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INDEPENDENT AUDITORS' REPORT

Retirement Board
Public Employee Retirement System of Idaho
Boise, Idaho

We have audited the accompanying basic financial statements of the Public Employee Retirement System of Idaho (the "System"), a component unit of the State of Idaho, as of June 30, 2006, and for the year then ended, listed in the foregoing table of contents. These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year summarized comparative information has been derived from the System's 2005 financial statements and, in our report dated October 19, 2005, we expressed an unqualified opinion on those financial statements.

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 basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Systems' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such basic financial statements present fairly, in all material respects, the plan net assets of the pension and other fund types of the System as of June 30, 2006, and the changes in plan net assets of the pension and other fund types for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and required supplementary information listed in the Table of Contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the System's management. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and we do not express an opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the System taken as a whole. The additional supplementary schedules listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the System. The additional supplementary schedules are also the responsibility of the System's management. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

The Introductory Section, Investment Section, Actuarial Section, and Statistical Section listed in the Table of Contents are also presented for the purpose of additional analysis and are not a required part of the basic financial statements of the System. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2006, on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit

October 20, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2006

Management is pleased to provide Management's Discussion and Analysis ("MD&A") of the financial activities of the Public Employee Retirement System of Idaho (the "System" or "PERSI") as of and for the years ended June 30, 2006. This overview and analysis is designed to focus on current known facts and activities and resulting changes. We encourage readers to consider the information presented here in conjunction with information furnished in the Letter of Transmittal, beginning on page 18 of this report.

The System administers six fiduciary funds. These consist of two defined benefit pension trust funds -- the PERSI Base Plan and the Firefighters' Retirement Fund ("FRF") -- two defined contribution pension trust funds -- the PERSI Choice Plan 414(k) and 401(k) -- and two Sick Leave Insurance Reserve trust funds -- State and Schools.

Financial Highlights

- Plan net assets for all pension and other funds administered by the System increased $1 billion and $862 million during the fiscal years 2006 and 2005, respectively. The increase in the defined benefit plans was primarily due to the continuation of favorable investment markets. The increase in the Choice Plan 401(k) was due to new contributions in addition to market gains. Each fund experienced an increase in net assets.

	2006	2005
PERSI Base Plan	$ 968,875,308	$ 788,494,640
Firefighters' Retirement Fund	21,543,068	16,814,037
PERSI Choice Plan 414(k)	4,230,900	3,055,242
PERSI Choice Plan 401(k)	42,642,552	35,176,225
Sick Leave Insurance Reserve Fund - State	6,096,669	7,058,583
Sick Leave Insurance Reserve Fund - Schools	9,614,199	11,455,707
Total increase in plan net assets	$ 1,053,002,696	$ 862,054,434

- Assets for the two defined benefit plans, the PERSI Base Plan and the FRF, are pooled for investment purposes. For the fiscal years ended June 30, 2006 and 2005, the rate of return net of investment expenses on the pooled investment assets was as follows (these are plan-level returns). For the defined contribution plans, PERSI Choice Plan 414(k) and 401(k), individual participant returns may vary depending on the investment choices.

	2006	2005
PERSI Defined Benefit Plans	11.8%	10.3%
PERSI Defined Contribution Plans	11.1%	9.3%
Sick Leave Insurance Reserve Fund	4.9%	7.1%

- All of the plans experienced gains as a result of positive market performance. Net investment income for all of the funds administered by the System for the fiscal years ended June 30, 2006 and 2005, was $1 billion and $819 million, respectively.

	2006	2005
Net investment income:		
PERSI Base Plan	$ 969,385,175	$ 769,968,881
Firefighters' Retirement Fund	26,225,243	21,267,341
PERSI Choice Plan 414(k)	6,715,343	5,519,836
PERSI Choice Plan 401(k)	15,760,870	9,629,286
Sick Leave Insurance Reserve Fund - State	3,512,674	4,930,676
Sick Leave Insurance Reserve Fund - Schools	5,792,037	8,159,124
Total net investment income	$ 1,027,391,342	$ 819,475,144

- As of June 30, 2006 and 2005, the funding ratio (actuarial value of assets divided by actuarial accrued liability) and amortization period (estimated time to payoff unfunded liability) for the unfunded actuarial liability for each of the defined benefit plans were:

	2006 Funding Ratio	Amortization Period	2005 Funding Ratio	Amortization Period
PERSI Base Plan	95.2%	9.8 years	94.2%	6.2 years
Firefighters' Retirement Fund	79.7%	6.5 years	73.5%	9.0 years

For the PERSI Base Plan and the FRF in 2005, contributions and other income of $393.7 million exceeded deductions to net assets of $379.6 million by $14.1 million. However, in 2006, contributions and other income of $417.4 million were exceeded by deductions to net assets of $422.6 by $5.2 million. These changes, combined with investment gains of $995.6 million in 2006 and $791.2 million in 2005, resulted in net assets of the defined benefit plans increasing to $9.4 and $8.5 billion in 2006 and 2005, respectively. For actuarial calculations, the System's actuary uses market value to determine the actuarial value of assets. For the July 1, 2006 and 2005 valuations, the actuarial value of assets for the PERSI Base Plan was $9.2 billion and $8.2 billion, respectively. The aggregate actuarial liability for all PERSI Base Plan employers was $9.6 billion on July 1, 2006. On an actuarial basis, the assets held as of July 1, 2006, fund 95.2% of this liability.

The System's funding objective is to meet long-term benefit obligations through contributions and investment income and provide a reserve against market fluctuations. The funding ratio listed above gives an indication of how well this objective has been met at a specific point in time. The higher the funding ratio, the better the plan is funded. For more detailed information and history of the funding ratio, see the Schedule of Funding Progress on page 47 of this report. The actuarial funding ratio for the two defined benefit plans improved primarily because investment performance was above the actuarial expected rate. However, the amortization period for the PERSI Base Plan also increased due to the removal of the future contribution rate increases from the actuarial calculations. The PERSI Board initiated a systematic increase in the employee and employer contribution rates beginning July 1, 2004, to provide a stable funding base and to bring the amortization period below the statutorily required 25-year period for the Base Plan. Because of improving investment markets, the amortization period of the unfunded liability has increased which allowed the PERSI Board to postpone, for a second year, the second of three scheduled rate increases.

Using the Annual Financial Report

This discussion and analysis is intended to serve as an introduction to the System's financial statements. The financial section is comprised of four components: (1) fund financial statements, (2) notes to financial statements, (3) required supplementary information, and (4) other supplementary schedules.

Fund Financial Statements—There are two financial statements presented for the fiduciary funds. The statement of plan net assets as of June 30, 2006 and 2005, indicates the net assets available to pay future payments and gives a snapshot at a particular point in time. The statement of changes in plan net assets for the years ended June 30, 2006 and 2005, provides a view of the current year's activity. It details the additions and deductions to the individual funds and supports the change to the prior year's ending net asset value on the statement of net assets. All pension fund statements are presented on a full accrual basis and reflect all trust activities, as incurred.

Notes to Financial Statements—The notes provide additional information essential for a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 31-45 of this report.

Required Supplementary Information—The required supplementary information consists of Schedules of Funding Progress and Schedules of Employer Contributions and related notes concerning the funding status for the defined benefit pension trust funds. These schedules provide historical trend information, illustrating the changes in the funded status over time.

Other Supplementary Schedules—The additional schedules (Schedule of Investment Expenses and Schedule of Administrative Expenses) are presented for additional analysis.

Comparative Financial Statements

Defined Benefit Pension Trust Funds

The PERSI Base Plan and the Firefighters' Retirement Fund are qualified plans under Internal Revenue Code and provide retirement and disability benefits to the employees of affiliated employers. Benefits are funded by member and employer contributions and by earnings on investments. Assets for these plans are pooled only for investment purposes.

Defined Benefit Pension Trust Funds Net Assets

	As of June 30, 2006	As of June 30, 2005	$ Change	% Change
Assets:				
Cash and cash equivalents	$ 2,251,632	$ 3,631,830	$ (1,380,198)	(38.0)%
Investments sold receivable	923,679,953	819,110,168	104,569,785	12.8 %
Other receivables	48,630,720	40,848,719	7,782,001	19.1 %
Investments—at fair value	9,800,222,961	8,707,502,568	1,092,720,393	12.5 %
Prepaid retiree payroll	30,772,971	27,754,259	3,018,712	10.9 %
Capital assets—net of accumulative depreciation	2,850,523	3,516,630	(666,107)	(18.9)%
Total assets	10,808,408,760	9,602,364,174	1,206,044,586	12.6 %
Liabilities:				
Investments purchased payable	1,354,245,770	1,139,739,452	214,506,318	18.8 %
Benefits and refunds payable	248,275	63,069	185,206	293.7 %
Other liabilities	9,697,569	8,762,883	934,686	10.7 %
Total liabilities	1,364,191,614	1,148,565,404	215,626,210	18.8 %
Net assets available for benefits	$9,444,217,146	$ 8,453,798,770	$ 990,418,376	11.7 %

The fiscal year ended June 30, 2006, was most notably marked by a continuation in favorable investment markets. Other Liabilities were higher at the end of Fiscal Year 2006 because of an increase in the amounts owed for investment management services. Growth in asset values and timing of payments can affect the balance of liabilities at the balance sheet date.

