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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 pension and other trust funds of the Public Employee Retirement System of Idaho (the "System"), a component unit of the State of Idaho, as of June 30, 2007, 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 2006 basic financial statements and, in our report dated October 26, 2006, 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 trust funds of the System as of June 30, 2007, and the changes in plan net assets of the pension and other trust funds 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 on pages 51 through 53 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 on pages 55 through 57 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 26, 2007, 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 26, 2007

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007 (UNAUDITED)

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 year ended June 30, 2007. 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 11.

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 $1.9 billion and $1.1 billion during the fiscal year 2007 and 2006, respectively. The increase in the defined benefit plans was primarily due to the continuation of favorable investment markets. The increases in the Choice Plan 401(k) and Sick Leave Fund were due to new contributions in addition to market gains. Each fund experienced an increase in net assets.

	2007	2006
PERSI Base Plan	$ 1,770,966,566	$ 968,875,308
Firefighters' Retirement Fund	42,775,512	21,543,068
PERSI Choice Plan 414(k)	8,746,822	4,230,900
PERSI Choice Plan 401(k)	62,928,937	42,642,552
Sick Leave Insurance Reserve Fund - State	12,967,671	6,096,669
Sick Leave Insurance Reserve Fund - Schools	21,360,352	9,614,199
Total increase in plan net assets	$ 1,919,745,860	$ 1,053,002,696

- 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, 2007 and 2006, the rate of return net of investment expenses on the pooled investment assets are detailed below (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.

	2007	2006
PERSI Defined Benefit Plans	19.6 %	11.8 %
PERSI Defined Contribution Plans	17.8 %	11.1 %
Sick Leave Insurance Reserve Fund	13.7 %	4.9 %

- 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, 2007 and 2006, was $1.9 billion and $1.0 billion, respectively.

	2007	2006
Net investment income:		
PERSI Base Plan	$ 1,793,984,082	$ 969,385,175
Firefighters' Retirement Fund	47,693,912	26,225,243
PERSI Choice Plan 414(k)	11,685,145	6,715,343
PERSI Choice Plan 401(k)	33,140,785	15,760,870
Sick Leave Insurance Reserve Fund - State	10,636,103	3,512,674
Sick Leave Insurance Reserve Fund - Schools	17,548,185	5,792,037
Total net investment income	$ 1,914,688,212	$ 1,027,391,342

- As of June 30, 2007 and 2006, 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:

	2007 Funding Ratio	Amortization Period	2006 Funding Ratio	Amortization Period
PERSI Base Plan	105.5%	N/A	95.2%	9.8 years
Firefighters' Retirement Fund	92.6%	2.3 years	79.7%	6.5 years

For the PERSI defined benefit plans, deductions for benefits and administrative expenses exceeded contributions and other income by $27.9 million and $5.2 million for Fiscal Years 2007 and 2006, respectively. This increase in negative net cash flow is normal for a mature plan and has been included in our long-range actuarial planning. Investment income fills in the gap. These relatively small changes combined with investment gains of $1.8 billion in 2007 and $995.6 million in 2006, resulted in net assets of the defined benefit plans increasing to $11.3 and $9.4 billion in 2007 and 2006, respectively. For actuarial calculations, the System's actuary uses market value to determine the actuarial value of assets. For the July 1, 2007 and 2006 valuations, the actuarial value of assets for the PERSI Base Plan was $10.9 billion and $9.2 billion, respectively. The aggregate actuarial liability for all PERSI Base Plan employers was $10.4 billion on July 1, 2007. On an actuarial basis, the assets held as of July 1, 2007, fund 105.5% 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 51 of this report. The actuarial funding ratio for the two defined benefit plans and the amortization periods improved primarily because investment performance was above the actuarial expected rate. 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 returns, the amortization period of the unfunded liability decreased which allowed the PERSI Board to postpone for a third year, the two future scheduled rate increases. At the October 2007 Board Meeting, the PERSI Board made the decision to remove all future scheduled rate increases, and make the current Base Plan rates permanent.

