



Financial Statements
June 30, 2014

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, 2014, 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, 2014, 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, 2014, 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 November 14, 2014 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
November 14, 2014

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, 2014. 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 – Investment Trust Funds provides information about the nature and amounts of investments in resources (assets) and obligations (liabilities) at the close of fiscal year 2014. The Statement of Revenues, Expenses and Changes in Fiduciary Net Position – Investment Trust Funds report the Investment's operations for fiscal year 2014 and the resulting increases and decreases in net positions.

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

Financial Highlights

The Local Government Investment Pool (LGIP) saw assets in the pool remain stable during FY14 with a slight increase of 0.57%. During FY14 the weighted average maturity (WAM) of the LGIP increased slightly from 102 days to 109 days. We continued to maintain a WAM longer than 90 days as we do not foresee the Federal Open Market Committee (FOMC) raising interest rates until mid-2015 at the earliest. The average distribution yield was 0.114%, with the highest and lowest distribution yields being 0.165% and 0.0801% respectively during FY14.

The IDLE pool saw assets in the pool increase 10.36% during FY14. The IDLE pool has remained stable the last several fiscal years after reaching a bottom during FY11, allowing us 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 FY14 was 325 days. The June interest distribution to state agencies increased by 50.5% from \$238,228 to \$358,677 year over year.

The Diversified Bond Fund (DBF) returned 2.21% during FY14 compared to the Barclays US Intermediate Aggregate Baa index return of 3.15%. The portfolio lagged the index, given a continued short duration versus the benchmark, during a period where longer maturity Treasuries outperformed shorter maturity bonds. The duration of the portfolio was 3.54 years versus 4.17 years for the index.

The average distribution yield was 2.34%, with the highest and lowest monthly distribution yields being 4.03% and 1.83% respectively during FY14. The distribution yield of 4.03% occurred during June 2014 due to the decision to reduce exposure to Collateralized Mortgage Obligations resulting in over \$1.1 million in gains to be distributed back to participants.

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 when bond yields start to increase back to normal levels.

Idaho State Treasurer's Office – Assets Under Management
Management's Discussion and Analysis
June 30, 2014

The following tables show the value of Fund's assets, liabilities and net position summarized as of June 30, 2014 compared to June, 30 2013 for the LGIP and DBF. The IDLE pool has not presented separately stated financial information in the past. Such information is not readily available.

Local Government Investment Pool

	<u>2014</u>	<u>2013</u>
Total Assets	\$ 1,460,960,101	\$ 1,452,470,366
Total Liabilities	<u>187,889</u>	<u>215,952</u>
Net Position	<u><u>\$ 1,460,772,212</u></u>	<u><u>\$ 1,452,254,414</u></u>

Diversified Bond Fund

	<u>2014</u>	<u>2013</u>
Total Assets	\$ 594,378,180	\$ 594,937,060
Total Liabilities	<u>872,077</u>	<u>980,172</u>
Net Position	<u><u>\$ 593,506,103</u></u>	<u><u>\$ 593,956,888</u></u>

State IDLE Pool

	<u>2014</u>
Total Assets	\$ 2,521,813,744
Total Liabilities	<u>979,877,575</u>
Net Position	<u><u>\$ 1,541,936,169</u></u>

The purpose of the following tables is to present the net investment income earned by the Funds as well as the distributions of participants, share transactions and the change in net position for fiscal year ending June 30, 2014 compared to fiscal year ending June 30, 2013. The IDLE pool has not presented separately stated financial information in the past. Such information is not readily available.

Idaho State Treasurer's Office – Assets Under Management
Management's Discussion and Analysis
June 30, 2014

Local Government Investment Pool

	2014	2013
Investment Income	\$ 2,369,147	\$ 3,497,749
Investment Expenses	(505,320)	(904,067)
Net Investment Income	1,863,827	2,593,682
Distributions to Participants	(1,615,514)	(2,837,195)
Share Transactions	8,269,485	41,834,755
Total Change in Position	8,517,798	41,591,242
Net Position, Beginning of Year	1,452,254,414	1,410,663,172
Net Position, End of Year	\$1,460,772,212	\$1,452,254,414

Diversified Bond Fund

	2014	2013
Investment Income	\$ 12,823,778	\$ (952,861)
Investment Expenses	(323,675)	(1,253,721)
Net Investment Income	12,500,103	(2,206,582)
Distributions to Participants	(12,622,023)	(10,970,440)
Share Transactions	(328,865)	34,389,031
Total Change in Position	(450,785)	21,212,009
Net Position, Beginning of Year	593,956,888	572,744,879
Net Position, End of Year	\$ 593,506,103	\$ 593,956,888