The percent change in Investments Sold Receivable and Investments Purchased Payable fluctuates as the volume of trading activity by the System's professional investment managers' changes. The cash balance change was due to normal fluctuations in operating cash requirements and the timing of transfers to investment managers. Benefits and Refunds Payable fluctuate based on the demand for and timing of contribution refund payments.

Defined Benefit Pension Trust Funds Changes in Net Assets

	Year Ended June 30, 2006	Year Ended June 30, 2005	$ Change	% Change
Additions:				
Employee contributions	$ 154,352,078	$ 145,727,272	$ 8,624,806	5.9 %
Employer contributions	262,922,576	247,842,553	15,080,023	6.1 %
Investment income	995,610,418	791,236,222	204,374,196	25.8 %
Other additions	127,213	149,317	(22,104)	(14.8)%
Total additions	1,413,012,285	1,184,955,364	228,056,921	19.2 %
Deductions:				
Benefits and refunds paid	415,286,033	372,531,093	42,754,940	11.5 %
Administrative expenses	7,307,876	7,115,594	192,282	2.7 %
Total deductions	422,593,909	379,646,687	42,947,222	11.3 %
Changes in net assets available for benefits	$ 990,418,376	$ 805,308,677	$ 185,109,699	23.0 %

The annual amount of Investment Income and Changes in Net Assets Available for Benefits increased from Fiscal Year 2005 to Fiscal Year 2006 because of an upward swing in the investment market. The increase in Benefits and Refunds Paid was a result of increased number of retirees and COLA increase to benefits paid.

Defined Contribution Pension Trust Funds

During Fiscal Year 2006, the System administered two defined contribution plans. The PERSI Choice Plans, a qualified plan under Internal Revenue Code, consists of a 401(k) plan and a 414(k) plan and provides retirement benefits to members of the Defined Benefit Pension Trust Funds.

The PERSI Choice Plans was created during Fiscal Year 2001. The 401(k) Plan consists of employee voluntary contributions, rollover contributions, and some employer matching contributions. The 414(k) Plan represents the gain sharing allocation made to eligible PERSI members during Fiscal Year 2001. The assets of these plans are pooled for investment purposes but the 414(k) Plan cannot be used to pay the benefits of the 401k Plan and vice versa.

Defined Contribution Pension Trust Funds Net Assets

	As of June 30, 2006	As of June 30, 2005	$ Change	% Change
Assets:				
Cash	$ 19,790	$ 37,622	$ (17,832)	(47.4)%
Short-term investments	989,123	105,315	883,808	839.2 %
Investments—at fair value	222,627,280	176,852,349	45,774,931	25.9 %
Receivables	1,114,633	882,088	232,545	26.4 %
Total assets	224,750,826	177,877,374	46,873,452	26.4 %
Net assets available for benefits	$ 224,750,826	$ 177,877,374	$ 46,873,452	26.4 %

Investments increased from Fiscal Year 2005 to Fiscal Year 2006 because of the increase in employee contributions and the continued favorable investment market. Receivables include contributions that are not yet recorded by the recordkeeper at year end and accrued interest and dividends.

Defined Contribution Pension Trust Funds Changes in Net Assets

	Year Ended June 30, 2006	Year Ended June 30, 2005	$ Change	% Change
Additions:				
Employee contributions	$ 25,873,335	$ 21,464,820	$ 4,408,515	20.5 %
Employer contributions	282,128	203,026	79,102	39.0 %
Investment income	22,476,213	15,149,122	7,327,091	48.4 %
Transfers in	6,246,072	8,275,628	(2,029,556)	(24.5)%
Total additions	54,877,748	45,092,596	9,785,152	21.7 %
Deductions:				
Benefits and refunds paid	3,963,574	3,403,187	560,387	16.5 %
Transfers out	4,040,722	3,457,942	582,780	16.9 %
Total deductions	8,004,296	6,861,129	1,143,167	16.7 %
Changes in net assets available for benefits	$ 46,873,452	$ 38,231,467	$ 8,641,985	22.6 %

Investment Income increased from Fiscal Year 2005 to Fiscal Year 2006 because of an upward swing in the investment market. Transfers In and Out only include rollovers from/to other plans. In Fiscal Year 2005, a large portion of the Transfers In was the result of a defined contribution plan transfer into the PERSI Choice Plans for Bonner County. Employee Contributions grew due to an increase in the number of employees with salary deferrals. Changes in Employer Contributions vary up or down according to individual employers' desire to match employee contributions.

Other Trust Funds

During Fiscal Year 2006, the System administered two Sick Leave Insurance Reserve Fund ("SLIRF") trusts. The PERSI SLIRF provides payment of eligible postretirement insurance premiums on behalf of retired state and public school district employees, based on accumulated unused sick leave at the time of retirement. The Fund's contributions are financed by state agency and school district employers of the System which make up the two separate trusts within the Fund.

Beginning with the year ending June 30, 2006, the Sick Leave Insurance Reserve Fund was reclassified from a defined contribution pension plan to a trust fund. This reclassification required a change in labeling, not a change in accounting principles. With the implementation of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, the SLIRF is not classified as an Other Postemployment Benefit ("OPEB") but as a termination payment at the time of retirement.

Sick Leave Insurance Reserve Funds Net Assets

	As of June 30, 2006	As of June 30, 2005	$ Change	% Change
Assets:				
Cash	$ 47,474	$ 75,077	$ (27,603)	(36.8)%
Investments—at fair value	196,689,774	182,102,887	14,586,887	8.0 %
Prepaid retiree payroll	876,663		876,663	100.0 %
Due from other funds	1,571,594	1,293,652	277,942	21.5 %
Total assets	199,185,505	183,471,616	15,713,889	8.6 %
Liabilities:				
Other liabilities	22,088	19,067	3,021	15.8 %
Net assets available for benefits	$ 199,163,417	$ 183,452,549	$ 15,710,868	8.6 %

The decrease in Cash was due to a higher cash balance held at the State Treasurer's Office in Fiscal Year 2005 because of normal fluctuations in cash inflows and level of expenses. The increase in Prepaid Retiree Payroll was due to July 2006 retiree insurance premiums being paid in June 2006. The increase in Due From Other Funds was due to a general increase in compensation rates and timing moves.

Sick Leave Insurance Reserve Funds Changes in Net Assets

	Year Ended June 30, 2006	Year Ended June 30, 2005	$ Change	% Change
Additions:				
Employer contributions	$ 16,897,504	$ 16,067,807	$ 829,697	5.2 %
Investment income	9,304,711	13,089,800	(3,785,089)	(28.9)%
Other additions	15,953	10,595	5,358	50.6 %
Total additions	26,218,168	29,168,202	(2,950,034)	(10.1)%
Deductions:				
Benefits and refunds paid	10,453,640	10,600,252	(146,612)	(1.4)%
Administrative expenses	53,660	53,660		.0 %
Total deductions	10,507,300	10,653,912	(146,612)	(1.4)%
Changes in net assets available for benefits	$ 15,710,868	$ 18,514,290	$ (2,803,422)	(15.1)%

Investment Income decreased from Fiscal Year 2005 to Fiscal Year 2006 because of more moderate market growth than the prior year. A large portion of the holdings for this fund are in bonds, which did not experience the higher rate of gains. The increase in Other Additions was due to interest earnings on the cash balance held at the State Treasurer's Office.

Plan Membership

This table reflects PERSI Base Plan and PERSI Choice Plans membership at the beginning and end of the fiscal year.

Changes in Plan Membership

	Base Plan			Choice Plan		
	2006	2005	Change	2006	2005	Change
Active participants:	64,762	64,391	0.6%	38,946	40,761	-4.5%
Actively contributing				9,202	8,218	12.0%
Vested	41,215	40,796	1.0%			
Non-vested	23,547	23,595	-0.2%			
Retirees and beneficiaries	28,438	27,246	4.4%	119	88	35.2%
Terminated vested	8,948	8,460	5.8%	7,988	6,766	18.1%

While the above table reflects changes in active participants, the following table demonstrates the changes in retirees and beneficiaries during the period.

