



Financial Statements
June 30, 2015

Idaho State Treasurer's Office – Assets Under Management

Idaho State Treasurer's Office – Assets Under Management

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Independent Auditor's Report

To the Treasurer
State of Idaho

Report on the Financial Statements

We have audited the accompanying financial statements of the fiduciary funds of the State of Idaho idle pool (IDLE), the Local Government Investment Pool (LGIP) and the Diversified Bond Fund (DBF) of the State of Idaho (together the Funds) as of and for the year ended June 30, 2015, 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, 2015, 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, 2015, 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 September 28, 2015 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 Sully LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
September 28, 2015

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, 2015. The reader should review the actual financial statements, including the notes and supplemental schedules, for a more complete picture of the investments managed by the STO.

Financial Statements

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

The financial statements report short and long-term financial information about the STO. The Statement of Fiduciary Net Position provides information about the nature and amounts of investments in resources (assets) and obligations (liabilities) at the close of fiscal year 2015. The Statement of Revenues, Expenses and Changes in Fiduciary Net Position report the Investment's operations for fiscal year 2015 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) continued to see assets in the pool grow during FY15 with an increase of 18.57%. During FY15 the weighted average maturity (WAM) of the LGIP increased slightly from 109 days to 118 days. We continued to maintain a WAM longer than 90 days as we did not foresee the Federal Open Market Committee (FOMC) raising interest rates until late 2015 at the earliest. The average distribution yield was 0.16%, with the highest and lowest distribution yields being 0.26% and 0.12% respectively during FY15.

The IDLE pool saw assets in the pool decrease 5.81% during FY15. 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 FY15 was 302 days.

The Diversified Bond Fund (DBF) returned 2.04% during FY15 compared to the Barclays US Intermediate Aggregate xBaa index return of 1.97%, with the highest and lowest monthly distribution yields being 2.75% and 1.73% respectively. The duration of the portfolio was 4.04 years versus 3.39 years for the index.

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.

The following table's shows the value of Fund's assets, liabilities and net position summarized as of June 30, 2015 compared to June 30, 2014 for the LGIP, DBF and IDLE.

Local Government Investment Pool

	<u>2015</u>	<u>2014</u>
Total Assets	\$ 1,732,263,537	\$ 1,460,960,101
Total Liabilities	<u>287,759</u>	<u>187,889</u>
Net Position	<u><u>\$ 1,731,975,778</u></u>	<u><u>\$ 1,460,772,212</u></u>

Diversified Bond Fund

	<u>2015</u>	<u>2014</u>
Total Assets	\$ 572,031,805	\$ 594,378,180
Total Liabilities	<u>788,376</u>	<u>872,077</u>
Net Position	<u><u>\$ 571,243,429</u></u>	<u><u>\$ 593,506,103</u></u>

State IDLE Pool

	<u>2015</u>	<u>2014</u>
Total Assets	\$ 2,375,190,687	\$ 2,521,813,744
Total Liabilities	<u>565,275,157</u>	<u>979,877,575</u>
Net Position	<u><u>\$ 1,809,915,530</u></u>	<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, 2015 compared to fiscal year ending June 30, 2014.

Idaho State Treasurer's Office – Assets Under Management
Management's Discussion and Analysis
June 30, 2015

Local Government Investment Pool

	2015	2014
Investment Income	\$ 3,098,830	\$ 2,369,147
Investment Expenses	(512,500)	(505,320)
Net Investment Income	2,586,330	1,863,827
Distributions to Participants	(2,325,167)	(1,615,514)
Share Transactions	270,942,403	8,269,485
Total Change in Position	271,203,566	8,517,798
Net Position, Beginning of Year	1,460,772,212	1,452,254,414
Net Position, End of Year	\$ 1,731,975,778	\$ 1,460,772,212

Diversified Bond Fund

	2015	2014
Investment Income	\$ 11,693,128	\$ 12,823,778
Investment Expenses	(99,396)	(323,675)
Net Investment Income	11,593,732	12,500,103
Distributions to Participants	(11,273,531)	(12,622,023)
Share Transactions	(22,582,875)	(328,865)
Total Change in Position	(22,262,674)	(450,785)
Net Position, Beginning of Year	593,506,103	593,956,888
Net Position, End of Year	\$ 571,243,429	\$ 593,506,103

Idaho State Treasurer's Office – Assets Under Management
Management's Discussion and Analysis
June 30, 2015