State IDLE Pool

	2014
Investment Income	\$ 13,526,412
Investment Expenses	(1,174,955)
Net Investment Income	12,351,457
Distributions to Participants	(3,896,416)
Share Transactions	128,027,880
Total Change in Position	136,482,921
Net Position, Beginning of Year	1,405,453,248
Net Position, End of Year	\$1,541,936,169

Statutory Changes to STO Investments

During fiscal year 2014, Senate Bill #1350 was passed that established an Investment Advisory Board for the STO. The Board consists of the State Treasurer, who will serve as the Chairman, and five members designated and appointed by the Governor, subject to senate confirmation. The five appointed members will be experienced (minimum of ten years) in financial matters and in the placement or management of investment assets. The act establishes appointed members will serve four-year terms, provided that the first term will be two years for three of the appointees. Board members cannot hold office, position or employment in a political party. The act provides guidance on board recommendations, including investment types and kinds, investment policies and specifies the board and all investment managers will be governed by the uniform prudent investor act. The act also removed securities lending agreements from allowable investments and calls for the treasurer to conduct an orderly program to terminate current securities lending agreements.

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, 2014

	<u>LGIP</u>	<u>DBF</u>	<u>IDLE</u>
Assets			
Cash and cash equivalents	\$ -	\$ -	\$ 35,614,092
Cash held for reserve	-	-	866,057
Investments, at Fair Value	1,459,010,428	592,153,399	1,730,031,578
Interest Receivable to the Pool	1,949,673	2,224,781	3,331,551
Reinvestment of Securities Lending Collateral	-	-	751,828,405
Securities Lending Income Receivable	-	-	142,061
Total assets	<u>1,460,960,101</u>	<u>594,378,180</u>	<u>2,521,813,744</u>
Liabilities			
Unsettled Trades Payable	-	-	215,526,919
Distributions Payable	145,789	863,676	336,748
Administrative Fees Payable	42,100	8,401	21,929
Obligations Under Securities Lending	-	-	763,886,030
Securities Lending Agent Fees Payable	-	-	6,372
Securities Lending Borrower Rebates Payable	-	-	99,577
Total liabilities	<u>187,889</u>	<u>872,077</u>	<u>979,877,575</u>
Net Position Held in Trust for Pool Participants	<u>1,460,772,212</u>	<u>593,506,103</u>	<u>1,541,936,169</u>
Net Position Consists of			
Net Position Held in Trust for External Participants (\$ par)	1,402,464,208	178,648,971	-
Net Position Held in Trust for Internal Participants (\$ par)	58,308,004	414,857,132	1,541,936,169
Net Position Held in Trust for Pool Participants	<u>\$ 1,460,772,212</u>	<u>\$ 593,506,103</u>	<u>\$ 1,541,936,169</u>
Total Participant Units Outstanding (\$ par)	1,452,391,822	564,393,329	1,545,870,111
Participant Net Position Value, Offering Price and Redemption Price Per Share (net position divided by units)	\$ 1.00	\$ 1.00	\$ 1.00

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, 2014

	<u>LGIP</u>	<u>DBF</u>	<u>IDLE</u>
Investment Income			
Interest Income	\$ 8,823,408	\$ 14,800,187	\$ 13,531,690
Securities Lending Income	-	-	1,508,471
Change in Fair Value of Investments	<u>(6,454,261)</u>	<u>(1,976,409)</u>	<u>(1,513,749)</u>
Total investment income	<u>2,369,147</u>	<u>12,823,778</u>	<u>13,526,412</u>
Investment Expense			
Administrative Fees	(505,320)	(323,675)	(300,311)
Securities Lending Agent Fees	-	-	(111,849)
Securities Lending Borrower Rebates	<u>-</u>	<u>-</u>	<u>(762,795)</u>
Total investment expense	<u>(505,320)</u>	<u>(323,675)</u>	<u>(1,174,955)</u>
Net Investment Income	<u>1,863,827</u>	<u>12,500,103</u>	<u>12,351,457</u>
Distributions to Participants			
Distributions Paid and Payable	<u>(1,615,514)</u>	<u>(12,622,023)</u>	<u>(3,896,416)</u>
Share Transactions at Net Position Value of \$1.00 per Share			
Pooled Participant Deposits	3,555,708,864	81,071,786	18,499,990,038
Pooled Participant Withdrawals	<u>(3,547,439,379)</u>	<u>(81,400,651)</u>	<u>(18,371,962,158)</u>
Change in Net Position and Shares Resulting from Share Transactions	<u>8,269,485</u>	<u>(328,865)</u>	<u>128,027,880</u>
Total Change in Net Position	8,517,798	(450,785)	136,482,921
Net Position Held in Trust for Pool Participants			
Beginning of Year	<u>1,452,254,414</u>	<u>593,956,888</u>	<u>1,405,453,248</u>
End of Year	<u>\$ 1,460,772,212</u>	<u>\$ 593,506,103</u>	<u>\$ 1,541,936,169</u>

Note 1 - Organization and Background

The Idaho State 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. 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)

The Local Government Investment Pool (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 together 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.