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, 2007 and 2006 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, 2007 and 2006 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 33-48 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, 2007	As of June 30, 2006	$ Change	% Change
Assets:				
Cash and cash equivalents	$ 2,695,922	$ 2,251,632	$ 444,290	19.7 %
Investments sold receivable	1,103,979,386	923,679,953	180,299,433	19.5 %
Other receivables	46,591,254	48,630,720	(2,039,466)	(4.2)%
Investments — at fair value	11,505,068,772	9,800,222,961	1,704,845,811	17.4 %
Prepaid retiree benefits	34,193,978	30,772,971	3,421,007	11.1 %
Capital assets — net of accumulative depreciation	2,690,780	2,850,523	(159,743)	(5.6)%
Total assets	12,695,220,092	10,808,408,760	1,886,811,332	17.5 %
Liabilities:				
Investments purchased payable	1,425,333,383	1,354,245,770	71,087,613	5.2 %
Benefits and refunds payable	160,758	248,275	(87,517)	(35.3)%
Other liabilities	11,766,727	9,697,569	2,069,158	21.3 %
Total liabilities	1,437,260,868	1,364,191,614	73,069,254	5.4 %
Net assets available for benefits	$11,257,959,224	$ 9,444,217,146	$1,813,742,078	19.2 %

The fiscal year ended June 30, 2007, was most notably marked by a continuation in favorable investment markets. Other Liabilities were higher at the end of Fiscal Year 2007 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, 2007	Year Ended June 30, 2006	$ Change	% Change
Additions:				
Member contributions	$ 159,635,748	$ 154,352,078	$ 5,283,670	3.4 %
Employer contributions	271,620,561	262,922,576	8,697,985	3.3 %
Investment income	1,841,677,994	995,610,418	846,067,576	85.0 %
Other additions	238,637	127,213	111,424	87.6 %
Total additions	2,273,172,940	1,413,012,285	860,160,655	60.9 %
Deductions:				
Benefits and refunds paid	452,750,243	415,286,033	37,464,210	9.0 %
Administrative expenses	6,680,619	7,307,876	(627,257)	(8.6)%
Total deductions	459,430,862	422,593,909	36,836,953	8.7 %
Changes in net assets available for benefits	$1,813,742,078	$ 990,418,376	$ 823,323,702	83.1 %

The annual amount of Investment Income and Changes in Net Assets Available for Benefits increased from Fiscal Year 2006 to Fiscal Year 2007 because of an upward swing in the investment market. The increase in Other Additions was due to increased interest earnings on cash balances and a federal withholding tax refund of $53,307. The increase in Benefits and Refunds Paid was a result of increased number of retirees and the annual Cost of Living Adjustment (COLA) increase for benefits paid to retirees. Administrative Expenses for Fiscal Year 2007 decreased as the Business Process Reengineering Project neared completion.

Defined Contribution Pension Trust Funds

During Fiscal Year 2007, the System administered two defined contribution plans. The PERSI Choice Plans, qualified plans under Internal Revenue Code, consist of a 401(k) plan and a 414(k) plan and provides another retirement benefit option to members of the Defined Benefit Pension Trust Funds.

The PERSI Choice Plans were 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, 2007	As of June 30, 2006	$ Change	% Change
Assets:				
Cash	$ 19,524	$ 19,790	$ (266)	(1.3)%
Short-term investments	1,127,975	989,123	138,852	14.0 %
Investments — at fair value	294,073,467	222,627,280	71,446,187	32.1 %
Receivables	1,205,619	1,114,633	90,986	8.2 %
Total assets	296,426,585	224,750,826	71,675,759	31.9 %
Net assets available for benefits	$ 296,426,585	$ 224,750,826	$ 71,675,759	31.9 %

Investments increased from Fiscal Year 2006 to Fiscal Year 2007 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 plus accrued interest and dividends.

Defined Contribution Pension Trust Funds Changes in Net Assets

	Year Ended June 30, 2007	Year Ended June 30, 2006	$ Change	% Change
Additions:				
Member contributions	$ 29,668,354	$ 25,873,335	$ 3,795,019	14.7 %
Employer contributions	190,850	282,128	(91,278)	(32.4)%
Investment income	44,825,930	22,476,213	22,349,717	99.4 %
Transfers and rollovers in	8,512,489	6,246,072	2,266,417	36.3 %
Total additions	83,197,623	54,877,748	28,319,875	51.6 %
Deductions:				
Benefits and refunds paid	5,263,987	3,963,574	1,300,413	32.8 %
Transfers and rollovers out	6,257,877	4,040,722	2,217,155	54.9 %
Total deductions	11,521,864	8,004,296	3,517,568	43.9 %
Changes in net assets available for benefits	$ 71,675,759	$ 46,873,452	$ 24,802,307	52.9 %

Investment Income increased from Fiscal Year 2006 to Fiscal Year 2007 because of an upward swing in the investment market. Transfers In and Transfers Out only include rollovers from/to other plans. Member 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. The increase in Benefits and Refunds Paid is a result of an increase in the number of retirees receiving benefits.

Other Trust Funds

During Fiscal Year 2007, 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.

