



Financial Statements
June 30, 2018

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 Local Government Investment Pool (LGIP), the Diversified Bond Fund (DBF), and the Idle Pool (IDLE) of the State of Idaho (together the Funds) as of and for the year ended June 30, 2018, 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 opinions 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 LGIP, DBF and IDLE of the State of Idaho as of June 30, 2018, 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 LGIP, DBF and IDLE 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 LGIP, DBF and IDLE. 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, 2018, 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 opinions are 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 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 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 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 19, 2018 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 solely 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 the effectiveness of the Funds' 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 cursive script that reads "Eide Bailly LLP".

Boise, Idaho
October 19, 2018

In an effort to provide the citizens of Idaho with additional financial information about the fiduciary funds managed within the State Treasurer's Office (STO), management is providing this discussion and analysis of the fiduciary funds of the Local Government Investment Pool (LGIP), the Diversified Bond Fund (DBF), and the Idle Pool (IDLE) of the State of Idaho (together the Funds). This analysis provides a summary of the financial position and results of operations for the year ended June 30, 2018. The reader should review the full fiscal year 2018 financial statements, including the notes and supplemental schedules, for a more complete picture of the investments within these Funds.

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 Funds. The Statement of Fiduciary Net Position provides information about the nature and amount of investment in resources (assets) and obligations (liabilities) at the close of fiscal year 2018. The Statement of Revenues, Expenses and Changes in Fiduciary Net Position report the Funds' operations for fiscal year 2018 and the resulting increases and decreases in net positions.

The notes to the financial statements contain, among other information, descriptions of the Funds' significant accounting policies and should be read in conjunction with the financial statements.

Fund Descriptions

Following is a brief description of the purpose and source of the Funds managed by the STO. State and local municipalities investing in any of the Funds are referred to as "Participants". Participant balances in each Fund are combined for greater purchasing power. Funds are not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency, including the State of Idaho.

The **Local Government Investment Pool (LGIP)** is a voluntary investment vehicle for public agencies. A Participant can request to join the pool by submitting a completed application. Participation in the LGIP is open to all public agencies. As defined in Idaho code Chapter 12, Section 67-1226, a public agency includes, but is not limited to, municipalities, districts, political subdivisions, political or public corporations, and public charter schools of the state of Idaho. The LGIP's primary purpose is to provide a safe, liquid vehicle for investing operating funds not immediately needed, while obtaining a competitive interest rate relative to the current market environment.

The **Diversified Bond Fund (DBF)** is an additional voluntary investment vehicle to complement short-term investment fund options, such as the LGIP and IDLE, for those state and public agencies who require less liquidity and can assume additional price volatility for the potential of greater returns over a longer time horizon. A Participant can request to join the DBF by submitting a completed application. Proportionate ownership in the fund is based on market value and Participants can expect the value of their investment in the fund to fluctuate from month to month. Participating agencies should therefore only invest monies that they consider longer-term in nature (3.5 years or longer).

The **State of Idaho Idle Pool (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. The IDLE portfolio is used for balancing daily cash flows (monies flowing in and out) and making sure cash is available for budgeted expenses. Excess monies are invested in either short or longer-term investments depending on the market environment and cash flow needs of the state. IDLE is managed to ensure that there will be adequate money for all of the state's appropriations.

Financial Highlights for Fiscal Year 2018 (FY18)

Safety of principal is the STO's foremost objective when investing on behalf of participants in all of the Funds, followed by liquidity and yield (investment return). The STO also serves as a source of information for state and local government agencies on investment types, market conditions, and risk evaluation.

An increase or decrease in any of the Funds' asset balances is made up of a combination of both investment performance and net deposits and withdrawals. In response to rising interest rates and increased yield opportunity, the STO extended the weighted average maturity (WAM) of debt securities of each of the Funds' portfolios to varying degrees over FY18, depending on the underlying liquidity needs of the participants.

For fiscal year 2018, total LGIP asset balances increased 14.09%, the WAM decreased from 123 days to 94 days, and the monthly distribution yield increased from .98% to 1.88%. Total DBF asset balances increased 3.59%, the WAM decreased from 4.04 years to 3.65 years, and the monthly distribution yield decreased from 2.14% to 2.09% at the end of FY18. Total IDLE asset balances increased 11.89%, the WAM decreased from 1.8 years to 1.48 years, and the yield to maturity increased from 1.54% to 2.32%.