IDLE

The State of Idaho idle pool (IDLE) is an involuntary internal pool for state agencies. The IDLE Pool 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. The IDLE Pool is responsible for balancing daily cash flows (monies flowing in and out). Any idle monies after cash flow transactions have been balanced for the day are invested in either short-term or long-term ventures taking into consideration the amount of risk and yield at the time of purchase. The IDLE Pool is managed to ensure that there will be adequate money for all of the state's appropriations.

Diversified Bond Fund (DBF)

The Diversified Bond Fund (DBF) has been 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 the long run.

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 by nature 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 a high level of total return at 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.

The 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 State Treasurer’s Office 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 Treasurer 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 State Treasurer’s Office.

The IDLE Fund 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.

The IDLE pool, LGIP, and DBF of the State of Idaho are part of the State of Idaho reporting entity based on the GASB criteria. Only the funds of the IDLE pool, LGIP, and DBF of the State of Idaho are presented with no intention to present the financial position of the State Treasurer’s Office of the State of Idaho or the State of Idaho. Although reported as Investment Trust Funds by the Treasurer, 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 Treasurer’s accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the Treasurer’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 Treasurer 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

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 and is equal to market price. Market prices are provided by a third party pricing vendor, Interactive Data Corporation (IDC). If market prices are not available from IDC, investment market values are determined by pricing from Northern Trust.

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 monthly on the first business day of the following month.

Administrative Fees

Each fiscal year, the STO 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 0.018% of the average daily balances to both pools. STO fees charged to IDLE participants totaled \$246,019 for the current fiscal year. Up until September 30, 2014, the STO engaged an outside asset manager to manage a portion of the IDLE pool and all of the DBF pool. Those outside manager fees totaled \$54,292 for the IDLE pool and \$226,194 for the DBF pool during the current fiscal year. STO fees charged to DBF participants totaled \$97,481 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 \$503,320 for the current fiscal year. All management fees are charged monthly and used in the calculation to determine participants' distribution.

Securities Lending

The IDLE Pool reports securities lent (the underlying securities) as assets in the Statement of Fiduciary Net Position. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. Securities received as collateral are reported as assets only if the borrower defaults. Liabilities resulting from these transactions are reported in the Statement of Fiduciary Net Position. Securities lending transactions collateralized by securities that the IDLE Pool does not have the ability to pledge or sell unless the borrower defaults are not reported as assets and liabilities.

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 short term pools to a maximum of 5 years. Portfolio duration of the intermediate pools is restricted by the policy to not be less than .5 times and no more than 1.25 times the index 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 issuer's 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, 2014, STO investments were in compliance with all current Investment Policies.

Note 3 - External Investment Pools

Overview of the External Investment Pools

The State Treasurer's Office (STO) manages two external investment pools, the Local Government Investment Pool (LGIP) and the Diversified Bond Fund (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, 2014, was 109 days.

Idaho State Treasurer's Office – Assets Under Management
Notes to Financial Statements
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The STO created the DBF for those state and public agencies able to exchange current liquidity for potentially greater returns over the long run (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 withdrawals from the DBF occur on the last day of the month. The weighted average maturity of investments in the DBF at June 30, 2014, was 3.93 years.

Investments are reported at fair market value at June 30, 2014. 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 State uses the aggregate method to determine the increase or decrease in fair value of each pool.

Local Government Investment Pool

Local Government Investment Pool
Summary of Fair Value and Interest Rate Risk at June 30, 2014

Investment Type	Investment Maturities In Years		Fair Value	Interest Rates
	Less than 1	1-5		
Repurchase Agreements	\$ 132,291,282	\$ -	\$ 132,291,282	0.120%
Commercial Paper	73,953,465	-	73,953,465	0.090% - 0.402%
Corporate Debt Instruments	20,536,213	50,200,041	70,736,254	0.214% - 3.750%
U.S. Government Agency Obligations	918,151,574	188,838,803	1,106,990,377	0.070% - 5.000%
US Treasury Obligations	75,039,050	-	75,039,050	0.500% - 0.625%
Total Securities	<u>1,219,971,584</u>	<u>239,038,844</u>	<u>1,459,010,428</u>	
Accrued Interest	<u>1,949,673</u>	<u>-</u>	<u>1,949,673</u>	
Total Assets	<u>\$ 1,221,921,257</u>	<u>\$ 239,038,844</u>	<u>\$ 1,460,960,101</u>	

