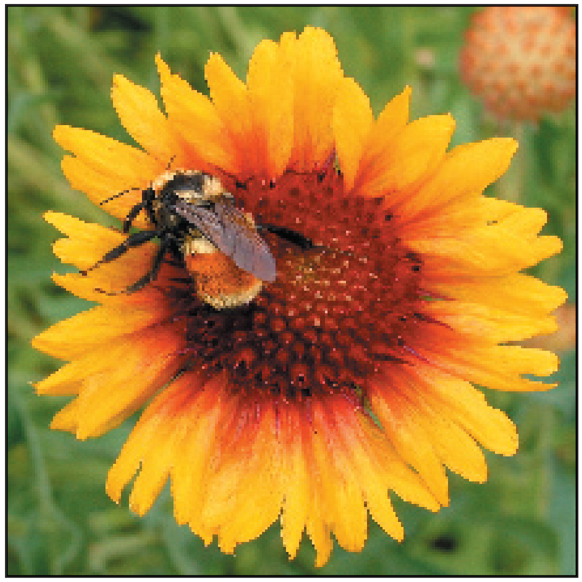

P E R S I

Public Employee Retirement System of Idaho
A Component Unit of the State of Idaho

2005 Comprehensive Annual Financial Report
As of and for Fiscal Year Ended June 30, 2005

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
A Component Unit of the State of Idaho

Comprehensive Annual Financial Report
As of and for the Fiscal Year Ended June 30, 2005

This 2005 Comprehensive Annual Financial Report was prepared by:

Financial:	James E. Monroe, CPA Financial Officer Rhonda J. Yadon, Senior Accountant Cecile McMonigle, Portfolio Accountant
Investment:	Robert M. Maynard, Chief Investment Officer
Administration:	Patrice A. Perow, Communications Manager

Thanks and appreciation to everyone who provided accurate, timely information for this report.
Cover photo courtesy of Heidi Andrade.

INTRODUCTORY SECTION

Dirk Kempthorne, Governor, State of Idaho

RETIREMENT BOARD

Jody B. Olson, Chairman
Term expires July 1, 2007

Pamela I. Ahrens
Term expires July 1, 2008

Jeff Cilek
Term expires July 1, 2010

Clifford T. Hayes
Term expires July 1, 2009

J. Kirk Sullivan
Term expires July 1, 2006

PERSI EXECUTIVE STAFF
Alan H. Winkle, Executive Director
Robert M. Maynard, Chief Investment Officer
John R. Doner, Deputy Director
James E. Monroe, Financial Officer
Judy Aitken, Answer Center Manager
Susan Shaw, Processing Center Manager
Patrice Perow, Communications Manager
Carol Boylan, Information Technology Manager
Diane Berg, Defined Contribution Manager
Brad Goodsell, Deputy Attorney General

PROFESSIONAL CONSULTANTS

Actuary:	Milliman, Inc., Seattle, WA
Auditor:	Deloitte & Touche LLP, Boise, ID
Medical:	VPA, Inc., Calabasas, CA
Investment:	Callan Associates, Inc., San Francisco, CA CS Capital Management, Inc., Atlanta, GA GMAC Institutional Advisors, San Francisco, CA Hamilton Lane Advisors LLC, Philadelphia, PA
Legal:	Calhoun Law Group, Washington, DC Foster, Pepper & Shefelman PLLC, Seattle, WA
Other:	ACS Human Resources & Investor Solutions, Pittsburgh, PA Mellon Transition Management Services, San Francisco, CA
Investment Custodians:	Mellon Global Security Services, Pittsburgh, PA Wells Fargo Bank of Idaho, Boise, ID

Investment Managers:

Adelante Capital Management LLC, Berkeley, CA
Apollo Management, LP, Purchase, NY
Baring America Asset Management, Inc., Boston, MA
Brandes Investment Partners, LP, San Diego, CA
Bridgewater Associates, Inc., Westport, CT
Capital Guardian Trust Company, Brea, CA
Chisholm Partners, LP, Providence, RI
Clearwater Advisors LLC, Boise, ID
D.B. Fitzpatrick & Co., Inc., Boise, ID
Donald Smith & Co., Inc., New York, NY
Fidelity Management Trust Company, Boston, MA
Frazier Technology Ventures, LP, Seattle, WA
Furman Selz Investors, LP, New York, NY
Galen Partners, LP, New York, NY
Genesis Asset Managers, Ltd., London
Goense Bounds & Partners, LP, Lake Forest, IL
Gores Capital Partners, LP, Los Angeles, CA
Green Equity Investors, LP, Los Angeles, CA
Hamilton Lane Secondary, LLC, Baja Cynwyd, PA
Harvest Partners, Inc. LP, New York, NY
Highway 12 Venture Fund, LP, Boise, ID
Ida-West Energy Fund LLC, Boise, ID
Kohlberg & Co., LLC, Mt. Kisko, NY
Koll Company, LLC, Newport Beach, CA
Koll/PER, LLC, Newport Beach, CA
Littlejohn Fund, LP, Greenwich, CT
McCown DeLeeuw & Co., LP, Menlo Park, CA
Mellon Capital Management, San Francisco, CA
Mondrian Investment Partners, Ltd., London
Mountain Pacific Investment Advisers, Inc., Boise, ID
Nautic Partners, LLC, Providence, RI
Oaktree Capital Management, LLC, Los Angeles, CA
Pareto Partners, LLC, London
Peregrine Capital Management, Inc., Minneapolis, MN
Providence Equity Partners, LP, Providence, RI
Prudential Investment Management LLC, Newark, NJ
Sanford C. Bernstein & Co., LLC, New York, NY
Saugatuck Capital Company, LP, Stamford, CT
Societe Generale Asset Management Intl, Ltd., London
State Street Global Advisors, Boston, MA
T. Rowe Price International, Inc., London
T3 Partners, LP, Fort Worth, TX
TCW Asset Management Co., Los Angeles, CA
Thomas H. Lee Equity Fund, LP, Boston, MA
TPG Partners, LP, Fort Worth, TX
Tukman Capital Management, Inc., Larkspur, CA
W. Capital Partners, LP, New York, NY
Western Asset Management Co., Pasadena, CA
Zesiger Capital Group LLC, New York, NY

Specific information about the investment managers can be found on pages 65-66 in the Investment Section of this report.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Public Employee Retirement System of Idaho

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

Public Pension Coordinating Council

Public Pension Standards

2005 AWARD

Presented to

Public Employee Retirement System of Idaho

In recognition of meeting professional standards for
plan design and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

ORGANIZATIONAL CHART

Retirement Board

Alan H. Winkle Executive Director	John R. Doner Deputy Director	Brad Goodsell Deputy Attorney General	Joanne Ax Management Assistant	
Robert M. Maynard Chief Investment Officer	Richelle Sugiyama Investment Officer	Rose Marie Sawicki Administrative Assistant 1	Investment Managers See Investment Section for a list of managers – page 65	
James E. Monroe Financial Officer	Rhonda Yadon Senior Accountant Cecile McMonigle Portfolio Accountant Tess Myers Administrative Assistant 1	JoAnne Dieffenbach Financial Technician Sharon Simon Financial Support Technician	Debbie Buck Employer Services Supervisor Jaimie Hiskey Financial Technician Suzanne Jewell Financial Technician Vacant Office Specialist 1	Alan Roberts Financial Technician Pam Fowers Financial Technician Barbara Weirick Financial Technician Alice Brown Financial Technician
Carol Boylan Information Technology Manager	Kris Colt IT Information System Tech Sr. Nancy Fauver IT Database Analyst	Joy Fereday IT Programmer Analyst Sr. Stacy Jones IT Program System Specialist	Ryan Evey IT Programmer Analyst Sr. Stacy Parr Web Developer	Tim Thuis IT Production Specialist Vacant IT Network Analyst
Judy Aitken Answer Center Manager	Roger Bartlett Member Services Rep Kari Caven Member Services Rep Catherine Atchison Member Services Rep	Vacant Member Services Rep Lisa Conn Member Services Rep Lisa Mabe Member Services Rep	Kathi Kaufman Customer Service Rep. 2 Alicia Harper Customer Service Rep. 2 Lynne Yowell Customer Service Rep. 2 Karen Miller Customer Service Rep. 2	Denice Desilet Customer Service Rep. 2 Gerry Sjol Customer Service Rep. 2 Stacey Hoffman Customer Service Rep. 2 Jami Davis Administrative Assistant 1
Susan Shaw Processing Center Manager	Penny Walls Member Services Rep. Julisa Adams Member Services Rep. Susan Strouth Member Services Rep. Lynn Duncan Member Services Rep.	Lenna Strohmeyer Technical Records Spec. 1 Kay Prince Technical Records Spec. 1 Marian Van Gerpen Technical Records Spec. 1	Heidi Andrade Technical Records Spec. 1 Shasta Luper Technical Records Spec. 1	Cathy Andrews Imaging Specialist
Patrice Perow Communications Manager	Bill Duncan Training Specialist	Maxine Thomas Training Specialist		
Diane Berg Defined Contribution Manager	Betsy Griffith Administrative Assistant 1			