The following tables show the value of Funds' assets, liabilities and net position summarized as of June 30, 2018, compared to June 30, 2017, for the Local Government Investment Pool (LGIP), the Diversified Bond Fund (DBF) and the State IDLE Pool (IDLE).

Local Government Investment Pool	2018	2017
Total Assets	\$ 2,515,633,384	\$ 2,204,905,531
Total Liabilities	3,628,138	1,664,798
Net Position	\$ 2,512,005,246	\$ 2,203,240,733
Diversified Bond Fund	2018	2017
Total Assets	\$ 955,747,977	\$ 922,608,424
Total Liabilities	5,824,509	1,597,254
Net Position	\$ 949,923,468	\$ 921,011,170
State IDLE Pool	2018	2017
Total Assets	\$ 2,356,711,662	\$ 2,106,312,774
Total Liabilities	3,413,418	10,650,222
Net Position	\$ 2,353,298,244	\$ 2,095,662,552

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Management's Discussion and Analysis
June 30, 2018

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, 2018, compared to fiscal year ending June 30, 2017.

Local Government Investment Pool	<u>2018</u>	<u>2017</u>
Investment Income	\$ 32,213,278	\$ 12,933,502
Investment Expenses	<u>(315,739)</u>	<u>(226,840)</u>
Net Investment Income	31,897,539	12,706,662
Distributions to Participants	(31,245,802)	(14,265,977)
Net Share Transactions	<u>308,112,776</u>	<u>323,298,879</u>
Total Change in Position	308,764,513	321,739,564
Net Position, Beginning of Year	<u>2,203,240,733</u>	<u>1,881,501,169</u>
Net Position, End of Year	<u><u>\$ 2,512,005,246</u></u>	<u><u>\$ 2,203,240,733</u></u>
Diversified Bond Fund	<u>2018</u>	<u>2017</u>
Investment Income (Loss)	\$ (2,325,522)	\$ (2,118,490)
Investment Expenses	<u>(298,508)</u>	<u>(416,108)</u>
Net Investment Income (Loss)	(2,624,030)	(2,534,598)
Distributions to Participants	(18,687,183)	(15,587,235)
Net Share Transactions	<u>50,223,511</u>	<u>185,446,321</u>
Total Change in Position	28,912,298	167,324,488
Net Position, Beginning of Year	<u>921,011,170</u>	<u>753,686,682</u>
Net Position, End of Year	<u><u>\$ 949,923,468</u></u>	<u><u>\$ 921,011,170</u></u>

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State IDLE Pool	<u>2018</u>	<u>2017</u>
Investment Income	\$ 20,628,820	\$ 8,679,583
Investment Expenses	<u>(681,517)</u>	<u>(851,600)</u>
Net Investment Income	19,947,303	7,827,983
Distributions to Participants	(31,244,973)	(14,598,430)
Net Share Transactions	<u>268,933,362</u>	<u>209,747,062</u>
Total Change in Position	257,635,692	202,976,615
Net Position, Beginning of Year	<u>2,095,662,552</u>	<u>1,892,685,937</u>
Net Position, End of Year	<u><u>\$ 2,353,298,244</u></u>	<u><u>\$ 2,095,662,552</u></u>

Contact Information

This financial report is designed to provide Fund Participants with a general overview of the STO's Investment 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, 2018