Sick Leave Insurance Reserve Funds Net Assets

	As of June 30, 2007	As of June 30, 2006	$ Change	% Change
Assets:				
Cash	$ 33,978	$ 47,474	$ (13,496)	(28.4)%
Investments — at fair value	230,843,787	196,689,774	34,154,013	17.4 %
Prepaid insurance premiums	931,896	876,663	55,233	6.3 %
Due from other funds	1,704,619	1,571,594	133,025	8.5 %
Total assets	233,514,280	199,185,505	34,328,775	17.2 %
Liabilities — other liabilities	22,840	22,088	752	3.4 %
Net assets available for benefits	$ 233,491,440	$ 199,163,417	$ 34,328,023	17.2 %

Investments increased from Fiscal Year 2006 to Fiscal Year 2007 because of the continued favorable investment market. The increase in Due From Other Funds was due to a general increase in member compensation rates.

Sick Leave Insurance Reserve Funds Changes in Net Assets

	Year Ended June 30, 2007	Year Ended June 30, 2006	$ Change	% Change
Additions:				
Employer contributions	$ 17,847,587	$ 16,897,504	$ 950,083	5.6 %
Investment income	28,184,288	9,304,711	18,879,577	202.9 %
Other additions	22,555	15,953	6,602	41.4 %
Total additions	46,054,430	26,218,168	19,836,262	75.7 %
Deductions:				
Benefits and refunds paid	11,647,417	10,453,640	1,193,777	11.4 %
Administrative expenses	78,990	53,660	25,330	47.2 %
Total deductions	11,726,407	10,507,300	1,219,107	11.6 %
Changes in net assets available for benefits	$ 34,328,023	$ 15,710,868	$ 18,617,155	118.5 %

Investment Income increased from Fiscal Year 2006 to Fiscal Year 2007 because of favorable investment markets. The increase in Other Additions was due to interest earnings on the cash balance held at the State Treasurer's Office. Administrative Expenses increased due to an increase in PERSI overhead costs to administer the SLIRF.

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		
	2007	2006	Change	2007	2006	Change
Active participants	65,800	64,762	1.6 %	37,680	38,946	(3.3)%
Vested - Base Plan	41,360	41,215	0.4 %			
Non-vested - Base Plan	24,440	23,547	3.8 %			
Actively contributing - Choice Plan				9,744	9,202	5.9 %
Retirees and beneficiaries	29,619	28,438	4.2 %	117	119	(1.7)%
Terminated vested	9,670	8,948	8.1 %	10,039	7,988	25.7 %

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, 2006	28,438
Retirements	2,070
Death of retiree/beneficiary	(889)
Ending — July 1, 2007	29,619

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.

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 maximum amortization period allowed by state law for the Base Plan is 25 years. The PERSI Board has postponed the second and third year rate increases three times due to a significant increase in funded status. The remaining two increases were scheduled for July 1, 2008 and 2009. However, at the October 2007 Board Meeting, the PERSI Board made the current Base Plan contribution rates permanent and amended PERSI rules to remove the future scheduled rate increases.

As of July 1, 2007, PERSI's Base Plan has a funded ratio of 105.5% and no amortization period of the unfunded liability due to the actuarial assets exceeding the actuarial liabilities of the Plan. This significant increase in the funding and moving to an over 100% funded ratio was due to an investment return before expenses of 20% for Fiscal Year 2007. The actuarial gain (investment return in excess of actuarial assumption) for Fiscal Year 2007 was approximately $1.1 billion leaving a $573 million funding surplus at the year end.

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

STATEMENTS OF PLAN NET ASSETS — PENSION TRUST FUNDS AND OTHER TRUST FUNDS
JUNE 30, 2007 WITH COMPARATIVE FINANCIAL INFORMATION FOR JUNE 30, 2006

	Pension Trust Funds			
			PERSI Choice Plan	
	PERSI Base Plan	Firefighters' Retirement Fund	414(k)	401(k)
ASSETS:				
Cash and cash equivalents	$ 2,625,904	$ 70,018	$ -	$ 19,524
Investments—at fair value:				
Fixed income investments:				
Domestic	2,404,466,656	64,113,587		
International	29,082,555	775,468		
Idaho commercial mortgages	275,113,608	7,335,731		
Short-term investments	485,180,162	12,937,023		1,127,975
Real estate equities	373,634,320	9,962,724		
Equity Securities:				
Domestic	4,598,379,098	122,612,879		
International	2,618,367,293	69,817,113		
Private equity	422,037,199	11,253,356		
Mutual, collective, unitized funds			69,934,126	224,139,341
Total investments	11,206,260,891	298,807,881	69,934,126	225,267,316
Receivables:				
Investments sold	1,075,389,646	28,589,740		
Contributions	3,588,416	124,232		273,949
Interest and dividends	41,768,179	1,110,427	259,269	672,401
Total receivables	1,120,746,241	29,824,399	259,269	946,350
Assets used in plan operations — net	2,690,780			
Due from other plans				
Prepaid retiree benefits	34,193,978			
Total assets	12,366,517,794	328,702,298	70,193,395	226,233,190
LIABILITIES:				
Accrued liabilities	$ 9,812,702	$ 249,406	$ -	$ -
Benefits and refunds payable	160,758			
Due to other plans	1,704,619			
Investments purchased	1,388,421,542	36,911,841		
Total liabilities	1,400,099,621	37,161,247		
NET ASSETS HELD IN TRUST (see unaudited supplementary schedules of funding progress)	$ 10,966,418,174	$ 291,541,050	$ 70,193,395	$ 226,233,190