THE SYSTEM
The Public Employee Retirement System of Idaho (the System) is the administrator of five pension funds including two defined benefit retirement plans, the Public Employee Retirement Fund Base Plan (PERSI Base Plan) and the Firefighters' Retirement Fund (FRF); and three defined contribution plans, the Public Employee Retirement Fund Choice Plan 401(k) and 414(k) (PERSI Choice Plans) and the Sick Leave Insurance Reserve Fund.

The Retirement Board consists of five members, each appointed by the Governor to fulfill a 5-year term. The Board meets monthly to conduct System business, usually on the fourth Tuesday of each month at 8:30 a.m. at PERSI's Boise office.

Administrative expenditures consisting of the personnel costs, operating expenditures, and capital outlay necessary to operate the System are limited to those approved and appropriated by the Legislature for that purpose. In fiscal year 2005 (FY05), these costs totaled $7,115,594 for the defined benefit retirement plans, including $152,762 in depreciation and $908,379 in amortization expense, which are not cash expenditures and, therefore, not appropriated. The defined contribution retirement plan investment expenses are not included because they are paid by the plan members.

The majority of the System's 63 staff works in the headquarters office at 607 North 8th Street, Boise, Idaho. There are two staff members in the Coeur d' Alene office, and three in the Pocatello office. The Executive Director and investment personnel are exempt positions appointed by the Retirement Board to serve at its pleasure. The Deputy Director is an exempt position serving under the Executive Director. All other staff members serve under statutes and personnel rules governing classified state service.

The System staff oversees the investment of the trust corpus and new contributions with professional investment managers and funding agents. The Retirement Board maintains fiduciary responsibility for investment policy, asset allocation, and the selection of individual investment managers as discussed in the Investment Section.

SUMMARY OF PLAN PROVISIONS

DEFINED BENEFIT "BASE PLAN" PROVISIONS
Note: The items in parentheses are the provisions applicable to members designated as either PERSI firefighters or as PERSI police officer members for retirement purposes.

MEMBER CONTRIBUTION RATE
The employee contribution rate is set by statute at 60% (72%) of the employer rate. As of June 30, 2005, it was 6.23% (7.65%).

EMPLOYER CONTRIBUTION RATE
The employer contribution rate set by the Retirement Board was 10.39% (10.73%) as of June 30, 2005.

SERVICE RETIREMENT

ELIGIBILITY

Five years of service and age 65 (60, or between 60 and 65, depending on the ratio of police officer/firefighter service to total credited service).

AMOUNT OF ALLOWANCE

For each year of credited service, the monthly service retirement allowance as of June 30, 2005, was 2% (2.3%) of the monthly average salary of the member's highest 42 consecutive months.

MINIMUM MONTHLY BENEFIT ALLOWANCE

Until February 28, 2005: for each year of service, the monthly minimum benefit allowance was $20.25 ($24.30) to a maximum of the member's accrued benefit. Effective March 1, 2005: the monthly minimum benefit allowance was $20.96 ($25.15).

NORMAL FORM

Regular retirement allowance for retiree's life only, plus a lump sum death benefit if the retiree dies before allowances are paid, total accumulated employee contributions and interest.