	<u>LGIP</u>	<u>DBF</u>	<u>IDLE</u>
Assets			
Cash and cash equivalents	\$ 6,024,925	\$ 400,625	\$ 55,571,645
Unsettled Trades Receivable	-	-	3,135,128
Investments, at Fair Value	2,505,025,038	950,834,888	2,291,416,348
Interest Receivable to the Pool	4,583,421	4,512,464	6,588,541
	<u>2,515,633,384</u>	<u>955,747,977</u>	<u>2,356,711,662</u>
Liabilities			
Unsettled Trades Payable	-	4,177,804	-
Distributions Payable	3,601,838	1,621,147	3,357,371
Administrative Fees Payable	26,300	25,558	56,047
	<u>3,628,138</u>	<u>5,824,509</u>	<u>3,413,418</u>
Net Position Held in Trust for Pool Participants	<u>2,512,005,246</u>	<u>949,923,468</u>	<u>2,353,298,244</u>
Net Position Consists of			
Net Position Held in Trust for External Participants (\$ par)	2,411,421,009	189,908,125	-
Net Position Held in Trust for Internal Participants (\$ par)	<u>100,584,237</u>	<u>760,015,343</u>	<u>2,353,298,244</u>
Net Position Held in Trust for Pool Participants	<u>\$ 2,512,005,246</u>	<u>\$ 949,923,468</u>	<u>\$ 2,353,298,244</u>
Total Participant Units Outstanding (\$ par)	2,503,815,585	928,874,188	2,365,123,352
Participant Net Position Value, Offering Price and Redemption			
Price Per Share (net position divided by units)	\$ 1.00	\$ 1.02	\$ 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, 2018

	<u>LGIP</u>	<u>DBF</u>	<u>IDLE</u>
Investment Income			
Interest Income	\$ 16,706,866	\$ 26,242,898	\$ 37,499,001
Change in Fair Value of Investments	<u>15,506,412</u>	<u>(28,568,420)</u>	<u>(16,870,181)</u>
Total investment income (loss)	<u>32,213,278</u>	<u>(2,325,522)</u>	<u>20,628,820</u>
Investment Expense			
Administrative Fees	<u>(315,739)</u>	<u>(298,508)</u>	<u>(681,517)</u>
Total investment expense	<u>(315,739)</u>	<u>(298,508)</u>	<u>(681,517)</u>
Net Investment Income (Loss)	<u>31,897,539</u>	<u>(2,624,030)</u>	<u>19,947,303</u>
Distributions to Participants			
Distributions Paid and Payable	<u>(31,245,802)</u>	<u>(18,687,183)</u>	<u>(31,244,973)</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	5,304,224,873	64,971,086	23,265,435,367
Pooled Participant Withdrawals	<u>(4,996,112,097)</u>	<u>(14,747,575)</u>	<u>(22,996,502,005)</u>
Change in Net Position and Shares Resulting from Share Transactions	<u>308,112,776</u>	<u>50,223,511</u>	<u>268,933,362</u>
Total Change in Net Position	308,764,513	28,912,298	257,635,692
Net Position Held in Trust for Pool Participants			
Beginning of Year	<u>2,203,240,733</u>	<u>921,011,170</u>	<u>2,095,662,552</u>
End of Year	<u>\$ 2,512,005,246</u>	<u>\$ 949,923,468</u>	<u>\$ 2,353,298,244</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 responsible for issuing state tax anticipation notes and investing the Local Government Investment Pool (LGIP) and Diversified Bond Fund (DBF). The Treasurer is also responsible for receiving all state monies, redeeming warrants, accounting for the receipt and disbursement of public funds, and investing idle state monies (IDLE). The State Treasurer's Office (STO) is dedicated to prudent management of the assets held in trust for the citizens of Idaho and utilizes well defined administrative and investment policies. LGIP, DBF and IDLE are collectively referred to hereinafter as the "Funds" or the "Pools".

Following is a brief description of the purpose and source of the Funds managed by the STO. State and local municipalities investing in any of the Funds are referred to as "Participants". Participant balances in each Fund are combined for greater purchasing power. Funds are not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency, including the State of Idaho.

The **Local Government Investment Pool (LGIP)** is a voluntary investment vehicle for public agencies. A Participant can request to join the pool by submitting a completed application. Participation in the LGIP is open to all public agencies. As defined in Idaho code Chapter 12, Section 67-1226, a public agency includes, but is not limited to, municipalities, districts, political subdivisions, political or public corporations, and public charter schools of the state of Idaho. The LGIP's primary purpose is to provide a safe, liquid vehicle for investing operating funds not immediately needed, while obtaining a competitive interest rate relative to the current market environment.

