Financial Section

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INDEPENDENT AUDITORS' REPORT

To the Retirement Board
Public Employee Retirement System of Idaho
Boise, Idaho

We have audited the accompanying 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 and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the management of the System. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the System's financial statements and, in our report dated October 20, 2009, we expressed an unqualified opinion on the respective financial statements of the pensions and other trust funds.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the pension and other trusts as of June 30, 2010, and the changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2010, 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 controls 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 important for assessing the results of our audit.

The management's discussion and analysis and required supplementary information is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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 express no opinion on it.

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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The accompanying financial information listed as additional supplemental schedules in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

October 13, 2010
Boise, Idaho

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MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010 (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, 2010. The 2009 amounts are combined and are provided for comparative purposes. This overview and analysis is designed to focus on current known facts and activities and resulting changes.

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 over $1.0 billion during fiscal year 2010 and decreased $1.8 billion during the fiscal year 2009. The increase in the defined benefit plans was primarily due to an upturn in the investment market. The increases in the Choice Plan 401(k) and Sick Leave Fund were due to contributions exceeding benefits and expenses in addition to market gains. Each fund experienced an increase in net assets. Changes in net assets for the years ended June 30, 2010 and 2009 were as follows:

	2010	2009
PERSI Base Plan	$ 936,879,889	$ (1,758,322,568)
Firefighters' Retirement Fund	21,774,958	(48,683,077)
PERSI Choice Plan 414(k)	3,146,864	(13,387,646)
PERSI Choice Plan 401(k)	51,721,784	(9,508,433)
Sick Leave Insurance Reserve Fund - State	11,911,232	(8,447,797)
Sick Leave Insurance Reserve Fund - Schools	19,521,811	(12,900,478)
Total decrease/increase in plan net assets	$ 1,044,956,53	$ (1,851,249,999)

- 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, 2010 and 2009, the rate of return net of investment expenses on the 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 their specific investment choices.

	2010	2009
PERSI Defined Benefit Plans	12.0 %	(16.3)%
PERSI Defined Contribution Plans	11.7 %	(16.2)%
Sick Leave Insurance Reserve Fund	13.4 %	(16.3)%

- All of the plans experienced gains in fiscal year 2010 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, 2010 and 2009, was $1.1 billion and ($1.8) billion, respectively.

	2010	2009
Net investment income:		
PERSI Base Plan	$ 1,034,076,759	$ (1,698,871,203)
Firefighters' Retirement Fund	26,588,754	(44,190,963)
PERSI Choice Plan 414(k)	6,045,241	(10,515,798)
PERSI Choice Plan 401(k)	27,002,886	(39,378,740)
Sick Leave Insurance Reserve Fund - State	9,814,139	(9,976,100)
Sick Leave Insurance Reserve Fund - Schools	16,376,593	(16,505,489)
Total net investment income	$ 1,119,904,372	$ (1,819,438,293)

- As of June 30, 2010 and 2009, 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 the Base Plan is as follows.

	2010 Funding Ratio	Amortization Period	2009 Funding Ratio	Amortization Period
PERSI Base Plan	78.9	17.5	74.1%	over 100 years
Firefighters' Retirement Fund	N/A	N/A	69.3%	8.5 years

For the PERSI defined benefit plans, deductions for benefits and administrative expenses exceeded contributions and other income by $102 million and $63.9 million for Fiscal Years 2010 and 2009, 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 over a long time horizon fills in the gap. These changes, combined with investment gains of $1.06 billion in 2010 resulted in assets of the defined benefit plans increasing to $9.9 billion. In 2009 an investment loss of $1.8 billion resulted in net assets for the defined benefit plans decreasing to $8.9 billion. The System's actuary uses market value to determine the actuarial value of assets. For the July 1, 2010 and 2009 valuations, the actuarial value of assets for the PERSI Base Plan was $9.5 billion and $8.6 billion, respectively. The aggregate actuarial liability for all PERSI Base Plan employers was $12.1 billion on July 1, 2010. On an actuarial basis, the assets held as of July 1, 2010, fund 78.9% 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 period improved primarily in 2010 because investment performance was above the actuarial expected rate.

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 additional components: (1) fund financial statements, (2) notes to financial statements, (3) required supplementary information, and (4) additional 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, 2010 and 2009 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, 2010 and 2009 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.

Additional 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, disability and death 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, 2010	As of June 30, 2009	$ Change	% Change
Assets:				
Cash and cash equivalents	$ 2,384,279	$ 2,878,187	$ (493,908)	(17.2)%
Investments sold receivable	1,154,073,891	956,187,923	197,885,968	20.7 %
Other receivables	44,779,601	41,381,903	3,397,698	8.2 %
Investments — at fair value	9,969,096,519	8,983,739,876	985,356,643	11.0 %
Prepaid retiree benefits	42,838,074	39,753,087	3,084,987	7.8 %
Capital assets — net of accumulative depreciation	2,286,830	2,450,321	(163,491)	(6.7)%
Total assets	11,215,459,194	10,026,391,297	1,189,067,897	11.9 %
Liabilities:				
Investments purchased payable	1,356,947,498	1,127,886,499	229,060,999	20.3 %
Benefits and refunds payable	974,654	-	974,654	N/A
Other liabilities	10,530,148	10,152,751	377,397	3.7 %
Total liabilities	1,368,452,300	1,138,039,250	230,413,050	20.2 %
Net assets available for benefits	$ 9,847,006,894	$ 8,888,352,047	$ 958,654,847	10.8 %

