



Financial Statements
June 30, 2016

Idaho State Treasurer's Office – Assets Under Management

Idaho State Treasurer's Office – Assets Under Management

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Independent Auditor's Report

To the Treasurer
State of Idaho

Report on the Financial Statements

We have audited the accompanying financial statements of the fiduciary funds of the State of Idaho Idle Pool (IDLE), the Local Government Investment Pool (LGIP) and the Diversified Bond Fund (DBF) of the State of Idaho (together the Funds) as of and for the year ended June 30, 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the fiduciary funds of the IDLE pool, LGIP, and DBF of the State of Idaho as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the financial statements of the IDLE pool, LGIP, and DBF of the State of Idaho, are intended to present the financial position and changes in financial position of only that portion of the State of Idaho that is attributable to the IDLE pool, LGIP, and DBF. They do not purport to, and do not present fairly the financial position of the State Treasurer's Office of the State of Idaho or the State of Idaho as of June 30, 2016, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Funds' financial statements. The combining statements for the IDLE pool, LGIP, and DBF, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining statements for the IDLE pool, LGIP, and DBF are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements for the IDLE pool, LGIP, and DBF are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2016 on our consideration of the Funds' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Funds' internal control over financial reporting and compliance.

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

Boise, Idaho
October 17, 2016

In an effort to provide the citizens of Idaho with additional financial information about the investment pools managed within the State Treasurer's Office, management is providing this discussion and analysis of the Idaho State Treasurer's Office (STO) – Investment Pools. This analysis provides a summary of the financial position and results of operations for the year ended June 30, 2016. The reader should review the actual financial statements, including the notes and supplemental schedules, for a more complete picture of the investments managed by the STO.

Financial Statements

The STO's financial statements are presented in accordance with applicable provisions of the Governmental Accounting Standards Board Statements.

The financial statements report short and long-term financial information about the STO. The Statement of Fiduciary Net Position provides information about the nature and amounts of investments in resources (assets) and obligations (liabilities) at the close of fiscal year 2016. The Statement of Revenues, Expenses and Changes in Fiduciary Net Position report the Investment Pools' operations for fiscal year 2016 and the resulting increases and decreases in net positions.

The notes to the financial statements contain, among other information, descriptions of the Investment Pools' significant accounting policies and are an integral part of the financial statements.

Financial Highlights

The Local Government Investment Pool (LGIP) continued to see assets in the pool grow during FY16 with an increase of 8.38%. During FY16 the weighted average maturity (WAM) of the LGIP decreased from 118 days to 86 days. We maintained a WAM around 90 days as we believed the Federal Open Market Committee (FOMC) would raise rates again during 2016. The average distribution yield was 0.35%, with the highest and lowest distribution yields being 0.53% and 0.19%, respectively, during FY16.

The Diversified Bond Fund (DBF) average distribution yield was 1.92% during FY16, with the highest and lowest monthly distribution yields being 2.51% and 1.60%, respectively. The effective duration of the portfolio was 2.89 at the end of FY16.

The IDLE pool saw assets in the pool decrease 1.19% during FY16. The IDLE pool has remained stable the last several fiscal years after reaching a bottom during FY11. This allowed the STO to ladder securities out further for anticipated Department of Education School Distributions, thereby increasing the IDLE pool's WAM. The WAM on the IDLE pool for the end of FY16 was 347 days.

It is the STO's goal to earn participants the highest returns possible without compromising safety and liquidity. Historically there has been a lag in the pool's distribution yields in a rising interest rate environment.

Idaho State Treasurer's Office – Assets Under Management
Management's Discussion and Analysis
June 30, 2016

The following tables show the value of Fund's assets, liabilities and net position summarized as of June 30, 2016, compared to June, 30 2015, for the Local Government Investment Pool (LGIP), the Diversified Bond Fund (DBF) and the State IDLE Pool (IDLE).

Local Government Investment Pool	<u>2016</u>	<u>2015</u>
Total Assets	\$ 1,882,299,239	\$ 1,732,263,537
Total Liabilities	<u>798,070</u>	<u>287,759</u>
Net Position	<u>\$ 1,881,501,169</u>	<u>\$ 1,731,975,778</u>
Diversified Bond Fund	<u>2016</u>	<u>2015</u>
Total Assets	\$ 754,691,374	\$ 572,031,805
Total Liabilities	<u>1,004,692</u>	<u>788,376</u>
Net Position	<u>\$ 753,686,682</u>	<u>\$ 571,243,429</u>
State IDLE Pool	<u>2016</u>	<u>2015</u>
Total Assets	\$ 2,346,894,894	\$ 2,375,190,687
Total Liabilities	<u>454,208,957</u>	<u>565,275,157</u>
Net Position	<u>\$ 1,892,685,937</u>	<u>\$ 1,809,915,530</u>

The purpose of the following tables is to present the net investment income earned by the Funds as well as the distributions of participant's income, share transactions (net participant deposits and withdrawals) and the change in net position for fiscal year ending June 30, 2016, compared to fiscal year ending June 30, 2015.

Local Government Investment Pool	<u>2016</u>	<u>2015</u>
Investment Income	\$ 6,984,978	\$ 3,098,830
Investment Expenses	<u>(514,920)</u>	<u>(512,500)</u>
Net Investment Income	6,470,058	2,586,330
Distributions to Participants	(6,094,772)	(2,325,167)
Share Transactions	<u>149,150,105</u>	<u>270,942,403</u>
Total Change in Position	149,525,391	271,203,566
Net Position, Beginning of Year	<u>1,731,975,778</u>	<u>1,460,772,212</u>
Net Position, End of Year	<u>\$ 1,881,501,169</u>	<u>\$ 1,731,975,778</u>

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Management's Discussion and Analysis
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Diversified Bond Fund	<u>2016</u>	<u>2015</u>
Investment Income	\$ 22,236,329	\$ 11,693,128
Investment Expenses	<u>(350,986)</u>	<u>(99,396)</u>
Net Investment Income	21,885,343	11,593,732
Distributions to Participants	(11,842,787)	(11,273,531)
Share Transactions	<u>172,400,697</u>	<u>(22,582,875)</u>
Total Change in Position	182,443,253	(22,262,674)
Net Position, Beginning of Year	<u>571,243,429</u>	<u>593,506,103</u>
Net Position, End of Year	<u><u>\$ 753,686,682</u></u>	<u><u>\$ 571,243,429</u></u>
State IDLE Pool	<u>2016</u>	<u>2015</u>
Investment Income	\$ 14,282,711	\$ 11,089,615
Investment Expenses	<u>(1,073,381)</u>	<u>(1,678,107)</u>
Net Investment Income	13,209,330	9,411,508
Distributions to Participants	(8,197,188)	3,602,504
Share Transactions	<u>77,758,265</u>	<u>254,965,349</u>
Total Change in Position	82,770,407	267,979,361
Net Position, Beginning of Year	<u>1,809,915,530</u>	<u>1,541,936,169</u>
Net Position, End of Year	<u><u>\$ 1,892,685,937</u></u>	<u><u>\$ 1,809,915,530</u></u>