See notes to financial statements.

Other Trust Funds			
Sick Leave Insurance Reserve Fund		Totals	
State	Schools	2007	2006
$ 24,589	$ 9,389	$ 2,749,424	$ 2,318,896
32,711,035	53,871,905	2,555,163,183	2,408,103,044
		29,858,023	52,052,665
		282,449,339	276,765,613
		499,245,160	552,175,467
		383,597,044	178,238,005
54,501,748	89,759,099	4,865,252,824	4,037,609,638
		2,688,184,406	2,191,333,193
		433,290,555	301,624,233
		294,073,467	222,627,280
87,212,783	143,631,004	12,031,114,001	10,220,529,138
		1,103,979,386	923,679,953
		3,986,597	4,566,614
		43,810,276	45,178,739
		1,151,776,259	973,425,306
		2,690,780	2,850,523
636,622	1,067,997	1,704,619	1,571,594
289,639	642,257	35,125,874	31,649,634
88,163,633	145,350,647	13,225,160,957	11,232,345,091
$ 8,648	$ 14,192	$ 10,084,948	$ 8,148,063
		160,758	248,275
		1,704,619	1,571,594
		1,425,333,383	1,354,245,770
8,648	14,192	1,437,283,708	1,364,213,702
$ 88,154,985	$ 145,336,455	$ 11,787,877,249	$ 9,868,131,389

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

STATEMENTS OF CHANGES IN PLAN NET ASSETS — PENSION TRUST FUNDS AND OTHER TRUST FUNDS YEAR ENDED JUNE 30, 2007 WITH COMPARATIVE FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2006

	Pension Trust Funds			
	PERSI Base Plan	Firefighters' Retirement Fund	PERSI Choice Plan 414(k)	PERSI Choice Plan 401(k)
ADDITIONS:				
Contributions:				
Members	$ 159,601,160	$ 34,588	$ -	$ 29,668,354
Employers	259,489,787	12,130,774		190,850
Transfers and rollovers in				8,512,489
Total contributions	419,090,947	12,165,362		38,371,693
Investment income:				
Net appreciation in fair value of investments	1,544,783,501	41,068,797	9,903,322	26,809,103
Interest, dividends and other investment income	296,350,213	7,878,610	1,948,299	6,402,750
Less investment expenses	(47,149,632)	(1,253,495)	(166,476)	(71,068)
Total investment income — net	1,793,984,082	47,693,912	11,685,145	33,140,785
Other — net	238,637			
Total additions	2,213,313,666	59,859,274	11,685,145	71,512,478
DEDUCTIONS:				
Benefits and refunds paid to members and beneficiaries	435,666,481	17,083,762	1,695,744	3,568,243
Administrative expenses	6,680,619			
Transfers and rollovers out			1,242,579	5,015,298
Total deductions	442,347,100	17,083,762	2,938,323	8,583,541
INCREASE IN NET ASSETS	1,770,966,566	42,775,512	8,746,822	62,928,937
NET ASSETS HELD IN TRUST:				
Beginning of year	9,195,451,608	248,765,538	61,446,573	163,304,253
End of year	$ 10,966,418,174	$ 291,541,050	$ 70,193,395	$ 226,233,190

See notes to financial statements.

