year 2007, compared to 10.9% in fiscal year 2006 and 9.7% in fiscal year 2005.



\* Net returns are net of outside investment manager fees. The ratio of total fiscal year 2007 EFIB expenses to year-end net assets (excluding the Capitol Permanent fund) was 0.37%

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

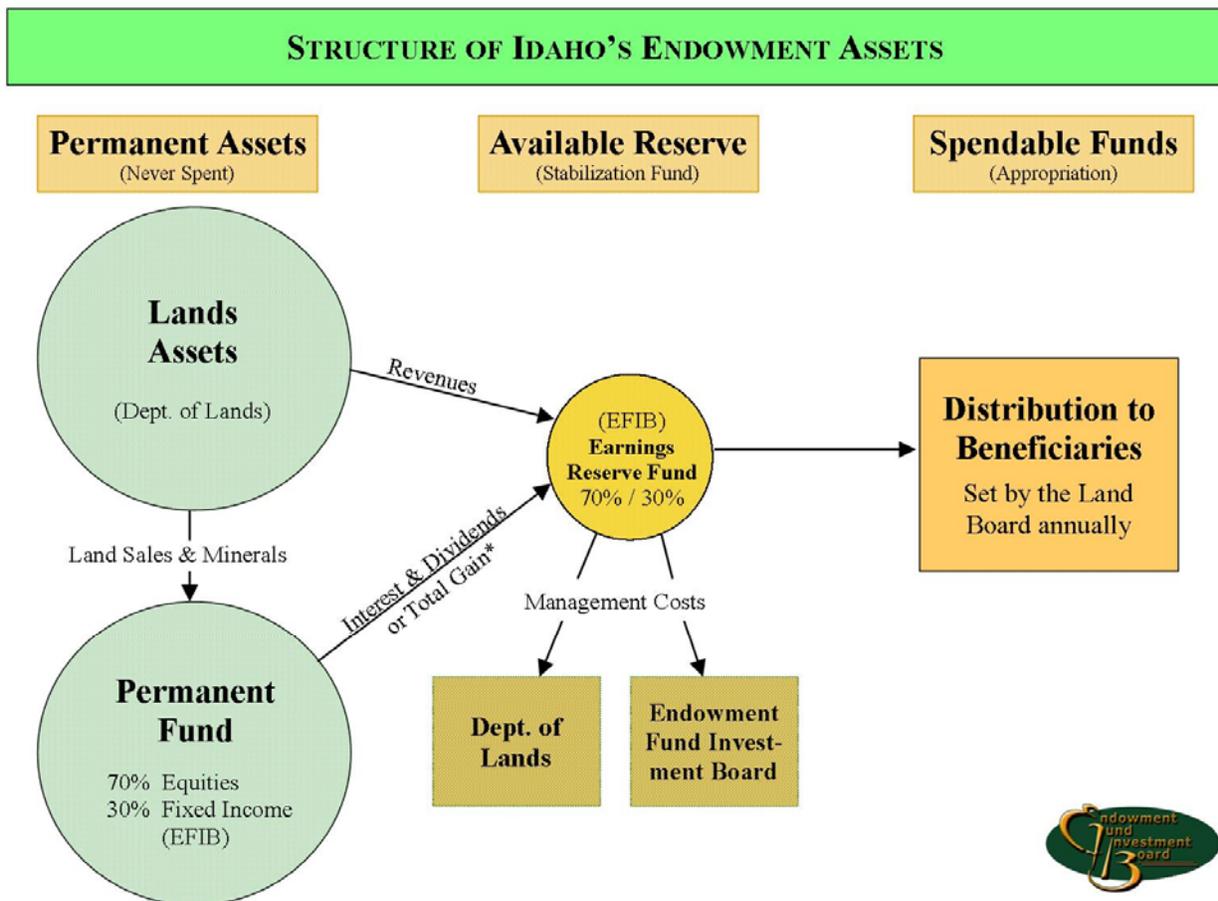
**STATE OF IDAHO ENDOWMENT FUNDS  
 ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 JUNE 30, 2007**

**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/or sale of endowment land assets of the State.

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

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



*\* 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**  
**ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2007**

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**ROLE OF THE ENDOWMENT FUND INVESTMENT BOARD**

The Endowment Fund Investment Board was created by the 1969 Idaho Legislature and charged with management responsibility of the permanent, land grant endowment funds of the state. In addition to managing the State of Idaho Endowment Funds, the EFIB also plays an investment management role for the investments of the State Insurance Fund and the Judges' Retirement Fund.

**USING THIS ANNUAL REPORT**

The annual report consists of the independent auditors' report, the financial statements, and the notes to the financial statements, supplemental schedules, and examination of management assertions. These statements are organized to give the reader a complete understanding of the total Endowment Funds, as a whole, along with the specifics of the various beneficiaries.

**FINANCIAL STATEMENTS**

The financial statements and notes to the financial statements are prepared by the Endowment Funds' management. They consist of a statement of net assets and a statement of activities with combined totals. The notes to the financial statements are an integral part of the financial statements and provide additional information on the Fund and its operations.

The financial statements and accompanying footnotes reflect all of the assets and liabilities of the Endowment Funds using accrual basis accounting. Under accrual accounting, all the current year's revenues and expenses are taken into account regardless of when received or paid. The financial statements report the Endowment Funds' net assets, the changes in investments, and the changes in cash balances. Supplemental schedules are provided of detailed expenditures, gains and (losses) on fair market value of investments, and weighted return analysis of the money managers.

*Total of the Endowment Funds*

The total of the Endowment Funds combines the assets of nine different endowments. For all endowments, except Capitol Permanent, distributions are pre-determined based on the spending policy of the State Board of Land Commissioners. The Idaho Legislature passed House Bill 797 to appropriate the fiscal year 2007 distributions to the beneficiary institutions. For the Capitol Permanent Fund, the EFIB approved a distribution of \$413,132 in fiscal year 2007.

During fiscal year 2007, the EFIB became aware of a federal law, the Morrill Act, adopted in 1862, that places restrictions on Idaho's Agricultural College endowment. As a result, in June 2007, investments of the Agricultural College Endowment Fund were removed from the pooled account and placed in a separate account with a different asset mix. Subsequent to fiscal year end, federal legislation was enacted that removed the Morrill Act's investment restrictions, so the Agricultural College funds were moved back to the general investment pool.

**STATE OF IDAHO ENDOWMENT FUNDS**  
**ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2007**

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

**Total Fund Distributions**

	2007	2006
Agricultural College	\$ 661,200	\$ -
Charitable Institutions	2,361,300	-
Normal School	2,115,700	3,205,600
Penitentiary	809,300	2,444,800
School of Science	2,375,800	2,848,500
State Hospital South	1,051,500	5,291,400
University of Idaho	1,822,600	3,465,500
Public School	24,648,200	23,087,100
Subtotal	<u>35,845,600</u>	<u>40,342,900</u>
Capitol Permanent Fund	413,132	-
Less: Contributions from General Fund *	-	(4,600,000)
Total Net Distributions	<u>\$ 36,258,732</u>	<u>\$ 35,742,900</u>

\* Effective July 1, 2005, contributions of \$2,130,000 to the Agricultural College Earnings Reserve Fund and \$2,470,000 to the Charitable Institutions Earnings Reserve Fund were made from the State of Idaho General Fund. The purpose of the contributions was to reallocate Endowment and General Fund support to hold all beneficiaries harmless.