Securities Lending Sale

The two impaired assets that were deemed to be held in an other-than-temporary loss position in FY14, inside of securities lending, and were sold in FY15, were settled in FY16. The IDLE pool removed securities lending from its portfolio after the settlement of the sales during FY16. The IDLE pool no longer participates in securities lending.

Contact Information

This financial report is designed to provide our participants with a general overview of the STO Investment pools and to demonstrate the STO's accountability of the assets within the pools. If you have any questions about this report or need additional information, contact the Idaho State Treasurer's Office at (208) 334-3200.

Idaho State Treasurer's Office – Assets Under Management
Statement of Fiduciary Net Position – Investment Trust Funds
June 30, 2016

	<u>LGIP</u>	<u>DBF</u>	<u>IDLE</u>
Assets			
Cash and cash equivalents	\$ 5,004,527	\$ -	\$ 52,349,352
Investments, at Fair Value	1,875,752,085	750,967,882	2,290,672,523
Interest Receivable to the Pool	1,542,627	3,723,492	3,873,019
	<u>1,882,299,239</u>	<u>754,691,374</u>	<u>2,346,894,894</u>
Liabilities			
Unsettled Trades Payable	-	-	453,251,974
Distributions Payable	755,170	975,022	880,691
Administrative Fees Payable	42,900	29,670	76,292
	<u>798,070</u>	<u>1,004,692</u>	<u>454,208,957</u>
Net Position Held in Trust for Pool Participants	<u>1,881,501,169</u>	<u>753,686,682</u>	<u>1,892,685,937</u>
Net Position Consists of			
Net Position Held in Trust for External Participants (\$ par)	1,805,643,051	169,421,622	-
Net Position Held in Trust for Internal Participants (\$ par)	<u>75,858,118</u>	<u>584,265,060</u>	<u>1,892,685,937</u>
Net Position Held in Trust for Pool Participants	<u>\$ 1,881,501,169</u>	<u>\$ 753,686,682</u>	<u>\$ 1,892,685,937</u>
Total Participant Units Outstanding (\$ par)	1,872,484,109	705,481,658	1,879,218,504
Participant Net Position Value, Offering Price and Redemption			
Price Per Share (net position divided by units)	\$ 1.00	\$ 1.07	\$ 1.01

Idaho State Treasurer's Office – Assets Under Management
Statement of Revenues, Expenses and Changes in Fiduciary Net Position – Investment Trust Funds
Year Ended June 30, 2016

	<u>LGIP</u>	<u>DBF</u>	<u>IDLE</u>
Investment Income			
Interest Income	\$ 5,766,360	\$ 19,254,356	\$ 13,556,318
Securities Lending Income	-	-	301,578
Change in Fair Value of Investments	1,218,618	2,981,973	424,815
Total investment income	<u>6,984,978</u>	<u>22,236,329</u>	<u>14,282,711</u>
Investment Expense			
Administrative Fees	(514,920)	(350,986)	(826,119)
Securities Lending Agent Fees	-	-	(11,501)
Securities Lending Borrower Rebates	-	-	(235,761)
Total investment expense	<u>(514,920)</u>	<u>(350,986)</u>	<u>(1,073,381)</u>
Net Investment Income	<u>6,470,058</u>	<u>21,885,343</u>	<u>13,209,330</u>
Distributions to Participants			
Distributions Paid and Payable	<u>(6,094,772)</u>	<u>(11,842,787)</u>	<u>(8,197,188)</u>
Share Transactions at Net Position Value of \$1.00 per Share for LGIP and IDLE			
Share Transactions at Net Asset Value for DBF			
Pooled Participant Deposits	4,280,059,588	195,207,384	20,348,829,562
Pooled Participant Withdrawals	<u>(4,130,909,483)</u>	<u>(22,806,687)</u>	<u>(20,271,071,297)</u>
Change in Net Position and Shares Resulting from Share Transactions	<u>149,150,105</u>	<u>172,400,697</u>	<u>77,758,265</u>
Total Change in Net Position	149,525,391	182,443,253	82,770,407
Net Position Held in Trust for Pool Participants			
Beginning of Year	<u>1,731,975,778</u>	<u>571,243,429</u>	<u>1,809,915,530</u>
End of Year	<u>\$ 1,881,501,169</u>	<u>\$ 753,686,682</u>	<u>\$ 1,892,685,937</u>

Note 1 - Organization and Background

The Idaho State Treasurer (Treasurer) operates as the chief financial officer and banker of monies collected by the State of Idaho. The Treasurer is ultimately responsible for receiving all state monies, redeeming warrants, accounting for the receipt and disbursement of public funds, investing idle state monies, issuing state tax anticipation notes and investing the Local Government Investment Pool and Diversified Bond Fund. The Idaho State Treasury is dedicated to looking after the hard-earned dollars of the citizens of Idaho through prudent administrative and investment policies.

The following is a brief description of the purpose and sources of three funds managed under the State Treasurer's Office (STO).

Local Government Investment Pool (LGIP)

LGIP is an investment pool with the primary purpose of providing a safe, liquid vehicle for investing idle funds and to obtain the best interest rate available at the time of investment. All funds are combined for greater purchasing power. The LGIP also serves as a source of information for local government agencies on investment types, market conditions, and risk evaluation. An investment in the LGIP is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency.

The LGIP is a voluntary investment vehicle for public agencies referred to as "Participants." A Participant can request to join the pool by submitting a completed application. Participation in the LGIP is open to all political subdivisions, including (but not limited to): Cities, Towns, Counties, Public Retirement Systems, Local Public Agencies, Regional School Districts, Public Health Districts, Irrigation & Soil Conservation Districts and Water & Sewer Districts.