State IDLE Pool

	2015	2014
Investment Income	\$ 11,089,615	\$ 13,526,412
Investment Expenses	(1,678,107)	(1,174,955)
Net Investment Income	9,411,508	12,351,457
Distributions to Participants	3,602,504	(3,896,416)
Share Transactions	254,965,349	128,027,880
Total Change in Position	267,979,361	136,482,921
Net Position, Beginning of Year	1,541,936,169	1,405,453,248
Net Position, End of Year	\$1,809,915,530	\$1,541,936,169

Securities Lending Sale

The two impaired assets that were deemed to be held in an other-than-temporary loss position in FY14, inside of securities lending, were sold in FY15. Given the structure of these securities and the required process to settle, settlement will occur during FY16. Once these trades have settled, we will begin the process of discontinuing securities lending in the IDLE pool per Idaho Code 67-1210B.

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, 2015

	<u>LGIP</u>	<u>DBF</u>	<u>IDLE</u>
Assets			
Cash and cash equivalents	\$ 20,006,302	\$ -	\$ 49,038,139
Cash held for reserve	-	-	9,398,400
Unsettled Securities Lending Trades Receivable	-	-	16,031,283
Investments, at Fair Value	1,710,062,121	569,767,243	1,996,204,840
Interest Receivable to the Pool	2,195,114	2,264,562	1,897,887
Reinvestment of Securities Lending Collateral	-	-	302,512,684
Securities Lending Income Receivable	-	-	107,454
	<u>1,732,263,537</u>	<u>572,031,805</u>	<u>2,375,190,687</u>
Liabilities			
Unsettled Trades Payable	-	-	236,869,283
Distributions Payable	245,059	780,221	451,046
Administrative Fees Payable	42,700	8,155	52,845
Obligations Under Securities Lending	-	-	327,813,869
Securities Lending Agent Fees Payable	-	-	3,329
Securities Lending Borrower Rebates Payable	-	-	84,785
	<u>287,759</u>	<u>788,376</u>	<u>565,275,157</u>
Net Position Held in Trust for Pool Participants	<u>1,731,975,778</u>	<u>571,243,429</u>	<u>1,809,915,530</u>
Net Position Consists of			
Net Position Held in Trust for External Participants (\$ par)	1,671,737,426	167,845,824	-
Net Position Held in Trust for Internal Participants (\$ par)	<u>60,238,352</u>	<u>403,397,605</u>	<u>1,809,915,530</u>
Net Position Held in Trust for Pool Participants	<u>\$ 1,731,975,778</u>	<u>\$ 571,243,429</u>	<u>\$ 1,809,915,530</u>
Total Participant Units Outstanding (\$ par)	1,723,334,125	542,911,298	1,800,931,119
Participant Net Position Value, Offering Price and Redemption Price Per Share (net position divided by units)	\$ 1.01	\$ 1.05	\$ 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, 2015

	<u>LGIP</u>	<u>DBF</u>	<u>IDLE</u>
Investment Income			
Interest Income	\$ 6,346,078	\$ 15,640,686	\$ 9,959,932
Securities Lending Income	-	-	1,604,132
Change in Fair Value of Investments	<u>(3,247,248)</u>	<u>(3,947,558)</u>	<u>(474,449)</u>
Total investment income	<u>3,098,830</u>	<u>11,693,128</u>	<u>11,089,615</u>
Investment Expense			
Administrative Fees	(512,500)	(99,396)	(549,118)
Securities Lending Agent Fees	-	-	(62,755)
Securities Lending Borrower Rebates	<u>-</u>	<u>-</u>	<u>(1,066,234)</u>
Total investment expense	<u>(512,500)</u>	<u>(99,396)</u>	<u>(1,678,107)</u>
Net Investment Income	<u>2,586,330</u>	<u>11,593,732</u>	<u>9,411,508</u>
Distributions to Participants			
Distributions Paid and Payable	<u>(2,325,167)</u>	<u>(11,273,531)</u>	<u>3,602,504</u>
Share Transactions at Net Position Value of \$1.00 per Share			
Pooled Participant Deposits	4,159,006,127	19,306,346	19,623,131,631
Pooled Participant Withdrawals	<u>(3,888,063,724)</u>	<u>(41,889,221)</u>	<u>(19,368,166,282)</u>
Change in Net Position and Shares Resulting from Share Transactions	<u>270,942,403</u>	<u>(22,582,875)</u>	<u>254,965,349</u>
Total Change in Net Position	271,203,566	(22,262,674)	267,979,361
Net Position Held in Trust for Pool Participants			
Beginning of Year	<u>1,460,772,212</u>	<u>593,506,103</u>	<u>1,541,936,169</u>
End of Year	<u>\$ 1,731,975,778</u>	<u>\$ 571,243,429</u>	<u>\$ 1,809,915,530</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 on a monthly basis.