**Statements of Net Assets**

	2007	2006
Current Assets, excluding securities lending	\$ 1,145,044,120	\$ 957,985,320
Securities Lending Collateral	159,382,138	120,314,396
Total Current Assets	<u>1,304,426,258</u>	<u>1,078,299,716</u>
Liabilities, excluding securities lending	7,041,077	8,151,032
Securities Lending Collateral	159,382,138	120,314,397
Total Current Liabilities	<u>166,423,215</u>	<u>128,465,429</u>
Net Assets-Permanent Funds	978,213,668	858,411,662
Net Assets-Earnings Reserve	159,789,375	91,422,627
Total Net Assets	<u>\$ 1,138,003,043</u>	<u>\$ 949,834,289</u>

**STATE OF IDAHO ENDOWMENT FUNDS**  
**ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2007**

**Statements of Activities**

	2007	2006
Program Revenues		
Land Department Receipts	\$ 76,820,425	\$ 68,812,351
Income from Investments	28,815,640	22,858,727
Increase in Value of Investments	132,692,126	70,113,629
Total Program Revenues	<u>238,328,191</u>	161,784,707
Program Expenses		
Distribution to Beneficiaries	36,258,732	40,342,900
Distribution for Expenses-Lands	17,128,001	15,172,581
Distribution for Expenses-EFIB	4,181,977	3,832,942
Total Program Expenses	<u>57,568,710</u>	59,348,423
Increase in Net Assets before Contributions and Transfers	180,759,481	102,436,284
Transfers of Dedicated Funds	7,409,273	
Contributions from State General Fund	-	4,600,000
Net Program Revenue/Change in Net Assets	<u>\$ 188,168,754</u>	\$ 107,036,284

Revenues reflect all receipts from endowment lands and total income from investments. During fiscal year 2007, land revenues, increased by 11.6%. During the same period, income from investments increased 26.1% due primarily to a higher average invested balance in 2007 compared to 2006. Capital gains totaled \$132.7 million due to a 20% total return in the equity market.

Total expenses reflect distributions to beneficiaries as well as expenses paid. The fiscal year 2007 distribution to beneficiaries, including the Capitol Commission, of \$36.2 million represented a 1.4% increase from the fiscal year 2006 distribution, net of a one-time \$4.6 million General Fund contribution. The distributions for expenses reflects the expenses paid by the EFIB to the Department of Lands for its expenses associated with the management of the lands and, the EFIB, for the management of the investments of the Fund. The distribution for Lands' expenses increased by \$2.0 million, partly because of additional expenses for road maintenance, timber scaling, and removal of harvesting debris (hazard management). Prior to 2007, these fees were paid from dedicated funds maintained by Lands, but the \$7.4 million balance in these funds was transferred to the Earnings Reserve funds in 2007 and all related expenses began to be paid from the Earnings Reserves starting in 2007.

**STATE OF IDAHO ENDOWMENT FUNDS  
ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

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**FACTORS THAT MAY AFFECT FINANCIAL POSITION**

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

Under legislation passed by the 1998 Idaho Legislature for each endowment, an Earnings Reserve Fund was established to pay all expenses of the EFIB and the Department of Lands and distributions to beneficiaries. Lands’ receipts are additions to the Earnings Reserve Fund while Lands and EFIB expenses as well as distributions to beneficiaries are depletions. Each June 30, the proportionate change in market value is allocated to the Permanent Fund and the Earnings Reserve Fund as instructed in *Idaho Code 57-720*.

On July 1, 2004, the Capitol Permanent Fund was pooled with the other endowment funds for investment purposes. Unlike the other beneficiary accounts, it does not have an Earnings Reserve Fund. Additions to that fund include revenue from its lands as well as investment income. The EFIB authorizes distributions from the fund to the Capitol Commission, effective July 1 of each fiscal year. A distribution of \$413,132 was authorized by the EFIB for FY 2007 and a distribution of \$467,109 was authorized for FY 2008.

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 2008. The FY 2009 approved distributions have not yet been appropriated and will be considered by the legislature in its 2008 session.

House Bill 258 details the FY 2008 distributions to the beneficiaries:

	2008
Public Schools	\$ 26,995,000
Agricultural College	725,000
Charitable Institutions	2,582,000
Normal School	2,310,000
Penitentiary	728,000
School of Science	2,138,000
State Hospital South	1,149,000
University of Idaho	1,990,000
Total	\$ 38,617,000

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

*FINANCIAL STATEMENTS*

**STATE OF IDAHO ENDOWMENT FUNDS**  
**ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2007**

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Current Assets:	
Cash with Treasurer	\$ 241,413
Investments, at Fair Value	1,132,942,613
Receivable for Unsettled Trades	4,376,200
Receivable From Idaho Department of Lands	5,172,070
Accrued Interest and Dividends Receivable	2,311,824
Securities Lending Collateral	159,382,138
Total Assets	<u>1,304,426,258</u>
Current Liabilities:	
Securities Lending Collateral	159,382,138
Payable for Unsettled Trades	6,085,285
Investment Manager Expenses Payable	955,792
Total Liabilities	<u>166,423,215</u>
Restricted Net Assets:	
Nonexpendable Restricted Net Assets - Permanent Funds	
Agricultural College	17,740,425
Charitable Institutions	62,769,934
Normal School	56,370,079
Penitentiary	21,500,739
School of Science	63,229,900
State Hospital South	27,966,828
University of Idaho	48,433,254
Public School	662,500,453
Capitol Permanent Fund	17,702,056
Total Permanent Net Assets	<u>978,213,668</u>
Expendable Net Assets - Earnings Reserve	
Agricultural College	3,262,575
Charitable Institutions	8,503,804
Normal School	9,259,661
Penitentiary	4,260,712
School of Science	10,058,890
State Hospital South	14,807,349
University of Idaho	11,924,257
Public School	97,712,127
Total Earnings Reserve Net Assets	<u>159,789,375</u>
Total Net Assets	<u>\$ 1,138,003,043</u>