OPTIONAL FORMS

Retirees may also choose 50% or 100% contingent annuitant options as well as Social Security “bridge” options. These are actuarial equivalents of the normal form based on the mortality and interest assumptions adopted by the Retirement Board. The allowance is payable for the life of the retiree and designated contingent annuitant.

EARLY RETIREMENT

ELIGIBILITY

Five years of service and age 55 (50, or between 50 and 55, depending on the ratio of police officer/firefighter service to total credited service).

AMOUNT OF ALLOWANCE

Unreduced accrued service retirement allowance if age plus service, upon separation from employment, total 90 (80, or between 80 and 90, depending on the ratio of police officer/firefighter service to total credited service); otherwise, the accrued service retirement allowance is reduced 3% for each of the first 5 years by which the early retirement date precedes the date the member would be eligible to receive the unreduced benefit, and by 5.75% for each additional year to a maximum of a second 5 years. The unreduced benefit entitlement may be either at the service retirement eligibility date or the date eligible for the rule of 90(80).

FORMS

Regular retirement allowance; contingent annuitant allowances for the life of the retiree and a designated contingent annuitant; Social Security level income option for the life of the retiree only or for the life of the retiree and designated survivor.

DISABILITY RETIREMENT

ELIGIBILITY

Active members must have 5 years of service, be unable to perform work of *any* kind, and be expected to remain disabled for life. They are eligible from first day on the job if the disability is due to occupational causes.

AMOUNT OF ALLOWANCE

Projected service retirement allowance based on the highest 42 consecutive month average salary at the time of disability. The benefit is calculated using the accrued service at the time of disability plus the service which would have accrued through service retirement age had the disability not occurred. If a member has less than 360 months of service as of the date he is eligible for disability retirement, he will be given credit for the months of service he would have earned from the date of disability to the date he would have reached Service Retirement Age (65 for general members/62 for police and firefighters) had he not become disabled (360 months of credited service maximum). In other words, PERSI will give members up to 30 years of credit or to Service Retirement Age, whichever comes first. Monthly allowance is payable after all temporary compensation ceases and is offset by the amount payable as income benefit under worker's compensation law, except when offset by Social Security.

NORMAL FORM

Regular retirement allowance to normal service retirement age when retirement benefit changes to service retirement allowance with its optional forms available.

DEATH BENEFITS

AFTER RETIREMENT

Under the normal form of the retirement allowance, a Social Security adjustment option, or a disability retirement, the balance, if any, of the member's accumulated contributions and interest at retirement over all payments received is paid to the beneficiary in a lump sum. In the case of a disability retirement, the beneficiary may waive the lump sum if the retiree is married so that the spouse will receive a lifetime monthly allowance, or the beneficiary may take a lump-sum payment of two times the amount in the member's account at the time of disability retirement minus any amount paid. Under the contingent annuitant options, the designated annuitant receives a lifetime monthly benefit following the member's death. If the survivor dies before the balance of the member's accumulated contributions and interest has been paid, the balance will be paid to the beneficiary in a lump sum. If the member's designated contingent annuitant predeceases him/her, the member's allowance will be recalculated to a single life payment.

BEFORE RETIREMENT

1 Non-vested Members: Beneficiary receives a lump sum payment of the member's accumulated contributions plus interest.

2 Vested Members:
   a Beneficiary receives a lump sum payment of two times the member's accumulated contributions plus interest.
   b If the member is married, and the spouse is the sole beneficiary, the spouse may select a lump sum payment or a lifetime monthly benefit.
   c If the member is married, but the spouse is not the sole beneficiary, the beneficiary may waive the lump sum, in which case, a lifetime monthly benefit is available to the surviving spouse.

3 A $100,000 death benefit for duty-related deaths for police officers/firefighters became effective July 1, 2003.

SEPARATION BENEFIT

Accumulated member contributions with regular interest is payable upon becoming an inactive member separated from eligible employment. The Regular Interest Rate in effect for FY05 was 3.22% per year compounded monthly from July 1, 2004 through December 31, 2004, and 17.51% from January 1, 2005 through June 30, 2005.