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 0.037% of the average daily balances to both pools. STO fees charged to IDLE participants totaled \$549,118 for the current fiscal year. STO fees charged to DBF participants totaled \$99,396 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 \$512,500 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, 2015, 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, 2015, was 118 days.

Idaho State Treasurer's Office – Assets Under Management
Notes to Financial Statements
June 30, 2015

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, 2015, was 4.04 years.

Investments are reported at fair market value at June 30, 2015. 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 Custodial Credit Risk at June 30, 2015**

	Bank Balance	FDIC Insurance	Collateral	Uninsured and Uncollateralized
Custodial Credit Risk of Deposits	\$ 20,006,302	\$ 6,302	\$ 20,000,000	\$ -

**Local Government Investment Pool
Summary of Fair Value and Interest Rate Risk at June 30, 2015**

Investment Type	Investment Maturities		Fair Value	Interest Rates
	In Years Less than 1	1-5		
Repurchase Agreements	\$ 206,562,828	\$ -	\$ 206,562,828	0.200%
Commercial Paper	83,816,672	-	83,816,672	0.310% - 0.500%
Corporate Debt Instruments	31,021,413	19,109,835	50,131,248	0.309% - 1.625%
U.S. Government Agency Obligations	1,068,500,254	126,004,269	1,194,504,523	0.130% - 5.300%
US Treasury Obligations	175,046,850	-	175,046,850	0.250% - 0.375%
Total Securities	1,564,948,017	145,114,104	1,710,062,121	
Accrued Interest	2,195,114	-	2,195,114	
Total Assets	\$ 1,567,143,131	\$ 145,114,104	\$ 1,712,257,235	

Idaho State Treasurer's Office – Assets Under Management
Notes to Financial Statements
June 30, 2015

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

Fair Value of Investments at June 30, 2015	\$	1,730,068,423
Add: Proceeds of Investments Sold in FY2015		39,427,060,297
Subtract: Cost of Investments Purchased in FY2015		(39,701,365,540)
Subtract: Fair Value at June 30, 2014		(1,459,010,428)
		<u>(1,459,010,428)</u>
Change in Fair Value of Investments during FY2015	\$	<u><u>(3,247,248)</u></u>

**Local Government Investment Pool
Credit Quality Ratings of Debt Securities at June 30, 2015**

Investment Type	Aaa	Aa	A
Repurchase Agreements	\$ -	\$ -	\$ -
Commercial Paper	-	-	-
Corporate Debt Instruments	3,009,432	17,998,406	29,123,410
U.S. Government Agency Obligations	-	419,232,985	-
	<u>-</u>	<u>419,232,985</u>	<u>-</u>
Total	<u>\$ 3,009,432</u>	<u>\$ 437,231,391</u>	<u>\$ 29,123,410</u>

Investment Type	P-1	Unrated	Fair Value
Repurchase Agreements	\$ -	\$ 206,562,828	\$ 206,562,828
Commercial Paper	83,816,672	-	83,816,672
Corporate Debt Instruments	-	-	50,131,248
U.S. Government Agency Obligations	658,323,253	116,948,285	1,194,504,523
	<u>658,323,253</u>	<u>116,948,285</u>	<u>1,194,504,523</u>
Total	<u>\$ 742,139,925</u>	<u>\$ 323,511,113</u>	<u>\$ 1,535,015,271</u>

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

Reconciliation to Sum of FV and Interest Rate Risk Schedule and Statement of Net Position
Obligations and other not required to be disclosed:

U.S. Treasury	\$	175,046,850
Accrued Interest		2,195,114
		<u>2,195,114</u>
Total Assets	\$	<u><u>1,712,257,235</u></u>

Idaho State Treasurer's Office – Assets Under Management
Notes to Financial Statements
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**Local Government Investment Pool
Concentration of Credit Risk at June 30, 2015**

Issuer	Fair Value	Percent of Total LGIP Investments
Federal Home Loan Bank	\$ 421,709,521	24.66%
Federal National Mortgage Association	280,288,650	16.39%
Daiwa	206,562,828	12.08%
Federal Home Loan Mortgage Corp	190,172,829	11.12%
Federal Farm Credit Bank	185,385,238	10.84%
Federal Agricultural Mortgage Corp	116,948,285	6.84%