Local Government Investment Pool
Change in Fair Value

Fair Value of Investments at June 30, 2014	\$ 1,459,010,428
Add: Proceeds of Investments Sold in FY2014	31,331,741,443
Subtract: Cost of Investments Purchased in FY2014	(31,347,342,732)
Subtract: Fair Value at June 30, 2013	<u>(1,449,863,400)</u>
Change in Fair Value of Investments during FY2014	<u>\$ (6,454,261)</u>

Idaho State Treasurer's Office – Assets Under Management
Notes to Financial Statements
June 30, 2014

Local Government Investment Pool
Credit Quality Ratings of Debt Securities at June 30, 2014

Investment Type	Aaa	Aa	A	Baa
Corporate Debt Instruments	\$ 3,049,551	\$ 27,138,840	\$ 40,547,863	\$ -
U.S. Government Agency Obligations	-	425,988,189	-	-
Total	\$ 3,049,551	\$ 453,127,029	\$ 40,547,863	\$ -

Investment Type	C	P-1	Unrated	Fair Value
Repurchase Agreements	\$ -	\$ -	\$ 132,291,282	\$ 132,291,282
Commercial Paper	-	73,953,465	-	73,953,465
Corporate Debt Instruments	-	-	-	70,736,254
U.S. Government Agency Obligations	-	631,002,188	50,000,000	1,106,990,377
Total	\$ -	\$ 704,955,653	\$ 182,291,282	\$ 1,383,971,378

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

Reconciliation to Sum of FV and Int Rate Risk Schedule and Statement of Net Position

Obligations and other not required to be disclosed	
U.S. Treasury	\$ 75,039,050
Accrued Interest	1,949,673
Total Assets	\$ 1,460,960,101

Local Government Investment Pool
Concentration of Credit Risk at June 30, 2014

Issuer	Fair Value	Percent of Total LGIP Investments
Federal Home Loan Bank	\$ 384,797,779	26.37%
Federal Home Loan Mortgage Corp	277,240,323	19.00%
Federal Farm Credit Bank	250,841,315	17.19%
Federal National Mortgage Association	144,110,960	9.88%
Daiwa	132,291,282	9.07%

Idaho State Treasurer's Office – Assets Under Management
Notes to Financial Statements
June 30, 2014

Diversified Bond Fund

Diversified Bond Fund
Summary of Fair Value and Interest Rate Risk at June 30, 2014

Investment Type	Investment Maturities In Years			Fair Value	Interest Rates
	Less than 1	1-5	6-10		
Corporate Debt Instruments	\$ -	\$ 79,098,068	\$ 14,191,658	\$ 93,289,726	.5598% - 7.625%
Commercial Mortgage-Backed Securities*	294,570	-	4,431,002	4,725,572	2.822% - 5.846%
U.S. Gov't Agency Obligations	6,013,773	65,947,012	-	71,960,785	.375% - 5.125%
U.S. Gov't Agency Mortgage-Backed Securities*	-	162,940,401	46,671,154	209,611,555	1.233% - 6.000%
U.S. Gov't Corporation Mortgage-Backed Securities*	-	25,778,008	-	25,778,008	2.000% - 6.500%
Repurchase Agreements	14,197,693	-	-	14,197,693	0.120%
U.S. Treasury Obligations	-	172,590,060	-	172,590,060	.750% - 4.000%
Total Securities	<u>20,506,036</u>	<u>506,353,549</u>	<u>65,293,814</u>	<u>592,153,399</u>	
Accrued Interest	<u>2,224,781</u>	-	-	<u>2,224,781</u>	
Total Assets	<u><u>\$22,730,817</u></u>	<u><u>\$ 506,353,549</u></u>	<u><u>\$ 65,293,814</u></u>	<u><u>\$ 594,378,180</u></u>	

*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, 2014	\$ 592,153,399
Add: Proceeds of Investments Sold in FY2014	4,519,179,297
Subtract: Cost of Investments Purchased in FY2014	(4,520,826,011)
Subtract: Fair Value at June 30, 2013	<u>(592,483,093)</u>
Change in Fair Value of Investments During FY2014	<u><u>\$ (1,976,409)</u></u>

Idaho State Treasurer's Office – Assets Under Management
Notes to Financial Statements
June 30, 2014

Diversified Bond Fund
Credit Quality Ratings of Debt Securities at June 30, 2014

Investment Type	Aaa	Aa	A	Baa
Corporate Debt Instruments	\$ 6,786,786	\$ 16,122,310	\$ 64,182,012	\$ 6,198,618
Commercial Mortgage-Backed Securities	4,725,571	-	-	-
U.S. Gov't Agency Obligations	-	71,960,785	-	-
Total	\$ 11,512,357	\$ 88,083,095	\$ 64,182,012	\$ 6,198,618