The State of Idaho Idle Pool (IDLE)

IDLE is an involuntary internal pool for state agencies. IDLE consists of funds belonging to state agency (internal) participants and is classified as Pooled Cash and Investments in the State's Comprehensive Annual Financial Report. IDLE is responsible for balancing daily cash flows (monies flowing in and out). Excess monies after cash flow transactions have been balanced for the day are invested in either short-term or long-term investments taking into consideration the amount of risk and yield at the time of purchase. IDLE is managed to ensure that there will be adequate money for all of the state's appropriations.

Diversified Bond Fund (DBF)

DBF was created by the STO as an alternative investment to the short-term investment funds such as the LGIP and IDLE, for those state agencies and public agencies who are able to assume less liquidity and more price volatility for the potential of greater returns over a longer time horizon.

The investment objective for the DBF is to provide a reasonable level of current income which, when combined with potential capital appreciation as measured on a long-term basis, will accommodate growth satisfying all potential distributions. Since the DBF is invested with a relatively longer weighted average maturity and since proportionate ownership in the fund is based on market value, participants can expect the value of their investment in the fund to fluctuate over time. Participating agencies should therefore only invest monies that they consider longer-term in nature (3.5 years or longer).

In general, the investment guidelines require that funds be invested in high quality securities in a manner that provides higher total return than the shorter pools given a reasonable level of risk measured over a long period. Securities in the DBF are shared positions valued at current market values.

The DBF is a voluntary investment vehicle for municipalities and state agencies who are referred to as “Participants”. A Participant can request to join the DBF by submitting a completed application. Participation in the DBF is open to all political subdivisions, including (but not limited to): Cities, Towns, Counties, Public Retirement Systems, Local Public Agencies, Regional School Districts, Public Health Districts, Irrigation & Soil Conservation Districts, Water & Sewer Districts and State Agencies.

IDLE, LGIP and DBF are collectively referred to hereinafter as the “Funds” or the “Pools”.

Note 2 - Summary of Significant Accounting Policies

The accounting policies of the STO conform to accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB).

Reporting Entity

The Investment Trust Funds account for the assets held by the STO as custodian for the various fund types of the State of Idaho as well as political subdivisions and public entities investing in the LGIP and DBF.

The STO makes investments in accordance with Idaho Code Sections 67-1210 and 67-1210A. The Pools are not registered with the Securities and Exchange Commission or any other regulatory body. The STO does not provide any legally binding guarantees to support the value of shares to the participants. Each month the STO transfers funds to cover administrative costs associated with the specific pool to the STO.

IDLE consists of funds belonging to state agency (internal) participants and is classified as Pooled Cash and Investments in the State’s Comprehensive Annual Financial Report. LGIP and DBF (external) participants are reported as investment trust funds in the State’s Comprehensive Annual Financial Report.

IDLE, LGIP, and DBF are part of the State of Idaho reporting entity based on the GASB criteria. Only the funds of IDLE, LGIP, and DBF are presented with no intention to present the financial position of the STO or the State of Idaho. Although reported as Investment Trust Funds by the STO, these funds become a part of the State of Idaho’s governmental, proprietary, and fiduciary fund categories at the combined statewide level.

Fund Accounting

The STO’s accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the STO’s available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds in accordance with the activities or objectives specified for those resources. Accordingly, the above-described financial transactions have been recorded and reported in the Investment Trust Funds. The Investment Trust Funds account for pooled and non-pooled assets held and invested by the STO on behalf of state agencies and other governmental entities using the economic resources measurement focus.

Basis of Accounting

These statements of the Investment Trust Funds are prepared using the economic resources measurement focus and the accrual basis of accounting. Trade date accounting is observed, which means that purchases and sales of securities are recorded on the day the trade takes place with a corresponding payable to or receivable from the broker.

Cash and Cash Equivalents

Investments with same day liquidity are considered cash equivalents, which approximates fair value. Cash and cash equivalents also include cash in banks.

Investments

STO categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The STO reports investments at fair value and changes in the fair value of investments are recognized at the end of each year for financial reporting purposes. The fair value of investments is determined monthly.

Participants' Equity; Distributions of Net Income

Participants' account balances in the Funds are determined by the net amount of participants' deposits, withdrawals and distributed interest. The Pools have not provided or received any legally binding guarantees with regard to balances in the Pools. Monthly distributions are calculated using amortized cost, based on each participant's average daily account balance and the net income earned within the Pools each month. Net income earned each month is calculated by netting beginning and ending accrued income, realized gains and losses, interest, purchased and sold accrued interest, amortization and management fees. When a participant's account is overdrawn, negative interest accrues daily at the determined rate plus a premium.

STO accumulates an amount to offset losses on specific investments determined to be an other-than-temporary unrealized loss position by STO as part of Total Net Position. This amount is reviewed on a regular basis, and is considered in setting the amount paid to participants, exclusive of unrealized gains and losses resulting from daily market activity. Interest is distributed on a monthly basis.

Administrative Fees

Each fiscal year, the STO's Chief of Staff calculates estimated expenses directly related to administering and managing all the STO assets under management. In accordance with Idaho Code 67-1210 and Idaho Code 67-3524, a proposed STO fee for the IDLE and DBF pools is presented to the State Board of Examiners for approval. During the current fiscal year, the STO was approved to charge an annual investment fee of 0.057% of the average daily balances to both Pools. STO fees charged to IDLE participants totaled \$826,119 for the current fiscal year. STO fees charged to DBF participants totaled \$350,986 for the current fiscal year.

The LGIP fee is a fixed dollar amount for the fiscal year that is divided by twelve, charged to participants on a monthly basis. Participant fee amounts are based on the average daily account balances during each month. STO fees charged to LGIP participants totaled \$514,800 for the current fiscal year. All management fees are charged monthly and used in the calculation to determine participants' distribution.