**STATE OF IDAHO ENDOWMENT FUNDS**  
**ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2007**

	Public School	Agricultural College	Charitable Institutions	Normal School
<b><u>PERMANENT NET ASSETS</u></b>				
Permanent Net Assets, beginning of year	\$ 581,893,579	\$ 15,524,870	\$ 55,458,050	\$ 49,679,177
Program Revenues:				
Receipts from Dept. of Lands	3,358,272	15,809	15,775	138,685
Net Increase in Fair Value of Investments	77,248,602	2,199,746	7,296,109	6,552,217
Capitol Permanent Fund Income	-	-	-	-
Capitol Permanent Distributions	-	-	-	-
Increase in Net Assets	80,606,874	2,215,555	7,311,884	6,690,902
Permanent Net Assets, end of year	662,500,453	17,740,425	62,769,934	56,370,079
<b><u>EARNINGS RESERVE ASSETS</u></b>				
Earnings Reserve Net Assets, beginning of year	59,050,229	2,322,348	5,643,691	5,106,702
Program Revenues:				
Receipts from Dept. of Lands	42,422,906	794,020	3,085,707	4,599,493
Net Increase in Fair Value of Investments	11,393,389	411,586	997,334	1,078,624
Income from Investments	19,365,020	573,608	1,824,599	1,660,139
Total Program Revenues	73,181,315	1,779,214	5,907,640	7,338,256
Program Expenses:				
Distribution for Expenses-Lands	12,440,067	208,962	858,113	1,132,161
Distribution for Expenses-EFIB	2,860,098	73,360	269,562	244,971
Distributions to Beneficiaries	24,648,200	661,200	2,361,300	2,115,700
Total Program Expenses	39,948,365	943,522	3,488,975	3,492,832
Transfer of Hazard, Scaling, Roads	5,428,948	104,535	441,448	307,535
Increase in Net Assets	38,661,898	940,227	2,860,113	4,152,959
Earnings Reserve Net Assets, end of year	97,712,127	3,262,575	8,503,804	9,259,661
<b>TOTAL NET ASSETS</b>	<b>\$ 760,212,580</b>	<b>\$ 21,003,000</b>	<b>\$ 71,273,738</b>	<b>\$ 65,629,740</b>

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

See Notes to Financial Statements

Penitentiary	School of Science	State Hospital South	University of Idaho	*Capitol Permanent Fund	Total
\$ 19,001,035	\$ 55,774,865	\$ 24,691,932	\$ 42,802,083	\$ 13,586,071	\$ 858,411,662
550	105,462	24,151	1,497	2,079,360	5,739,561
2,499,154	7,349,573	3,250,745	5,629,674	2,034,698	114,060,518
-	-	-	-	415,059	415,059
-	-	-	-	(413,132)	(413,132)
2,499,704	7,455,035	3,274,896	5,631,171	4,115,985	119,802,006
21,500,739	63,229,900	27,966,828	48,433,254	17,702,056	978,213,668
1,070,481	3,359,463	9,031,226	5,838,487		91,422,627
3,123,456	6,810,842	4,710,181	5,534,259		71,080,864
502,426	1,162,644	1,678,207	1,407,398		18,631,608
625,471	1,809,705	1,030,341	1,511,698		28,400,581
4,251,353	9,783,191	7,418,729	8,453,355		118,113,053
347,698	880,380	630,310	630,310		17,128,001
92,114	266,449	151,967	223,456		4,181,977
809,300	2,375,800	1,051,500	1,822,600		35,845,600
1,249,112	3,522,629	1,833,777	2,676,366		57,155,578
187,990	438,865	191,171	308,781		7,409,273
3,190,231	6,699,427	5,776,123	6,085,770		68,366,748
4,260,712	10,058,890	14,807,349	11,924,257		159,789,375
\$ 25,761,451	\$ 73,288,790	\$ 42,774,177	\$ 60,357,511	\$ 17,702,056	\$ 1,138,003,043

**STATE OF IDAHO ENDOWMENT FUNDS**  
**ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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

*Accounts Under Jurisdiction of the Endowment Fund Investment Board*

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

The State of Idaho Endowment Funds (the Endowment Funds) are considered part of the State of Idaho financial reporting entity and are included in the State of Idaho Comprehensive Annual Financial Report (CAFR). The Endowment Funds are invested according to an investment policy established by the EFIB. Effective June 1, 2007, the Agricultural College funds were removed from the general investment pool and placed in a separate account with their own investment policy. Subsequent to fiscal year end, federal legislation was enacted that removed the Morrill Act's investment restrictions, so the funds were moved back to the general investment pool.

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

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

*Endowment Funds Investment Reform Legislation*

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

The legislation provides that:

- (1) The EFIB, as trustees, will control, manage and invest Permanent Endowment Funds according to policies established by the State Board of Land Commissioners.
- (2) The application of the Uniform Prudent Investor Act replaces the previous, more restrictive, investment criteria.
- (3) An Earnings Reserve Fund is established to create a buffer to preserve the Permanent Endowment balances.
- (4) Administrative costs are to be paid from earnings of the Endowment Funds instead of from annual General Fund appropriations.
- (5) Distributions to beneficiaries are to be paid from the Earnings Reserve Funds, which include investment earnings, net capital gains and receipts from the Lands.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

#### *Financial Reporting Entity*

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

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

#### *Basis of Presentation*

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

#### *Estimates*

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

#### *Investments*

According to policies established by the Board of Land commissioners, the EFIB is authorized to invest the Endowment Funds in certain fixed income and equity investments as defined by the policy of the EFIB and consistent with Section 57-723 of the Idaho Code. This section states in part, "The EFIB and its investment manager(s) or custodian(s) shall be governed by the Idaho Uniform Prudent Investor act (Chapter 5, Title 68, Idaho Code), and shall invest and manage the assets of the respective trusts in accordance with that act and the Idaho constitution." In accordance with this code section and the EFIB's investment policy, the Endowment Funds may be invested in equities (60% to 80% of the investment portfolio with a current target of 70%) and fixed income (25% to 35% of the investment portfolio, with a current target of 30%). At fiscal year end, the Agricultural College Endowment Fund was the exception to this general policy, due to a federal law which required it to invest its funds in certain bonds. Subsequent to year end, this restriction was removed.

## NOTES TO FINANCIAL STATEMENTS

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

- (1) Domestic equities and high yield bonds
- (2) International equities
- (3) Fixed income securities including U.S. Government agency securities, domestic corporate bonds, notes, debentures, or convertible debt securities with a minimum “BBB” rating by Standard & Poor’s or a “Baa” rating by Moody’s (or equivalent ratings by other national rating services). Yankee bonds with a minimum “A” rating, commercial paper, equity-linked debt with a minimum rating of “A”, pass-through mortgage-backed securities with a minimum “AAA” rating or equivalent, and collateralized mortgage obligations.

At fiscal year end, the Agricultural College Endowment Fund had a stricter policy, only allowing for investment in government guaranteed bonds. Subsequent to year end, the fund was invested according to the general investment policy.

Investment securities, at June 30, 2007, are registered in the EFIB’s name and are in compliance with EFIB policy, Idaho Code, and federal statutes applicable to the Agricultural College Endowment Fund.

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.

The EFIB may allow the Endowment Funds to write derivative instruments, specifically covered call options. Premiums received from the sale of these options are recorded as a realized gain and increase the principal balance of the investments. If the options are exercised, the gain or loss is recorded as if the security had been sold in a normal transaction. No options were outstanding as of June 30, 2007.

The Endowment Funds periodically invest in forward and futures contracts representing agreements to buy or sell a specified amount of an underlying security at a given delivery or maturity date for an agreed-upon price. The Endowment Funds’ use of these securities is limited to small positions in the Endowment Funds’ international and domestic equity portfolios established primarily for hedging or passive rebalancing. The portfolio at June 30, 2007 held 149 ten-year treasury contracts with fair value of \$15.7 million. The mark-to-market receivable as of that date was \$46,784, which was received on July 1, 2007.