Changes in Retirees and Beneficiaries (Base Plan)

Beginning—June 30, 2005	27,246
Retirements	2,047
Death of retiree/beneficiary	(855)
Ending—July 1, 2006	28,438

Investment Activities

Long-term asset growth is vital to the Defined Benefit Plans' current and continued financial stability. Therefore, trustees have a fiduciary responsibility to act with prudence and discretion when making plan investment decisions. To assist the Board in this area, a comprehensive formal investment policy is updated periodically. As managers are added, specific detailed investment guidelines are developed, adopted, and become part of that manager's agreement.

Portfolio performance is reviewed monthly by the Board and its consultants. Performance is evaluated individually, by money manager style, and collectively by investment type and for the aggregate portfolio. Investment types include both domestic and international equities, domestic and international fixed income, and real estate.

Economic Factors

PERSI, like any pension fund, has a broad range of opportunities for investment in the open market, as well as many choices for asset allocation and investment managers. For purposes of comparison, the table of Investment Results in the Investment Section of this report indicates various index returns, which are reflective of the market environment available.

As a result of the Fiscal Year 2002 amortization period calculation being 39.3 years, the Board increased contribution rates 1% per year for three years beginning July 2004. The PERSI Board has twice postponed the second year rate increase due to a significant increase in funded status. The remaining two increases are now scheduled for July 1, 2007 and 2008. The maximum amortization period allowed by state law for the Base Plan is 25 years. PERSI's Base Plan amortization period before any cost of living adjustment ("COLA") as of July 1, 2006, is 9.8 years.

During Fiscal Year 2006, an actuarial study of PERSI experience was done. An experience study is an analysis of economic assumptions and active member demographics. This study resulted in some changes to the volatility assumptions. Actuarial assumptions are estimates as to the occurrence of future events affecting such things as changes in pension costs, compensation, and rates of investment earnings and are used to measure and budget future costs. The most significant change in the July 1, 2006 experience study was the change in methodology for mortality assumptions. Under the previous static mortality assumptions, it was difficult to accurately predict the growth in longevity over future generations (the 20-year-old of tomorrow will live longer than the 20-year-old of today). By using a "generational mortality" approach, the actuary is able to more accurately predict the growth in longevity by assigning different mortality expectations by year of birth. Currently, the costs to the System caused by growth in longevity were absorbed by the unfunded liability. By moving these costs "inside" the Plan through the generational mortality assumptions, the costs are recognized up front by a charge of approximately $231 million to the unfunded liability and an increase in the normal cost rate of .63% of pay.

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

STATEMENTS OF PLAN NET ASSETS—PENSION TRUST FUNDS AND OTHER TRUST FUNDS
JUNE 30, 2006 WITH COMPARATIVE FINANCIAL INFORMATION FOR JUNE 30, 2005

	Pension Trust Funds				Other Trust Funds			
		Firefighters'			Sick Leave Insurance			
	PERSI	Retirement	PERSI Choice Plan		Reserve Fund		Totals	
	Base Plan	Fund	414(k)	401(k)	State	Schools	2006	2005
ASSETS:								
Cash and cash equivalents	$ 2,192,132	$ 59,500	$	$ 19,790	$ 17,939	$ 29,535	$ 2,318,896	$ 3,744,529
Investments—at fair value:								
Fixed income investments:								
Domestic	2,269,878,108	61,610,376			28,949,625	47,664,935	2,408,103,044	2,182,037,220
International	50,677,156	1,375,509					52,052,665	56,983,051
Idaho commercial mortgages	269,451,988	7,313,625					276,765,613	259,948,499
Short-term investments	536,621,057	14,565,287		989,123			552,175,467	512,185,332
Real estate equities	173,528,005	4,710,000					178,238,005	79,337,278
Equity Securities:								
Domestic	3,814,012,245	103,522,179			45,371,694	74,703,520	4,037,609,638	3,752,876,548
International	2,133,426,468	57,906,725					2,191,333,193	1,834,994,073
Private equity	293,653,710	7,970,523					301,624,233	211,348,769
Mutual, collective, unitized funds			61,159,220	161,468,060			222,627,280	176,852,349
Total investments	9,541,248,737	258,974,224	61,159,220	162,457,183	74,321,319	122,368,455	10,220,529,138	9,066,563,119
Receivables:								
Investments sold	899,349,420	24,330,533					923,679,953	819,110,168
Contributions	4,198,091	114,602		253,921			4,566,614	5,282,191
Interest and dividends	43,150,652	1,167,375	287,353	573,359			45,178,739	36,448,616
Total receivables	946,698,163	25,612,510	287,353	827,280			973,425,306	860,840,975
Assets used in plan operations—net	2,850,523						2,850,523	3,516,630
Due from other funds					616,105	955,489	1,571,594	1,293,652
Retiree payroll in process	30,772,971				240,297	636,366	31,649,634	27,754,259
Total assets	10,523,762,526	284,646,234	61,446,573	163,304,253	75,195,660	123,989,845	11,232,345,091	9,963,713,164

(Continued)

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

STATEMENTS OF PLAN NET ASSETS—PENSION TRUST FUNDS AND OTHER TRUST FUNDS
JUNE 30, 2006 WITH COMPARATIVE FINANCIAL INFORMATION FOR JUNE 30, 2005

	Pension Trust Funds				Other Trust Funds			
					Sick Leave Insurance Reserve Fund		Totals	
	PERSI Base Plan	Firefighters' Retirement Fund	PERSI Choice Plan 414(k)	PERSI Choice Plan 401(k)	State	Schools	2006	2005
LIABILITIES:								
Accrued liabilities	$ 7,917,290	$ 208,685	$	$	$ 8,346	$ 13,742	$ 8,148,063	$ 7,488,298
Benefits and refunds payable	248,275						248,275	63,069
Due to other funds	1,571,594						1,571,594	1,293,652
Investments purchased	1,318,573,759	35,672,011					1,354,245,770	1,139,739,452
Total liabilities	1,328,310,918	35,880,696			8,346	13,742	1,364,213,702	1,148,584,471
NET ASSETS HELD IN TRUST (see unaudited supplementary schedules of funding progress)	$ 9,195,451,608	$ 248,765,538	$ 61,446,573	$ 163,304,253	$ 75,187,314	$ 123,976,103	$ 9,868,131,389	$ 8,815,128,693

See notes to financial statements.

(Concluded)

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

STATEMENTS OF CHANGES IN PLAN NET ASSETS—PENSION TRUST FUNDS AND OTHER TRUST FUNDS
YEAR ENDED JUNE 30, 2006 WITH COMPARATIVE FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2005

	Pension Trust Funds				Other Trust Funds		Totals	
			PERSI Choice Plan		Sick Leave Insurance Reserve Fund			
	PERSI Base Plan	Firefighters' Retirement Fund	414(k)	401(k)	State	Schools	2006	2005
ADDITIONS:								
Contributions:								
Members	$ 154,313,873	$ 38,205	$	$ 25,873,335	$	$	$ 180,225,413	$ 167,192,092
Employers	250,816,313	12,106,263		282,128	5,322,463	11,575,041	280,102,208	264,113,386
Transfers and rollovers in				6,246,072			6,246,072	8,275,628
Total contributions	405,130,186	12,144,468		32,401,535	5,322,463	11,575,041	466,573,693	439,581,106
Investment income:								
Net appreciation in fair value of investments	753,557,611	20,386,356	6,197,819	10,216,259	3,546,716	5,848,170	799,752,931	619,037,925
Interest, dividends and other investment income	255,593,304	6,914,689	647,745	5,611,822			268,767,560	234,130,100
Less investment expenses	(39,765,740)	(1,075,802)	(130,221)	(67,211)	(34,042)	(56,133)	(41,129,149)	(33,692,881)
Total investment income	969,385,175	26,225,243	6,715,343	15,760,870	3,512,674	5,792,037	1,027,391,342	819,475,144
Other—net	127,213				6,023	9,930	143,166	159,912
Total additions	1,374,642,574	38,369,711	6,715,343	48,162,405	8,841,160	17,377,008	1,494,108,201	1,259,216,162
DEDUCTIONS:								
Benefits and refunds paid to members and beneficiaries	398,459,390	16,826,643	484,674	3,478,900	2,724,234	7,729,406	429,703,247	386,534,532
Administrative expenses	7,307,876				20,257	33,403	7,361,536	7,169,254
Transfers and rollovers out			1,999,769	2,040,953			4,040,722	3,457,942
Total deductions	405,767,266	16,826,643	2,484,443	5,519,853	2,744,491	7,762,809	441,105,505	397,161,728
INCREASE IN NET ASSETS	968,875,308	21,543,068	4,230,900	42,642,552	6,096,669	9,614,199	1,053,002,696	862,054,434
NET ASSETS HELD IN TRUST:								
Beginning of year	8,226,576,300	227,222,470	57,215,673	120,661,701	69,090,645	114,361,904	8,815,128,693	7,953,074,259
End of year	$ 9,195,451,608	$ 248,765,538	$ 61,446,573	$ 163,304,253	$ 75,187,314	$ 123,976,103	$ 9,868,131,389	$ 8,815,128,693

See notes to financial statements.