The fiscal year ended June 30, 2010, was most notably marked by improvement in the investment markets. Liabilities for benefits and refunds payable vary at fiscal year end depending on member request and timing. Change 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, 2010	Year Ended June 30, 2009	$ Change	% Change
Additions:				
Member contributions	$ 178,140,566	$ 180,081,763	$ (1,941,197)	(1.1)%
Employer contributions	298,474,749	298,042,867	431,882	0.1 %
Investment income	1,060,665,513	(1,743,062,166)	2,803,727,679	160.9 %
Other additions	12,261	84,268	(72,007)	(85.4)%
Total additions	1,537,293,089	(1,264,853,268)	2,802,146,357	221.5 %
Deductions:				
Benefits and refunds paid	572,166,883	535,919,699	36,247,184	6.8 %
Administrative expenses	6,471,359	6,232,678	238,681	3.8 %
Total deductions	578,638,242	542,152,377	36,485,865	6.7 %
Changes in net assets available for benefits	$ 958,654,847	$ (1,807,005,645)	$ 2,765,660,492	153.1 %

The annual amount of investment income and changes in net assets available for benefits increased from Fiscal Year 2009 to Fiscal Year 2010 because of an upward turn in the investment market. The decrease in other additions was due to smaller average cash balances on hand for interest earnings at the State Treasurer Office. The increase in benefits and refunds paid was a result of increased number of retirees, increased separation benefits, and the annual Cost of Living Adjustment (COLA) increase for benefits paid to retirees.

Defined Contribution Pension Trust Funds

During Fiscal Year 2010, 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 provide 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 401(k) Plan and vice versa.

Defined Contribution Pension Trust Funds Net Assets

	As of June 30, 2010	As of June 30, 2009	$ Change	% Change
Assets:				
Cash	$ 55,006	$ 12,676	$ 42,330	333.9 %
Short-term investments	685,679	655,896	29,783	4.5 %
Investments — at fair value	340,811,469	286,163,525	54,647,944	19.1 %
Receivables	1,408,438	1,259,847	148,591	11.8 %
Total assets	342,960,592	288,091,944	54,868,648	19.0 %
Net assets available for benefits	$ 342,960,592	$ 288,091,944	$ 54,868,648	19.0 %

Investments increased from Fiscal Year 2009 to Fiscal Year 2010. The change reflects the upward turn in the investment market. Receivables include contributions that are not yet recorded by the record keeper at year end plus accrued interest and dividends.

Defined Contribution Pension Trust Funds Changes in Net Assets

	Year Ended June 30, 2010	Year Ended June 30, 2009	$ Change	% Change
Additions:				
Member contributions	$ 33,413,555	$ 35,680,207	$ (2,266,652)	(6.4)%
Employer contributions	127,154	153,211	(26,057)	(17.0)%
Investment income	33,048,127	(49,894,538)	82,942,665	166.2 %
Transfers and rollovers in	4,867,768	6,057,764	(1,189,996)	(19.6)%
Total additions	71,456,604	(8,003,356)	79,459,960	992.8 %
Deductions:				
Benefits and refunds paid	7,703,591	6,766,643	936,948	13.8 %
Transfers and rollovers out	8,884,365	8,126,080	758,285	9.3 %
Total deductions	16,587,956	14,892,723	1,695,233	11.4 %
Changes in net assets available for benefits	$ 54,868,648	$ (22,896,079)	$ 77,764,727	339.6 %

Investment income and changes in net assets available for benefits increased from Fiscal Year 2009 to Fiscal Year 2010 because of an upward turn in the investment market. Transfers in and transfers out represent rollovers from/to other plans. Member contributions declined due to a decrease 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 2010, 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, 2010	As of June 30, 2009	$ Change	% Change
Assets:				
Cash	$ 119,011	$ 133,982	$ (14,971)	(11.2)%
Investments — at fair value	217,800,200	186,295,209	31,504,991	16.9 %
Prepaid insurance premiums	1,081,096	1,145,220	(64,124)	(5.6)%
Due from other funds	1,638,427	1,625,810	12,617	0.8 %
Total assets	220,638,734	189,200,221	31,438,513	16.6 %
Liabilities — other liabilities	26,621	21,151	5,470	25.9 %
Net assets available for benefits	$ 220,612,113	$ 189,179,070	$ 31,433,043	16.6 %

Investments increased in Fiscal Year 2010 from Fiscal Year 2009 because of the improvement in investment returns.