The Local Government Investment Pool was established as a cooperative endeavor to enable public entities of the State of Idaho to aggregate funds for investment. This pooling is intended to improve administrative efficiency and provide a safe liquid investment vehicle with increased investment yield. The Local Government Investment Pool is managed by the State of Idaho Treasurer’s office. The funds of the pool are invested pursuant to Idaho Code 67-1210 and 67-1210A and are currently invested in U.S. government securities, agencies of the U.S. Government, repurchase agreements and investment grade corporate securities. All investments are held in trust by a safekeeping bank. On May 23, 2007 the Local Government Investment Pool was assigned an AA+ fund credit quality rating and an S1+ volatility rating by Standard & Poor’s Ratings Services. An annual audit of the Local Government Investment Pool is conducted by the State Legislative Auditors Office. The Legislative Auditor of the State of Idaho has full access to the records of the Pool.

## NOTES TO FINANCIAL STATEMENTS

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### *Income from Investments*

Investment income is recognized when earned. Income from investments is allocated and distributed to each fund participating in the investment pool in the same ratio that each fund's average daily balance bears to the total daily balance of all participants' funds. Income from investments is recorded on an accrual basis.

### *Gains and Losses on Sale of Investments*

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

Unrealized gains and losses to the Permanent Endowment Funds are determined by comparing the current market value of the Permanent Endowment Funds as of the end of the fiscal year, excluding funds transferred to the Permanent Endowment Funds from the Earnings Reserve Fund or funds deposited as a result of land sales or mineral royalties, to the market value of the Permanent Endowment Fund at the end of the prior fiscal year.

Realized gains or losses on sale or maturity of investments are computed using the difference between actual proceeds received and the costs of investments.

### *Losses in Principal of the Permanent Endowment Funds*

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

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

- (1) The State Board of Land Commissioners may transfer any funds in the Public School Earnings Reserve Fund that they determine will not be needed for administrative costs or scheduled distributions to the public schools in the following fiscal year to the Public School Permanent Endowment Fund, to make up for any prior losses in value.
- (2) If funds transferred from the Earnings Reserve Fund are insufficient to make up any losses in value to the Public School Permanent Endowment Fund, the remaining loss shall be made up, within ten years, by legislative transfer or appropriation. If subsequent gains, as determined pursuant to the statute, or transfers from the Earnings Reserve Fund, make up for any remaining loss before this ten year period expires, then no legislative transfer or appropriation shall be necessary.

At June 30, 2007, Public School Endowment Fund was \$93.7 million above the loss benchmark as defined by statute.

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

## NOTES TO FINANCIAL STATEMENTS

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In fiscal year 2007, the EFIB discovered that a federal law, the Morrill Act, requires that losses in principal or interest for the Agricultural College Endowment Fund must be made up by the state. See Note 12 – Subsequent Events for further information.

### *Distributions to Beneficiaries*

With the exception of the Capitol Permanent Fund, distributions to the public school and pooled beneficiaries are authorized by the State Board of Land Commissioners and are made in equal installments each month on the 10th (or first business day thereafter). Distributions to the Capitol Commission from the Capitol Permanent Fund are authorized by the EFIB and made on July 1 of each fiscal year (or the first business day thereafter).

### *Expendable and Nonexpendable Net Assets*

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

### *Other*

Investments have risks that the other parties to securities transactions do not fulfill their contractual obligations. The EFIB attempts to minimize such risks by diversifying the portfolio investments, monitoring investment grade and quality, and, in fixed income portfolios, purchasing only high-grade or government-backed securities as prescribed by the Idaho Code.

The EFIB does not intend to use market timing as an investment policy. However, the investment policy provides the flexibility for tactical asset allocation using capitalizations, investment styles, sectors, and other factors.

In accordance with section 57-722 of the Idaho Code, the EFIB allows the Endowment Funds to engage in securities lending activities, whereby securities are loaned to specific entities. The securities borrower will pay a stated premium to the Endowment Funds that is remitted monthly. At the time the securities are loaned, cash or other collateral is received by the Endowment Funds. Securities lending collateral is comprised of cash and approved securities, and is received valued at a required margin of 102% of the domestic securities loaned and 105% of international securities. The securities lending agreement requires daily monitoring of the market value of the securities loaned and collateral received with additional collateral obtained as necessary to meet margin requirements.

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

## NOTE 3 - INVESTMENTS

**CUSTODIAL CREDIT RISK** - The EFIB minimizes exposure to custodial credit risk by requiring that investments, to the extent possible, be clearly marked as to EFIB ownership and further to the extent possible, be held in the EFIB's name. At June 30, 2007, 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.

## NOTES TO FINANCIAL STATEMENTS

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.

During fiscal 2007, the EFIB became aware of a discrepancy between state and federal law related to the management of the investments of the Agricultural College endowment. See Note 11 – Agricultural College and Note 12 – Subsequent Events.

Investments at June 30, 2007:

<b>Fund Investments (excluding Agricultural College)</b>	<b>COST</b>	<b>FAIR VALUE</b>
Marketable Securities:		
Northern Money Market Funds	\$ 9,892,412	\$ 9,892,412
Northern Fixed Income Index Funds		
Lehman Aggregate Bond	282,372,316	269,304,201
U.S. TIPS	27,499,909	28,644,217
Northern Equity Index Funds		
Russell 1000 Growth	8,800,655	12,307,021
Russell 1000 Value	6,099,565	8,209,579
S&P 400	66,533,918	66,046,429
S&P 500	101,623,394	132,506,137
Other Equity Funds		
Barrow, Hanley, Mewhinney & Strauss	26,886,258	35,645,948
Clearwater	1,133,758	1,133,758
INTECH	54,562,005	58,443,774
LSV Asset Management	58,345,123	74,742,752
Marvin & Palmer	74,530,927	93,861,935
Mastrapasqua	189	189
Metropolitan West	48,440,440	71,263,069
Nicholas Applegate	29,575,331	36,287,111
Sands Capital	45,073,267	55,398,109
Systematic Financial Management	62,342,137	69,345,191
Tradewinds Global - NWQ	73,799,091	88,965,583
Subtotal Fund Investments	\$ 977,510,695	\$ 1,111,997,415
<b>Fund Investments - Agricultural College</b>		
Marketable Securities:		
U.S. Government Obligations & Money Market Funds	\$ 20,946,140	\$ 20,945,198
Total Fund Investments	\$ 988,456,835	\$ 1,132,942,613

(continued on next page)

## NOTES TO FINANCIAL STATEMENTS

**CONCENTRATION OF CREDIT RISK** – The EFIB minimizes exposure to concentration of credit risk by requiring investment managers to provide the Endowment Funds with expected concentration of credit risk exposures in their portfolio guidelines. As of June 30, 2007, the Endowment Funds did not hold any credit positions exceeding 5% of the total portfolio.

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

Cash Equivalents: Treasury bills, money market funds, short-term investment funds, commercial paper, banker’s acceptances, repurchase agreements, certificates of deposit.

Fixed Income: U.S. government and agency securities, corporate notes and bonds, mortgage backed bonds, preferred stocks, fixed income securities of foreign governments and corporations, planned amortization class collateralized mortgage obligations, or other “early tranche” CMO’s asset backed securities.

Restricted investments include interest-only (IO), principal-only (PO), residual tranche CMOs, and purchase of securities on margin and short-sale transactions.