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

1. GENERAL DESCRIPTION OF THE FUNDS

General—The Public Employee Retirement System of Idaho (the "System" or "PERSI") is the administrator of four pension plans including two defined benefit retirement plans, the Public Employee Retirement Fund Base Plan ("PERSI Base Plan") and the Firefighters' Retirement Fund ("FRF"); and two defined contribution plans, the Public Employee Retirement Fund Choice Plans 401(k) and 414(k) ("PERSI Choice Plan"). PERSI also administers two Sick Leave Insurance Reserve Trust Funds, one for state employers and one for school district employers.

Reporting Entity—The System is a discretely presented component unit of the State of Idaho and is included in the State of Idaho Comprehensive Annual Financial Report. The basic financial statements of the System include the financial activities of all of the above funds. A retirement board (the "Board"), appointed by the Governor and confirmed by the Idaho Senate, manages the System, which includes selecting the funding agents and establishing funding policy.

Defined Benefit Retirement Plans—The PERSI Base Plan and FRF are both cost-sharing, multiple-employer defined benefit retirement plans that provide benefits based on members' years of service, age, and highest average salary. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries.

Statutes governing the PERSI Base Plan are Title 59, Chapter 13 of the Idaho Code. Statutes governing FRF are Title 72, Chapter 14 of the Idaho Code.

Members become fully vested in their retirement benefits with five years of credited service (5 months for elected or appointed officials). Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. The annual service retirement allowance for each month of credited service is 2.0% (2.3% for police/firefighters) of the average monthly salary for the highest consecutive 42 months.

State agencies, school districts, cities, counties, highway districts, water and sewer districts, and other political subdivisions contribute to the System. As of June 30, 2006 and 2005, the number of participating employer units in the PERSI Base Plan was:

	2006	2005
Cities	144	143
School districts	140	135
Highway and water districts	123	121
State subdivisions	97	98
Counties	40	40
Other	148	147
	692	684

As of June 30, 2006 and 2005, the number of benefit recipients and members in the System consisted of the following:

	2006	2005
Members, retirees and beneficiaries currently receiving benefits during the fiscal year and terminated employees entitled to benefits but not yet receiving them:		
Members:		
Active	64,762	64,391
Terminated and vested	8,948	8,460
Retirees and beneficiaries	28,438	27,246

FRF has 22 participating employer units all consisting of fire departments participating in the PERSI Base Plan. As of June 30, 2006 and 2005, there were 11 and 20 active members and 611 and 599 retired members or beneficiaries, respectively, collecting benefits from FRF. The FRF covers a closed group of firefighters who were hired before October 1, 1980, and who receive benefits in addition to those provided under the Base Plan. The cost of these additional benefits is paid by FRF member and employer contributions and receipts from a fire insurance premium tax.

The benefit payments for the PERSI Base Plan and FRF are calculated using a benefit formula adopted by the Idaho Legislature. The Base Plan is required to provide a 1% minimum cost of living increase per year provided the Consumer Price Index increases 1% or more. The Retirement Board has the authority to provide higher PERSI Base Plan cost of living increases to a maximum of the Consumer Price Index movement or 6%, whichever is less; however, any amount above the 1% minimum is subject to review by the Idaho Legislature. The cost of living increase for the FRF is based on the increase in the statewide average firefighter's wage.

The PERSI Base Plan and FRF benefits are funded by contributions from members and employers and earnings from investments. Additional FRF funding is obtained from receipts from a state fire insurance premium tax. Member and employer contributions are paid as a percentage of applicable member compensation. PERSI Base Plan member contribution rates are defined, by state law, as a percentage of the employer contribution rate. FRF member contribution rates are fixed by state law. Employer contribution rates are recommended by periodic actuarial valuations and are subject to the approval of the Retirement Board and limitations set forth in state statute. Valuations are based on actuarial assumptions, the benefit formulas, and employee groups of the System. Costs of administering the fund are financed through the contributions and investment earnings of the System.

Upon termination of employment, accumulated member contributions plus interest, accrued at 10.24% from January 1, 2006 through June 30, 2006 (17.51% from July 1, 2005 to December 31, 2005) compounded monthly per annum, are refundable. Withdrawal of such accumulated contributions results in forfeiture of the member's accrued benefit; however, state law does include provisions for reinstatement of forfeited service upon repayment of the accumulated contributions plus interest.

Defined Contribution Retirement Plans—The PERSI Choice Plans are defined contribution retirement plans. The statute governing the PERSI Choice Plans is Idaho Code Title 59, Chapter 13.

The PERSI Choice Plans are defined contribution pension plans made up of a qualified 401(k) plan and a 414(k) plan. The assets of the two plans within the PERSI Choice Plans are commingled for investment and recordkeeping purposes. Participants direct their investment mix without restriction except that within the Choice Plan's two international fund options, a participant may only make up to two transfers involving one or both of those funds within a rolling 90-calendar-day period.

Participants may also elect to change their salary deferral every pay period. The 401(k) portion of the PERSI Choice Plans is open to all active PERSI Base Plan members and was established February 1, 2001. On May 1, 2001, this Plan became open to voluntary employer matching contributions at rates determined by the employers. Beginning in January 2002, employees could make tax-deferred contributions up to 100% of their gross salary less deductions and subject to the Internal Revenue Service ("IRS") annual contribution limit. The 414(k) portion of the PERSI Choice Plans was established for gain sharing allocations from the PERSI Base Plan. The gain sharing amount (if any) is based on funding levels in the Base Plan. Eligibility for Gain Sharing requires twelve months of active PERSI Base Plan membership as defined in Idaho statutes and PERSI rules. On February 1, 2001, all eligible Base Plan members who were active as of June 30, 2000, and eligible to receive gain sharing contributions, received an allocation.

The System has entered into a contract with ACS HR Solutions, LLC ("ACS") for plan recordkeeping services. The plan offers eleven investment options, which are mutual or collective funds. The plans include the PERSI Total Return Fund ("PERSI TRF"), seven equity funds, two fixed income funds, and a stable value fund. Participants may allocate their assets in 1% increments among these options; however, if no allocation preference is indicated, a default investment election to the PERSI TRF is made. The PERSI TRF is a unitized fund comprised of investment accounts of the PERSI Base Plan.

The PERSI Choice Plan has all 692 employer units eligible to have participating employees. As of June 30, 2006 and 2005, there were 47,053 and 47,615 participants, respectively, with balances in the PERSI Choice Plans. Some of these participants are in both the 414(k) Plan and the 401(k) Plan. As of June 30, 2006 and 2005, the Choice Plan 414(k) had 40,907 and 42,578 participants, respectively and the Choice Plan 401(k) had 19,624 and 10,707, respectively. The administrative expenses of the PERSI Choice Plans are paid to ACS and funded by the PERSI Base Plan.

Other Trust Funds—In FY 2006, the Sick Leave Insurance Reserve Fund ("SLIRF") was reclassified from a defined contribution pension plan (subject to Governmental Accounting Standards Board ("GASB") Statement 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*) to a trust fund. This reclassification resulted only in a change in labeling, not a change in accounting principles. For state and school employers, unused sick leave benefits are subject to the guidance of GASB Statement 16, *Accounting for Compensated Absences* prior to the time of retirement.

The SLIRF is made up of two trust funds administered by PERSI - a trust for payment of school district employee benefits and a trust for payment of state employee benefits. The statutes governing the SLIRF are Idaho Code, Sections 67-5339, 33-1216, 59-1365, and 33-1228.

The SLIRF is a fund that exists for the payment of unused sick leave benefits that accrue under state law for state employees and school district employees who separate from service by reason of retirement. The assets of the two trusts are commingled for investment purposes. The System administers these trusts on behalf of the participating employers. Employers' contributions are a percentage of payroll collected each pay cycle and are held in trust for future benefits.

The SLIRF is used to pay eligible postretirement insurance premiums on behalf of former employees based on unused accumulated sick leave at their retirement date. The school districts and the State are responsible for any unfunded benefit obligations, respectively, through contribution rate adjustments.

School District Employees—For school district employees, the unused sick leave amount available for benefit is limited to one-half of their eligible sick leave balance and rate of compensation at retirement.

State Employees—State employees are limited to the number of allowable hours of sick leave they may use as part of the unused sick leave program as follows:

Credited Hours of State Service	Maximum Allowable Sick Leave Hours
0–10,400 (0–5 years)	420
10,401–20,800 (5–10 years)	480
20,801–31,200 (10–15 years)	540
31,201+ (15 years or more)	600

Members may use one-half of sick leave hours accrued up to the allowable maximum multiplied by their rate of compensation at retirement.