Sick Leave Insurance Reserve Funds Changes in Net Assets

	Year Ended June 30, 2010	Year Ended June 30, 2009	$ Change	% Change
Additions:				
Employer contributions	$ 19,645,993	$ 19,558,689	$ 87,304	0.4 %
Investment income	26,190,732	(26,481,589)	52,672,321	198.9 %
Other additions	4,919	8,608	(3,689)	(42.9)%
Total additions	45,841,644	(6,914,292)	52,755,936	763.0 %
Deductions:				
Benefits and refunds paid	14,304,262	14,339,783	(35,521)	(0.2)%
Administrative expenses	104,339	94,200	10,139	10.8 %
Total deductions	14,408,601	14,433,983	(25,382)	(0.2)%
Changes in net assets available for benefits	$ 31,433,043	$ (21,348,275)	$ 52,781,318	247.2 %

Investment income increased in Fiscal Year 2010 from Fiscal Year 2009 because of favorable investment markets. The decrease in other additions was due to a decrease in 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		
	2010	2009	Change	2010	2009	Change
Active participants	67,020	67,813	(1.2)%	44,467	45,410	(2.1)%
Vested - Base Plan	42,950	42,205	1.8 %			
Non-vested - Base Plan	24,070	25,608	(6.0)%			
Actively contributing - Choice Plan				10,381	12,912	(19.6)%
Retirees and beneficiaries	33,625	32,197	4.2 %	108	66	63.6 %
Terminated vested	10,187	10,067	8.1 %	11,116	10,235	8.6 %

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

Changes in Retirees and Beneficiaries (Base Plan)

	2010	2009
Beginning — July 1	32,197	30,912
New retirements	2,322	2,216
Death of retiree/beneficiary	(894)	(931)
Ending — June 30	33,625	32,197

Investment Activities

Long-term (20-25 year) 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, private equity and real estate.

Economic Factors

Fiscal Year 2010 was a very positive year for PERSI. At July 1, 2010, PERSI's Base Plan had a funded ratio of 78.9% and an amortization period on the unfunded actuarial liability of 17.5 years. Net investment return for 2010 was 11.93% compared to the assumed return of 7.25%. There were additional actuarial gains resulting from actual salaries being lower than actuarial assumptions. The total actuarial experience gain (change in unfunded actuarial accrued liability) for Fiscal Year 2010 was approximately $604 million reducing the Unfunded Actuarial Accrued Liability from $3.03 to $2.56 billion. In addition decisions by the PERSI board to adjust contribution rates over a 3 year period and minor assumption changes resulting from the periodic experience study further enable PERSI to meet the mandate set by the legislature when it created PERSI to "Provide a secure retirement for public employees in Idaho".

Historically including the investment losses of recent years, the cumulative funding of the plan is 53% investment income, 30% employer contributions and 17% member contributions. Prior to the "great recession" of 2008/2009, the funding ratios were 60% investment income, 25% employer and 15% member contributions. PERSI is viewed as a well run and conservatively managed pension plan compared to plans nationally. This reputation stems from sound decisions made by the legislature and the PERSI Board of Trustees.

The PERSI Board of Trustees have and will continue to make appropriate choices regarding investment decisions and actuarial assumptions with the goal of maintaining the long term sustainability of the plan.

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PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

STATEMENTS OF PLAN NET ASSETS – PENSION TRUST FUNDS AND OTHER TRUST FUNDS
JUNE 30, 2010 WITH COMPARATIVE FINANCIAL INFORMATION FOR JUNE 30, 2009

	Pension Trust Funds			
	PERSI Base Plan	Firefighters' Retirement Fund	PERSI Choice Plan 414(k)	PERSI Choice Plan 401(k)
ASSETS				
Cash and cash equivalents	$ 2,324,170	$ 60,109	$ -	$ 55,006
Investments—at fair value				
Fixed income investments				
Domestic	2,342,352,768	60,579,524	-	-
International	47,526,068	1,229,152	-	-
Idaho commercial mortgages	481,434,275	12,451,181	-	-
Short-term investments	356,827,469	9,228,515	-	685,679
Real estate equities	297,129,701	7,684,571	-	-
Equity Securities				
Domestic	3,364,201,575	87,007,274	-	-
International	2,083,908,524	53,895,463	-	-
Private equity	744,388,574	19,251,885	-	-
Mutual, collective, unitized funds	-	-	53,584,173	287,227,296
Total investments	9,717,768,954	251,327,565	53,584,173	287,912,975
Receivables				
Investments sold	1,125,108,075	28,965,816	-	-
Contributions	4,030,830	13,227	-	272,060
Interest and dividends	39,713,133	1,022,411	214,465	921,913
Total receivables	1,168,852,038	30,001,454	214,465	1,193,973
Assets used in plan operations - net	2,286,830	-	-	-
Due from other plans	-	-	-	-
Prepaid retiree benefits	42,838,074	-	-	-
Total assets	10,934,070,066	281,389,128	53,798,638	289,161,954
LIABILITIES				
Accrued liabilities	8,674,942	216,779	-	-
Benefits and refunds payable	974,654	-	-	-
Due to other plans	1,638,427	-	-	-
Investments purchased	1,322,889,808	34,057,690	-	-
Total liabilities	1,334,177,831	34,274,469	-	-
NET ASSETS HELD IN TRUST	$ 9,599,892,235	$ 247,114,659	$ 53,798,638	$ 289,161,954