The EFIB Investment Policy Statement further provides the following guidelines for fixed income and cash equivalent investments:

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

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

	Fair Value	Modified Duration	Average Rating
<b>FUND INVESTMENTS</b>			
Northern Money Market Fund	\$ 9,892,412	Not Applicable	A+/A1
Lehman Aggregate Bond	269,304,201	4.7	AA-/Aa2
U.S. TIPS	28,644,217	6.4	AAA/Aaa
Total	<u>\$ 307,840,830</u>		

## NOTES TO FINANCIAL STATEMENTS

FOREIGN CURRENCY RISKS – The EFIB’s Investment Policy Statement permits investing up to 20% of total investments in international equities. No foreign fixed income securities are permitted except currency. The Endowment Funds’ exposure to foreign currency risk is as follows:

Investment	Currency	Fair Value
Common Stock		
Australia	AUD	\$ 11,296,025
Canada	CAD	1,063,648
Denmark	DKK	5,693,786
Europe	EUR	47,275,851
Great Britain	GBP	18,308,322
Hong Kong	HKD	5,681,407
Japan	JPY	31,642,152
Norway	NOK	4,526,315
Singapore	SGD	4,075,374
South Africa	ZAR	3,021,712
South Korea	KRW	2,462,074
Sweden	SEK	2,936,767
Switzerland	CHF	6,670,080
Total Fund Investments		<u>\$ 144,653,513</u>

One of the Endowment Funds’ International Equity managers has authority to enter into foreign currency transactions to hedge a portion of their portfolio, but did not have any hedges in place as of June 30, 2007. However, at fiscal year-end, there were pending foreign exchange transactions, all of which were used to support trading activity. Outstanding contracts are as follows:

Currency	Fair Value Bought *	Book Value Bought	Fair Value Sold *	Book Value Sold	Unrealized Gain/Loss
Euro	\$ 961,859	\$ 959,687			\$ 2,172
Euro			\$ 560,882	\$ 559,615	(1,267)
British pound Sterling			291,142	290,337	(805)
Hong Kong dollar			1,566	1,565	(1)
Total	<u>\$ 961,859</u>	<u>\$ 959,687</u>	<u>\$ 853,590</u>	<u>\$ 851,517</u>	<u>\$ 99</u>

\* The fair value of pending foreign exchange transactions bought and sold are determined by the Endowment Funds’ custodian.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 4 – SECURITIES LENDING

EFIB policies permit lending Endowment Fund securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Northern Trust Company, the Endowment Funds' custodian, lends securities of the type on loan at year-end for collateral in the form of cash, irrevocable letters of credit or other securities worth at least 102% of the lent securities' fair value, (105% for international securities).

At year-end, the Endowment Funds had no credit risk exposure to borrowers because the amount the Endowment Funds owe to the borrowers exceeds the amounts the borrowers owe to the Endowment Funds. The contract with the Endowment Funds' custodian requires it to indemnify the Endowment Funds if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Endowment Funds for income distributions by the securities issuers while the securities are out on loan. All securities loans can be terminated on demand by either the EFIB or the borrower, although the average term of the loans is one week. Cash collateral is invested in the lending agent's short-term investment pool, which at year-end, has a weighted average maturity of 74 days.

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

	Outstanding Loans as of June 30, 2007
Fair Value of Securities Loaned for Cash Collateral	\$ 150,927,891
Fair Value of Securities Loaned for Non-Cash Collateral	3,572,257
Total Fair Value of Securities Loaned	<u>\$ 154,500,148</u>
Fair Value of Cash Collateral from Borrowers	\$ 155,714,811
Fair Value of Non-Cash Collateral from Borrowers	3,667,327
Total Fair Value of Collateral from Borrowers	<u>\$ 159,382,138</u>

### NOTE 5 – INVESTMENT INCOME

Investment income is recognized when earned. All income from investments is distributed to the Earnings Reserve Funds in accordance with Sections 57-723A and 57-724A of the Idaho Code. The definition of "income" to be allocated and distributed from the Permanent Fund depends on whether or not the Permanent Fund portion of an endowment fund has exceeded its "gain benchmark" as defined in statute (June 30, 2000 level, adjusted for inflation and deposits). All endowments remained below their statutory gain benchmark at June 30, 2007. Therefore, through fiscal year 2007, income includes dividends and interest from the Permanent funds. Once a Permanent fund for an endowment exceeds the statutory gain benchmark at the end of a fiscal year, then,

## NOTES TO FINANCIAL STATEMENTS

beginning two fiscal years later, income distributed to the endowment's Earnings Reserve would include the total gain (interest, dividends and capital gains/losses) above inflation from its Permanent Fund.

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

Income From Investments	
Short-term Investments, Fixed Income, Securities Lending	\$ 16,967,217
Equity Funds	11,848,423
Total	<u>\$ 28,815,640</u>

### NOTE 6 – EXPENSES

Expenses of the EFIB are paid from the Earnings Reserve Funds and by the State Insurance Fund. The State Insurance Fund portion is paid under an investment management contract. The portion paid by the State Insurance Fund is not considered an expenditure of the Endowment Funds and is therefore not included as expenditures or as reimbursements in these financial statements. Total expenses for fiscal year 2007 were \$175,393 for the State Insurance Fund.

### NOTE 7 – DISTRIBUTIONS

Pursuant to Section 66-1106 of the Idaho Code, Charitable Institutions Endowment Fund income is distributed to five institutions according to the factors shown below. Distributions to these sharing institutions at June 30, 2007:

#### Charitable Institutions Distributions

	Factor	Beneficiaries	For Expenses - Lands	For Expenses - EFIB
Idaho State University Fund	4/15	\$ 629,680	\$ 228,830	\$ 71,883
State Juvenile Corrections Institutions Fund	4/15	629,680	228,830	71,883
School for the Deaf and Blind Fund	1/30	78,710	28,604	8,985
Veterans Home Fund	5/30	393,550	143,019	44,928
State Hospital North Fund	4/15	629,680	228,830	71,883
Total		<u>\$ 2,361,300</u>	<u>\$ 858,113</u>	<u>\$ 269,562</u>

## NOTES TO FINANCIAL STATEMENTS

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Pursuant to Section 33-3301 of the Idaho Code, Normal School Endowment Fund Income is distributed to two institutions shown below. Distributions to these sharing institutions at June 30, 2007 were as follows:

### Normal School Distributions

	%	Beneficiaries	For Expenses - Lands	For Expenses - EFIB
Idaho State University, Pocatello	50%	\$ 1,057,850	\$ 566,080	\$ 122,485
Lewis-Clark State College, Lewiston	50%	1,057,850	566,081	122,485
Total		<u>\$ 2,115,700</u>	<u>\$ 1,132,161</u>	<u>\$ 244,970</u>

### NOTE 8 – CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICT BONDS

On July 1, 2002, the credit enhancement program for school district bonds became effective. This program, in accordance with Section 57-782 of the Idaho Code and in conjunction with Chapter 53, Title 33 of the Idaho Code, requires the Public School Endowment Fund to purchase up to \$200 million in notes of the State of Idaho that are issued to avoid a default in a voter approved bond issued by a school district. This program results in a higher credit rating for the qualifying school districts and, through lower interest costs, will save the school districts in the program thousands of dollars throughout the life of the bond issue. As of June 30, 2007, the EFIB had not been required to purchase any notes and was not aware of any purchase commitments.