The rate for state agency contributions was 0.65% of covered salary at June 30, 2006 and June 30, 2005. The rate for school district contributions was 1.15% of covered salary at June 30, 2005. In April 2006, Rule 552, section 2 — contribution rates for school districts —- was amended. Contribution percentages for fiscal years 2006, 2007, and 2008 are based on the number of days of paid sick leave permitted during the contract year for certified teachers and are as follows:

Beginning	July 1, 2006	July 1, 2007	July 1, 2008
9-10 days	1.16%	1.18%	1.21%
11-14 days	1.26%	1.35%	1.44%
More than 14 days	Individual rate to be set by the Retirement Board based on current cost and actuarial data and reviewed annually.		

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting—The System's basic financial statements are prepared utilizing the accrual basis of accounting. Employee and employer contributions are recognized as additions to net assets when due and receivable, pursuant to formal commitments and statutory or contractual requirements, investment income is recognized when earned, and benefit payments and refunds and other expenses are recorded when the benefits are due and payable in accordance with the plans' terms. The pension funds are accounted for on a flow of economic resources measurement focus. The System adheres to Statement No. 25 of the GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.*

Investments—The System's investments are presented at fair value. Purchases and sales are recorded at the trade date. At month end, there may be certain pending trades that were initiated by managers but not confirmed and, therefore, are not included in the fair value of investments. Investments of the PERSI Base Plan, FRF, and the PERSI TRF (an option of the PERSI Choice Plan) are pooled for investment purposes as is disclosed in Note 3.

The Board utilizes and directs individual fund managers to provide whatever investment management and custodial functions the Board has determined best achieves the System's investment objectives. Each fund manager is generally granted full discretion in making investment decisions, within asset allocation policy, portfolio investment policy, specific investment guidelines and other special restrictions set by the Board. The Board monitors overall investment performance and periodically evaluates the performance of each fund manager. The Board in its administration of the System and management of the investment program is guided by the *Idaho Uniform Prudent Investor Act*, Sections 68-501 through 68-514 of the Idaho Code and of fiduciary responsibilities in the Idaho Code, Section 59-1301, and is empowered in its sole discretion to limit, control, and designate the types and amounts of investments. The Board has adopted an investment policy including policy related to deposit and investment risks identified in GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

The fair value of investments is based on published market prices and quotations from major investment brokers, when available. Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments of matching duration. The fair value of real estate investments is based on industry practice. For recent acquisitions, cost closely approximates fair value. The fair value of longer term real estate holdings is estimated based on the System's consultant assessments and/or independent appraisals. Short-term investments are reported at market value, when published market prices and quotations are available, or at cost plus accrued interest, which approximate market value. The fair values of private equity limited partnership investments by their nature have no readily ascertainable market prices. Similar to real estate, cost closely approximates fair value for recent acquisitions. Thereafter, the fair values of limited partnership funds are based on the valuations as presented by the general partner, approved by the funds' advisory committee, and reviewed by consultants. Generally, the companies within a fund are valued by the general partner, taking into account many factors such as the purchase price, estimated liquidation value, significant events like initial public offerings, bankruptcies, and additional rounds of financing, and other relevant factors. Because of the lack of published market prices for these investments, the estimated fair values may differ significantly from the values that would have been used had a ready market for the investments existed. Although these differences could be material to the individual company values, private equity represents less than 3.1% of total investments.

The System purchases forward currency contracts for certain international investments and United States of America agency-guaranteed collateralized mortgage obligations for the purpose of enhancing liquidity, reducing transaction or other costs, or partially hedging an existing exposure. The System does not incur any costs for forward contracts until the settlement date. Potential future obligations for the forward contracts are not recognized until the contract expiration date.

Use of Estimates—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets and liabilities, disclosure of contingent liabilities, and the actuarial present value of accumulated plan benefits at the date of the financial statements. Actual results could differ from those estimates. The System utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Assets Used in Plan Operations—These assets represent buildings, equipment, and computer software development costs used by the System and are recorded at cost. Depreciation and amortization are provided on the straight-line method over the estimated useful lives of the assets. The estimated useful life for buildings is 30 years. The estimated useful life of the computer software development costs is five years. Computer and technology equipment has a three-year useful life.

Totals—The basic financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the System's basic financial statements for the year ended June 30, 2005, from which the summarized information was derived.

3. DEPOSITS AND INVESTMENTS

A. Deposits

Cash and cash equivalents are deposited with various financial institutions and are carried at cost plus accrued interest. Cash balances represent operating cash accounts held by various banks and on deposit with the State Treasurer. Cash held by the State Treasurer is held in the System's name and is fully insured or collateralized with securities held by the State Treasurer or by its agent in the State Treasurer's name. Cash deposits in bank accounts for operations are covered by federal depository insurance up to $100,000. The System does not have a policy for custodial credit risk related to operating cash on deposit at local financial institutions.

Cash and Cash Equivalents:	
Held by the State Treasurer	$ 1,876,663
FDIC insured/collateralized	119,790
Uninsured and uncollateralized	322,443
Total	$ 2,318,896

B. Investments

Investments of the pension trust funds are reported at fair market value. See Note 2 for more details. The Board of Trustees maintains a formal Statement of Investment Policy, which addresses governing provisions and additional guidelines for the investment process. In fulfilling its responsibilities, the Board of Trustees has contracted with investment managers, a master global custodian, other custodians, and a cash manager. Manager contracts include specific guidelines regarding the PERSI investments under management. For the year ended June 30, 2006, Mellon Global Securities Services was the global custodian for the majority of the investments of the combined PERSI Base Plan, FRF, and PERSI Choice Plans.

Investments at fair value as of June 30, 2006:

Domestic fixed income	$ 2,194,522,019	
Commingled domestic fixed income (SLIRF)	76,614,560	
Short-term investments-domestic	421,807,227	
Idaho commercial mortgages	276,765,613	
Total domestic fixed income (less payables)	2,969,709,419	*
Domestic fixed income-USD denominated international securities	136,966,465	
Short-term investments-international	129,465,638	
International fixed income	52,052,665	
Total international fixed income (less payables)	318,484,768	**
Short-term investments	902,602	
Domestic equities	3,915,957,982	
Domestic equities-preferred stock	1,576,442	
International equities	2,191,333,193	
Real estate	178,238,005	
Private equity-domestic	289,655,104	
Private equity-international	11,969,129	
Mutual funds (PERSI Choice Plan)	222,627,280	
Commingled equity fund (SLIRF)	120,075,214	
Total investments	**$ 10,220,529,138**	
Receivables and payables:		
investments sold		
International equities with foreign currency exposure	7,412,640	
International fixed income with foreign currency exposure	256,821	
Foreign exchange contracts receivable	406,055,578	
Receivables not included in risk analysis	509,954,914	
Investments Purchased		
International equities with foreign currency exposure	(17,648,235)	
International fixed income with foreign currency exposure	(465,915)	
Foreign exchange contracts payable	(513,745,694)	
Short sales-international	(134,401,387)	**
Short sales-domestic	(4,213,617)	*
Written options-domestic	(78,150)	*
Payables not included in risk analysis	(683,692,772)	
Total investments including receivables and payables	**$ 9,789,963,321**	

* Total domestic fixed income	$	2,965,417,652
** Total international fixed income	$	184,083,381

Derivatives—Derivatives are financial obligations whose value is derived from underlying debt or equity securities, commodities, or currencies. They are designed, among other things, to help investors protect themselves against the risk of price changes. In accordance with its investment policy, the System, through its external investment managers, holds investments in futures, options, swaps, repurchase agreements, and forward foreign currency contracts. Only a few selected managers are permitted to use derivatives. In every case, the types of derivatives used and limits on their use are defined in manager contracts and are monitored on an ongoing basis.