See notes to Financial Statements

Other Trust Funds		Totals	
Sick Leave Insurance Reserve Fund			
State	Schools	2010	2009
$ 43,919	$ 75,092	$ 2,558,296	$ 3,024,845
24,828,795	40,459,632	2,468,220,719	2,164,565,003
-	-	48,755,220	34,058,097
-	-	493,885,456	431,915,613
-	-	366,741,663	362,525,326
-	-	304,814,272	485,331,385
44,559,501	74,504,341	3,570,272,691	2,999,528,686
12,614,059	20,833,872	2,171,251,918	2,075,311,339
-	-	763,640,459	617,455,531
-	-	340,811,469	286,163,525
82,002,355	135,797,845	10,528,393,867	9,456,854,505
-	-	1,154,073,891	956,187,923
-	-	4,316,117	5,328,592
-	-	41,871,922	37,313,158
-	-	1,200,261,930	998,829,673
-	-	2,286,830	2,450,321
475,100	1,163,327	1,638,427	1,625,810
261,645	819,451	43,919,170	40,898,308
82,783,019	137,855,715	11,779,058,520	10,503,683,462
9,971	16,650	8,918,342	8,548,092
-	-	974,654	-
-	-	1,638,427	1,625,810
-	-	1,356,947,498	1,127,886,499
9,971	16,650	1,368,478,921	1,138,060,401
$ 82,773,048	$ 137,839,065	$ 10,410,579,599	$ 9,365,623,061

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

STATEMENTS OF CHANGES IN PLAN NET ASSETS PENSION TRUST FUNDS AND OTHER TRUST FUNDS YEAR ENDED JUNE 30, 2010 WITH COMPARATIVE FINANCIAL INFORMATION FOR JUNE 30 2009

	Pension Trust Funds			
	PERSI Base Plan	Firefighters' Retirement Fund	PERSI Choice Plan 414(k)	PERSI Choice Plan 401(k)
ADDITIONS				
Contributions				
Members	$ 178,124,381	$ 16,185	$ -	$ 33,413,555
Employers	284,932,418	13,542,331	-	127,154
Transfers and rollovers in	-	-	-	4,867,768
Total contributions	463,056,799	13,558,516	-	38,408,477
Investment income				
Net appreciation (depreciation) in fair value of investments	833,597,303	21,423,526	4,877,123	20,858,277
Interest, dividends and other investment income	242,874,217	6,257,378	1,359,170	6,245,758
Less investment expenses	(42,394,761)	(1,092,150)	(191,052)	(101,149)
Total investment income (loss)- net	1,034,076,759	26,588,754	6,045,241	27,002,886
Other- net	12,261	-	-	-
Total additions	1,497,145,819	40,147,270	6,045,241	65,411,363
DEDUCTIONS				
Benefits and refunds paid to members and beneficiaries	553,794,571	18,372,312	1,690,346	6,013,245
Administrative expenses	6,471,359	-	-	-
Transfers and rollovers out	-	-	1,208,031	7,676,334
Total deductions	560,265,930	18,372,312	2,898,377	13,689,579
INCREASE (DECREASE) IN NET ASSETS	936,879,889	21,774,958	3,146,864	51,721,784
NET ASSETS HELD IN TRUST				
Beginning of year	8,663,012,346	225,339,701	50,651,774	237,440,170
End of year	$ 9,599,892,235	$ 247,114,659	$ 53,798,638	$ 289,161,954

See notes to Financial Statements

Other Trust Funds		Totals	
Sick Leave Insurance Reserve Fund			
State	Schools	2010	2009
$ -	$ -	$ 211,554,121	$ 215,761,970
5,790,947	13,855,046	318,247,896	317,754,767
-	-	4,867,768	6,057,764
5,790,947	13,855,046	534,669,785	539,574,501
9,319,442	15,562,375	905,638,046	(2,063,129,149)
535,503	882,672	258,154,698	284,954,167
(40,806)	(68,454)	(43,888,372)	(41,263,311)
9,814,139	16,376,593	1,119,904,372	(1,819,438,293)
2,042	2,877	17,180	92,876
15,607,128	30,234,516	1,654,591,337	(1,279,770,916)
3,656,816	10,647,446	594,174,736	557,026,125
39,080	65,259	6,575,698	6,326,878
-	-	8,884,365	8,126,080
3,695,896	10,712,705	609,634,799	571,479,083
11,911,232	19,521,811	1,044,956,538	(1,851,249,999)
70,861,816	118,317,254	9,365,623,061	11,216,873,060
$ 82,773,048	$ 137,839,065	$ 10,410,579,599	$ 9,365,623,061

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

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, establishing funding policy, and setting contribution rates.

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, 2010 and 2009, the number of participating employer units in the PERSI Base Plan was:

	2010	2009
Cities	147	146
School districts	153	151
Highway and water districts	125	124
State subdivisions	97	97
Counties	41	41
Other	167	165
	730	724

As of June 30, 2010 and 2009, the number of benefit recipients and members in the System consisted of the following:

	2010	2009
Members, terminated employees entitled to benefits but not yet receiving them, retirees and beneficiaries currently receiving benefits during the fiscal year		
Members:		
Active	67,020	67,813
Terminated and vested	10,187	10,067
Retirees and beneficiaries	33,625	32,197

FRF has 22 participating employer units all consisting of fire departments also participating in PERSI. As of June 30, 2010, there were 4 active members and 570 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 1.0% from July 1, 2009 through June 30, 2010 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 with the following restrictions: 1. Within the two international fund options, a participant may make up to two transfers involving one or both of those funds within a rolling 90-calendar-day period. 2. Effective April 1, 2009 a growth and income fund option added a 60 day purchase restriction; a participant who moves any portion of their holdings out of this fund will be prohibited from reinvesting in this same fund for 60 days. Participants may also elect to change their salary deferral every pay period.