### NOTE 9 – BUDGETARY COMPARISON

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

### NOTE 10 – TRANSFER OF DEDICATED FUNDS

For Fiscal year 2007, the Idaho State Legislature eliminated the Scaling Forest Products and Timber Road Maintenance dedicated accounts, which had been accounted for by Lands. All fund balances and spending authority associated with those accounts, as well as the balance in the Hazardous Materials dedicated fund associated with endowment lands, were transferred to the Endowment Funds' Earnings Reserves. The amount transferred during fiscal year 2007 was \$7,458,299, including \$49,026 for the Capitol Permanent Fund, which is reported in Receipts from Dept. of Lands for that endowment.

### NOTE 11 – AGRICULTURAL COLLEGE

During fiscal year 2007, the EFIB became aware of a federal law, the Morrill Act (Title 7, Chapter 13 of United States Code), adopted in 1862, that places restrictions on Idaho's Agricultural College endowment. This act, adopted in 1862, places restrictions on these endowments which are not included in State statutes. Among other things, the act forbids the payment of management expenses from endowment assets, requires that any related

## NOTES TO FINANCIAL STATEMENTS

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endowment funds should only be invested in “bonds of the United States or of the States or some other safe bonds”, and requires the State to make up any loss of principal on any portion of the endowment fund.

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

After reviewing the discrepancy between state and federal law, the EFIB decided to invest the Agricultural College Endowment Fund only in bonds allowed under the Morrill Act, pursue federal legislation to align federal law with state law and seek a funding source for the management fees. On June 1, 2007, \$20,749,878, the estimated value of the Agricultural College Endowment Fund as of May 31, 2007, was transferred to a separately managed account invested only in bonds permitted under the Morrill Act. After final accounting entries were made by the custodian and reconciled with the EFIB’s records, it was determined that the actual Agricultural College Endowment Fund balance as of May 31, 2007 was \$20,799,994, so an additional \$50,116 was transferred to the segregated account on June 25, 2007.

Subsequent to fiscal year end, federal legislation was enacted that removed the Morrill Act’s investment restrictions and authorized the payment of management expenses from the Agricultural College Endowment Fund. This law was retroactive to October 1998. See Note 12 – Subsequent Events for further information.

### NOTE 12 – SUBSEQUENT EVENTS

#### Endowment Distributions

On July 1, 2007, the EFIB transferred \$467,109 from the Capitol Permanent Fund to the Capitol Commission. On August 9, 2007, the EFIB approved a distribution from the Capitol Permanent Fund for FY 2009 of \$572,203.

For endowments other than the Capitol Permanent Fund, on August 9, 2007, the Board of Land Commissioners approved the following distributions to beneficiaries for FY 2009. The FY 2009 approved distributions have not yet been appropriated by the legislature and will be considered by the legislature in its 2008 session.

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

## NOTES TO FINANCIAL STATEMENTS

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### Certain Unclaimed Property

On July 2, 2007, \$351,500 was transferred from the State of Idaho General Fund to the Public School Permanent Fund to repay monies deposited in the General Fund between July 1, 1996 and June 30, 2007 from unclaimed estates that escheated or reverted to the state. Section 4, article IX, of the Constitution of the State of Idaho requires that unclaimed estates, along with unclaimed dividends and stock certificates from Idaho corporations, be deposited into the Public School Permanent Fund. However, changes to state statutes in 1996 inadvertently deposited these funds into the General Fund. Senate Bill 1098 was enacted in the last legislative session to require that future unclaimed estates, stocks and dividends be deposited in the Public School Permanent Fund effective July 1, 2007.

### Agricultural College Endowment

Federal legislation was enacted on August 13, 2007 (Public Law 110-77) that, retroactive to October 1998, permits the Idaho Agricultural College Endowment Fund to invest in assets other than bonds that are in accordance with Idaho law and removes the prohibition on paying expenses from the endowment. See Note 11 – Agricultural College.

In August 2007, the EFIB liquidated the bond investments and moved all Agricultural College funds back to the general endowment pool.

The new federal legislation does not change the Morrill Acts' requirement that a loss of principal of the Agricultural College Endowment Fund must be made up by the state. However, the EFIB believes that, under the new legislation, the determination of whether a loss of principal has occurred is now prescribed by state law. At June 30, 2007, the Agricultural College Endowment Fund was \$3.0 million above the level of principal or corpus as defined by statute.

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

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



**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, 2007, and have issued our report thereon dated August 27, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

*Internal Control Over Financial Reporting*

In planning and performing our audit, we considered the EFIB's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the EFIB's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the EFIB's internal control over financial reporting.

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

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

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

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*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the EFIB's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

Boise, Idaho  
August 27, 2007

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

*SUPPLEMENTAL SCHEDULES*

**STATE OF IDAHO ENDOWMENT FUNDS**  
**ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**  
**SCHEDULE OF EXPENDITURES**  
**YEAR ENDED JUNE 30, 2007**

Cash Basis Expenditures from the State Of Idaho Reporting System	Expenditures
<b>PERSONNEL</b>	
Regular Employees	\$ 276,559
Board/Commission Members	1,700
Total Benefits	80,365
Subtotal Personnel Expenditures	<u>358,624</u>
<b>OPERATING</b>	
Telephone and Data Line Charges	13,866
Equipment Rental	16,490
Publications & Subscriptions	5,553
Employee Training	5,598
Audit	46,350
Travel and Board Meeting Expenses	17,113
Office and Other Materials and Supplies	8,021
Office Space	38,170
Computer Programming and Software	458
Governmental Overhead - State	46,678
Other Expenses	2,431
Subtotal Operating Expenditures	<u>200,728</u>
<b>CAPITAL OUTLAY</b>	
Furniture	4,215
Other Office Equipment	5,968
Computer Equipment	4,174
Subtotal Capital Expenditures	<u>14,357</u>
<b>TOTAL APPROPRIATED EXPENSES</b>	573,709
Less Payments made by the State Insurance Fund	(175,393)
Subtotal	<u>398,316</u>
<b>CONTINUOUS APPROPRIATION</b>	
Consultant, Custodial and Manager Billings	
RBC Dain Rauscher	198,138
Barrow, Hanley, Mewhinney & Strauss	245,908
Clearwater Investments	48,298
Enhanced Investments (INTECH)	271,466
LSV Asset Management	337,682
Marvin & Palmer Associates	470,550
Mastrapasqua Asset Management	335,026
McMillan & Company	500
Metropolitan West Capitol Management	275,538
Nicholas Applegate	188,783
Northern Trust	333,004
Tradewinds NWQ	461,991
Oppenheimer Capital	137,363
Sands Capital Management	368,860
Systematic Financial Management	188,438
Total Consultant, Custodial, and Manager Fees	<u>3,861,545</u>
Total Endowment Expenses	4,259,861
Less Reimbursement of Capitol Permanent Fund Expenses	(60,782)
Change in Manager Fee Accrual	(17,102)
Total Accrual Basis Expenditures - EFIB	<u>\$ 4,181,977</u>