Futures contracts are contracts for delayed delivery or receipt of securities in which the seller agrees to make delivery and the buyer agrees to take delivery at a specified future date, of a specified instrument, at a specified price. Market risk arises due to market price and interest rate fluctuations that may result in a decrease in the fair value of futures contracts. Futures contracts are traded on organized exchanges and require initial margin in the form of cash or marketable securities. Each day the net change in the futures contract value is settled in cash with the exchanges. Holders of futures contracts look to the exchange for performance under the contract. Accordingly, the credit risk due to the nonperformance of counterparties to futures contracts is minimal. At June 30, 2006 and 2005, the System had futures contracts with a fair value of $19,345 and $100,264, respectively, which is included in Fixed Income Investments. Cash equivalents and short-term investments in amounts necessary to settle the futures contracts were held in the portfolio so that no leverage was employed, in accordance with the System's Statement of Investment Policy. At June 30, 2006, the System had the following futures contracts exposure (negative values represent short future positions):

	Exposure covered by contract
Cash and cash equivalents-eurodollar	$ 22,955,286
U.S. Treasury bond futures	(4,219,634)
U.S. Treasury note futures	(17,486,109)

Option contracts are contractual agreements giving the purchaser the right, but not the obligation, to purchase or sell a financial instrument at a specified price within a specified time. The option's price is usually a small percentage of the underlying asset's value. Options strategies used by the System are designed to provide exposures to positive market moves and limit exposures to interest rate and currency fluctuations. At June 30, 2006 and 2005, the System had option contracts payable with a fair value of $59,953 and $535,744, respectively that is included in liabilities reported as Investments Purchased. At June 30, 2006, the System had the following options contracts exposure:

	Exposure covered by contract
Cash and cash equivalents purchased call options	$ 136,013
Cash and cash equivalents written call options	787
Cash and cash equivalents written put options	180
Fixed income purchased call options	3,563
Fixed income written call options	27,906
Fixed income written put options	50,750

Swap agreements are derivative transactions whereby two parties agree to "swap" cash flows over a period of time. Each cash flow can be derived from any market index defined in the swap agreement that is based on a notional value which never actually changes hands. The indexes that determine the amount of cash exchanged can be as simple as a fixed or variable interest rate (like the current prime rate), or as complex as algebraic formulas that combine, enhance, or diminish any number of other market indexes. The System does not anticipate additional significant market risk from swap arrangements. At June 30, 2006 and 2005, the System had swap agreements with a fair value of $105,228 and $90,941, respectively that are included in International Fixed Income Investments.

Repurchase agreements are short-term securities used to finance trading. A broker/dealer who offers a repurchase agreement borrows money by selling securities and simultaneously agreeing to buy them back at a higher price at a later time. The dealer invests the money paid for the securities, hoping to get a higher return than he owes on his obligation to repurchase the securities. Repurchase agreements are commonly called "repos," and they function in a way similar to a secured loan with the securities serving as collateral. All sales of investments under repurchase agreements are for fixed terms. As of June 30, 2006 and 2005, the credit exposure under repurchase agreements that are included in Short-term Investments was $127,895,269 and $62,108,362, respectively.

Forward Foreign Currency Exchange Contracts are carried at fair value by the System. The System has entered into foreign exchange contracts to purchase or sell currency at various dates in the future at a specific price. Some of the System's international and real estate investment managers use forward contracts to hedge the exposure of investments to fluctuations in foreign currency. Forward foreign exchange contracts are negotiated between two counterparties. The System could sell the forward contract at a loss, or if it were to continue to hold the contract, the System may make a termination payment to the counterparty to cancel its obligation under the contract and then buy the currency on the open market. The System could also incur a loss if its counterparties failed to perform pursuant to the terms of their contractual obligations. Controls are established by the System and the investment managers to monitor the creditworthiness of the counterparties. The System's investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. As of June 30, 2006 and 2005, the System had entered into forward currency contracts to sell foreign currencies with a fair value of $910,893,722 and $809,001,906 and had entered into forward currency contracts to buy foreign currencies with a fair value of $910,070,922 and $809,107,799, respectively. Forward currency contracts are receivables or liabilities reported as investments sold or investments purchased. Unrealized gains of $822,800 and unrealized losses of $105,892 at June 30, 2006 and 2005, respectively, were recorded, which represent the gain or loss which would occur from executing these forward foreign currency contracts at June 30, 2006 and 2005, respectively.

Mortgage-Backed Securities—These investments are based on the cash flows from interest and principal payments on the underlying mortgages. As a result, they are sensitive to prepayments, which are likely to occur in declining interest rate environments, thereby reducing the value of the securities. Details regarding interest rate risk for these investments are included in the Interest Rate Risk section below.

TIPS—Treasury Inflation Protected Securities ("TIPS") are fixed income securities issued by the U.S. Treasury that pay a fixed coupon rate plus an adjustment for subsequent inflation. At June 30, 2006 and 2005, the System had invested in TIPS with a fair value of $815,334,404 and $701,714,595, respectively.

C. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the System. The System's investment policies require each portfolio to maintain a reasonable risk level relative to its benchmark. As of June 30, 2006, the System's fixed income assets that are not government guaranteed represented 62% of the fixed income portfolio. The System's fixed income assets are shown with current credit ratings in the table on the following page.

Credit quality of fixed income securities at fair value:

Credit Quality S&P Rating Level	Domestic	International	Total
Agency(A-1+)	$ 1,907,354	$ -	$ 1,907,354
AAA	637,416,120	36,436,266	673,852,386
AA	103,335,963	5,519,302	108,855,265
A	203,509,156	12,551,417	216,060,573
BBB	108,487,067	4,809,449	113,296,516
BB	16,206,496		16,206,496
B	32,297,096	88,210	32,385,306
CCC	6,195,394		6,195,394
Not rated	253,827,848	124,678,737	378,506,585
Total credit risk fixed income securities	**1,363,182,494**	**184,083,381**	**1,547,265,875**
U.S. government	1,216,914,064		1,216,914,064
Pooled investments	108,555,481		108,555,481
Idaho mortgages	276,765,613		276,765,613
Total	**$ 2,965,417,652**	**$ 184,083,381**	**$ 3,149,501,033**

As a matter of practice, there are no strict limitations for credit risk exposures within the portfolio. Each portfolio is managed in accordance with operational guidelines that are specific as to expected portfolio characteristics that usually, but not always, include credit quality and exposure levels. Per the System's policy, these characteristics are established and monitored within each portfolio, with variances reported by the manager.

D. Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution or bank failure, the System would not be able to recover the value of their deposits and investments that are in the possession of an outside party. The System mitigates custodial credit risk by requiring in policy, to the extent possible, that investments be clearly marked as to PERSI ownership and be registered in the System's name. All securities are required to be delivered to a third-party institution mutually agreed upon by the bank and the System.

The System's short-term investments are created through daily sweeps of excess cash by the System's custodian, cash manager, and a few selected investment managers into short-term investment funds. Clearwater Advisors, LLC is the System's cash manager and invests the bulk of the System's cash in short-term instruments. Clearwater Advisors manages approximately 65% of the System's short-term investments. Of the short-term investments at June 30, 2006 and 2005, $1,918,764 and $14,004,992, respectively, were held by various counterparties not in the System's name. The remainder of the pooled short-term investment funds is invested in bank-maintained collective investment funds except collective vehicles held and managed by individual investment managers.

E. Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issuer. The System's operational guidelines for investments in any corporate entity are stated in each individual manager's specific portfolio guideline.

In line with policy, the System does not have any investments from a single issuer (excluding explicitly guaranteed governments) that represent more than 5% of the System's net assets.

F. Interest Rate Risk

Market or interest rate risk is the greatest risk faced by an investor in the debt securities market. The price of a debt security typically moves in the opposite direction of the change in interest rates. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the portfolio using the effective duration methodology. The methodology takes into account optionality on bonds and scales the risk of price changes on bonds depending upon the degree of change in rates and the slope of the yield curve. All of the System's fixed income portfolios are managed in accordance with operational guidelines which include an expected range of interest rate risk in the portfolio. Per the System's policy, these characteristics are established and monitored within each portfolio, with variances reported by the manager. The reporting of effective duration found in the tables below quantifies the interest rate risk of the System's fixed income assets. For line items below reported as "N/A," the duration calculation is not available.

Effective duration of domestic fixed income assets by security type:

Investment	**Fair Value**	**Effective Duration in Years**
Asset-backed securities	$ 21,990,558	0.59
Asset-backed securities	326,341	N/A
Mortgages	44,028,859	0.88
Commercial paper	48,848,673	0.05
Commercial paper	174,225,351	N/A
Corporate bonds	459,011,788	3.81
Corporate bonds	583,105	N/A
Fixed income derivatives	54,541	N/A
Government agencies	136,546,457	3.48
Government bonds	381,285,791	5.82
Government mortgage-backed securities	410,235,236	3.73
Government mortgage-backed securities	53,417,333	N/A
Pooled investments	33,357,307	0.08
Pooled investments	75,198,174	N/A
Preferred stock	1,496,120	3.14
Preferred stock	80,322	N/A
Private placements	47,908,177	2.42
Private placements	4,010,345	N/A
Repurchase agreements	(4,213,618)	N/A
TIPS	800,261,179	7.03
Idaho mortgages	276,765,613	N/A
Total	**$ 2,965,417,652**	

Effective duration of international fixed income assets by security type:

Investment	**Fair Value**	**Effective Duration in Years**
Commercial Paper	$ 8,478,570	0.21
Commercial Paper	39,642,836	N/A
Corporate Bonds	61,107,727	2.18
Corporate Bonds	3,717,806	N/A
Government Bonds	5,966,471	25.28
Repurchase Agreements	65,169,971	0
Total	**$ 184,083,381**	

G. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The System's currency risk exposures, or exchange rate risk, primarily reside within the international equity investment holdings. The System expects the managers of these holdings to maintain adequately diversified portfolios to limit foreign currency risk. Per the System's policy, individual manager guidelines outline at a minimum, ranges of currency exposure which are monitored within each portfolio. Managers are required to report variances to the System. Currency gains and losses will result from these fluctuations. The System's exposure to foreign currency risk expressed in U.S. dollars as of June 30, 2006, is highlighted in the following table:

Currency exposures:

Currency	Short-term Investment	Equities	Fixed Income	Total USD Equivalent Fair Value
Australian Dollar	$ 293,731	$ 62,223,487	$ 2,447,649	$ 64,964,867
Botswana Pula		1,476,645		1,476,645
Brazil Real	(3,040,342)	45,688,108		42,647,766
British Pound Sterling	106,256,498	296,716,056	(106,603,880)	296,368,674
Canadian Dollar	18,942,683	25,377,423	(13,440,279)	30,879,827
Chilean Peso	316,239	4,949,262		5,265,501
Czech Koruna	8,653			8,653
Danish Krone	13,486	5,509,530		5,523,016
Egyptian Pound	38	8,467,048		8,467,086
Euro	(80,307)	601,800,770	339,410	602,059,873
Hong Kong Dollar	(1,073,911)	102,989,230		101,915,319
Hungarian Forint	(352,289)	11,944,762	142,774	11,735,247
Indonesian Rupian		39,494,118		39,494,118
Israeli Shekel	435,714	14,239,852		14,675,566
Japanese Yen	3,504,337	355,152,497	2,297,552	360,954,386
Malaysian Ringgit	(388,956)	9,641,910		9,252,954
Mexican New Peso	118,906	23,788,728	6,493,479	30,401,113
New Taiwan Dollar	25,266	73,232,690		73,257,956
New Turkish Lira	(143,551)	21,781,547		21,637,996
New Zealand Dollar	18,278	3,091,314		3,109,592
Norwegian Krone	2,840	11,014,080		11,016,920
Philippines Peso	(218,146)	7,575,972		7,357,826
Polish Zloty			3,192,045	3,192,045
S African Comm Rand	(3,601,744)	77,108,378		73,506,634
Singapore Dollar	81,779	17,263,671	5,879,095	23,224,545
South Korean Won	(3,250,256)	146,668,589		143,418,333
Sri Lanka Rupee		118,138		118,138
Swedish Krona	81,740	23,659,818		23,741,558
Swiss Franc	498,190	87,677,054		88,175,244
Thailand Baht	(139,070)	33,640,660		33,501,590
Zimbabwe Dollar	1,955	676,669		678,624
Total value of investments subject to foreign currency risk	**$ 118,311,761**	**$ 2,112,968,006**	**$ (99,252,155)**	**$ 2,132,027,612**

4. ASSETS USED IN PLAN OPERATIONS

Assets used in plan operations at June 30, 2006 and 2005, consist of the following:

	2006	2005
Buildings and improvements	$ 5,470,045	$ 5,449,460
Less accumulated depreciation	(2,682,162)	(2,527,232)
Total buildings and improvements	2,787,883	2,922,228
Computer software development	6,331,360	6,331,360
Less accumulated amortization	(6,331,360)	(5,743,765)
Total computer software development	-	587,595
Equipment	80,218	6,807
Less accumulated depreciation	(17,578)	
Total equipment	62,640	6,807
Total assets used in plan operations	**$ 2,850,523**	**$ 3,516,630**

For the year ended June 30, 2006, depreciation expense on the buildings and improvements was $154,929, and amortization expense on the computer software development costs was $587,595. The equipment had a total depreciation expense of $17,578. The depreciation and amortization costs are included in administrative expenses.

5. CONTRIBUTIONS

The System's funding policy for the PERSI Base Plan and FRF is determined by the Board within limitations, as defined by Idaho law. The funding policy provides for periodic employer contributions at actuarially determined rates (expressed as percentages of annual covered payroll), that are adequate to accumulate sufficient assets to pay benefits when due. Level percentages of payroll employer contribution rates are determined using the Entry Age Actuarial Cost Method for the PERSI Base Plan and a modified aggregate funding method for FRF. Under the Entry Age Actuarial Cost Method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit age. FRF amortizes the difference between the value of the FRF benefits not provided by the Base Plan and the FRF assets over the earnings of all firefighters. The PERSI Base Plan amortizes any unfunded actuarial accrued liability based on a level percentage of payroll. FRF amortizes any unfunded liability based on a level dollar amount. The maximum amortization period for the Base Plan permitted under Section 59-1322, Idaho Code, is 25 years. The maximum amortization period for FRF permitted under Section 59-1394, Idaho Code, is 50 years. The payroll for employees covered by the PERSI Base Plan and FRF was approximately $2,343,000,000 and $1,400,000, respectively.

Actuarial valuations of the PERSI Base Plan and FRF are performed annually. The last valuations were performed as of July 1, 2006.

Normal cost is 14.56% of covered payroll and the amount available to amortize the unfunded actuarial liability is 4.79% of covered payroll for the PERSI Base Plan. There is no normal cost associated with FRF, and all contributions to FRF are available to pay benefits and reduce the unfunded actuarial liability. Police and Fire employers' contribution rates increased 1/10% effective July 1, 2003, as a result of a new death benefit. The PERSI Board also approved a contribution rate increase of 1% per year for 3 years beginning July 1, 2004, for a total increase of 3% split between employers and employees. The rate increases scheduled to begin July 1, 2005 and July 1, 2006, were postponed for two years.

The contribution rates for the year ended June 30, 2006, and subsequent years through June 30, 2008, are as follows:

Optional retirement plan employees of higher education:

Colleges and universities	3.03 %
Junior colleges	3.83 %

	Active Members		**Employers**	
	General/ Teacher	**Fire/ Police**	**General/ Teacher**	**Fire/ Police**
Contribution rate effective July 1, 2004	6.23 %	7.65 %	10.39 %	10.73 %
Increase effective July 1, 2005	Postponed in 2005 and again in 2006			
Next planned rate increases:				
Increase effective July 1, 2007	0.37 %	0.44 %	0.61 %	0.61 %
Rate July 1, 2007	6.60 %	8.09 %	11.00 %	11.34 %
Increase effective July 1, 2008	0.37 %	0.44 %	0.61 %	0.61 %
Rate July 1, 2008	6.97 %	8.53 %	11.61 %	11.95 %

FRF employer and employee contribution rates for firefighters hired before October 1, 1980, are 25.89% and 3.80%, respectively, in addition to the PERSI Police and Fire rates shown above. The employer contribution rate for firefighters hired after October 1, 1980, is 17.24%, in addition to the PERSI Police and Fire rate shown above. FRF employer rates increased along with the PERSI Base Plan rates in Fiscal Year 2005, and are scheduled to increase in 2007 and 2008.

6. PENSION PLAN PARTICIPATION

The System participates as an employer in the PERSI Base Plan, a cost sharing multiple-employer public retirement system, which was created by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and the employer contribute. The Plan provides benefits based on members' years of service, age, and compensation. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. The authority to establish and amend benefit provisions is established in Idaho Code. Designed as a mandatory system for eligible state and school district employees, the legislation provides for other political subdivisions to participate by contractual agreement with the System. Financial reports for the Plan are available from the System upon request.

After five years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month of credited service, the annual service retirement allowance is 2.0% (2.3% police/firefighter) of the average monthly salary for the highest consecutive 42 months.

The contribution requirements of the System and its employees are established and may be amended by the PERSI Board of Trustees. For the year ended June 30, 2006, the required contribution rate was 6.23% for general members and 7.65% for police/fighters. The employer rate as a percentage of covered payroll was 10.39% for general members and 10.73% for police/fighter members. PERSI contributions required and paid were $403,583, $392,003, and $361,053 for the three years ended June 30, 2006, 2005, and 2004, respectively.

7. COMMITMENTS

The accrual basis of accounting provides that expenses include only amounts associated with goods and services received and liabilities include only the unpaid amounts associated with such expenses. Accordingly, the System had committed approximately $1,193,794 in outstanding purchase orders and purchase commitments to fund ongoing administrative projects for the System. These amounts are not reported in the basic financial statements at June 30, 2006.

The System had private equity commitments as of June 30, 2006, of $813,394,732, of which $422,775,756 of funding had been provided, leaving an unfunded commitment of $390,618,976 at fiscal year end. The System also had a private real estate commitment as of June 30, 2006 for an amount of $218,000,000. Funding of $128,304,944 had been provided by the end of FY 2006, leaving an unfunded commitment of $89,695,056.