Disclosed Risks

The Pools disclose certain risks that may be associated with their deposits and investments. Disclosures are made under each individual pool for the following required risk disclosures:

Custodial credit risk is the risk that in the event of a financial institution failure, the deposits may not be returned. The investments in the Pools are not exposed to custodial credit risk as they are held in a segregated trust account in the name of the Fund with the custodian or held by STO. The STO does not have a written policy that addresses custodial credit risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. The STO Investment Policy sets forth various thresholds or parameters relating to interest rate risk in accordance with each investment pool portfolio structure. The policy provides maturity limitations for various investment pools. The policy limits maturity of investments within the LGIP to a maximum of 5 years and within IDLE and DBF to a maximum of 10 years. Interest rate risk in IDLE is further limited by restricting the effective duration to not be less than .5 times and no more than 1.5 times the target effective duration of 2 years at the time of purchase, while also not allowing more than 30 percent of total par value being invested in maturities greater than 1 year at the time of purchase. Interest rate risk in the DBF is further limited by restricting the effective duration to not be less than .5 times and no more than 1.25 times the index effective duration. The STO manages its exposure to interest rate risk by purchasing investments and timing cash flows from maturities to meet projected cash flow and liquidity needs of the participants. The interest rate risk inherent in the portfolio is monitored monthly by measuring the weighted average maturity and duration.

Credit risk associated with investments is the risk that an issuer of debt securities or another counterparty to an investment transaction will not fulfill its obligation. Obligations explicitly guaranteed by the U.S. government are not considered to have credit risk. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's Investors Service, Inc. (Moody's), Standard & Poor's Corporation (S&P) and Fitch Ratings (Fitch). The STO Investment Policy requires minimum credit ratings for all other categories of fixed income obligations.

Concentration of credit risk describes the heightened exposure to loss when a considerable number of investments exist in a single issuer. When 5 percent or more of the Pool's total investments are concentrated in any one issuer, the pools are required to disclose the amount and percentage invested. Investments in obligations explicitly guaranteed by the U.S. government, mutual funds, and other pooled investments are exempt from disclosure. The STO Investment Policy limits the amount that can be invested in any one issuer.

The following list constitutes current legal investments under Section 67-1210, and Section 67-1210A, Idaho Code. Specific limitations on issuers and issuer's outstanding balances are set forth by the STO Investment Policies.

- U.S. government obligations, which pledge the full faith and credit of the U.S. government
- General obligation or revenue bonds of the State or any Idaho county, city, or taxing district
- Obligations issued under the Farm Credit Act of 1971; obligations issued by the Federal National Mortgage Association and the Federal Home Loan Bank; and obligations issued or guaranteed by other agencies or instrumentalities of Idaho or of the United States, including the U.S. Small Business Administration guaranteed portion of any approved loan by an Idaho banking corporation and by the STO
- Obligations issued by public corporations of the State
- Repurchase agreements covered by any legal investment for the State
- Tax and revenue anticipation instruments of the State or Idaho taxing districts
- Time deposit and savings accounts in state depositories, state and federal savings and loan associations, or state and federal credit unions located within the boundaries of Idaho
- Revenue bonds of Idaho higher education institutions
- Money market funds whose portfolios consist of investments specified in this section and are denominated in U.S. dollars
- Prime banker's acceptances and prime commercial paper
- Sale and repurchase of call options on securities owned by the STO or the LGIP
- Bonds, notes, and debentures of any U.S. corporation with at least an A rating, at the time of purchase, by a nationally recognized statistical rating organization such as Standard & Poor's or Moody's

At June 30, 2016, STO investments were in compliance with all current Investment Policies.

Note 3 - External Investment Pools

Overview of the External Investment Pools

The STO manages two external investment pools, the LGIP and the DBF. In order to earn a higher yield, Idaho governmental entities may voluntarily deposit moneys not needed to meet immediate operating obligations in these pools. The STO must operate and invest the funds of both pools for the benefit of the participants.

The LGIP is a short-term investment pool. Participants have overnight availability to their funds, up to \$10 million. Withdrawals of \$10 million or more require three business days' notification. The weighted average maturity of investments in the LGIP at June 30, 2016, was 86 days.

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Notes to Financial Statements
June 30, 2016

The STO created the DBF for those state and public agencies able to exchange current liquidity for potentially greater returns over a longer time horizon (3.5 years or longer). Withdrawals of \$10 million or less generally require five business days' notification prior to the last day of the month. Withdrawals of more than \$10 million require 25 business days' notification prior to the last day of the month. All and contributions to and withdrawals from the DBF occur on the last business day of the month using net asset value determined by the market value of the portfolio. The weighted average maturity of investments in the DBF at June 30, 2016, was 3.89 years.

Investments are reported at fair market value at June 30, 2016. The LGIP provides participants with a net asset valuation factor that enables them to convert their monthly statement balance to fair value. The DBF reports Participants' balances at fair value on their monthly statements. The STO uses the aggregate method to determine the increase or decrease in fair value of each pool.

Level 2 inputs used to price investments are provided by a third party pricing vendor which uses a pricing matrix, Interactive Data Corporation (IDC). If level 2 inputs are not available from IDC, investment market values are determined by pricing from Northern Trust. Northern Trust also uses matrix pricing to determine the market value of securities. Northern Trust serves as custodian for the marketable securities within the Pools.

Local Government Investment Pool

**Local Government Investment Pool
Investments Measured at Fair Value at June 30, 2016**

Investment Type	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable inputs Level 3	Total Fair Value	Valuation Technique
<u>Debt Securities:</u>					
Repurchase Agreements	\$ -	\$ 126,255,391	\$ -	\$ 126,255,391	Cost Approach
Commercial Paper	-	23,953,563	-	23,953,563	Market Approach
U.S. Treasury Obligations	-	535,428,395	-	535,428,395	Market Approach
U.S. Gov't Agency Obligations	-	1,112,918,652	-	1,112,918,652	Market Approach
Corporate Obligations	-	77,196,084	-	77,196,084	Market Approach
Total	\$ -	\$ 1,875,752,085	\$ -	\$ 1,875,752,085	

**Local Government Investment Pool
Summary of Custodial Credit Risk at June 30, 2016**

	Bank Balance	FDIC Insurance	Collateral	Uninsured and Uncollateralized
Custodial Credit Risk of Deposits	\$ 5,004,527	\$ 4,527	\$ 5,000,000	\$ -

Idaho State Treasurer's Office – Assets Under Management
Notes to Financial Statements
June 30, 2016

**Local Government Investment Pool
Summary of Fair Value and Interest Rate Risk at June 30, 2016**

Investment Type	Investment Maturities		Fair Value	Interest Rates
	In Years			
	Less than 1	1-5		
Repurchase Agreements	\$ 126,255,391	\$ -	\$ 126,255,391	0.600%
Commercial Paper	23,953,563	-	23,953,563	0.850%
Corporate Debt Instruments	71,896,937	5,299,147	77,196,084	.740% - 2.630%
U.S. Government Agency Obligations	1,112,918,652	-	1,112,918,652	.470% - 2.000%
US Treasury Obligations	535,428,395	-	535,428,395	.630% - 1.000%
Total Securities	1,870,452,938	5,299,147	1,875,752,085	
Accrued Interest	1,542,627	-	1,542,627	
Total Investments	\$ 1,871,995,565	\$ 5,299,147	\$ 1,877,294,712	