**STATE OF IDAHO ENDOWMENT FUNDS**  
**ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**  
**SCHEDULE OF PUBLIC SCHOOL AND OTHER ENDOWMENT FUND NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	Public School	Other	Total Endowment Funds
<b>Current Assets</b>			
Cash with Treasurer	\$ 227,037	\$ 14,376	\$ 241,413
Investments, at Fair Value	760,212,580	372,730,033	1,132,942,613
Receivable for Unsettled Trades	769,606	3,606,594	4,376,200
Receivable From Idaho Department of Lands	2,881,837	2,290,233	5,172,070
Accrued Interest and Dividends Receivable	846,582	1,465,242	2,311,824
Securities Lending Collateral	106,624,738	52,757,400	159,382,138
<b>Total Assets</b>	<b>871,562,380</b>	<b>432,863,878</b>	<b>1,304,426,258</b>
<b>Current Liabilities</b>			
Securities Lending Collateral	106,624,738	52,757,400	159,382,138
Payable for Unsettled Trades	4,070,983	2,014,302	6,085,285
Investment Manager Expense Payable	654,079	301,713	955,792
<b>Total Liabilities</b>	<b>111,349,800</b>	<b>55,073,415</b>	<b>166,423,215</b>
<b>Total Net Assets</b>	<b>760,212,580</b>	<b>377,790,463</b>	<b>1,138,003,043</b>
<b>Restricted Net Assets</b>			
<b>Nonexpendable Net Assets - Permanent Funds</b>			
Agricultural College	-	17,740,425	17,740,425
Charitable Institutions	-	62,769,934	62,769,934
Normal School	-	56,370,079	56,370,079
Penitentiary	-	21,500,739	21,500,739
School of Science	-	63,229,900	63,229,900
State Hospital South	-	27,966,828	27,966,828
University of Idaho	-	48,433,254	48,433,254
Public School	662,500,453	-	662,500,453
Capitol Permanent Fund	-	17,702,056	17,702,056
<b>Total Permanent Net Assets</b>	<b>662,500,453</b>	<b>315,713,215</b>	<b>978,213,668</b>
<b>Expendable Net Assets - Earnings Reserve</b>			
Agricultural College	-	3,262,575	3,262,575
Charitable Institutions	-	8,503,804	8,503,804
Normal School	-	9,259,661	9,259,661
Penitentiary	-	4,260,712	4,260,712
School of Science	-	10,058,890	10,058,890
State Hospital South	-	14,807,349	14,807,349
University of Idaho	-	11,924,257	11,924,257
Public School	97,712,127	-	97,712,127
<b>Total Earnings Reserve Net Assets</b>	<b>97,712,127</b>	<b>62,077,248</b>	<b>159,789,375</b>
<b>Total Net Assets</b>	<b>\$ 760,212,580</b>	<b>\$ 377,790,463</b>	<b>\$ 1,138,003,043</b>

**STATE OF IDAHO ENDOWMENT FUNDS**  
**ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**  
**SCHEDULE OF GAINS AND (LOSSES) ON FAIR VALUE OF PERMANENT FUNDS' INVESTMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

Summary Schedule of Gains and (Losses) on Fair Value of Investments					
Public School Endowment Fund					
FY	Beginning Corpus	Additions to Corpus	Adjusted Beginning Corpus	Ending Corpus	Net Gain (Loss)
2000	-	-	-	\$ 555,954,750	-
2001	\$ 555,954,750	\$ 1,742,339	\$ 557,697,089	511,726,709	\$ (45,970,380)
2002	511,726,709	1,369,675	513,096,384	441,549,031	(71,547,353)
2003	441,549,031	2,190,628	443,739,659	436,160,539	(7,579,120)
2004	436,160,539	840,648	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
<b>TOTAL</b>					<b>\$ 93,733,847</b>

Summary Schedule of Gains and (Losses) on Fair Value of Investments					
Other Endowment Funds					
FY	Beginning Corpus	Additions to Corpus	Adjusted Beginning Corpus	Ending Corpus	Net Gain (Loss)
2000	-	-	-	\$ 255,539,380	-
2001	\$ 255,539,380	\$ 210,500	\$ 255,749,880	234,780,589	(\$20,969,291)
2002	234,780,589	110,000	234,890,589	201,489,044	(33,401,545)
2003	201,489,044	239,871	201,728,915	199,384,520	(2,344,395)
2004	199,384,520	28,964	199,413,484	227,619,428	28,205,944
2005	227,619,428	62,757	227,682,185	243,453,250	15,771,065
2006	243,453,250	69,989	243,523,239	262,932,012	19,408,773
2007	262,932,012	301,929	263,233,941	298,011,159	34,777,218
<b>TOTAL</b>					<b>\$ 41,447,769</b>

**STATE OF IDAHO ENDOWMENT FUNDS**  
**ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**  
**SCHEDULE OF WEIGHTED INVESTMENT RETURNS BY ASSET MANAGER**  
**PERIODS ENDING JUNE 30, 2007**

<b>Gross of Fees</b>	<b>FY 2007</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>16.6</b>	<b>13.9</b>	<b>12.5</b>	<b>13.6</b>	<b>11.1</b>
<i>Benchmark</i>	16.7	12.6	11.3	12.1	10.4
Total fund benchmark consists 56% Russell 3000, 14% MSCI EAFE, & 30% Lehman Aggregate.					
<b>Total Fixed Income</b>	<b>6.0</b>	<b>2.5</b>	<b>4.0</b>	<b>3.0</b>	<b>4.4</b>
NTGI Aggregate Bond	6.2	2.7	4.0	3.0	-
<i>LB U.S. Aggregate Index</i>	6.1	2.6	4.0	3.0	4.5
NTGI TIPS	4.0	1.2	3.8	-	-
<i>LB US TIPS Index</i>	4.0	1.1	3.8	3.8	6.0
<b>Total Equity</b>	<b>20.8</b>	<b>19.1</b>	<b>16.1</b>	<b>18.3</b>	<b>13.8</b>
<i>Russell 3000 Index</i>	20.1	14.7	12.4	14.4	11.5
<b>Large Cap Core</b>					
NTGI S&P 500	20.7	14.5	11.8	13.5	10.7
<i>S&amp;P 500 Index</i>	20.6	14.5	11.7	13.5	10.7
<b>Large Growth</b>					
INTECH	12.7	10.0	-	-	-
NTGI Russell 1000 Growth	19.1	12.5	8.8	10.9	-
Sands Capital	11.4	7.4	-	-	-
<i>Russell 1000 Growth Index</i>	19.1	12.4	8.7	10.9	9.3
<b>Large Cap Value</b>					
LSV Asset Management	23.9	19.2	18.8	-	-
Metropolitan West	19.9	21.6	19.8	24.0	18.6
NTGI Russell 1000 Value	21.9	16.9	15.9	17.2	-
<i>Russell 1000 Value Index</i>	21.9	16.9	15.9	17.2	13.3
<b>Mid Cap</b>					
Systematic Financial	26.3	22.9	22.4	22.5	-
<i>Russell Mid Cap Index</i>	20.8	17.2	17.2	20.1	16.4
<b>Small Cap</b>					
Nicholas Applegate	19.9	24.3	18.9	21.8	15.5
Barrow, Hanley M & S	19.8	21.7	18.6	-	-
<i>Russell 2000 Index</i>	16.4	15.5	13.5	18.1	13.9
<b>International Equity</b>	<b>26.4</b>	<b>26.6</b>	<b>22.9</b>	<b>23.2</b>	<b>-</b>
Marvin & Palmer	29.9	28.3	21.5	-	-
Tradewinds	22.8	24.8	24.1	-	-
<i>MSCI EAFE Index</i>	27.5	27.3	22.8	25.2	18.2

**Manager changes in FY 2007:**

**Managers Hired:** Northern Trust Global Investors – S&P 400 Index – June 2007

**Managers Discharged:** Mastrapasqua Asset Management – Mid Cap Growth – May 2007

Oppenheimer Capital Management – Mid Cap Value – November 2006

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

Results are gross of management fees and expenses.