Diversified Bond Fund

**Diversified Bond Fund
Summary of Fair Value and Interest Rate Risk at June 30, 2015**

Investment Type	Investment Maturities			Fair Value	Interest Rates
	Less than 1	In Years 1-5	6-10		
Corporate Debt Instruments	\$ -	\$ 75,032,649	\$ 8,832,606	\$ 83,865,255	1.000% - 7.625%
Commercial Mortgage-Backed Securities*	-	-	4,480,952	4,480,952	2.822%
U.S. Gov't Agency Obligations	6,051,318	35,529,077	6,598,713	48,179,108	0.450% - 5.250%
U.S. Gov't Agency Mortgage-Backed Securities*	-	126,478,392	66,660,146	193,138,538	1.233% - 6.000%
U.S. Gov't Corporation Mortgage-Backed Securities*	-	11,696,864	-	11,696,864	4.000% - 6.500%
Repurchase Agreements	34,351,428	-	-	34,351,428	0.200%
U.S. Treasury Obligations	-	184,373,848	9,681,250	194,055,098	0.625% - 4.250%
Total securities	40,402,746	433,110,830	96,253,667	569,767,243	
Accrued Interest	2,264,562	-	-	2,264,562	
Total assets	\$ 42,667,308	\$ 433,110,830	\$ 96,253,667	\$ 572,031,805	

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

Idaho State Treasurer's Office – Assets Under Management
Notes to Financial Statements
June 30, 2015

**Diversified Bond Fund
Change in Fair Value**

Fair Value of Investments at June 30, 2015	\$ 569,767,243
Add: Proceeds of Investments Sold in FY2015	5,090,781,903
Subtract: Cost of Investments Purchased in FY2015	(5,072,343,305)
Subtract: Fair Value at June 30, 2014	(592,153,399)
	<u>(592,153,399)</u>
Change in Fair Value of Investments during FY2015	\$ (3,947,558)

**Diversified Bond Fund
Credit Quality Ratings of Debt Securities at June 30, 2015**

Investment Type	Aaa	Aa	A
Corporate Debt Instruments	\$ 4,407,758	\$ 16,138,810	\$ 57,346,455
Corporate Mortgage-Backed Securities	4,480,952	-	-
U.S. Gov't Agency Obligations	-	48,179,108	-
U.S. Gov't Agency Mortgage-Backed Securities	3,124,068	-	-
	<u>\$ 12,012,778</u>	<u>\$ 64,317,918</u>	<u>\$ 57,346,455</u>
Total	<u>\$ 12,012,778</u>	<u>\$ 64,317,918</u>	<u>\$ 57,346,455</u>
Investment Type	Baa	Unrated	Fair Value
Corporate Debt Instruments	\$ 5,972,232	\$ -	\$ 83,865,255
Corporate Mortgage-Backed Securities	-	-	4,480,952
U.S. Gov't Agency Obligations	-	-	48,179,108
U.S. Gov't Agency Mortgage-Backed Securities	-	190,014,470	193,138,538
Repurchase Agreements	-	34,351,428	34,351,428
	<u>\$ 5,972,232</u>	<u>\$ 224,365,898</u>	<u>\$ 364,015,281</u>
Total	<u>\$ 5,972,232</u>	<u>\$ 224,365,898</u>	<u>\$ 364,015,281</u>

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

Reconciliation to Sum of FV and Interest Rate Risk Schedule and Statement of Net Position
Obligations and other not required to be disclosed:

U. S. Government Corporation	\$ 11,696,864
U.S. Treasury	194,055,098
Accrued Interest	2,264,562
	<u>2,264,562</u>
Total Assets	<u>\$ 572,031,805</u>

Diversified Bond Fund
Concentration of Credit Risk at June 30, 2015

Issuer	Fair Value	Percent of Total DBF Investments
Federal National Mortgage Association	\$ 165,721,133	29.09%
Federal Home Loan Mortgage Corporation	\$ 57,656,450	10.12%
Daiwa	\$ 34,351,428	6.03%

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 302 days.

IDLE Pool
Summary of Custodial Credit Risk at June 30, 2015

	Bank Balance	FDIC Insurance	Collateral	Uninsured and Uncollateralized
Custodial Credit Risk of Deposits	\$ 80,691,725	\$ 598,642	\$ 48,545,049	\$ 31,548,034

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.