Investment Type	C	P-1	Unrated	Fair Value
Corporate Debt Instruments	\$ -	\$ -	\$ -	\$ 93,289,726
Commercial mortgage-backed Backed Securities	-	-	-	4,725,571
U.S. Gov't Agency Obligations	-	-	-	71,960,785
U.S. Gov't Agency Mortgage-Backed Securities	-	-	209,611,556	209,611,556
Repurchase Agreements	-	-	14,197,693	14,197,693
Total	\$ -	\$ -	\$ 223,809,249	\$ 393,785,331

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

Reconciliation to Sum of FV and Int Rate Risk Schedule and Statement of Net Position

Obligations and other not required to be disclosed	
U. S. Government Corporation	\$ 25,778,008
U.S. Treasury	172,590,060
Accrued Interest	2,224,781
Total Assets	\$ 594,378,180

Diversified Bond Fund
Concentration of Credit Risk at June 30, 2014

Issuer	Fair Value	Percent of Total DBF Investments
Federal National Mortgage Association	\$ 208,441,344	35.20%
Federal Home Loan Mortgage Corporation	\$ 53,724,793	9.07%

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 State Treasurer’s Office (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 325 days.

IDLE Pool at June 30, 2014				
	Bank Balance	FDIC Insurance	Collateral	Uninsured and Uncollateralized
Custodial Credit Risk of Deposits	\$ 53,855,913	\$ 1,250,000	\$ 130,000,000	\$ 25,845,149

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, other than the public endowment funds, 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 \$215.5 million in U.S. government agency 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
Notes to Financial Statements
June 30, 2014

Interest Rate Risk of Debt Securities

IDLE Pool
Summary of Fair Value and Interest Rate Risk at June 30, 2014

Investment Type	Investment Maturities				Fair Value	Interest Rates
	In Years Less than 1	1-5	6-10	11-15		
Certificates of Deposit	\$ 2,000,000	\$ -	\$ -	\$ -	\$ 2,000,000	0.336%
Repurchase Agreements	248,178,867	-	-	-	248,178,867	0.120%
Commercial Paper	49,998,758	-	-	-	49,998,758	.090% - .130%
Mortgage-Backed Securities *	-	-	2,954,001	-	2,954,001	2.822%
U.S. Government Obligations	151,498,050	54,978,123	-	-	206,476,173	0.500% - 4.250%
U.S. Gov't Agency Obligations	1,055,255,692	41,212,636	-	-	1,096,468,328	.070% - 7.000%
U.S. Gov't Agency Mortgage-Backed Securities*	-	52,095,667	32,042,214	-	84,137,881	0.452% - 6.000%
U.S. Gov't Corporation Mortgage-Backed Securities*	-	6,749,699	-	-	6,749,699	1.625% - 4.000%
Corporate Obligations	5,076,640	21,819,549	4,119,379	-	31,015,568	1.000% - 5.75 %
Idaho Small Business Loans	-	938,894	609,673	503,736	2,052,303	1.250%
Total Securities	1,512,008,007	177,794,568	39,725,267	503,736	1,730,031,578	
Accrued Interest	3,331,551	-	-	-	3,331,551	
<u>Reinvestment of Securities</u>						
<u>Lending Collateral</u>						
Money Market Mutual Funds	48,957,902	-	-	-	48,957,902	0.039%
Repurchase Agreements	574,849,118	-	-	-	574,849,118	0.050% - .480%
Commercial Paper	110,829,586	-	-	-	110,829,586	0.100% - 0.180%
Corporate Debt Instruments	17,191,799	-	-	-	17,191,799	0.170% - 0.393%
Securities Lending Income Receivable	142,061	-	-	-	142,061	
Total Assets	\$ 2,267,310,024	\$ 177,794,568	\$ 39,725,267	\$ 503,736	\$ 2,485,333,595	

*Mortgage-backed 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.

From the Statement of Net Position

Investments, at Fair Value	\$1,730,031,578
Interest Receivable to the Pool	3,331,551
Reinvestment of Securities Lending Collateral	751,828,405
Securities Lending Income Receivable	142,061
Total Investments	\$2,485,333,595

Idaho State Treasurer's Office – Assets Under Management
Notes to Financial Statements
June 30, 2014

Credit Risk of Debt Securities

IDLE Pool
Credit Quality Ratings of Debt Securities at June 30, 2014

<u>Investment Type</u>	<u>Aaa</u>	<u>Aa</u>	<u>A</u>	<u>Baa</u>
Corporate Debt Instruments	\$ -	\$ 5,800,629	\$ 22,369,389	\$ 2,845,550
U.S. Government Agency Obligations	-	408,472,099	-	-
Mortgage-Backed Securities	2,954,001	-	-	-
<u>Reinvestment of Securities</u>				
<u>Lending Collateral</u>				
Money Market Mutual Funds	48,957,902	-	-	-
Total	\$ 51,911,903	\$ 414,272,728	\$ 22,369,389	\$ 2,845,550