Other Trust Funds — Sick Leave Insurance Reserve Fund		Totals	
State	Schools	2007	2006
$ -	$ -	$ 189,304,102	$ 180,225,413
5,343,549	12,504,038	289,658,998	280,102,208
		8,512,489	6,246,072
5,343,549	12,504,038	487,475,589	466,573,693
10,680,201	17,620,813	1,650,865,737	799,752,931
		312,579,872	268,767,560
(44,098)	(72,628)	(48,757,397)	(41,129,149)
10,636,103	17,548,185	1,914,688,212	1,027,391,342
8,521	14,034	261,192	143,166
15,988,173	30,066,257	2,402,424,993	1,494,108,201
2,990,660	8,656,757	469,661,647	429,703,247
29,842	49,148	6,759,609	7,361,536
		6,257,877	4,040,722
3,020,502	8,705,905	482,679,133	441,105,505
12,967,671	21,360,352	1,919,745,860	1,053,002,696
75,187,314	123,976,103	9,868,131,389	8,815,128,693
$ 88,154,985	$ 145,336,455	$ 11,787,877,249	$ 9,868,131,389

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

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, 2007 and 2006, the number of participating employer units in the PERSI Base Plan was:

	2007	2006
Cities	144	143
School districts	146	140
Highway and water districts	133	123
State subdivisions	97	97
Counties	40	40
Other	141	148
	701	691

As of June 30, 2007 and 2006, the number of benefit recipients and members in the System consisted of the following:

	2007	2006
Members, retirees and beneficiaries currently receiving benefits during the fiscal year and terminated employees entitled to benefits but not yet receiving them:		
Members:		
Active	65,800	64,762
Terminated and vested	9,670	8,948
Retirees and beneficiaries	29,619	28,438

FRF has 22 participating employer units all consisting of fire departments also participating in PERSI. As of June 30, 2007, there were 10 active members and 590 retired members or beneficiaries, 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 11.69% from January 1, 2007 through June 30, 2007 (10.24% from July 1, 2006 through December 31, 2006) 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 and is subject to Board approval. 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.

All 701 PERSI employer units are eligible to have participating employees in the PERSI Choice Plan. As of June 30, 2007, there were 46,719 participants, 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, 2007, the Choice Plan 414(k) had 39,410 participants, and the Choice Plan 401(k) had 21,108. The administrative expenses of the PERSI Choice Plans are paid to ACS and funded by the PERSI Base Plan.

Other Trust Funds —The Sick Leave Insurance Reserve Fund (SLIRF) is classified as a trust fund. For state and school employers, unused sick leave benefits are subject to the guidance of Governmental Accounting Standard Board (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 in the form of insurance premiums 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, 2007 and 2006. In April 2006, Rule 552 section 2, addressing contribution rates for school districts, was amended which included a phased rate increase implemented over three years. Contribution percentages are based on the number of days of paid sick leave earned during the contract year for certified teachers. Scheduled rate changes were extended two years from July 1, 2007. The scheduled rates are as follows:

Days Earned	**Beginning · July 1, 2006**	**July 1, 2009**	**July 1, 2010**
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 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 3.7% of total investments. PERSI's real estate and commercial mortgage investments are 3.4% and 2.5% respectively 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 may incur minor recording 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 calculated 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 5 years. Computer and technology equipment has a 3-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, 2006, 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	$ 2,384,570
FDIC insured/collateralized	179,844
Uninsured and uncollateralized	185,010
Total	$ 2,749,424

B. Investments

Investments of the pension trust funds are reported at fair 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, 2007, Mellon Global Securities Services is 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, 2007 are as follows:

	2007	
Investments:		
Domestic fixed income	$ 2,353,069,217	*
Fixed income futures	30,041	
Commingled domestic fixed income (SLIRF)	86,582,940	*
Short-term investments-cash equivalents	31,075,903	
Short-term investments-domestic	467,041,276	*
Domestic fixed income-USD denominated international securities	115,480,209	*
Idaho commercial mortgages	282,449,343	*
Total domestic fixed income (less payables)	3,335,728,929	
Euro futures	21,339	
Foreign/Euro options	369,789	**
International fixed income	29,466,897	**
Total international fixed income (less payables)	29,858,025	
Short-term investments	1,127,975	
Domestic equities	4,680,607,554	
Domestic equities-preferred stock	38,688,119	
Domestic equities-convertibles	1,697,080	*
International equities	2,630,859,970	
International equities-preferred stock	57,324,444	
Real estate	383,597,043	
Private equity-domestic	403,602,654	
Private equity-international	29,687,895	
Mutual funds (PERSI Choice Plan)	294,073,467	
Commingled equity fund (SLIRF)	144,260,847	
Total investments	**12,031,114,002**	
Receivables and payables:		
Investments sold:		
International equities with foreign currency exposure	7,420,033	
Foreign exchange contracts receivable	443,187,988	
Receivables not included in risk analysis	653,371,365	
Investments purchased:		
International equities with foreign currency exposure	(17,945,777)	
Foreign exchange contracts payable	(627,629,080)	
Short sales-international	(335,244)	
Written options-domestic	(271,092)	*
Payables not included in risk analysis	(779,152,190)	
Total investments including receivables and payables	**$ 11,709,760,005**	
Accrual adjustment	(675,202)	
*Total domestic fixed income (net of payables)	$ 3,305,373,770	
** Total international fixed income (net of payables)	$ 29,836,686	