The **Diversified Bond Fund (DBF)** is an additional voluntary investment vehicle to complement short-term investment fund options, such as the LGIP and IDLE, for those state and public agencies who require less liquidity and can assume additional price volatility for the potential of greater returns over a longer time horizon. A Participant can request to join the DBF by submitting a completed application. Proportionate ownership in the fund is based on market value and Participants can expect the value of their investment in the fund to fluctuate from month to month. Participating agencies should therefore only invest monies that they consider longer-term in nature (3.5 years or longer).

The **State of Idaho Idle Pool (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. The IDLE portfolio is used for balancing daily cash flows (monies flowing in and out) and making sure cash is available for budgeted expenses. Excess monies are invested in either short or longer-term investments depending on the market environment and cash flow needs of the state. IDLE is managed to ensure that there will be adequate money for all of the state's appropriations.

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 Funds 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 Fund to the STO.

LGIP and DBF (external) participants are reported as Investment Trust Funds in the State's Comprehensive Annual Financial Report. 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, DBF and IDLE are part of the State of Idaho reporting entity based on the GASB criteria. Only the funds of LGIP, DBF and IDLE 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

The 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. 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. The following valuation techniques are used to determine fair value:

Market Approach - The market approach to measuring fair value uses prices and other relevant information generated by market transactions involving identical or similar assets or groups of assets.

Cost Approach - The cost approach to measuring fair value reflects the amount that would be required currently to replace the present service capacity of an asset.

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 0.033% of the average daily balances to IDLE and DBF. STO fees charged to IDLE participants totaled \$681,514 for the current fiscal year. STO fees charged to DBF participants totaled \$298,509 for the current fiscal year.

The LGIP fee is a fixed dollar amount for the fiscal year that is divided by twelve and 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 \$315,740 for the current fiscal year. All management fees are charged monthly and used in the calculation to determine participants' distribution.

Disclosed Risks

The Funds disclose certain risks that may be associated with their deposits and investments. Disclosures are made under each individual Fund 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 Policies set forth various thresholds or parameters relating to interest rate risk in accordance with each investment Fund portfolio structure. The policies provides maturity limitations for each Fund. 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, with the exception of mortgage backed securities and commercial mortgage backed securities which have up to a maximum maturity of 30 years. Interest rate risk in DBF is limited by restricting the effective duration to not be less than .5 times and no more than 1.25 times the index effective duration. Interest rate risk in IDLE is limited by restricting the effective duration to be within 50% to 150% of the target effective duration of 2 years at the time of purchase. 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).

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 Fund's total investments are concentrated in any one issuer, the Funds 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 Policies limit 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, 2018, 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 monies 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, 2018, was 94 days.

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 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, 2018, was 3.65 years.

Investments are reported at fair market value at June 30, 2018. 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, 2018**

Investment Type	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable inputs	Total	Valuation
	Level 1	Level 2	Level 3	Fair Value	Technique
Repurchase Agreements	\$ -	\$ 260,382,665	\$ -	\$ 260,382,665	Cost Approach
Commercial Paper	-	474,881,063	-	474,881,063	Market Approach
U.S. Treasury Obligations	-	597,250,150	-	597,250,150	Market Approach
U.S. Gov't Agency Obligations	-	903,505,881	-	903,505,881	Market Approach
Corporate Obligations	-	269,005,279	-	269,005,279	Market Approach
Total	\$ -	\$ 2,505,025,038	\$ -	\$ 2,505,025,038	

**Local Government Investment Pool
Summary of Custodial Credit Risk at June 30, 2018**

	<u>Bank Balance</u>	<u>FDIC Insurance</u>	<u>Collateral</u>	<u>Uninsured and Uncollateralized</u>
Custodial Credit Risk of Deposits	\$ 5,007,156	\$ -	\$ 5,000,000	\$ 7,156

Idaho State Treasurer's Office – Assets Under Management
Notes to Financial Statements
June 30, 2018