**Local Government Investment Pool
Change in Fair Value**

Fair Value of Investments at June 30, 2016	\$ 1,880,756,611
Add: Proceeds of Investments Sold in FY2016	42,431,872,282
Subtract: Cost of Investments Purchased in FY2016	(42,581,341,852)
Subtract: Fair Value at June 30, 2015	(1,730,068,423)
Change in Fair Value of Investments during FY2016	\$ 1,218,618

**Local Government Investment Pool
Credit Quality Ratings of Debt Securities at June 30, 2016**

Investment Type	Aa	A	Baa
Repurchase Agreements	\$ -	\$ -	\$ -
Commercial Paper	-	-	-
Corporate Debt Instruments	9,232,660	62,966,338	4,997,086
U.S. Government Agency Obligations	161,011,712	-	-
Total	\$ 170,244,372	\$ 62,966,338	\$ 4,997,086

Investment Type	P-1	Unrated	Fair Value
Repurchase Agreements	\$ -	\$ 126,255,391	\$ 126,255,391
Commercial Paper	23,953,563	-	23,953,563
Corporate Debt Instruments	-	-	77,196,084
U.S. Government Agency Obligations	837,037,540	114,869,400	1,112,918,652
Total	\$ 860,991,103	\$ 241,124,791	\$ 1,340,323,690

**Local Government Investment Pool
Concentration of Credit Risk at June 30, 2016**

Issuer	Fair Value	Percent of Total LGIP Investments
Federal Home Loan Bank	\$ 564,428,338	30.09%
Federal National Mortgage Association	204,980,885	10.93%
Federal Agricultural Mortgage Corporation	164,795,500	8.79%
Federal Farm Credit Bank	138,662,969	7.39%
Daiwa Capital Markets	126,255,391	6.73%

Diversified Bond Fund

**Diversified Bond Fund
Investments Measured at Fair Value at June 30, 2016**

<u>Investment Type</u>	<u>Quoted Prices in Active Markets for Identical Assets Level 1</u>	<u>Significant Other Observable Inputs Level 2</u>	<u>Significant Unobservable inputs Level 3</u>	<u>Total Fair Value</u>	<u>Valuation Technique</u>
<u>Debt Securities:</u>					
Repurchase Agreements	\$ -	\$ 44,765,895	\$ -	\$ 44,765,895	Cost Approach
U.S. Treasury Obligations	-	276,541,873	-	276,541,873	Market Approach
U.S. Gov't Agency Obligations	-	50,980,141	-	50,980,141	Market Approach
U.S. Gov't Agency Mortgage-Backed Securities*	-	263,666,100	-	263,666,100	Market Approach
U.S. Gov't Corporation Mortgage-Backed Securities*	-	6,525,686	-	6,525,686	Market Approach
Asset-Backed Securities*	-	13,766,564	-	13,766,564	Market Approach
Corporate Obligations	-	94,721,622	-	94,721,622	Market Approach
Total	\$ -	\$ 750,967,882	\$ -	\$ 750,967,882	

*Mortgage-backed securities are reported using weighted-average life to more accurately reflect the projected term of the security, considering interest rates and repayment factors.

Idaho State Treasurer's Office – Assets Under Management
Notes to Financial Statements
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Diversified Bond Fund
Summary of Fair Value and Interest Rate Risk at June 30, 2016

Investment Type	Investment Maturities			Fair Value	Interest Rates
	Less than 1	In Years 1-5	6-10		
Corporate Debt Instruments	\$ 6,025,176	\$ 85,491,816	\$ 3,204,630	\$ 94,721,622	1.000% - 5.150%
Asset-Backed Securities*	8,732,999	5,033,565	-	13,766,564	0.590% - 1.770%
U.S. Gov't Agency Obligations	6,025,389	38,031,013	6,923,739	50,980,141	0.750% - 5.250%
U.S. Gov't Agency Mortgage- Backed Securities*	365,216	248,468,397	14,832,487	263,666,100	1.233% - 6.000%
U.S. Gov't Corporation Mortgage- Backed Securities*	-	3,665,353	2,860,333	6,525,686	4.750% - 6.500%
Repurchase Agreements	44,765,896	-	-	44,765,896	0.600%
U.S. Treasury Obligations	17,173,640	201,215,109	58,153,124	276,541,873	1.250% - 8.125%
Total Securities	83,088,316	581,905,253	85,974,313	750,967,882	
Accrued Interest	3,723,492	-	-	3,723,492	
Total Investments	\$ 86,811,808	\$ 581,905,253	\$ 85,974,313	\$ 754,691,374	

* These securities are reported using weighted-average maturity to more accurately reflect the projected terms of the securities, considering interest rates and repayment terms.

Diversified Bond Fund
Change in Fair Value

Fair Value of Investments at June 30, 2016	\$ 750,967,882
Add: Proceeds of Investments Sold in FY2016	8,922,910,949
Subtract: Cost of Investments Purchased in FY2016	(9,101,129,615)
Subtract: Fair Value at June 30, 2015	<u>(569,767,243)</u>
 Change in Fair Value of Investments during FY2016	 <u><u>\$ 2,981,973</u></u>

Diversified Bond Fund
Credit Quality Ratings of Debt Securities at June 30, 2016

Investment Type	Aaa	Aa	A	Baa
Corporate Debt Instruments	\$ 4,349,210	\$ 19,383,594	\$ 67,929,385	\$ 3,059,433
Asset-Backed Securities	10,075,891	-	-	-
U.S. Gov't Agency Obligations	-	50,980,141	-	-
U.S. Gov't Agency Mortgage- Backed Securities	6,413,805	-	-	-
Repurchase Agreements	-	-	-	-
Total	\$ 20,838,906	\$ 70,363,735	\$ 67,929,385	\$ 3,059,433

Investment Type	P-1	Unrated	Fair Value
Corporate Debt Instruments	\$ -	\$ -	\$ 94,721,622
Asset-Backed Securities	3,690,673	-	13,766,564
U.S. Gov't Agency Obligations	-	-	50,980,141
U.S. Gov't Agency Mortgage- Backed Securities	-	257,252,295	263,666,100
Repurchase Agreements	-	44,765,896	44,765,896
Total	\$ 3,690,673	\$ 302,018,191	\$ 467,900,323

Moody's or the equivalent credit quality ratings have been used.