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, 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, 2007, the System had futures contracts with a fair value of $52,460, 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, 2007, the System had the following net futures contracts exposure:

	Exposure covered by contract
Cash and cash equivalents — Eurodollar	$ 45,813,687
Cash and cash equivalents — Sterling	4,942,242
U.S. Treasury bond futures	4,202,250
U.S. Treasury note futures	9,041,344
Euro bond futures	5,534,216

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, 2007, the System had option contracts payable with a fair value of $176,616, which is included in liabilities reported as Investments Purchased. At June 30, 2007, the System had the following options contracts exposure:

	Exposure covered by contract
Cash and cash equivalents purchased call options	$ 374,437
Cash and cash equivalents purchased put options	3,125
Cash and cash equivalents written call options	9,762
Cash and cash equivalents written put options	10,762
Fixed income purchased call options	75,844
Fixed income written call options	204,484
Fixed income written put options	51,781

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, 2007, the System had entered into forward currency contracts to sell foreign currencies with a fair value of $1,096,353,910 and had entered into forward currency contracts to buy foreign currencies with a fair value of $1,098,688,069. Forward currency contracts are receivables or liabilities reported as investments sold or investments purchased. Net unrealized losses of $2,334,159 at June 30, 2007 were recorded, which represent the loss which would occur from executing these forward foreign currency contracts at June 30, 2007.

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, 2007, the System had invested in TIPS with a fair value of $940,899,583.

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, 2007, the System's fixed income assets that are not government guaranteed represented 61% 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+)	$ 649,436,954	$ -	$ 649,436,954
AAA	144,969,577	21,909,104	166,878,681
AA	91,505,104		91,505,104
A	268,101,907		268,101,907
BBB	131,171,531		131,171,531
BB	26,620,469		26,620,469
B	27,281,655	111,384	27,393,039
CCC	2,291,389		2,291,389
CC	446,678		446,678
C	7,219,862		7,219,862
D	312,321		312,321
Not rated	308,803,363	7,816,197	316,619,560
Total credit risk fixed income securities	1,658,160,810	29,836,685	1,687,997,495
U.S. government	1,262,285,363		1,262,285,363
Pooled investments	102,478,253		102,478,253
Idaho mortgages	282,449,344		282,449,344
Total	$ 3,305,373,770	$ 29,836,685	$ 3,335,210,455

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 76% of the System's short-term investments. Of the short-term investments at June 30, 2007, $30,499,442 was 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. Some of the large durations are due to the use of options and forward foreign currency contracts. 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	$ 17,128,387	1.17
Mortgages	57,279,241	2.65
Mortgages	574,034	N/A
Commercial paper	402,203,633	0.13
Corporate bonds	422,416,695	5.88
Corporate bonds	1,048,195	N/A
Fixed income derivatives	(192,523)	N/A
Government agencies	159,142,750	4.19
Government bonds	346,525,804	5.49
Government mortgage — backed securities	428,690,368	2.94
Government mortgage — backed securities	92,027,001	N/A
Pooled investments	15,895,313	0.01
Pooled investments	86,582,940	N/A
Preferred stock	1,697,080	N/A
Private placements	62,403,855	3.33
Private placements	7,972,776	N/A
TIPS	921,528,878	7.76
Idaho mortgages	282,449,343	N/A
Total	$ 3,305,373,770	

Effective duration of international fixed income assets by security type:

Investment	Fair Value	Effective Duration in Years
Asset-backed securities	$ 203,919	7.15
Asset-backed securities	210,398	N/A
Corporate bonds	111,384	4.44
Government agencies	6,779,637	5.85
Government bonds	20,378,936	8.28
Government bonds	1,782,622	N/A
Fixed income derivatives	369,790	N/A
Total	$ 29,836,686	

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, 2007, is highlighted in the table on the following page.