POSTRETIREMENT ADJUSTMENTS

An annual postretirement adjustment based on and limited by a cost-of-living factor reflecting the changes in the Consumer Price Index (CPI) is effective in March each year. If the CPI change from August of the previous year to August of the second previous year is 1% or more, a 1% mandatory adjustment is made. The Board may authorize additional discretionary adjustments based on the CPI increase (up to a total maximum annual COLA of 6% or the CPI rate, whichever is lower) if it determines that the System can do so and still maintain an appropriately funded position as required by Idaho Code Section 59-1355(1). Adjustments in excess of the 1% authorized by the Board must be reported to the Legislature. If the Legislature has not acted by the 45th day of the legislative session, the COLA becomes effective March 1 of each year.

The Board is also authorized to award postretirement adjustments for prior years in which the actual amount of adjustment was less than the CPI for those years. If the CPI change is downward, in no event will any benefit be reduced below its initial amount.

The COLA authorized and implemented March 1, 2005, was 2.7% plus a retro COLA of 0.8%.

PERSI
Public Employee Retirement System of Idaho

BOISE
Mailing Address
P.O. Box 83720
Boise, ID 83720-0078

Office Address
607 North 8th Street
Boise, ID 83702-5518

208-334-3365
1-800-451-8228
FAX 208-334-3805

POCATELLO
Mailing Address
P.O. Box 1058
Pocatello, ID 83204

Office Address
850 East Center, Ste. "D"
Pocatello, ID 83201

208-236-6225
1-800-762-8228
FAX 208-236-6159

COEUR D' ALENE
Mailing & Office Address
2005 Ironwood Pkwy.
Coeur d' Alene, ID 83814

208-769-1474

November 30, 2005

Dear Governor Dirk Kempthorne, Legislators, and Members of the Retirement System:

We are pleased to present to you the Public Employee Retirement System of Idaho (the System) comprehensive annual financial report, for the fiscal year ended June 30, 2005 (FY 2005). This financial report is a historical perspective of benefits, services, and fiscal activities of the System. Included is a summary of our actuarial valuations, an independent auditors' report, an investment summary, and a statistical section.

Generally accepted accounting principles require management to provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The System's MD&A can be found immediately following the independent auditors' report.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to PERSI for its comprehensive annual financial report for the fiscal year ended June 30, 2004. This was the 14th consecutive year PERSI has achieved this prestigious award. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

REPORT STRUCTURE

This FY 2005 comprehensive annual financial report has five sections:

Introductory Section contains this letter of transmittal plus an overview of the fund.

Financial Section contains the independent auditors' report, management's discussion and analysis, the financial statements, and supplementary data.

Investment Section contains the funds' investment performance, strategy, and guidelines.

Actuarial Section contains the consulting actuary's certification letter and a summary of the results of the actuarial valuations and related data.

Statistical Section contains tables of significant data.

This Letter of Transmittal is intended to serve as an overview of the System and to "transmit" information on the topics that follow.

PLAN HISTORY

The Public Employment Retirement System of Idaho (PERSI) was created by the Thirty-seventh Legislature, Regular Session of 1963 with funding effective July 1, 1965. It is a tax qualified, defined benefit system to which both the member and the employer contribute. Participation in the System is mandatory for eligible state and school district employees and available to other public employers and their employees on a contractual basis.

When the Teachers Retirement System of Idaho was abolished, members of that system were integrated into PERSI, and all other eligible school district employees became PERSI members effective July 1, 1967.

Legislative amendments since 1965 have made it possible for municipal police officer retirement funds to merge with the System, and two of the five police officer systems have since merged. The other three are being phased out, and police officers hired since 1969 have become PERSI members.

Legislation in 1979 mandated the Firefighters' Retirement Fund be administered by PERSI effective October 1, 1980. Paid firefighters who were members of the original system retained their original benefit entitlement, while paid firefighters hired after October 1, 1980, were entitled to PERSI benefits. An actuarial valuation of the firefighter member benefit entitlement is conducted every year, separate from the annual PERSI valuation.

In January 2001, PERSI implemented a "Gain Sharing" program as a way to distribute $155 million in excess investment earnings back to our active members, retirees, and employer members. Retirees received their gain sharing as a "13th check." Employers received their share as a contribution "holiday." Some 53,000 eligible active members received their portion as deposits into newly created defined contribution (DC) accounts. This new plan, called the PERSI "Choice" Plan, supplemented PERSI's traditional Defined Benefit (DB) "Base" Plan. It allowed employees for the first time to actively participate in saving for their retirement.