**Local Government Investment Pool
Summary of Fair Value and Interest Rate Risk at June 30, 2018**

Investment Type	Investment Maturities In Years		Fair Value	Interest Rates
	Less than 1	1-5		
Repurchase Agreements	\$ 260,382,665	\$ -	\$ 260,382,665	2.200%
Commercial Paper	474,881,063	-	474,881,063	1.800% - 2.380%
Corporate Debt Instruments	141,708,021	127,297,258	269,005,279	1.550% - 3.3856%
U.S. Government Agency Obligations	888,596,151	14,909,730	903,505,881	1.100% - 2.4595%
US Treasury Obligations	597,250,150	-	597,250,150	0.750% - 1.902%
Total Securities	2,362,818,050	142,206,988	2,505,025,038	
Accrued Interest	4,583,421	-	4,583,421	
Total Investments	\$ 2,367,401,471	\$ 142,206,988	\$ 2,509,608,459	

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

Fair Value of Investments at June 30, 2018	\$ 2,511,049,963
Add: Proceeds of Investments Sold in FY2018	57,289,197,245
Subtract: Cost of Investments Purchased in FY2018	(57,584,835,928)
Subtract: Fair Value at June 30, 2017	(2,199,904,867)
Change in Fair Value of Investments during FY2018	\$ 15,506,412

Idaho State Treasurer's Office – Assets Under Management
Notes to Financial Statements
June 30, 2018

**Local Government Investment Pool
Credit Quality Ratings of Debt Securities at June 30, 2018**

Investment Type	Aaa	Aa	A
Repurchase Agreements	\$ -	\$ -	\$ -
Commercial Paper	-	-	-
Corporate Debt Instruments	-	91,760,244	177,245,035
U.S. Government Agency Obligations	143,370,305	-	-
Total	\$ 143,370,305	\$ 91,760,244	\$ 177,245,035

Investment Type	P-1	Unrated	Fair Value
Repurchase Agreements	\$ -	\$ 260,382,665	\$ 260,382,665
Commercial Paper	474,881,063	-	474,881,063
Corporate Debt Instruments	-	-	269,005,279
U.S. Government Agency Obligations	705,503,761	54,631,815	903,505,881
Total	\$ 1,180,384,824	\$ 315,014,480	\$ 1,907,774,888

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

**Local Government Investment Pool
Concentration of Credit Risk at June 30, 2018**

Issuer	Fair Value	Percent of Total LGIP Investments
Federal Home Loan Bank	\$ 393,597,318	15.71%
Daiwa Capital	260,382,665	10.39%
Federal Farm Credit Bank	214,369,448	8.56%
Federal Home Loan Mortgage Corporation	165,414,987	6.60%
Exxon Mobil	149,461,000	5.97%

Diversified Bond Fund

**Diversified Bond Fund
Investments Measured at Fair Value at June 30, 2018**

Investment Type	Quoted Prices in Active Markets for Identical Assets		Significant Other Observable Inputs	Significant Unobservable inputs	Total	Valuation Technique
	Level 1	Level 2	Level 3	Fair Value		
Asset-Backed Securities*	\$ -	\$ 177,965,642	\$ -	\$ 177,965,642	Market Approach	
Corporate Obligations	-	224,816,429	-	224,816,429	Market Approach	
Repurchase Agreements	-	3,857,094	-	3,857,094	Cost Approach	
U.S. Gov't Agency Mortgage-Backed Securities*	-	236,965,483	-	236,965,483	Market Approach	
U.S. Gov't Agency Obligations	-	55,276,597	-	55,276,597	Market Approach	
U.S. Treasury Obligations	-	251,953,643	-	251,953,643	Market Approach	
Total	\$ -	\$ 950,834,888	\$ -	\$ 950,834,888		

*These 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
June 30, 2018

Diversified Bond Fund
Summary of Fair Value and Interest Rate Risk at June 30, 2018

Investment Type	Investment Maturities			Fair Value	Interest Rates
	Less than 1**	In Years 1-5	6-10		
Asset-Backed Securities*	\$ 114,274,167	\$ 63,691,475	\$ -	\$ 177,965,642	1.2600 % - 3.0100 %
Corporate Debt Instruments	10,768,320	202,076,141	11,971,968	224,816,429	1.2000% - 5.3000%
Repurchase Agreements	3,857,094	-	-	3,857,094	2.2000%
U.S. Gov't Agency Mortgage-Backed Securities*	2,472,261	59,948,714	174,544,508	236,965,483	1.7300 % - 5.5000 %
U.S. Gov't Agency Obligations	10,969,583	41,356,979	2,950,035	55,276,597	1.0000% - 5.2500%
U.S. Treasury Obligations	-	238,406,768	13,546,875	251,953,643	1.3750 % - 8.1250 %
Total Securities	142,341,425	605,480,077	203,013,386	950,834,888	
Accrued Interest	4,512,464	-	-	4,512,464	
Total Investments	\$ 146,853,889	\$605,480,077	\$203,013,386	\$955,347,352	