<u>Investment Type</u>	<u>A1 - P1</u>	<u>Unrated</u>	<u>Fair Value</u>
Repurchase Agreements	\$ -	\$ 248,178,867	\$ 248,178,867
Certificate of Deposit	-	2,000,000	2,000,000
Commercial Paper	49,998,758	-	49,998,758
Corporate Debt Instruments	-	-	31,015,568
U.S. Government Agency Obligations	540,330,103	147,666,126	1,096,468,328
U.S. Gov't Agency Mortgage Backed Securities	-	84,137,881	84,137,881
Mortgage-Backed Securities	-	-	2,954,001
<u>Reinvestment of Securities</u>			
<u>Lending Collateral</u>			
Money Market Mutual Funds	-	-	48,957,902
Repurchase Agreements	235,000,000	339,849,118	574,849,118
Commercial Paper	110,829,586	-	110,829,586
Corporate Debt Instruments	-	17,191,799	17,191,799
Total	\$ 936,158,447	\$ 839,023,791	\$ 2,266,581,808

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

Reconciliation to Sum of FV and Int Rate Risk Schedule and Statement of Net Position

Obligations and other not required to be disclosed		
SBA Loans		\$ 2,052,303
U.S. Treasury		206,476,173
GNMA		6,749,699
Accrued Interest		3,331,551
Interest Receivable		142,061
Total Assets		\$ 2,485,333,595

Concentration of Credit Risk

<u>Issuer</u>	<u>Fair Value</u>	<u>Percent of Total IDLE Investments</u>
Federal Home Loan Bank	\$ 528,608,081	21.27%
Daiwa	248,178,867	9.99%
Federal Home Loan Mortgage Corp	197,131,088	7.93%
Morgan Stanley	195,798,081	7.88%
Federal Farm Credit Bank	181,030,005	7.28%
Federal Agricultural Mortgage Coporation	148,830,291	5.99%
Merrill Lynch	146,000,000	5.87%
Wells Fargo & Company	136,074,247	5.48%
Fannie Mae	125,006,743	5.03%

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

Securities lending agreements are transfers of securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The current legislation passed in fiscal year 2014 prohibits new securities lending agreements and requires an orderly program to terminate current securities lending agreements. A securities lending agent, Key Bank, manages the securities lending program. During the year, the agent lent securities for cash collateral. The investments are collateralized at no less than 102 percent of the fair value. The securities lending agreement requires daily monitoring of the fair value of securities lent and collateral received with additional collateral obtained as necessary to meet margin requirements. The cash collateral received is held in a separate account in the name of the STO. The STO is indemnified for loss due to default on the part of the borrowers and failure to maintain the daily mark-to-market on the loans. At year-end, the STO pool portfolio had no credit risk exposure to borrowers because the collateral exceeded the amount borrowed. No restrictions exist on the amount of loans that can be made. Either the State or the borrower can cancel all securities loans upon demand. Generally the average term of these loans is under ten days. The cash collateral received is invested by the agent in marketable securities of varying terms with maturities ranging between one day and three years. As of June 30, 2014, more than 44 percent of the portfolio was invested in instruments with a one-day maturity or less and the weighted average maturity of the cash collateral portfolio was 33 days.

Idaho State Treasurer's Office – Assets Under Management
Notes to Financial Statements
June 30, 2014

IDLE Pool
Balances of Securities Lending Transactions at June 30, 2014

	Fair Value of Lent Securities	Cash Collateral Received for Lent Securities
Securities Lent for Cash Collateral		
Corporate Debt Instruments		
U.S. Government Agency Obligations	\$ 539,606,139	\$ 551,299,005
U.S. Treasury Obligations	206,476,671	212,587,025
Total	\$ 746,082,810	\$ 763,886,030

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, it was determined that two investments held within the Securities Lending portfolio were in another-than-temporary loss position. Although these securities do continue to perform, their current market value is below par and it is reasonable to conclude that they will experience losses at some point in the future. Because of the position of these assets, income earned through securities lending is being set aside as a reserve to offset these expected losses. The activity of the reserve for fiscal year 2014 is as follows:

Cash Held for Reserve	
Opening Balance	\$ 397,609
Contributions to the Reserve	468,448
Redemptions from the Reserve	-
Ending Balance	\$ 866,057