The Choice Plan is somewhat unique in the public sector. PERSI obtained permission from the Internal Revenue Service to expand a grandfathered State 401(k) to our members statewide. While some public employees were familiar with 457 or 403(b) plans, a 401(k) was something new to them. Many of our members had never had the opportunity to make such pre-tax voluntary contributions.

SERVICES PROVIDED

The ability of the System to serve both employee and employer members at the local level through the Boise, Pocatello, and Coeur d' Alene offices remains a key factor for efficient administration. The merging of other retirement systems with PERSI, plus statutory amendments over the years, have produced both multiple and diverse member benefit entitlements and administrative requirements. These can best be analyzed and explained to the members through personal contact with knowledgeable System staff members.

In its 40th year of operation, the System continued a wide range of services to both employee and employer members. Members may visit the PERSI website, call, e-mail, or visit one of the three offices for personal information and assistance regarding credited service, account balances, eligibility, benefit options and amounts, and other retirement matters.

Members receive advance notice of service retirement qualification and are provided with estimates of monthly allowances. They also receive information regarding the availability of alternate forms of retirement payments. Retirement applications are processed in a timely fashion, and monthly payments are made promptly. Direct deposit of benefit payments is available to retired members as is withholding for income tax, medical insurance, or other purposes.

System retirees are provided notices whenever their net benefit amount changes. This notice gives retirees a list of their itemized deductions from their gross benefit.

Separation and death benefits are paid in an orderly manner and as rapidly as possible. In some instances payments are expedited to avoid placing a financial hardship on a member. Employee contributions and earned interest are posted to individual member accounts each month, and an annual statement is provided to each member confirming their average monthly salary, credited service, contributions, and earned interest. In addition, a report of benefits accrued to date is provided along with an estimate of benefits projected ahead to various retirement ages.

The staff of employer units responsible for reporting and handling retirement transactions and activities is provided regular training and assistance through monthly newsletters and personal contact by field service personnel as needed. Employer records and reporting procedures are reviewed each year for accuracy and compliance with statutory provisions.

Upon request, public employers interested in affiliation with the System are counseled and provided with information regarding employee benefits, cost, and procedures associated with joining. Conversely, employers considering withdrawal are provided information and employee benefit projections to enable them to make an informed decision.

Pre-retirement and financial planning workshops, offered on a regular basis throughout the State, cover financial planning, budgeting, investment basics, Social Security, and System benefits.

EMPLOYEE AND EMPLOYER MEMBERSHIP

During FY 2005, the number of active PERSI members increased from 63,385 to 64,391. The number of retired members or annuitants receiving monthly allowances increased from 26,043 to 27,246. The number of inactive members who have not been paid a separation benefit increased from 18,837 to 20,028. Of these inactive members, 8,460 have achieved vested eligibility. Total membership in PERSI increased from 108,265 to 111,665 during the fiscal year. There are currently 684 public employers in Idaho who are PERSI members. Participating employers are listed in the Statistical Section of this report.

MANAGEMENT RESPONSIBILITY

The System's management is responsible for the complete and fair presentation of the data and the accompanying disclosures in this report. The financial statements and supplemental schedules included in this report have been prepared in accordance with generally accepted accounting principles for governmental accounting and reporting as pronounced or adopted by the Governmental Accounting Standards Board.

INDEPENDENT AUDIT

The System is audited annually, and for the fiscal year ended June 30, 2005, the audit was conducted by Deloitte & Touche LLP, an independent firm of Certified Public Accountants. Refer to the Independent Auditors' Report for the opinion.

INTERNAL ACCOUNTING CONTROL

As an agency of the State of Idaho, the System's administrative expenses are subject to the State's budget controls. Management is responsible for maintaining a system of internal accounting control designed to provide reasonable assurance transactions are executed in accordance with management's general or specific authorization and are recorded as needed to maintain accountability for assets to permit preparation of financial statements. An internal control procedure has been established, and a budget report is prepared for the Board. We believe the internal controls in effect during FY 2005 adequately safeguard the assets and provide reasonable assurance regarding the proper recording of financial transactions.