The 401(k) portion of the PERSI Choice Plans 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 July 1, 2001 the plan became open to all active PERSI members. 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 twelve investment options, which are mutual, unitized, or collective funds. The plans include the PERSI Total Return Fund ("PERSI TRF"), the Calvert Socially Responsible Balanced Fund , 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 730 PERSI employer units are eligible to have participating employees in the PERSI Choice Plan. As of June 30, 2010, there were 44,467 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, 2010, the Choice Plan 414(k) had 36,690 participants, and the Choice Plan 401(k) had 23,497. 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, 2010. 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. March 1, 2009 the scheduled rate changes were delayed until July 2011 and July 2012. The scheduled rates are as follows:

Days Earned	**Beginning - July 1, 2006**	**July 1, 2011**	**July 1, 2012**
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 8.0% of total investments. PERSI's real estate and commercial mortgage investments are 4.2% and 5.1% 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, 2009, from which the summarized information was derived.

New Accounting Standards – Two GASB Standards were implemented during fiscal year ending June 30, 2010: GASB 51 – Accounting and Financial Reporting for Intangible Assets, and GASB 53 – Accounting and Financial Reporting for Derivative Instruments. These implementations had no significant impact on our statements in the current year.

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. In accordance with Idaho Code Sections 67-1210 and 67-1210A, the State Treasurer invests cash not needed to meet immediate obligations in the pooled Idle Short-Term Fund. Deposits are held by its agent in the State Treasurer's name. Pooled balances are available on demand. Cash deposits in other bank accounts are covered by federal depository insurance up to $250,000. The System does not have a policy for custodial credit risk related to cash on deposit at local financial institutions.

Cash and cash equivalents:	
Held by the State Treasurer	$ 1,363,630
FDIC insured/collateralized	387,502
Uninsured and uncollateralized	807,164
Total	$ 2,558,296

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, 2010, BNY Mellon Asset Servicing 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, 2010 are as follows:

Domestic fixed income	$	2,402,932,292
Co-mingled domestic fixed income (Sick Leave Insurance Reserve Fund)		65,288,427
International Fixed Income		48,755,220
Idaho commercial mortgages		493,885,456
Short-term investments-cash/cash equivalents		48,050,052
Short-term investments		318,005,932
Short-term investments-Choice Plan		685,679
Real Estate		304,814,272
Domestic equities		3,450,486,431
Domestic equities-convertibles		722,418
Co-mingled domestic equity-domestic (Sick Leave Insurance Reserve Fund)		119,063,842
International equities		2,137,803,987
Co-mingled domestic equity-international (Sick Leave Insurance Reserve Fund)		33,447,931
Private equity		763,640,459
Mutual funds, collective unitized funds		340,811,469
Total Investments	$	10,528,393,867

Derivatives — Derivatives are financial obligations whose value is derived from underlying debt or equity securities, commodities, or currencies. Any derivative instruments held by PERSI are for investment purposes only and all information is disclosed within the GASB 40 footnotes. The derivatives held by PERSI are reported in the US dollar denomination. 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, 2010, the System had futures contracts with a fair value of $43,995 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, 2010, the System had the following net futures contracts exposure:

	Exposure covered by contract
Cash and cash equivalents — Eurodollar	$ (20,365,725)
U.S. Treasury bond futures	4,717,500
U.S. Treasury note futures	(11,150,000)
US Ultra (Long Term Treasury) bond future	6,519,000

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, 2010, the System had option contracts payable with a fair value of $17,175 which is included in liabilities reported as Investments Purchased and $75,709 which is included as fixed income reported as Domestic Fixed Income. At June 30, 2010, the System had the following options contracts exposure:

Cash and cash equivalents written call options	$ 5,025
Cash and cash equivalents written put options	900
Cash and cash equivalents purchased put options	4,600
Fixed income written call options	11,250
Fixed income purchased call options	48,984
Fixed income purchased put options	22,125

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, 2010, the System had entered into forward currency contracts to sell foreign currencies with a fair value of $1,144,306,723 and had entered into forward currency contracts to buy foreign currencies with a fair value of $1,130,895,440. Forward currency contracts are receivables or payables reported as investments sold or investments purchased. Net unrealized gains of $13,351,908 at June 30, 2010 were recorded, which represent the gain which would occur from executing these forward foreign currency contracts at June 30, 2010.

Mortgage-Backed Securities — These investments are valued 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, 2010, the System had invested in TIPS with a fair value of $1,134,629,590.

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 requires each portfolio manager to maintain a reasonable risk level relative to its benchmark and provided expected credit risk exposures in their portfolio guidelines. If the actual credit risk exposure falls outside of these expectations, managers will be required to report these occurrences to Staff and these disclosures are to be made available to the Board.