Supplementary Information
June 30, 2014

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, 2014

	External Participants	Internal Participants	LGIP Total
Assets			
Investments - Pooled Short Term	\$ 198,012,307	\$ 8,232,440	\$ 206,244,747
Investments - Fixed Income	1,202,760,440	50,005,241	1,252,765,681
Interest Receivable to the Pool	1,871,850	77,823	1,949,673
Total assets	1,402,644,597	58,315,504	1,460,960,101
Liabilities			
Distributions Payable	139,970	5,819	145,789
Administrative Fees Payable	40,419	1,681	42,100
Total liabilities	180,389	7,500	187,889
Net Position Held in Trust for Pool Participants	1,402,464,208	58,308,004	1,460,772,212
Net Position			
Net Position Held in Trust for External Participants (\$ par)	1,402,464,208	-	1,402,464,208
Net Position Held in Trust for Internal Participants (\$ par)	-	58,308,004	58,308,004
Net Position Held in Trust for Pool Participants	\$1,402,464,208	\$ 58,308,004	\$1,460,772,212

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, 2014

	External Participants	Internal Participants	LGIP Total
Investment Income			
Interest Income	\$ 8,471,214	\$ 352,194	\$ 8,823,408
Change in Fair Value of Investments	(6,190,897)	(263,364)	(6,454,261)
Total investment income	2,280,317	88,830	2,369,147
Expense			
Administrative Fees	(485,150)	(20,170)	(505,320)
Net investment income	1,795,167	68,660	1,863,827
Distributions to Participants			
Distributions Paid and Payable	(1,540,229)	(75,285)	(1,615,514)
Share Transactions at Net Position Value of \$1.00 per share			
Pooled Participant Deposits	3,354,384,387	201,324,477	3,555,708,864
Pooled Participant Withdrawals	(3,343,508,134)	(203,931,245)	(3,547,439,379)
Change in Net Position and Shares Resulting from Share Transactions	10,876,253	(2,606,768)	8,269,485
Total Change in Net Position	11,131,191	(2,613,393)	8,517,798
Net Position, Beginning of Year	1,391,333,017	60,921,397	1,452,254,414
Net Position, End of Year	<u>\$ 1,402,464,208</u>	<u>\$ 58,308,004</u>	<u>\$ 1,460,772,212</u>

Idaho State Treasurer's Office – Assets Under Management
Combining Statement of Fiduciary Net Position - DBF
(Internal and External participants)
June 30, 2014

	External Participants	Internal Participants	DBF Total
Assets			
Investments - Pooled Short Term	\$ 4,273,593	\$ 9,924,100	\$ 14,197,693
Investments - Fixed Income	101,692,080	236,148,491	337,840,571
Investments - Mortgage and Asset-Backed	72,276,126	167,839,009	240,115,135
Interest Receivable to the Pool	669,673	1,555,108	2,224,781
Total Assets	178,911,472	415,466,708	594,378,180
Liabilities			
Distributions Payable	259,972	603,704	863,676
Administrative Fees Payable	2,529	5,872	8,401
Total Liabilities	262,501	609,576	872,077
Net Position Held in Trust for Pool Participants	178,648,971	414,857,132	593,506,103
Net Position			
Net Position Held in Trust for External Participants	178,648,971	-	178,648,971
Net Position Held in Trust for Internal Participants	-	414,857,132	414,857,132
Net Position Held in Trust for Pool Participants	\$ 178,648,971	\$ 414,857,132	\$ 593,506,103

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, 2014

	External Participants	Internal Participants	DBF Total
Investment Income			
Interest Income	\$ 4,319,732	\$ 10,480,455	\$ 14,800,187
Change in Fair Value of Investments	(359,371)	(1,617,038)	(1,976,409)
Total investment income	3,960,361	8,863,417	12,823,778
Expense			
Administrative Fees	(94,038)	(229,637)	(323,675)
Net investment income	3,866,323	8,633,780	12,500,103
Distributions to Participants			
Distributions Paid and Payable	(3,662,495)	(8,959,528)	(12,622,023)
Share Transactions at Net Position Value of \$1.00 per Share			
Pooled Participant Deposits	23,628,685	57,443,101	81,071,786
Pooled Participant Withdrawals	(8,196,142)	(73,204,509)	(81,400,651)
Change in Net Position and Shares Resulting from Share Transactions	15,432,543	(15,761,408)	(328,865)
Change in Net Position	15,636,371	(16,087,156)	(450,785)
Net Position, Beginning of Year	163,012,600	430,944,288	593,956,888
Net Position, End of Year	<u>\$ 178,648,971</u>	<u>\$ 414,857,132</u>	<u>\$ 593,506,103</u>

Idaho State Treasurer's Office – Assets Under Management
Combining Statement of Fiduciary Net Position - IDLE
June 30, 2014