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

**Cash held at Northern Trust as of June 30, 2018 of \$400,625 not included.

Diversified Bond Fund
Change in Fair Value

Fair Value of Investments at June 30, 2018	\$ 951,235,513
Add: Proceeds of Investments Sold in FY2018	5,291,560,143
Subtract: Cost of Investments Purchased in FY2018	(5,353,296,108)
Subtract: Fair Value at June 30, 2017	<u>(918,067,968)</u>
Change in Fair Value of Investments during FY2018	<u>\$ (28,568,420)</u>

Diversified Bond Fund
Credit Quality Ratings of Debt Securities at June 30, 2018

Investment Type	Aaa	Aa	A
Asset-Backed Securities	\$ 145,713,392	\$ -	\$ 17,145,129
Corporate Debt Instruments	16,630,099	46,489,337	161,696,993
Repurchase Agreements	-	-	-
U.S. Gov't Agency Mortgage- Backed Securities	220,688,350	-	-
U.S. Gov't Agency Obligations	55,276,597	-	-
Total	\$ 438,308,438	\$ 46,489,337	\$ 178,842,122

Investment Type	P-1	Unrated	Fair Value
Asset-Backed Securities	\$ 15,107,121	\$ -	\$ 177,965,642
Corporate Debt Instruments	-	-	224,816,429
Repurchase Agreements	-	3,857,094	3,857,094
U.S. Gov't Agency Mortgage- Backed Securities	-	16,277,133	236,965,483
U.S. Gov't Agency Obligations	-	-	55,276,597
Total	\$ 15,107,121	\$ 20,134,227	\$ 698,881,245

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

Diversified Bond Fund
Concentration of Credit Risk at June 30, 2018

Issuer	Fair Value	Percent of Total DBF Investments
FNMA	\$ 172,277,376	18.12%
FHLMC	89,112,468	9.37%

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 monies 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 1.48 years.

**IDLE Pool
Summary of Custodial Credit Risk at June 30, 2018**

	Bank Balance	FDIC Insurance	Collateral	Uninsured and Uncollateralized
Custodial Credit Risk of Deposits	\$ 67,823,462	\$ 1,288,223	\$ 41,290,663	\$ 25,244,577

Investments

General Investment Policies

The Idaho Uniform Prudent Investor Act (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. Unsettled trades receivable consisting of \$3.1 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
Notes to Financial Statements
June 30, 2018

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, 2018

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
Asset-Backed Securities*	\$ -	\$ 152,190,437	\$ -	\$ 152,190,437	Market Approach
Certificates of Deposit	-	5,000,000	-	5,000,000	Cost Approach
Commercial Paper	-	49,867,500	-	49,867,500	Market Approach
Corporate Obligations	-	269,208,769	-	269,208,769	Market Approach
Repurchase Agreements	-	310,000,000	-	310,000,000	Cost Approach
U.S. Gov't Agency Mortgage-Backed Securities*	-	172,638,037	-	172,638,037	Market Approach
U.S. Gov't Agency Obligations	-	254,918,266	-	254,918,266	Market Approach
U.S. Treasury Obligations	-	1,077,593,339	-	1,077,593,339	Market Approach
Total Debt Securities	\$ -	\$ 2,291,416,348	\$ -	\$ 2,291,416,348	