Currency exposures:

Currency	Short-term Investment	Equities	Fixed Income	Total USD Equivalent Fair Value
Australian Dollar	$ (10,434,357)	$ 87,465,018	$ 6,948,675	$ 83,979,336
Botswana Pula		129,451		129,451
Brazil Real	150,251	73,673,189	1,782,669	75,606,109
British Pound Sterling	(52,997,451)	360,563,264	19,048,249	326,614,062
Canadian Dollar	13,364	46,229,439	554,043	46,796,846
Chilean Peso	156,598	3,066,590		3,223,188
Czech Koruna	9,113			9,113
Danish Krone	91,281	6,381,025		6,472,306
Egyptian Pound	26	13,720,909		13,720,935
Euro	(61,304,571)	816,189,440	6,565,635	761,450,504
Hong Kong Dollar	1,421,499	118,663,181		120,084,680
Hungarian Forint	123,794	15,419,942		15,543,736
Indonesian Rupian	10,918	37,871,219		37,882,137
Israeli Shekel	335,266	21,396,554		21,731,820
Japanese Yen	(57,530,574)	404,077,934		346,547,360
Malaysian Ringgit	52,160	12,861,888		12,914,048
Mexican New Peso	1,397,659	31,031,430	5,455,897	37,884,986
New Taiwan Dollar	4,204,873	94,416,111		98,620,984
New Turkish Lira	121,068	29,281,683		29,402,751
New Zealand Dollar	31,756	4,591,248		4,623,004
Norwegian Krone	26,708	11,895,333		11,922,041
Philippines Peso	81,765	8,318,912		8,400,677
Russian Rubel	319	1,662,734		1,663,053
S African Comm Rand	(9,370)	82,531,948		82,522,578
Singapore Dollar	6,434,781	25,136,958		31,571,739
South Korean Won	(75,244)	221,458,582		221,383,338
Sri Lanka Rupee		224,732		224,732
Swedish Krona	133,112	24,904,972		25,038,084
Swiss Franc	(6,332,741)	119,081,772		112,749,031
Thailand Baht	196,790	49,733,164		49,929,954
Zimbabwe Dollar	4,872	247,010		251,882
Total value of investments subject to foreign currency risk	$(173,686,335)	$2,722,225,632	$ 40,355,168	$2,588,894,465

4. ASSETS USED IN PLAN OPERATIONS

Assets used in plan operations at June 30, 2007, consist of the following:

	2007
Buildings and improvements	$ 5,491,422
Less accumulated depreciation	(2,839,585)
Total buildings and improvements	2,651,837
Computer software development	6,331,360
Less accumulated amortization	(6,331,360)
Total computer software development	-
Equipment	80,218
Less accumulated depreciation	(41,275)
Total equipment	38,943
Total assets used in plan operations	$ 2,690,780

For the year ended June 30, 2007, depreciation expense on the buildings and improvements was $157,423, and amortization expense on the computer software development costs was $ -0-. The computer software development costs were fully depreciated as of June 30, 2006. The equipment had a total depreciation expense of $23,697 for 2007. 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 $2,419,000,000 and $1,009,000, respectively.

Actuarial valuations of the PERSI Base Plan and FRF are performed annually. The last valuations were performed as of July 1, 2007.

Normal cost is 14.56% of covered payroll and the amount available to amortize the unfunded actuarial liability is 2.29% 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. 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 three years. Senate Bill 1183 changed the current payment rate of 3.03% of pay to 1.49% for the optional retirement plan of colleges and universities, effective July 1, 2007.

The contribution rates for the year ended June 30, 2007, and subsequent years through June 30, 2010, are as follows:

Optional retirement plan employees of higher education:	
Colleges and universities	3.03 %
Junior colleges	3.83%
Effective July 1, 2007	
Colleges and universities	1.49%
Junior colleges	3.83%

	Active Members		Employers	
	General/ Teacher	Fire/ Police	General/ Teacher	Fire/ Police
Contribution rate effective July 1, 2004 through June 30, 2008	6.23 %	7.65 %	10.39 %	10.73 %
Next planned rate increases:				
Increase effective July 1, 2008	0.37 %	0.44 %	0.61 %	0.61 %
Rate July 1, 2008	6.60	8.09	11.00	11.34
Increase effective July 1, 2009	0.37	0.44	0.61	0.61
Rate July 1, 2009	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 Fiscal Year 2009 and 2010.

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 years ended June 30, the required contribution rates were 6.23% for general members 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 $273,306, $260,980, and $245,058 for the three years ended June 30, 2007, 2006, and 2005, respectively.

7. COMMITMENTS

The System had unfunded private equity commitments as of June 30, 2007 of $628,189,488.