Idaho State Treasurer's Office – Assets Under Management
Notes to Financial Statements
June 30, 2015

The STO invests idle moneys in accordance with Idaho Code Sections 67-1210, 67-1210A, and 67-2739. The STO Investment Division manages both the short-term and intermediate-term investments. Unsettled trades payable consisting of \$236.9 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.

Interest Rate Risk of Debt Securities

**IDLE Pool
Summary of Fair Value and Interest Rate Risk at June 30, 2015**

Investment Type	Investment Maturities				Fair Value	Interest Rates
	Less than 1	In Years				
		1-5	6-10	11-15		
Certificates of Deposit	\$ 8,500,000	\$ -	\$ -	\$ -	\$ 8,500,000	0.356%
Repurchase Agreements	223,512,804	-	-	-	223,512,804	0.200%
Commercial Paper	99,986,014	-	-	-	99,986,014	0.120% - 0.150%
Mortgage-Backed Securities *	-	-	2,987,301	-	2,987,301	2.822%
U.S. Government Obligations	100,390,600	60,511,542	5,145,968	-	166,048,110	0.875% - 4.000%
U.S. Gov't Agency Obligations	1,339,220,358	19,044,144	-	-	1,358,264,502	0.125% - 5.125%
U.S. Gov't Agency Mortgage-Backed Securities*	-	45,684,314	36,861,155	-	82,545,469	0.487% - 6.000%
U.S. Gov't Corporation Mortgage-Backed Securities*	-	1,651,770	-	-	1,651,770	4.000%
Corporate Obligations	27,397,973	21,226,959	2,435,012	-	51,059,944	0.700% - 5.750 %
Idaho Small Business Loans	3,965	1,074,909	90,584	479,468	1,648,926	1.250%
Total Securities	1,799,011,714	149,193,638	47,520,020	479,468	1,996,204,840	
Accrued Interest	1,897,887	-	-	-	1,897,887	
<u>Reinvestment of Securities</u>						
<u>Lending Collateral:</u>						
Money Market Mutual Funds	32,500,000	-	-	-	32,500,000	0.139%
Repurchase Agreements	270,012,684	-	-	-	270,012,684	0.100% - 0.500%
Commercial Paper	-	-	-	-	-	
Securities Lending Income Receivable	107,454	-	-	-	107,454	
Total Assets	\$ 2,103,529,739	\$ 149,193,638	\$ 47,520,020	\$ 479,468	\$ 2,300,722,865	

*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.

Idaho State Treasurer's Office – Assets Under Management
Notes to Financial Statements
June 30, 2015

**IDLE Pool
Change in Fair Value**

	IDLE	IDLE Sec Lending	IDLE Total
Fair Value of Investments at June 30, 2015	\$ 1,996,204,840	\$ 302,512,684	\$ 2,298,717,524
Add: Proceeds of Investments Sold in FY2015	57,140,243,567	14,783,964,598	71,924,208,165
Subtract: Cost of Investments Purchased in FY2015	(57,409,679,001)	(14,331,861,154)	(71,741,540,155)
Subtract: Fair Value at June 30, 2014	(1,730,031,578)	(751,828,405)	(2,481,859,983)
Change in Fair Value of Investments during FY2015	\$ (3,262,172)	\$ 2,787,723	\$ (474,449)

Credit Risk of Debt Securities

**IDLE Pool
Credit Quality Ratings of Debt Securities at June 30, 2015**

Investment Type	Aaa	Aa	A	Baa
Corporate Debt Instruments	\$ -	\$ 5,810,628	\$ 41,044,378	\$ 4,204,938
U.S. Government Agency Obligations	-	306,056,234	-	-
U.S. Gov't Agency Mortgage- Backed Securities	-	871,956	-	-
Mortgage-Backed Securities <u>Reinvestment of Securities</u>	2,987,301	-	-	-
<u>Lending Collateral:</u> Money Market Mutual Funds	32,500,000	-	-	-
Total	\$ 35,487,301	\$ 312,738,818	\$ 41,044,378	\$ 4,204,938

Investment Type	A1 - P1	Unrated	Fair Value
Repurchase Agreements	\$ -	\$ 223,512,804	\$ 223,512,804
Certificate of Deposit	-	8,500,000	8,500,000
Commercial Paper	99,986,014	-	99,986,014
Corporate Debt Instruments	-	-	51,059,944
U.S. Government Agency Obligations	927,257,718	124,950,550	1,358,264,502
U.S. Gov't Agency Mortgage- Backed Securities	-	81,673,513	82,545,469
Mortgage-Backed Securities <u>Reinvestment of Securities</u>	-	-	2,987,301
<u>Lending Collateral:</u> Money Market Mutual Funds Repurchase Agreements	260,012,684	10,000,000	32,500,000 270,012,684
Total	\$ 1,287,256,416	\$ 448,636,867	\$ 2,129,368,718