As of June 30, 2010, the System's fixed income assets that are not government guaranteed represented 53% 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 S&P Rating Level	Domestic	International	Total
Agency (A-1+)	$ 285,665,361	$ -	$ 285,665,361
AAA	78,867,311	19,840,392	98,707,703
AA	81,239,075	-	81,239,075
A	202,130,728	15,667,759	217,798,487
BBB	124,749,238	1,856,182	126,605,420
BB	12,549,240	-	12,549,240
B	20,591,220	-	20,591,220
CCC	6,161,081	-	6,161,081
CC	1,636,531	-	1,636,531
C	55,710	-	55,710
D	828,791	-	828,791
Not rated	346,411,137	11,390,887	357,802,024
Total Credit Risk fixed income securities	1,160,885,423	48,755,220	1,209,640,643
U.S. Government	1,543,347,727	-	1,543,347,727
Pooled Investments	87,501,006	-	87,501,006
Idaho Mortgages	493,885,456	-	493,885,456
Total	$ 3,285,619,612	$ 48,755,220	$ 3,334,374,832

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 investment 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 and cash manager 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 93% of the System's short-term investments. Of the short-term investments at June 30, 2010, $49,378,164 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.

Per the Systems Investment policy, managers will provide expected concentration of credit risk exposures in their portfolio guidelines. If the concentration of credit risk exceeds expectations, managers are required to report these occurrences to Staff and these disclosures are to be made available to the Board. For the portfolio as a whole Staff will report to the Board at a regular Board Meeting if the exposure to a non-US government guaranteed credit exceeds 5% of the System's net assets.

In line with policy, the System does not have any investments from a single issuer (excluding explicitly guaranteed U.S. 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 investment 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 that follow 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	$ 4,978,138	1.40
Asset-backed Securities	44,006	N/A
Mortgages	16,150,718	0.75
Commercial Paper	255,003,896	0.16
Corporate Bonds	417,646,689	6.13
Corporate Bonds	932,272	N/A
Fixed Income Derivatives	11,009	N/A
Fixed Income Derivatives	98,604	N/A
Government Agencies	93,312,155	5.56
Government Agencies	59,485	N/A
Government Bonds	431,160,430	5.88
Government Mortgage-backed Securities	230,439,365	0.86
Government Mortgage-backed Securities	1,719,160	N/A
Pooled Investments	22,212,579	0.08
Pooled Investments	65,288,427	N/A
Preferred Stock	369,935	8.76
Private Placements	20,290,767	3.36
Private Placements	127,904,781	N/A
TIPS	1,104,111,740	6.66
Idaho Mortgages	493,885,456	N/A
Total	$ 3,285,619,612	

Effective duration of international fixed income assets by security type:

Investment	Fair Value	Effective Duration in Years
Asset Backed Securities	$ 126,298	N/A
Corporate Bonds	2,757,792	2.39
Government Agencies	5,257,674	1.73
Government Bonds	40,615,451	3.87
Fixed Income Derivatives	(1,995)	N/A
Total	$ 48,755,220	

G. Foreign Currency Risk

Foreign currency risk is the risk that changes in currency 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 investment 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 exchange rate fluctuations. The System's exposure to foreign currency risk expressed in U.S. dollars as of June 30, 2010, 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	$ (22,847,632)	$ 73,752,180	$ 14,165,950	$ 65,070,498
BRAZIL REAL	931,386	97,174,827	1,900,397	100,006,610
BRITISH POUND STERLING	(52,677,940)	302,100,857	2,777,149	252,200,066
CANADIAN DOLLAR	(8,332,548)	26,959,335	14,903,758	33,530,545
CHILEAN PESO	197,408	1,797,997	-	1,995,405
CHINESE YUAN RENMINBI	-	153,530	-	153,530
CZECH KORUNA	163,748	-	-	163,748
DANISH KRONE	422,617	10,415,848	-	10,838,465
EGYPTIAN POUND	405,959	16,514,673	-	16,920,632
EURO CURRENCY UNIT	(89,843,495)	512,943,935	2,834,196	425,934,636
HONG KONG DOLLAR	2,187,601	226,865,441	-	229,053,042
HUNGARIAN FORINT	36,588	8,933,812	-	8,970,400
INDONESIAN RUPIAN	112,499	92,440,380	-	92,552,879
ISRAELI SHEKEL	94,787	4,355,881	-	4,450,668
JAPANESE YEN	1,692,159	310,355,901	-	312,048,060
KENYAN SHILLING	-	294,025	-	294,025
MALAYSIAN RINGGIT	-	14,561,263	-	14,561,263
MEXICAN NEW PESO	279,824	17,312,537	7,330,998	24,923,359
NEW TAIWAN DOLLAR	2,965,323	65,742,174	-	68,707,497
NEW TURKISH LIRA	1,719,524	52,235,858	-	53,955,382
NEW ZEALAND DOLLAR	7,356	1,741,434	-	1,748,790
NORWEGIAN KRONE	50,992	4,223,181	-	4,274,173
PHILIPPINES PESO	-	2,773,006	-	2,773,006
POLISH ZLOTY	(3,578,920)	7,064,036	5,250,982	8,736,098
S AFRICAN COMM RAND	(787,443)	85,955,239	-	85,167,796
SINGAPORE DOLLAR	3,956,501	31,698,041	-	35,654,542
SOUTH KOREAN WON	9,477,358	106,683,430	-	116,160,788
SRI LANKA RUPEE	-	729,437	-	729,437
SWEDISH KRONA	191,028	21,659,873	-	21,850,901
SWISS FRANC	873,365	82,415,468	-	83,288,833
THAILAND BAHT	345,747	21,995,555	-	22,341,302
ZIMBABWE DOLLAR	-	409,603	-	409,603
Total value of investments subject to foreign currency risk	$ (151,956,208)	$ 2,202,258,757	$ 49,163,430	$ 2,099,465,979