REQUIRED SUPPLEMENTARY INFORMATION

PUBLIC EMPLOYEE RETIREMENT FUND AND FIREFIGHTERS' RETIREMENT FUND

SCHEDULES OF FUNDING PROGRESS
FISCAL YEARS 2002–2007
(Dollars in millions) (UNAUDITED)

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, 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	9,699.0	60.2	461.7	95.2	2,343.5	19.7
July 1, 2007	10,945.8	10,431.9	59.5	(573.4)	105.5	2,421.0	(23.7)

(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 any 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, 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
July 1, 2007	291.5	314.8	23.3	92.6	47.6	48.9

(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 FUND AND FIREFIGHTERS' RETIREMENT FUND

SCHEDULES OF EMPLOYER CONTRIBUTIONS
FISCAL YEARS 2002–2007
(Dollars in millions)

	PERSI Employer Contributions			FRF Employer Contributions (c.)		
Year Ended June 30	Total Employer Contributions (Statutory)	Annual Required Contribution (ARC) (a.)	Percentage Contributions	Total Employer Contributions	Annual Required Contribution	Percentage Contributions
2002	$ 205.5	$ 155.1	133.6 %	$ 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
2007	259.5	235.4	110.0	12.1	5.0	240.8

(a.) 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 1.49% of salaries of university members in the ORP until 2025 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, 2007

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:

	PERSI	FRF
Valuation date	July 1, 2007	July 1, 2007
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, 2007

	2007
INVESTMENT AND RELATED SERVICES:	
Adelante Capital Management	$ 2,651,276
Apollo Management	194,200
Baring Asset Management, Inc.	1,621,525
Sanford C. Bernstein & Company, LLC	4,347,043
Blackstone Capital Partners	86,593
Bloomberg, LP	57,478
Brandes Investment Partners, LP	2,423,248
Bridgepoint Cap, Ltd.	455,279
Bridgewater Associates	353,364
Callan Associates	249,312
Capital Guardian Trust Company	1,648,211
Chadwick, Saylor & Co., Inc.	1,281,633
Chisholm Partners, LP	295,212
Choice Plan Managers	237,545
Clearwater Advisors, LLC	590,774
CVC European Equity	153,515
D.B. Fitzpatrick & Co., Inc.	1,597,196
Donald Smith & Company	1,906,142
Enhanced Equity	716,477
Fidelity Management Trust Company	942,306
Frazier Technology Ventures	282,054
Furman Selz Investments	9,806
Galen Associates	787,750
Genesis Asset Managers, Ltd.	2,468,200
Goense Bounds & Partners, LP	40,217
Hamilton Lane Advisors, Inc.	310,000
Hamilton Lane Co-Investment Fund	100,000
Harvest Partners	150,317
Highway 12	669,518
JH Whitney & Co., LLC	360,118
KKR 2006 Fund	250,244
Kohlberg & Co., LLC	32,636
Lindsay Goldberg & Bessemer	496,885
Littlejohn & Company	86,205
McCown De Leeuw	142,830
Mellon Capital Management	657,960
Mellon Trust	3,302,743
Mondrian Investment Partners	1,142,614
Mountain Pacific Investment Advisors, Inc.	1,030,853
Navis Partners, LP	34,223
Newbridge Asia IV, L.P.	390,813
Pareto Partners	879,287
Peregrine Capital Management	953,621
Providence Investments	382,345

(Continued)

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

SCHEDULE OF INVESTMENT EXPENSES
YEAR ENDED JUNE 30, 2007

	2007
INVESTMENT AND RELATED SERVICES:	
Prudential Investments	428,022
Rowe Price International, Inc.	1,077,447
State Street Global Advisors	369,319
T3 Partners II, LP	35,505
TCW Asset Management	1,243,773
Thomas H. Lee	29,863
TPG Partners, LP	816,188
Tukman Capital Management, Inc.	1,604,133
W. Capital Partners	263,212
Wells Fargo Bank	67,565
Western Asset Management	696,287
Zesiger Capital Group	2,304,800
	45,705,681
CONSULTING/OTHER SERVICES:	
ACS HR Solutions, LLC	1,393,347
Capmark Finance, Inc.	39,537
Deloitte & Touche LLP	65,400
Foster, Pepper, Shefelman PLLC	1,155,001
Gabriel Roeder Smith	58,000
Milliman, Inc.	312,153
Whiteford,Taylor, & Preston	28,278
	3,051,716
	$ 48,757,397

(Concluded)

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

SCHEDULE OF ADMINISTRATIVE EXPENSES
YEAR ENDED JUNE 30, 2007

	2007
PORTFOLIO-RELATED EXPENSES:	
Personnel expenses	$ 460,507
Operating expenses	134,572
	595,079
OTHER ADMINISTRATIVE EXPENSES:	
Personnel expenses	3,095,608
Operating expenses	2,496,379
Capital outlay	312,433
Building depreciation expense	157,423
Equipment depreciation expense	23,697
	6,085,540
SICK LEAVE FUND EXPENSES — Administrative personnel expenses	78,990
	$ 6,759,609

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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 basic 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, 2007, and have issued our report thereon dated October 26, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 26, 2007