*These 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, 2018**

Investment Type	Investment Maturities			Fair Value	Interest Rates
	Less than 1	In Years 1-5	6-10		
Asset-Backed Securities *	\$ 98,556,048	\$ 53,634,389	\$ -	\$ 152,190,437	1.2700 % - 2.9500 %
Certificates of Deposit	5,000,000	-	-	5,000,000	1.899%
Commercial Paper	49,867,500			49,867,500	2.090%
Corporate Obligations	74,711,860	183,771,642	10,725,267	269,208,769	1.2000 % - 5.3000 %
Repurchase Agreements	310,000,000	-	-	310,000,000	2.200%
U.S. Gov't Agency Mortgage- Backed Securities*	1,697,921	41,209,640	129,730,476	172,638,037	1.7300 % - 6.0000 %
U.S. Gov't Agency Obligations	73,463,861	181,454,405	-	254,918,266	1.0000 % - 2.2500 %
U.S.Treasury Obligations	1,023,443,854	45,118,235	9,031,250	1,077,593,339	0.7500 % - 8.1250 %
Total Securities	1,636,741,044	505,188,311	149,486,993	2,291,416,348	
Accrued Interest	6,588,541	-	-	6,588,541	
Total Investments	\$ 1,643,329,585	\$ 505,188,311	\$ 149,486,993	\$ 2,298,004,889	

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

**IDLE
Change in Fair Value**

Fair Value of Investments at June 30, 2018	\$ 2,291,416,348
Add: Proceeds of Investments Sold in FY2018	50,362,265,648
Subtract: Cost of Investments Purchased in FY2018	(50,629,819,255)
Subtract: Fair Value at June 30, 2017	(2,040,732,922)
Change in Fair Value of Investments during FY2018	<u>\$ (16,870,181)</u>

Credit Risk of Debt Securities

**IDLE Pool
Credit Quality Ratings of Debt Securities at June 30, 2018**

Investment Type	Aaa	Aa	A
Repurchase Agreements	\$ -	\$ -	\$ -
Commercial Paper	-	-	-
Certificate of Deposit	-	-	-
Asset-Backed Securities	118,915,779	-	17,710,088
Corporate Debt Instruments	2,961,666	72,935,809	193,311,294
U.S. Government Agency Obligations	181,454,405	-	-
U.S. Gov't Agency Mortgage- Backed Securities	145,486,198	-	-
Total	\$ 448,818,048	\$ 72,935,809	\$ 211,021,382

Investment Type	P-1	Unrated	Fair Value
Repurchase Agreements	\$ -	\$ 310,000,000	\$ 310,000,000
Commercial Paper	49,867,500	-	49,867,500
Certificate of Deposit	-	5,000,000	5,000,000
Asset-Backed Securities	15,564,570	-	152,190,437
Corporate Debt Instruments	-	-	269,208,769
U.S. Government Agency Obligations	73,463,861	-	254,918,266
U.S. Gov't Agency Mortgage- Backed Securities	-	27,151,839	172,638,037
Total	\$ 138,895,931	\$ 342,151,839	\$ 1,213,823,009

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

Concentration of Credit Risk

**IDLE Pool
Concentration of Credit Risk at June 30, 2018**

Issuer	Fair Value	Percent of Total IDLE Investments
Daiwa Capital	\$ 310,000,000	13.53%
Federal Home Loan Mortgage Corp.	216,761,052	9.46%

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.



Supplementary Information
June 30, 2018

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, 2018

	External Participants	Internal Participants	LGIP Total
Assets			
Cash	\$ 5,783,678	\$ 241,247	\$ 6,024,925
Investments - Pooled Short Term	705,822,730	29,440,998	735,263,728
Investments - Fixed Income	1,698,897,568	70,863,742	1,769,761,310
Interest Receivable to the Pool	4,399,894	183,527	4,583,421
Total assets	2,414,903,870	100,729,514	2,515,633,384
Liabilities			
Distributions Payable	3,457,615	144,223	3,601,838
Administrative Fees Payable	25,247	1,053	26,300
Total liabilities	3,482,862	145,276	3,628,138
Net Position Held in Trust for Pool Participants	2,411,421,008	100,584,238	2,512,005,246
Net Position			
Net Position Held in Trust for External Participants (\$ par)	2,411,421,009	-	2,411,421,009
Net Position Held in Trust for Internal Participants (\$ par)	-	100,584,237	100,584,237
Net Position Held in Trust for Pool Participants	\$ 2,411,421,009	\$ 100,584,237	\$ 2,512,005,246