4. ASSETS USED IN PLAN OPERATIONS

Assets used in plan operations at June 30, 2010, consist of the following:

	2010
Buildings and improvements	$ 5,515,888
Less accumulated depreciation	(3,320,801)
Total buildings and improvements	2,195,087
Computer software development	6,331,360
Less accumulated amortization	(6,331,360)
Total computer software development	-
Equipment	262,315
Less accumulated depreciation	(170,572)
Total equipment	91,743
Total assets used in plan operations	$ 2,286,830

For the year ended June 30, 2010, depreciation expense on the buildings and improvements was $160,695. The equipment had a total depreciation expense of $54,567 for 2010. The depreciation 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 $2,680,006,000 and $30,000, respectively for the year ended June 30, 2010.

Normal cost is 13.90% of covered payroll and the amount available to amortize the unfunded actuarial liability is 2.99% 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.

Effective March 1, 2010, the contribution rate for Class 2 (Fire/Police) increased .04%, from 7.65% to 7.69%. The increase was necessary to provide the $100,000 Public Safety Office Disability Benefit as defined in Idaho Statute 59-1352A and Idaho rule 59.01-03.102.

The contribution rates for the year ended June 30, 2010 are:

Optional retirement plan employees of higher education:	
Colleges and universities	1.49 %
Junior colleges	3.83%

	Active Members		Employers	
	General/ Teacher	Fire/ Police	General/ Teacher	Fire/ Police
Contribution rate	6.23%	7.69%	10.39%	10.73%
Planned contribution rates:				
Effective July 1, 2011	6.79%	8.36%	11.32%	11.66%
Effective July 1, 2012	7.34%	9.03%	12.24%	12.58%
Effective July 1, 2013	8.19%	10.04%	13.65%	13.99%

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%.

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, 2010	July 1, 2009
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 —	4.50 % - 10.25 %	4.50 %
Includes salary inflation	4.00 %	4.50 %
Postretirement benefit increase	1.00 %	4.50 %
Implied price inflation rate	3.50 %	3.75 %

SCHEDULES OF FUNDING PROGRESS
PUBLIC EMPLOYEE RETIREMENT FUND AND FIREFIGHTERS' RETIREMENT FUND
FISCAL YEAR 2010
(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, 2010	9,579.8	12,187.9	52.3	2,555.8	78.9	2,684.4	95.2

(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 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, 2009	225.3	325.3	100.0	69.3	55.7	179.5

(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.

Actuary value of plan assets progressively increased in 2005, 2006, and 2007. There was a decline in 2008, 2009 and then an increase in 2010.

A multi-year presentation of funding progress for the Fiscal Years 2005 – 2010 can be found immediately following the notes to the Financial Statements in the Required Supplementary Information Section on page 51.

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. Effective March 1, 2010, the contribution rate for police/fire fighter members increased .04% to 7.69%. The rate for general members stayed level at 6.23%. For the years ended June 30, 2010 and 2009 the required contribution rates were 6.23% for general members 7.65% for police/fire fighter. The employer rate as a percentage of covered payroll was 10.39% for general members and 10.73% for police/fire fighter. PERSI general member contributions required and paid were $287,266, $285,350 and $ 281,773, for the three years ended June 30, 2010, 2009, and 2008, respectively.

7. OTHER POST EMPLOYMENT BENEFITS

The State funds, or partially funds postemployment benefits relating to health, disability, and life insurance. PERSI participates in the State of Idaho's postemployment benefit programs. The State administers the retiree healthcare plan which allows eligible retirees to purchase healthcare insurance coverage for themselves and eligible dependents. The State provides long-term disability income benefits for active employees who become disabled, generally up to a maximum age of 70. The State provides basic life and dependent life coverage for disabled employees, generally up to a maximum age of 70. For up to 30 months following the date of disability, an employee is entitled to continue healthcare coverage. Benefits costs are paid by PERSI through a rate charged by the State. The primary government (State of Idaho) is reporting the liability for the retiree healthcare and long term disability benefits. Specific details of these other postemployment benefits are available in the Comprehensive Annual Financial Report of the State of Idaho which may be accessed at www.sco.idaho.gov.