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

Idaho State Treasurer's Office – Assets Under Management
Notes to Financial Statements
June 30, 2015

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

Obligations and other not required to be disclosed:

SBA Loans	\$	1,648,926
U.S. Treasury		166,048,110
GNMA		1,651,770
Accrued Interest		1,897,887
Interest Receivable		107,454
Total Assets	\$	2,300,722,865

Concentration of Credit Risk

**IDLE Pool
Concentration of Credit Risk at June 30, 2015**

Issuer	Fair Value	Percent of Total IDLE Investments
Federal Home Loan Bank	\$ 493,461,034	21.45%
Federal Home Loan Mortgage Corp	402,909,423	17.51%
Federal National Mortgage Association	285,475,051	12.41%
Daiwa	223,512,804	9.71%
Federal Farm Credit Bank	132,888,664	5.78%
Federal Agricultural Mortgage Coporation	126,075,800	5.48%

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. 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, 2015, more than 37 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 43 days.

IDLE Pool
Balances of Securities Lending Transactions at June 30, 2015

Securities Lent for Cash Collateral	Fair Value of Lent Securities	Cash Collateral Received for Lent Securities
Corporate Debt Instruments		
U.S. Government Agency Obligations	\$ 162,457,895	\$ 165,775,025
U.S. Treasury Obligations	158,153,283	162,038,844
 Total	 \$ 320,611,178	 \$ 327,813,869

Note 6 - Cash Reserve for Impaired Assets

The STO reviews its portfolio for the potential of assets held in an other-than-temporary loss position. Through this review, in FY14 it was determined that two investments held within the Securities Lending portfolio were in an other-than-temporary loss position. Although these securities continued to perform, their market value was below par and it was reasonable to conclude that they would experience losses. Because of the position of these assets, income earned through securities lending was set aside as a reserve to offset these expected losses. During the fiscal year these two assets were sold for \$16,031,283. The cost basis for these securities at the time they were sold was \$25,283,205. Although the sale was executed before year end, the sale did not settle in fiscal year 2015. Cash in the amount of \$8,035,777 was transferred from the IDLE pool to the Impaired Asset Reserve at the time of the sale to adequately fund the reserve account. Upon the settlement of the trade, the cash reserve will be liquidated and funds will be transferred to the securities lending agent to fund the shortfall incurred due to the loss. Any excess funds will be returned to the IDLE pool and distributed to participants. The activity of the reserve for fiscal year 2015 is as follows:

Cash Reserve for Impaired Assets	
Opening Balance	\$ 866,057
Contributions to the Reserve	8,532,343
 Ending Balance	 \$ 9,398,400



Supplementary Information
June 30, 2015

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, 2015

	External Participants	Internal Participants	LGIP Total
Assets			
Cash	\$ 19,310,480	\$ 695,822	\$ 20,006,302
Investments - Pooled Short Term	280,280,062	10,099,438	290,379,500
Investments - Fixed Income	1,370,305,867	49,376,754	1,419,682,621
Interest Receivable to the Pool	2,118,767	76,346	2,195,114
Total assets	1,672,015,176	60,248,360	1,732,263,537
Liabilities			
Distributions Payable	236,535	8,523	245,059
Administrative Fees Payable	41,215	1,485	42,700
Total liabilities	277,750	10,008	287,759
Net Position Held in Trust for Pool Participants	1,671,737,426	60,238,352	1,731,975,778
Net Position			
Net Position Held in Trust for External Participants (\$ par)	1,671,737,426	-	1,671,737,426
Net Position Held in Trust for Internal Participants (\$ par)	-	60,238,352	60,238,352
Net Position Held in Trust for Pool Participants	\$ 1,671,737,426	\$ 60,238,352	\$ 1,731,975,778