FY 2007 results include investment in NTGI S&P 400 Index beginning in June 2007

**STATE OF IDAHO ENDOWMENT FUNDS**  
**ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**  
**SCHEDULE OF WEIGHTED INVESTMENT RETURNS BY ASSET MANAGER**  
**PERIODS ENDING JUNE 30, 2007**

<b>Net of Fees</b>	<b>FY 2007</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>16.2</b>	<b>13.5</b>	<b>12.2</b>	<b>13.3</b>	<b>10.8</b>
<i>Benchmark</i>	<i>16.7</i>	<i>12.6</i>	<i>11.3</i>	<i>12.1</i>	<i>10.4</i>
Total fund benchmark consists 56% Russell 3000, 14% MSCI EAFE, & 30% Lehman Aggregate.					
<b>Total Fixed Income</b>	<b>5.9</b>	<b>2.5</b>	<b>3.9</b>	<b>3.0</b>	<b>4.4</b>
NTGI Aggregate Bond	6.2	2.6	4.0	3.0	-
<i>LB U.S. Aggregate Index</i>	<i>6.1</i>	<i>2.6</i>	<i>4.0</i>	<i>3.0</i>	<i>4.5</i>
NTGI TIPS	3.9	1.2	3.8	-	-
<i>LB US TIPS Index</i>	<i>4.0</i>	<i>1.1</i>	<i>3.8</i>	<i>3.8</i>	<i>6.0</i>
<b>Total Equity</b>	<b>20.5</b>	<b>18.8</b>	<b>15.8</b>	<b>17.8</b>	<b>13.1</b>
<i>Russell 3000 Index</i>	<i>20.1</i>	<i>14.7</i>	<i>12.4</i>	<i>14.4</i>	<i>11.5</i>
<b>Large Cap Core</b>					
NTGI S&P 500	20.7	14.5	11.7	13.5	10.7
<i>S&amp;P 500 Index</i>	<i>20.6</i>	<i>14.5</i>	<i>11.7</i>	<i>13.5</i>	<i>10.7</i>
<b>Large Cap Growth</b>					
INTECH	12.2	9.5	-	-	-
NTGI Russell 1000 Growth	19.1	12.4	8.7	10.9	-
Sands Capital	10.6	6.6	-	-	-
<i>Russell 1000 Growth Index</i>	<i>19.1</i>	<i>12.4</i>	<i>8.7</i>	<i>10.9</i>	<i>9.3</i>
<b>Large Cap Value</b>					
LSV Asset Management	23.4	18.7	18.2	-	-
Metropolitan West	19.5	21.1	19.4	23.6	18.2
NTGI Russell 1000 Value	21.9	16.9	15.9	17.2	-
<i>Russell 1000 Value Index</i>	<i>21.9</i>	<i>16.9</i>	<i>15.9</i>	<i>17.2</i>	<i>13.3</i>
<b>Mid Cap</b>					
Systematic Financial	25.8	22.4	21.9	22.0	-
<i>Russell Mid Cap Index</i>	<i>20.8</i>	<i>17.2</i>	<i>17.2</i>	<i>20.1</i>	<i>16.4</i>
<b>Small Cap</b>					
Nicholas Applegate	19.2	23.6	18.3	21.2	14.9
Barrow, Hanley M & S	19.1	21.0	17.9	-	-
<i>Russell 2000 Index</i>	<i>16.4</i>	<i>15.5</i>	<i>13.5</i>	<i>18.8</i>	<i>13.9</i>
<b>International Equity</b>	<b>26.2</b>	<b>26.5</b>	<b>22.8</b>	<b>22.6</b>	<b>-</b>
Marvin & Palmer	29.3	27.7	20.9	20.8	-
Tradewinds	22.2	24.2	23.5	-	-
<i>MSCI EAFE Index</i>	<i>27.5</i>	<i>27.3</i>	<i>22.8</i>	<i>25.2</i>	<i>18.2</i>

**Manager changes in FY 2007:**

**Managers Hired:** Northern Trust Global Investors – S&P 400 Index – June 2007

**Managers Discharged:** Mastrapasqua Asset Management – Mid Cap Growth – May 2007

Oppenheimer Capital Management – Mid Cap Value – November 2006

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

Results are net of investment manager fees, but gross of other agency administrative expenses.

FY 2007 results include investment in NTGI S&P 400 Index beginning in June 2007

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

*EXAMINATION OF MANAGEMENT'S ASSERTIONS*



## **INDEPENDENT AUDITORS' REPORT ON EXAMINATION OF MANAGEMENT'S ASSERTIONS**

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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 Fund) compliance with certain requirements of the Idaho Code, Chapter 7, Investment of Permanent Endowment Funds, and of the State of Idaho Endowment Fund Variable Spending Policy, during the year ended June 30, 2007, included in the accompanying Statement of Management's Assertions. Management is responsible for the Endowment Fund's compliance with these requirements. Our responsibility is to express an opinion on management's assertions about the Endowment Fund's compliance based on our examination.

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

In our opinion, management's assertions that the Endowment Fund complied with the aforementioned requirements for the year ended June 30, 2007, are fairly stated, in all material respects.

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

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

Boise, Idaho  
August 27, 2007

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**STATE OF IDAHO ENDOWMENT FUNDS**  
**ADMINISTERED BY THE ENDOWMENT FUND INVESTMENT BOARD**  
**STATEMENT OF MANAGEMENT'S ASSERTIONS**  
**YEAR ENDED JUNE 30, 2007**

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Investment securities held at June 30, 2007, were in compliance with Chapter 7, Title 57, of the Idaho Code (the Code), and with the State of Idaho Endowment Fund Investment Board Investment Policy Statements and the following control procedure was in place for the year ended June 30, 2007 to help ensure compliance with the Code and Policy:

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

The distribution of income from investments and the determination of net capital gains and losses were performed in accordance with Chapter 7, Title 57-724, of the Code.

The Investment Board presented a summary report to the Land Board as required by Chapter 7, Title 57-725, of the Code.

The Investment Board has employed Eide Bailly, LLP an independent certified public accounting firm, to audit the books and records of the Endowment Fund for the year ended June 30, 2007, required by Chapter 7, Title 57-720, of the Code.