Diversified Bond Fund
Concentration of Credit Risk at June 30, 2016

Issuer	Fair Value	Percent of Total DBF Investments
Federal National Mortgage Association	\$ 217,824,969	29.01%
Federal Home Loan Mortgage Corporation	\$ 81,939,969	10.91%
Daiwa Capital Markets	\$ 44,765,895	5.96%

Note 4 - IDLE Investment Pool

Deposits

Cash and cash equivalents are deposited with various financial institutions. Legal provisions regarding deposits are found throughout Idaho Code Title 67. The STO acts as the State’s bank, receiving and disbursing all moneys except for the following: the State Bar, the Potato Commission, the Dairy Products Commission, the Wheat Commission, some of the endowment fund accounts, the Idaho State Building Authority, some of the colleges’ and universities’ accounts, the Idaho Housing and Finance Association, the college and university foundations, the Idaho Individual High Risk Reinsurance Pool, the Idaho Small Employer Health Reinsurance Program, the Idaho Bond Bank Authority, some of the Public Employee Retirement System of Idaho accounts, Your Health Idaho, and the Idaho Public Employees’ Deferred Compensation Plan. In accordance with Idaho Code Sections 67-1210 and 67-1210A the STO invests the pooled cash not needed to meet immediate obligations in various types of investments. The pool balances are available on demand to the participants.

Interest received on the pooled cash and investments is paid into the General Fund, unless Idaho statute requires allocation of interest to specific funds. The weighted average maturity of the pooled cash and investments held by the STO was 347 days.

**IDLE Pool
Summary of Custodial Credit Risk at June 30, 2016**

	Bank Balance	Insurance	Collateral	Uninsured and Uncollateralized
Custodial Credit Risk of Deposits	\$ 78,322,827	\$ 848,955	\$ 100,000,000	\$ 47,679,478

Investments

General Investment Policies

The Idaho Uniform Prudent Investor Act (Idaho Code Sections 68-501 through 68-514) stipulates the standard to be followed by state investment personnel. The primary focus of the Act is preservation of capital and avoidance of speculative transactions through exercise of reasonable care, skill, and caution. The goal is to provide a reasonable return while following specific objectives of various trusts. The Act may be expanded, restricted, eliminated, or altered by provisions of Idaho statute or a trust.

The STO invests idle moneys in accordance with Idaho Code Sections 67-1210, 67-1210A, and 67-2739. The STO Investment Division manages both the short-term and intermediate-term investments. Unsettled trades payable consisting of \$453.3 million in U.S. government, U.S government agency, and U.S. government agency mortgage-backed securities are subject to interest rate risk, credit risk, and concentration of credit risk.

Some investments are made directly by an agency rather than by the STO. Only a few agencies are authorized to make such investments and then only for specific programs.

Idaho State Treasurer's Office – Assets Under Management
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June 30, 2016

Level 2 inputs used to price investments are provided by a third party pricing vendor which uses a pricing matrix, IDC. If level 2 inputs are not available from IDC, investment market values are determined by pricing from Northern Trust. Northern Trust also uses matrix pricing to determine the market value of securities. Northern Trust serves as custodian for the marketable securities within the Pool.

IDLE Pool
Investments Measured at Fair Value at June 30, 2016

Investment Type	Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable inputs Level 3	Total Fair Value	Valuation Technique
<u>Debt Securities:</u>					
Certificates of Deposit	\$ -	2,250,000	\$ -	\$ 2,250,000	Cost Approach
Repurchase Agreements	-	522,000,000	-	522,000,000	Cost Approach
U.S. Gov't Obligations	-	1,207,751,085	-	1,207,751,085	Market Approach
U.S. Gov't Agency Obligations	-	395,416,534	-	395,416,534	Market Approach
U.S. Gov't Agency Mortgage-Backed Securities*	-	99,058,141	-	99,058,141	Market Approach
Asset-Backed Securities*	-	7,476,265	-	7,476,265	Market Approach
Corporate Obligations	-	56,720,497	-	56,720,497	Market Approach
Total Debt Securities	\$ -	\$ 2,290,672,523	\$ -	\$ 2,290,672,523	

*Mortgage-backed securities are reported using weighted-average life to more accurately reflect the projected term of the security, considering interest rates and repayment factors.

Interest Rate Risk of Debt Securities

**IDLE Pool
Summary of Fair Value and Interest Rate Risk at June 30, 2016**

Investment Type	Investment Maturities				Fair Value	Interest Rates
	Less than 1	In Years				
		1-5	6-10	11-15		
Certificates of Deposit	\$ 2,250,000	\$ -	\$ -	\$ -	\$ 2,250,000	0.853%
Repurchase Agreements	522,000,000	-	-	-	522,000,000	0.600%
Asset-Backed Securities *	5,460,930	2,015,335	-	-	7,476,265	.590% - 1.770%
U.S. Government Obligations	1,137,207,155	53,762,139	16,781,792	-	1,207,751,086	.625% - 8.125%
U.S. Gov't Agency Obligations	383,747,276	11,669,258	-	-	395,416,534	.460% - 5.000%
U.S. Gov't Agency Mortgage- Backed Securities*	-	91,144,549	7,913,592	-	99,058,141	.7533% - 6.000%
Corporate Obligations	23,394,374	33,326,123	-	-	56,720,497	.7996% - 5.750%
Total Securities	2,074,059,735	191,917,404	24,695,384	-	2,290,672,523	
Accrued Interest	3,873,019	-	-	-	3,873,019	
Total Investments	\$2,077,932,754	\$ 191,917,404	\$ 24,695,384	\$ -	\$ 2,294,545,542	

*Mortgage-based and asset-backed securities are reported using weighted-average life to more accurately reflect the projected term of the security, considering interest rates and repayment factors.