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, 2018

	External Participants	Internal Participants	LGIP Total
Investment Income			
Interest Income	\$ 16,037,899	\$ 668,967	\$ 16,706,866
Change in Fair Value of Investments	14,311,130	1,195,282	15,506,412
Total investment income	30,349,029	1,864,249	32,213,278
Expense			
Administrative Fees	(303,096)	(12,643)	(315,739)
Net Investment Income	30,045,933	1,851,606	31,897,539
Distributions to Participants			
Distributions Paid and Payable	(29,365,661)	(1,880,141)	(31,245,802)
Share Transactions at Net Position Value of \$1.00 per share			
Pooled Participant Deposits	5,024,624,522	279,600,351	5,304,224,873
Pooled Participant Withdrawals	(4,711,815,795)	(284,296,302)	(4,996,112,097)
Change in Net Position and Shares Resulting from Share Transactions	312,808,727	(4,695,951)	308,112,776
Total Change in Net Position	313,488,999	(4,724,486)	308,764,513
Net Position, Beginning of Year	2,097,932,010	105,308,723	2,203,240,733
Net Position, End of Year	\$ 2,411,421,009	\$ 100,584,237	\$ 2,512,005,246

Idaho State Treasurer's Office – Assets Under Management
Combining Statement of Fiduciary Net Position - DBF
(Internal and External Participants)
June 30, 2018

	External Participants	Internal Participants	DBF Total
Assets			
Investments - Pooled Short Term*	\$ 5,197,029	\$ 20,798,593	\$ 25,995,622
Investments - Fixed Income	102,020,620	408,288,146	510,308,766
Investments - Mortgage and Asset-Backed	82,952,780	331,978,345	414,931,125
Interest Receivable to the Pool	902,129	3,610,335	4,512,464
Total assets	191,072,558	764,675,419	955,747,977
Liabilities			
Unsettled Trades Payable	835,224	3,342,580	4,177,804
Distributions Payable	324,099	1,297,048	1,621,147
Administrative Fees Payable	5,110	20,448	25,558
Total liabilities	1,164,433	4,660,076	5,824,509
Net Position Held in Trust for Pool Participants	189,908,125	760,015,343	949,923,468
Net Position			
Net Position Held in Trust for External Participants (\$ par)	189,908,125	-	189,908,125
Net Position Held in Trust for Internal Participants (\$ par)	-	760,015,343	760,015,343
Net Position Held in Trust for Pool Participants	\$ 189,908,125	\$ 760,015,343	\$ 949,923,468

* Includes \$400,625 of cash and cash equivalents held at Northern Trust as of June 30, 2018.

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, 2018

	External Participants	Internal Participants	DBF Total
Investment Income			
Interest Income	\$ 5,246,464	\$ 20,996,434	\$ 26,242,898
Change in Fair Value of Investments	<u>(13,435,654)</u>	<u>(15,132,766)</u>	<u>(28,568,420)</u>
Total investment income	(8,189,190)	5,863,668	(2,325,522)
Expense			
Administrative Fees	<u>(61,048)</u>	<u>(237,460)</u>	<u>(298,508)</u>
Net Investment Income	(8,250,238)	5,626,208	(2,624,030)
Distributions to Participants			
Distributions Paid and Payable	<u>(3,829,619)</u>	<u>(14,857,564)</u>	<u>(18,687,183)</u>
Share Transactions at Net Asset Value			
Pooled Participant Deposits	12,988,980	51,982,106	64,971,086
Pooled Participant Withdrawals	<u>(2,948,326)</u>	<u>(11,799,249)</u>	<u>(14,747,575)</u>
Change in Net Position and Shares Resulting from Share Transactions	<u>10,040,654</u>	<u>40,182,857</u>	<u>50,223,511</u>
Change in Net Position	(2,039,203)	30,951,501	28,912,298
Net Position, Beginning of Year	<u>191,947,328</u>	<u>729,063,842</u>	<u>921,011,170</u>
Net Position, End of Year	<u>\$ 189,908,125</u>	<u>\$ 760,015,343</u>	<u>\$ 949,923,468</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, 2018, and the related notes to the financial statements, which collectively comprise the Funds’ basic financial statements, and have issued our report thereon dated October 19, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 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 been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 entity's 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 19, 2018