8. COMMITMENTS

The System had unfunded private equity commitments as of June 30, 2010 of $502,177,810

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PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

REQUIRED SUPPLEMENTARY INFORMATION

PUBLIC EMPLOYEE RETIREMENT FUND AND FIREFIGHTERS' RETIREMENT FUND

SCHEDULES OF FUNDING PROGRESS
FISCAL YEARS 2005–20010
(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, 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)
July 1, 2008	10,402.0	11,211.8	60.9	749.9	93.3	2,578.9	29.0
July 1, 2009	8,646.0	11,732.2	59.6	3,026.6	74.1	2,683.5	112.8
July 1, 2010	9,579.8	12,187.9	52.3	2,556.8	78.9	2,684.4	95.2

(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 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, 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
July 1, 2008			No Valuation				
July 1, 2009	225.3	325.3		100.0	69.3	55.7	179.5
July 1, 2010			No Valuation				

(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 2005–2010
(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
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
2008	273.3	251.4	109.0		No Valuation	
2009	284.6	232.0	123.0	13.2	1.8	723.6
2010	284.9	260.3	109.0		No Valuation	

(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 FUND AND FIREFIGHTERS' RETIREMENT FUND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2010

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, 2010	July 1, 2009
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 —	4.50 % - 10.25 %	4.50 %
Includes salary inflation	4.00 %	4.50 %
Postretirement benefit increase	1.00 %	4.50 %
Implied price inflation rate	3.50 %	3.75 %

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

ADDITIONAL SUPPLEMENTARY SCHEDULES

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
SCHEDULE OF INVESTMENT EXPENSES
YEAR ENDED JUNE 30, 2010

INVESTMENT AND RELATED SERVICES:		
Adelante Capital	$	2,034,758
Apollo Management		(54)
Baring Asset Management, Inc.		1,491,046
Bernstein, Sanford C.		5,090,201
BCA Publication, Inc.		6,250
Blackstone		291,664
Bloomberg, LP		61,572
Brandes Investment Partners, LP		1,749,880
Bridgepoint Cap LTD		143,415
Callan Associates		256,791
Capital Guardian Trust Company		1,399,808
Chadwick, Saylor & Co., Inc.		3,031,089
Chisholm Partners, LP		349,954
Choice Plan Managers		292,200
Clearwater Advisors, LLC		717,505
CVC European Equity		414,594
D.B. Fitzpatrick & Co., Inc.		1,892,896
Donald Smith & Company		1,760,677
Enhanced Equity		824,548
Fidelity/Pyramis		34,269
First Reserve		367,737
Frazier Technology Ventures		65,015
Furman Selz		10,890
Galen Partners, LP		122,824
Genesis Asset Managers, Ltd.		3,385,911
Goense Bounds & Partners, LP		60,846
Gores Capital Partners, LLP		(38,145)
Green Equity Investors IV, LP		577,986
Hamilton Lane Advisors, Inc.		215,000
Hamilton Lane Co-Investment Fund		(85,204)
Highway 12		895,362
J.H. Whitney & Co., LLC		427,391
KKR 2006 Fund		342,826
Kohlberg & Co.		(1,106,072)
Lindsay Goldberg & Bessemer		719,767
Littlejohn & Company		95
Mellon Capital Management		671,405
Mellon Trust		2,741,098
Mondrian Investment Partners		923,015
Mountain Pacific Investment Advisors, Inc.		854,794
Navis Partners, LP		(136,921)
Newbridge Asia		(285,361)
Pareto Partners		805,036
Peregrine Capital Management		889,276
Providence Investments		419,023
Prudential Investments		329,783
State Street Global Advisors		412,018

(Continued)

INVESTMENT AND RELATED SERVICES:	
TCW Asset Management	1,010,581
TPG Partners, LP	560,577
Tukman Grossman Capital Management, Inc.	1,583,749
Wells Fargo Bank	72,145
Western Asset	840,868
Zesiger Capital Group	2,252,656
	41,749,039
CONSULTING/OTHER SERVICES:	
ACS HR Solutions, LLC	1,187,772
Alban Row, LLC	14,174
Berkadia Commercial Mortgage (formally Capmark)	19,447
Chartwell Consulting, LLC	21,659
Eide Bailly LLP	78,750
Foster Pepper, PLLC	364,845
Milliman, Inc.	280,961
Robert Storer	79,731
Whiteford, Taylor & Preston	23,354
William Raver	68,641
	2,139,334
	$ 43,888,372

(Concluded)

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
SCHEDULE OF ADMINISTRATIVE EXPENSES
YEAR ENDED JUNE 30, 2010

PORTFOLIO-RELATED EXPENSES:	
Personnel expenses	$ 587,621
Operating Expenses	149,594
Capital Outlay	9,116
	746,331
OTHER ADMINISTRATIVE EXPENSES:	
Personnel expenses	3,289,991
Operating expenses	2,160,214
Capital outlay	59,560
Building depreciation expense	160,695
Equipment depreciation expense	54,567
	5,725,027
SICK LEAVE FUND EXPENSES — Administrative personnel expenses	104,340
	$ 6,575,698

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Retirement Board
Public Employee Retirement System of Idaho
Boise, Idaho

We have audited the 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 and for the year ended June 30, 2010 and have issued our report thereon dated October 13, 2010. 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 opinions 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

This report is intended solely for the information and use of management, the System's board, others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Boise, Idaho
October 13, 2010

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