**IDLE Pool
Change in Fair Value**

	IDLE	IDLE Sec Lending	IDLE Total
Fair Value of Investments at June 30, 2016	\$ 2,290,672,523	\$ -	\$ 2,290,672,523
Add: Proceeds of Investments Sold in FY2016	57,970,220,007	994,477,214	58,964,697,221
Subtract: Cost of Investments Purchased in FY2016	(58,264,262,875)	(691,964,530)	(58,956,227,405)
Subtract: Fair Value at June 30, 2015	(1,996,204,840)	(302,512,684)	(2,298,717,524)
Change in Fair Value of Investments during FY2016	\$ 424,815	\$ -	\$ 424,815

Idaho State Treasurer's Office – Assets Under Management
Notes to Financial Statements
June 30, 2016

Credit Risk of Debt Securities

**IDLE Pool
Credit Quality Ratings of Debt Securities at June 30, 2016**

Investment Type	Aaa	Aa	A	Baa
Repurchase Agreements	\$ -	\$ -	\$ -	\$ -
Certificate of Deposit	-	-	-	-
Asset-Backed Securities	3,785,592	-	-	-
Corporate Debt Instruments	20,381,630	6,923,124	25,252,499	4,163,244
U.S. Government Agency Obligations	-	68,483,256	-	-
U.S. Gov't Agency Mortgage- Backed Securities	2,881,747	-	-	-
Total	<u>\$ 27,048,969</u>	<u>\$ 75,406,380</u>	<u>\$ 25,252,499</u>	<u>\$ 4,163,244</u>

Investment Type	A1 - P1	Unrated	Fair Value
Repurchase Agreements	\$ -	\$ 522,000,000	\$ 522,000,000
Certificate of Deposit	-	2,250,000	2,250,000
Asset-Backed Securities	3,690,673	-	7,476,265
Corporate Debt Instruments	-	-	56,720,497
U.S. Government Agency Obligations	274,052,315	52,880,963	395,416,534
U.S. Gov't Agency Mortgage- Backed Securities	-	96,176,394	99,058,141
Total	<u>\$ 277,742,988</u>	<u>\$ 673,307,357</u>	<u>\$ 1,082,921,437</u>

Moody's or equivalent credit quality ratings have been used.

Concentration of Credit Risk

**IDLE Pool
Concentration of Credit Risk at June 30, 2016**

Issuer	Fair Value	Percent of Total IDLE Investments
Daiwa Capital Markets	\$ 522,000,000	22.79%
Federal Agricultural Mortgage Corporation	124,750,175	5.45%
Federal National Mortgage Association	122,473,536	5.35%

Repurchase Agreements

Repurchase agreements are purchases of securities with simultaneous agreements to resell those same securities in the future at a higher price. Repurchase agreements are allowed by Idaho Code 67-1210 & 67-1210A; the agreements are secured by collateral which is held by a third party in the name of the STO.

Note 5 - Securities Lending Agreements

IDLE engaged in securities lending transactions during the year. A securities lending agent managed the securities lending program. For a portion of the year, the agent lent securities for cash collateral. The cash collateral can be pledged without borrower default. The securities were collateralized at no less than 102 percent of the fair value. The securities lending agreement required daily monitoring of the fair value of securities lent and collateral received. Additional collateral was obtained as necessary to meet margin requirements. As of December 2015, the STO no longer participates in Securities Lending transactions within IDLE per Idaho Code 67-1210C.

Note 6 - Cash Held for Reserve

The STO reviews its portfolio for the potential of assets held in an other-than-temporary loss position. Through this review, in FY14 it was determined that two investments held within the Securities Lending portfolio were in an other-than-temporary loss position. Although these securities continued to perform, their market value was below par and it was reasonable to conclude that they would experience losses. Because of the position of these assets, income earned through securities lending was set aside as a reserve to offset these expected losses. During FY15 these two assets were sold for \$16,031,283. The cost basis for these securities at the time they were sold was \$25,283,205. Although the sale was executed before year end, the sale did not settle until fiscal 2016.

Upon the settlement of the trade, the cash reserve was liquidated and \$9,251,922 was transferred to the securities lending agent to fund the shortfall incurred due to the loss. Excess funds of \$182,103 were returned to IDLE and distributed to participants. The activity of the reserve for fiscal year 2016 is as follows:

Cash Reserve for Impaired Assets	
Opening Balance	\$ 9,398,400
Contributions to the Reserve	35,625
Redemptions from the Reserve	<u>(9,434,025)</u>
Ending Balance	<u><u>\$ -</u></u>



Supplementary Information
June 30, 2016

Idaho State Treasurer's Office – Assets Under Management

Idaho State Treasurer's Office – Assets Under Management
Combining Statement of Fiduciary Net Position - LGIP
(Internal and External Participants)
June 30, 2016

	External Participants	Internal Participants	LGIP Total
Assets			
Cash	\$ 4,802,755	\$ 201,772	\$ 5,004,527
Investments - Pooled Short Term	144,152,849	6,056,105	150,208,954
Investments - Fixed Income	1,655,972,908	69,570,223	1,725,543,131
Interest Receivable to the Pool	1,480,432	62,195	1,542,627
Total assets	1,806,408,944	75,890,295	1,882,299,239
Liabilities			
Distributions Payable	724,723	30,447	755,170
Administrative Fees Payable	41,170	1,730	42,900
Total liabilities	765,893	32,177	798,070
Net Position Held in Trust for Pool Participants	1,805,643,051	75,858,118	1,881,501,169
Net Position			
Net Position Held in Trust for External Participants (\$ par)	1,805,643,051	-	1,805,643,051
Net Position Held in Trust for Internal Participants (\$ par)	-	75,858,118	75,858,118
Net Position Held in Trust for Pool Participants	\$ 1,805,643,051	\$ 75,858,118	\$ 1,881,501,169

Idaho State Treasurer's Office – Assets Under Management
Combining Statement of Revenues, Expenses and Changes in Fiduciary Net Position - LGIP
(Internal and External Participants)
Year Ended June 30, 2016

	External Participants	Internal Participants	LGIP Total
Investment Income			
Interest Income	\$ 5,533,873	\$ 232,487	\$ 5,766,360
Change in Fair Value of Investments	1,093,199	125,419	1,218,618
Total investment income	6,627,072	357,906	6,984,978
Expense			
Administrative Fees	(494,160)	(20,760)	(514,920)
Net Investment Income	6,132,912	337,146	6,470,058
Distributions to Participants			
Distributions Paid and Payable	(5,820,611)	(274,161)	(6,094,772)
Share Transactions at Net Position Value of \$1.00 per share			
Pooled Participant Deposits	4,069,686,659	210,372,929	4,280,059,588
Pooled Participant Withdrawals	(3,932,704,022)	(198,205,461)	(4,130,909,483)
Change in Net Position and Shares Resulting from Share Transactions	136,982,637	12,167,468	149,150,105
Total Change in Net Position	137,294,938	12,230,453	149,525,391
Net Position, Beginning of Year, As Restated	1,668,348,113	63,627,665	1,731,975,778
Net Position, End of Year	\$ 1,805,643,051	\$ 75,858,118	\$ 1,881,501,169