	IDLE	IDLE Sec Lending	IDLE Total
Assets			
Cash and cash equivalents	\$ 35,614,092	\$ -	\$ 35,614,092
Cash held for reserve	-	866,057	866,057
Investments, at Fair Value	1,730,031,578	-	1,730,031,578
Interest Receivable to the Pool	3,331,551	-	3,331,551
Reinvestment of Securities Lending Collateral	-	751,828,405	751,828,405
Securities Lending Income Receivable	-	142,061	142,061
Total assets	1,768,977,221	752,836,523	2,521,813,744
Liabilities			
Unsettled Trades Payable	215,526,919	-	215,526,919
Distributions Payable	336,748	-	336,748
Administrative Fees Payable	21,929	-	21,929
Obligations Under Securities Lending	-	763,886,030	763,886,030
Securities Lending Agent Fees Payable	-	6,372	6,372
Securities Lending Borrower Rebates Payable	-	99,577	99,577
Total liabilities	215,885,596	763,991,979	979,877,575
Net Position Held in Trust for Pool Participants	\$1,553,091,625	\$ (11,155,456)	\$1,541,936,169

Idaho State Treasurer's Office – Assets Under Management
Combining Statement of Revenues, Expenses, and Changes in Fiduciary Net Position - IDLE
Year Ended June 30, 2014

	<u>IDLE</u>	<u>IDLE Sec Lending</u>	<u>IDLE Total</u>
Investment Income			
Interest Income	\$ 13,531,690	\$ -	\$ 13,531,690
Securities Lending Income	-	1,508,471	1,508,471
Change in Fair Value of Investments	(6,929,632)	5,415,883	(1,513,749)
Total investment income	<u>6,602,058</u>	<u>6,924,354</u>	<u>13,526,412</u>
Investment Expense			
Administrative Fees	(300,311)	-	(300,311)
Securities Lending Agent Fees	-	(111,849)	(111,849)
Securities Lending Borrower Rebates	-	(762,795)	(762,795)
Total investment expense	<u>(300,311)</u>	<u>(874,644)</u>	<u>(1,174,955)</u>
Net Investment Income	<u>6,301,747</u>	<u>6,049,710</u>	<u>12,351,457</u>
Distributions to Participants			
Distributions Paid and Payable	(3,718,291)	(178,125)	(3,896,416)
Share Transactions at Net Position Value of \$1.00 per Share			
Pooled Participant Deposits	18,499,990,038	-	18,499,990,038
Pooled Participant Withdrawals	(18,371,962,158)	-	(18,371,962,158)
Change in Net Position and Shares Resulting From Share Transactions	<u>128,027,880</u>	<u>-</u>	<u>128,027,880</u>
Total Change in Net Position	130,611,336	5,871,585	136,482,921
Net Position Held in Trust for Pool Participants			
Beginning of Year	<u>1,422,480,289</u>	<u>(17,027,041)</u>	<u>1,405,453,248</u>
End of Year	<u>\$ 1,553,091,625</u>	<u>\$(11,155,456)</u>	<u>\$ 1,541,936,169</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, 2014, and the related notes to the financial statements, which collectively comprise the Funds’ basic financial statements, and have issued our report thereon dated November 14, 2014.

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. We did identify a certain deficiency in internal control that we consider to be a significant deficiency listed as finding 2014-A in the accompanying schedule of findings and responses.

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*.

Response to Findings

The Funds' response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Funds' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Boise, Idaho
November 14, 2014

2014-A – Audit Adjustments

Significant Deficiency

Criteria:

Management should have an internal control system in place designed to ensure that interest income and changes in fair value are allocated correctly, specifically related to purchased and sold accrued interest.

Condition:

Entries were made to reclassify interest income to changes in fair value of investments relating to purchased and sold accrued interest. Total investment income recorded was correct but the amount classified as interest income and change in fair value of investments was improperly stated by approximately \$2.2 million (\$1.7 million in LGIP and \$.5 million in DBF).

Cause:

Management does not have a control in place to ensure that the allocation of income between interest income and the changes in fair value of investments is correct, specifically related to purchased and sold accrued interest.

Effect:

Total investment income recorded was correct but the amount classified as interest income and change in fair value of investments was improperly stated by approximately \$2.2 million (\$1.7 million in LGIP and \$.5 million in DBF).

Recommendation:

Management should implement controls to ensure that the allocation of income is correct.

Management Response and Corrective Plan:

We agree with the reclassifying of the purchased and sold accrued interest to interest income from the changes in fair value of investments, within the investment income. The reclassification resulted from a formula used to calculate the change in fair market value that improperly included purchased and sold interest. We have updated the formula and added internal controls to prevent an error from recurring in the future.