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, 2015

	External Participants	Internal Participants	LGIP Total
Investment Income			
Interest Income	\$ 6,125,361	\$ 220,717	\$ 6,346,078
Change in Fair Value of Investments	(3,111,754)	(135,494)	(3,247,248)
Total investment income	3,013,607	85,223	3,098,830
Expense			
Administrative Fees	(494,675)	(17,825)	(512,500)
Net Investment Income	2,518,932	67,398	2,586,330
Distributions to Participants			
Distributions Paid and Payable	(2,223,812)	(101,355)	(2,325,167)
Share Transactions at Net Position Value of \$1.00 per share			
Pooled Participant Deposits	3,913,831,308	245,174,819	4,159,006,127
Pooled Participant Withdrawals	(3,644,853,210)	(243,210,514)	(3,888,063,724)
Change in Net Position and Shares Resulting from Share Transactions	268,978,098	1,964,305	270,942,403
Total Change in Net Position	269,273,218	1,930,348	271,203,566
Net Position, Beginning of Year	1,402,464,208	58,308,004	1,460,772,212
Net Position, End of Year	\$ 1,671,737,426	\$ 60,238,352	\$ 1,731,975,778

Idaho State Treasurer's Office – Assets Under Management
Combining Statement of Fiduciary Net Position - DBF
(Internal and External participants)
June 30, 2015

	External Participants	Internal Participants	DBF Total
Assets			
Investments - Pooled Short Term	\$ 10,093,322	\$ 24,258,106	\$ 34,351,428
Investments - Fixed Income	95,816,301	230,283,160	326,099,461
Investments - Mortgage and Asset-Backed	61,502,460	147,813,894	209,316,354
Interest Receivable to the Pool	665,386	1,599,176	2,264,562
Total assets	168,077,469	403,954,336	572,031,805
Liabilities			
Distributions Payable	229,249	550,972	780,221
Administrative Fees Payable	2,396	5,759	8,155
Total liabilities	231,645	556,731	788,376
Net Position Held in Trust for Pool Participants	167,845,824	403,397,605	571,243,429
Net Position			
Net Position Held in Trust for External Participants (\$ par)	167,845,824	-	167,845,824
Net Position Held in Trust for Internal Participants (\$ par)	-	403,397,605	403,397,605
Net Position Held in Trust for Pool Participants	\$ 167,845,824	\$ 403,397,605	\$ 571,243,429

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, 2015

	External Participants	Internal Participants	DBF Total
Investment Income			
Interest Income	\$ 4,718,368	\$ 10,922,318	\$ 15,640,686
Change in Fair Value of Investments	(1,247,998)	(2,699,560)	(3,947,558)
Total investment income	3,470,370	8,222,758	11,693,128
Expense			
Administrative Fees	(30,042)	(69,354)	(99,396)
Net Investment Income	3,440,328	8,153,404	11,593,732
Distributions to Participants			
Distributions Paid and Payable	(3,416,659)	(7,856,872)	(11,273,531)
Share Transactions at Net Position Value of \$1 per Share			
Pooled Participant Deposits	7,957,154	11,349,192	19,306,346
Pooled Participant Withdrawals	(18,783,970)	(23,105,251)	(41,889,221)
Change in Net Position and Shares Resulting from Share Transactions	(10,826,816)	(11,756,059)	(22,582,875)
Change in Net Position	(10,803,147)	(11,459,527)	(22,262,674)
Net Position, Beginning of Year	178,648,971	414,857,132	593,506,103
Net Position, End of Year	\$ 167,845,824	\$ 403,397,605	\$ 571,243,429

Idaho State Treasurer's Office – Assets Under Management
Combining Statement of Fiduciary Net Position - IDLE
June 30, 2015

	IDLE	IDLE Sec Lending	IDLE Total
Assets			
Cash and cash equivalents	\$ 49,038,139	\$ -	\$ 49,038,139
Cash Reserve for Impaired Assets	-	9,398,400	9,398,400
Unsettled Securities Lending Trades Receivable	-	16,031,283	16,031,283
Investments, at Fair Value	1,996,204,840	-	1,996,204,840
Interest Receivable to the Pool	1,897,887	-	1,897,887
Reinvestment of Securities Lending Collateral	-	302,512,684	302,512,684
Securities Lending Income Receivable	-	107,454	107,454
Total assets	2,047,140,866	328,049,821	2,375,190,687
Liabilities			
Unsettled Trades Payable	236,869,283	-	236,869,283
Distributions Payable	451,046	-	451,046
Administrative Fees Payable	52,845	-	52,845
Obligations Under Securities Lending	-	327,813,869	327,813,869
Securities Lending Agent Fees Payable	-	3,329	3,329
Securities Lending Borrower Rebates Payable	-	84,785	84,785
Total liabilities	237,373,174	327,901,983	565,275,157
Net Position Held in Trust for Pool Participants	\$ 1,809,767,692	\$ 147,838	\$ 1,809,915,530