REQUIRED SUPPLEMENTARY INFORMATION

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

SCHEDULES OF FUNDING PROGRESS—PUBLIC EMPLOYEE RETIREMENT FUND AND FIREFIGHTERS' RETIREMENT FUND FISCAL YEARS 2001–2006 (Dollars in millions)

PERSI

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) (a.)	(3) PV of Future ORP Contributions	(4) Unfunded AAL (UAAL) (2)-(1)-(3) (b.)	(5) Funded Ratios (1) : [(2)-(3)] (c.)	(6) Annual Covered Payroll (d.)	(7) UAAL as a Percentage of Covered Payroll (4) : (6)
July 1, 2001	$ 6,492.8	$ 6,751.3	$ 72.2	$ 186.3	97.2 %	$ 1,975.3	9.4 %
July 1, 2002	6,062.1	7,209.5	71.7	1,075.7	84.9	2,047.1	52.5
July 1, 2003	6,297.8	7,578.8	66.4	1,214.6	83.8	2,057.7	59.0
July 1, 2004	7,420.2	8,154.8	63.5	671.1	91.7	2,115.4	31.7
July 1, 2005	8,208.8	8,778.7	61.3	508.6	94.2	2,208.7	23.0
July 1, 2006	9,177.1	9,638.8	60.2	461.7	95.2	2,343.5	19.7

(a.) Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.

(b.) Actuarial accrued liabilities less actuarial value of assets and present value of future Optional Retirement Plan (ORP) Contributions. Amounts reported in this table do not include the value of the discretionary COLA or Gain Gain Sharing allocations granted after the valuation date. If negative, amount is referred to as a funding reserve.

(c.) Funded Ratio is the ratio of the actuarial value of assets over the actuarial accrued liabilities less the present value of future ORP contributions.

(d.) Covered Payroll includes compensation paid to all active employees on which contributions are calculated.

FRF

Actuarial Valuation Date	(1) Actuarial Market Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2)-(1)	(4) Funded Ratios (1) : (2)	(5) Annual Covered Payroll (e.)	(6) UAAL as a Percentage of Covered Payroll (3) : (5)
July 1, 2001	$ 200.4	$ 316.2	$ 115.8	63.4 %	$ 32.9	352.0 %
July 1, 2002	181.5	300.3	118.8	60.4	34.4	345.3
July 1, 2003	182.7	310.7	128.0	58.8	37.0	345.9
July 1, 2004	210.4	302.6	92.2	69.5	39.8	231.7
July 1, 2005	227.2	309.1	81.9	73.5	42.2	194.1
July 1, 2006	248.8	312.3	63.5	79.7	45.0	141.1

(e.) Annual covered payroll includes compensation paid to all active firefighters hired prior to October 1, 1980. Annual Covered Payroll differs from Active Member Valuation Payroll, which is an annualized compensation of only those members who were active on the actuarial valuation date.

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

SCHEDULES OF EMPLOYER CONTRIBUTIONS—PUBLIC EMPLOYEE RETIREMENT FUND AND FIREFIGHTERS' RETIREMENT FUND FISCAL YEARS 2001—2006 (Dollars in millions)

	PERSI Employer Contributions			FRF Employer Contributions (c.)		
Year Ended June 30	Total Employer Contributions (Statutory) (a.)	Annual Required Contribution (ARC) (b.)	Percentage Contributions	Total Employer Contributions	Annual Required Contribution	Percentage Contributions
2001	$ 197.9	$ 152.2	130.0 %	$ 9.2	$ 6.3	147.3 %
2002	205.5	155.1	132.0	9.6	9.3	102.2
2003	206.7	188.3	110.0	10.1	9.5	107.1
2004	212.6	218.8	97.0	11.7	10.2	114.9
2005	236.2	236.7	100.0	11.7	7.2	162.3
2006	250.8	238.1	105.0	12.0	6.5	186.2

(a.) For 2001, this includes $77,690,500 of gain sharing credits. Actual cash contributions were $120,220,992.

(b.) For PERSI employers, the Annual Required Contribution (ARC) is equal to the normal cost rate plus a 25-year amortization of any Unfunded Actuarial Accrued Liability or minus a 25-year amortization of any Funding Reserve amount. The ARC determined as of the valuation date is applicable for employers' fiscal years commencing October 1, of the calendar year following the valuation date. For ORP employers, the ARC is equal to 3.03% of salaries of university members in the ORP until 2015 and 3.83% of salaries of junior college members in the ORP until 2011.

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

1. ACTUARIAL INFORMATION

The information presented in the required supplementary information was prepared for GASB disclosure purposes and may differ from the funding determination as of the dates indicated. Additional information as of the latest actuarial valuation for GASB purposes is as follows:

Valuation date	July 1, 2006	July 1, 2006
Actuarial cost method	Entry age actuarial cost	Entry age actuarial cost
Amortization method	Level percentage of projected payroll—open	Level dollar amount—closed
Remaining amortization period	25 years	30 years
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Investment rate of return	7.75 %	7.75 %
Projected salary increases—	5.0 % - 11.5 %	4.50 %
Includes salary inflation	4.50 %	4.50 %
Postretirement benefit increase	1.00 %	4.50 %
Implied price inflation rate	3.75 %	3.75 %

ADDITIONAL SUPPLEMENTARY SCHEDULES

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

SCHEDULE OF INVESTMENT EXPENSES
YEAR ENDED JUNE 30, 2006

INVESTMENT AND RELATED SERVICES:	
Adelante Capital (formerly Lend Lease Rosen)	$ 2,908,929
Apollo Management	189,847
Baring Asset Management, Inc.	1,461,343
Sanford C. Bernstein	3,518,730
Blackstone Capital Partners	255,064
Bloomberg, LP	55,853
Brandes Investment Partners, LP	1,999,304
Bridgepoint Cap LTD	126,242
Bridgewater Associates	788,963
Callan Associates	245,681
Capital Guardian Trust Company	1,441,816
Chadwick, Saylor & Co., Inc.	403,828
Chisholm Partners, LP	372,728
Choice Plan Managers	197,433
Clearwater Advisors, LLC	572,678
CVC European Equity	307,030
D.B. Fitzpatrick & Co., Inc.	1,501,254
Donald Smith & Company	1,516,075
Enhanced Equity	466,667
Fidelity Management Trust Company	546,833
Frazier Technology Ventures	431,284
Furman Selz Investments	48,550
Galen Associates	812,996
Genesis Asset Managers, Ltd.	2,116,227
Goense Bounds & Partners, LP	35,040
Green Equity Investors	91,349
Hamilton Lane Advisors, Inc.	195,000
Hamilton Lane Co-Investment Fund	278,904
Harvest Partners	83,815
Highway 12	273,842
JH Whitney & Co., LLC	251,892
Kohlberg & Co., LLC	328,915
Littlejohn & Company	51,031
McCown De Leeuw	107,720
Mellon Capital Management	632,457
Mellon Trust	2,796,873
Mondrian Investment Partners	926,147
Mountain Pacific Investment Advisors, Inc.	969,640
Navis Partners, LP	213,041
Newbridge Asia IV, L.P.	350,766
Pareto Partners	793,820
Peregrine Capital	943,206
Providence Investments	193,549
Prudential Investments	411,305
Rowe Price International, Inc.	1,179,488
Societe Generale	55,142
State Street Global Advisors	310,625
T3 Partners II, LP	87,368
TCW Asset Management	1,110,273
Thomas H. Lee	36,703
Tukman Capital Management, Inc.	1,350,845

(Continued)

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

SCHEDULE OF INVESTMENT EXPENSES
YEAR ENDED JUNE 30, 2006

INVESTMENT AND RELATED SERVICES (Continued):	
W. Capital Partners	400,000
Wells Fargo Bank	66,072
Western Asset Management	455,990
Zesiger Capital Group	1,736,788
	34,267,663
CONSULTING/OTHER SERVICES:	
ACS HR Solutions, LLC	1,076,073
Deloitte & Touche LLP	64,300
Foster, Pepper, Shefelman PLLC	733,422
GMAC	22,937
Milliman, Inc.	225,947
Whiteford,Taylor, & Presto	3,535
	2,126,214
	$ 36,393,877

(Concluded)

SCHEDULE OF ADMINISTRATIVE EXPENSES
YEAR ENDED JUNE 30, 2006

PORTFOLIO-RELATED EXPENSES:	
Personnel expenses	$ 409,652
Operating expenses	155,186
Capital outlay	3,074
	567,912
OTHER ADMINISTRATIVE EXPENSES:	
Personnel expenses	2,950,424
Operating expenses	2,946,044
Capital outlay	83,394
Building depreciation expense	154,929
Equipment depreciation expense	17,578
Software amortization expense	587,595
	6,739,964
SICK LEAVE FUND EXPENSES—Administrative personnel expenses	53,660
	$ 7,361,536

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON AN AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Retirement Board
Public Employee Retirement System of Idaho
Boise, Idaho

We have audited the financial statements of the Public Employee Retirement System of Idaho (the "System"), a component unit of the State of Idaho, as of and for the year ended June 30, 2006, and have issued our report thereon dated October 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Retirement Board, management, and applicable state officials and is not intended to be and should not be used by anyone other than these specified parties.

October 20, 2006