Idaho State Treasurer's Office – Assets Under Management
Combining Statement of Fiduciary Net Position - DBF
(Internal and External Participants)
June 30, 2016

	External Participants	Internal Participants	DBF Total
Assets			
Investments - Pooled Short Term	\$ 10,062,949	\$ 34,702,946	\$ 44,765,895
Investments - Fixed Income	94,916,367	327,327,269	422,243,636
Investments - Mortgage and Asset-Backed	63,831,146	220,127,205	283,958,351
Interest Receivable to the Pool	837,006	2,886,486	3,723,492
Total assets	169,647,468	585,043,906	754,691,374
Liabilities			
Distributions Payable	219,176	755,846	975,022
Administrative Fees Payable	6,670	23,000	29,670
Total liabilities	225,846	778,846	1,004,692
Net Position Held in Trust for Pool Participants	169,421,622	584,265,060	753,686,682
Net Position			
Net Position Held in Trust for External Participants (\$ par)	169,421,622	-	169,421,622
Net Position Held in Trust for Internal Participants (\$ par)	-	584,265,060	584,265,060
Net Position Held in Trust for Pool Participants	\$ 169,421,622	\$ 584,265,060	\$ 753,686,682

Idaho State Treasurer's Office – Assets Under Management
Combining Statement of Revenues, Expenses and Changes in Fiduciary Net Position - DBF
(Internal and External Participants)
Year Ended June 30, 2016

	External Participants	Internal Participants	DBF Total
Investment Income			
Interest Income	\$ 4,724,802	\$ 14,529,554	\$ 19,254,356
Change in Fair Value of Investments	(91,995)	3,073,968	2,981,973
Total investment income	4,632,807	17,603,522	22,236,329
Expense			
Administrative Fees	(87,104)	(263,882)	(350,986)
Net Investment Income	4,545,703	17,339,640	21,885,343
Distributions to Participants			
Distributions Paid and Payable	(2,959,595)	(8,883,192)	(11,842,787)
Share Transactions at Net Asset Value			
Pooled Participant Deposits	21,587,011	173,620,373	195,207,384
Pooled Participant Withdrawals	(21,597,321)	(1,209,366)	(22,806,687)
Change in Net Position and Shares Resulting from Share Transactions	(10,310)	172,411,007	172,400,697
Change in Net Position	1,575,798	180,867,455	182,443,253
Net Position, Beginning of Year	167,845,824	403,397,605	571,243,429
Net Position, End of Year	\$ 169,421,622	\$ 584,265,060	\$ 753,686,682

Idaho State Treasurer's Office – Assets Under Management
Combining Statement of Fiduciary Net Position - IDLE
June 30, 2016

	IDLE	IDLE Sec Lending	IDLE Total
Assets			
Cash and cash equivalents	\$ 52,349,352	\$ -	\$ 52,349,352
Investments, at Fair Value	2,290,672,523	-	2,290,672,523
Interest Receivable to the Pool	3,873,019	-	3,873,019
Total assets	2,346,894,894	-	2,346,894,894
Liabilities			
Unsettled Trades Payable	453,251,974	-	453,251,974
Distributions Payable	880,691	-	880,691
Administrative Fees Payable	76,292	-	76,292
Total liabilities	454,208,957	-	454,208,957
Net Position Held in Trust for Pool Participants	\$ 1,892,685,937	\$ -	\$ 1,892,685,937

Idaho State Treasurer's Office – Assets Under Management
Combining Statement of Revenues, Expenses, and Changes in Fiduciary Net Position - IDLE
Year Ended June 30, 2016

	<u>IDLE</u>	<u>IDLE Sec Lending</u>	<u>IDLE Total</u>
Investment Income			
Interest Income	\$ 13,520,692	\$ 35,626	\$ 13,556,318
Securities Lending Income	-	301,578	301,578
Change in Fair Value of Investments	424,815	-	424,815
	<u>13,945,507</u>	<u>337,204</u>	<u>14,282,711</u>
Expense			
Administrative Fees	(826,119)	-	(826,119)
Securities Lending Agent Fees	-	(11,501)	(11,501)
Securities Lending Borrower Rebates	-	(235,761)	(235,761)
	<u>(826,119)</u>	<u>(247,262)</u>	<u>(1,073,381)</u>
Net Investment Income	<u>13,119,388</u>	<u>89,942</u>	<u>13,209,330</u>
Distributions to Participants			
Distributions Paid and Payable	(8,197,188)	-	(8,197,188)
Share Transactions at Net Position Value of \$1.00 per Share			
Pooled Participant Deposits	20,348,829,562	-	20,348,829,562
Pooled Participant Withdrawals	(20,271,071,297)	-	(20,271,071,297)
Change in Net Position and Shares Resulting From			
Share Transactions	<u>77,758,265</u>	<u>-</u>	<u>77,758,265</u>
Total Change in Net Position Before Transfers	<u>82,680,465</u>	<u>89,942</u>	<u>82,770,407</u>
Transfers In	237,780	-	237,780
Transfers Out	-	(237,780)	(237,780)
Total Change in Net Position	82,918,245	(147,838)	82,770,407
Net Position Held in Trust for Pool Participants			
Net Position, Beginning of Year	<u>1,809,767,692</u>	<u>147,838</u>	<u>1,809,915,530</u>
Net Position, End of Year	<u>\$ 1,892,685,937</u>	<u>\$ -</u>	<u>\$ 1,892,685,937</u>



Independent Auditor’s 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 Treasurer
State of Idaho

We have audited, 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, the financial statements of the State of Idaho Idle Pool (IDLE), the Local Government Investment Pool (LGIP), and the Diversified Bond Fund (DBF) of the State of Idaho (together the Funds) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Funds’ basic financial statements, and have issued our report thereon dated October 17, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Funds’ internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Funds’ internal control. Accordingly, we do not express an opinion on the effectiveness of the Funds’ internal control.

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 entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Funds' financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Funds' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Funds' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Boise, Idaho
October 17, 2016