Idaho State Treasurer's Office – Assets Under Management
Combining Statement of Revenues, Expenses, and Changes in Fiduciary Net Position - IDLE
Year Ended June 30, 2015

	<u>IDLE</u>	<u>IDLE Sec Lending</u>	<u>IDLE Total</u>
Investment Income			
Interest Income	\$ 9,955,281	\$ 4,651	\$ 9,959,932
Securities Lending Income	-	1,604,132	1,604,132
Change in Fair Value of Investments	(3,262,172)	2,787,723	(474,449)
Total investment income	6,693,109	4,396,506	11,089,615
Expense			
Administrative Fees	(549,118)	-	(549,118)
Securities Lending Agent Fees	-	(62,755)	(62,755)
Securities Lending Borrower Rebates	-	(1,066,234)	(1,066,234)
Total investment expense	(549,118)	(1,128,989)	(1,678,107)
Net Investment Income	6,143,991	3,267,517	9,411,508
Receipts from Participants			
Receipts from Participants	3,602,504	-	3,602,504
Share Transactions at Net Position Value of \$1.00 per Share			
Pooled Participant Deposits	19,623,131,631	-	19,623,131,631
Pooled Participant Withdrawals	(19,368,166,282)	-	(19,368,166,282)
Change in Net Position and Shares Resulting From			
Share Transactions	254,965,349	-	254,965,349
Total Change in Net Position Before Transfers	264,711,844	3,267,517	267,979,361
Transfers In		8,035,777	8,035,777
Transfers Out	(8,035,777)		(8,035,777)
Total Change in Net Position	256,676,067	11,303,294	267,979,361
Net Position Held in Trust for Pool Participants			
Net Position, Beginning of Year	1,553,091,625	(11,155,456)	1,541,936,169
Net Position, End of Year	\$ 1,809,767,692	\$ 147,838	\$ 1,809,915,530



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, 2015, and the related notes to the financial statements, which collectively comprise the Funds’ basic financial statements, and have issued our report thereon dated September 28, 2015.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Funds' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2015-A.

Response to Findings

The Funds' management's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The 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 cursive script that reads "Eide Bailly LLP".

Boise, Idaho
September 28, 2015

2015-A – Compliance Finding

Criteria:

Idaho Code provides the authority to invest idle cash on behalf of state entities.

Condition:

The following funds are invested in the IDLE Pool without authority provided in Idaho Code.

<u>Fund #</u>	<u>Fund Title</u>	<u>Idaho Code Reference</u>
0481	INCOME FUNDS	57-720
0482	END EARN RES FUNDS	57-720, 57-723A
0526	PERM ENDOW FUNDS	57-723A

Cause:

The current statute was proposed by the Treasurer’s Office in 1980 to clarify its authority to invest idle cash on behalf of state entities. Although we cannot be certain as to why the endowments were exempted, it is our understanding that it was related to the Legislature’s desire to make it clear that the land grant endowment funds were under the control of the Investment Board, rather than the Treasurer. State Statute prohibits the Treasurer from investing idle endowment funds, per 67-1201(5) (shown below) and 67-1210.

Excerpts from Idaho Code:

67-1201. DUTIES OF TREASURER. It is the duty of the treasurer:

5. To invest idle moneys in the state treasury, other than moneys in public endowment funds, in permitted investments.

67-1210. INVESTMENT OF IDLE MONEYS. It shall be the duty of the state treasurer to invest idle moneys in the state treasury, other than moneys in public endowment funds.

Effect:

The State Treasurer’s Office has invested funds in the IDLE Pool without authority provided in Idaho Code.

Recommendation:

We recommend that the Treasurer’s Office work with the Division of Financial Management and the Attorney General’s Office to draft modifications to Idaho Code that will have the desired outcome for the Idaho Code sections related to the Treasurer’s Office. Additionally, the Treasurer’s Office should notify agencies of options to become compliant prior to changes in legislation.

Response and Action Plan of Management:

The Treasurer’s Office agrees with the findings and recommendations as described and will continue to assess the options available which include the following:

- Work with the Endowment Fund Investment Board, Land Board, and Attorney General’s Office to determine what procedural changes can be made to become compliant with Idaho Code.
- Work with the Endowment Fund Investment Board, Land Board, and Attorney General’s Office to draft legislation that will modify Idaho Code allowing the Treasurer’s Office the authority to invest Endowment funds at the discretion of the Endowment fund.
- Obtain clarification on any legal questions.