FINANCIAL HIGHLIGHTS

Collection of employer and employee contributions, as well as income and gains from investments, provides the reserves necessary to finance retirement benefits. These income sources totaled $1,259,216,162 for all pension funds during the fiscal year ended June 30, 2005.

ADDITIONS:	
Contributions	$ 439,581,106
INVESTMENT INCOME:	
Net Appreciation in Fair Value of Investments	619,037,925
Interest, Dividends and Other Investment Income	234,130,100
Less: Investment Expenses	(33,692,881)
Net Investment Income	819,475,144
OTHER INCOME	159,912
Total Additions	$ 1,259,216,162

The payment of benefits is the primary expense of a retirement system. The payments, together with the expenses to administer the Plan, constitute the total expenses of the System. Expenses for FY 2005 are as follows:

DEDUCTIONS:	
Benefits and Refunds	$ 386,534,532
Administrative Expenses	7,169,254
Transfers Out	3,457,942
Total Deductions	$ 397,161,728

Contributions and expenses continue to increase at a predictable rate.

ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS

Future benefits include all benefits estimated to be payable to plan members (retirees and beneficiaries, terminated employees entitled to benefits but not yet receiving them, and current active members) as a result of their service through the valuation date and their expected future salary. The actuarial present value of future benefits as of the valuation date is the present value of the cost to finance benefits payable in the future, discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment. Simply put, it is the amount that would have to be invested on the valuation date so the amount invested plus investment earnings will provide sufficient assets to pay total future benefits when due.

The actuarial present value was calculated as part of an actuarial valuation at July 1, 2005. Significant actuarial assumptions used include: an investment return rate of present and future assets of 7.75% compounded annually, (7.25% plus 0.50% for expenses); projected salary increases of 4.50% per year compounded annually, attributable to general wage increases; additional projected salary increases attributable to seniority/merit, up to 7.00% per year, depending on service and employee classification, and; 1.00% per year attributable to postretirement benefit increases.

At June 30, 2005, the unfunded actuarial liability on a current contribution basis was as follows:

Unfunded Actuarial Liability on Current Contribution Basis (in millions):

Valuation Date:	July 1, 2005
Benefit Date:	July 1, 2005
A. Actuarial Present Value of All Future Benefits for Contributing Members, Former Contributing Members and Their Survivors	$ 11,746.2
B. Actuarial Present Value of Total Future Normal Costs for Present Members	2,967.5
C. Actuarial Liability [A - B]	8,778.7
D. ORP Contributions	61.3
E. Actuarial Liability Funded by PERSI Contributions [C-D]	8,717.4
F. Actuarial Value of Assets Available for Benefits	8,208.8*
G. Unfunded Actuarial Liability (funding excess) [E-F]	$ 508.6
H. Amortization Period on Valuation Date, Based on Contribution Rate Established as of Benefit Date	6.2 Years
I. Funded Ratio [F/E]	94.2%**

* The total available assets are $8,453.8 million, but are reduced by $245.0 million for assets used in plan operations and funds earmarked to provide excess benefits to former members of the Firefighters' Retirement Fund and the Idaho Falls Police Retirement Fund.

** The Funded Ratio of 94.2% includes the effects of the 1% mandatory COLA but not the additional discretionary COLA calculated at 1.7%. The discretionary COLA decreases the ratio to 93.2%.

ECONOMIC CONSIDERATIONS

The System operates within a dynamic economic environment, as do all investment funds. The objective of the Retirement Board is to minimize the effect of these external influences, where possible, by diversifying among a broad range of asset classes and investment management styles, both domestically and internationally. Such diversification, combined with prudent management by experienced investment professionals, increases the probability the earnings objective will be achieved. The return for fiscal year 2005 was 10.24% net of expenses.

PERSI is funded on a sound actuarial basis, which protects future benefits for participants. Over the long-term, the Plan's assets should achieve their expected returns. However, short-term shortfalls in earnings targets could occur in unfavorable economic environments and/or unfavorable actuarial experience. As of June 30, 2005 the fund had an amortization period of 6.2 years.

INVESTMENT STRATEGY AND POLICIES

The Retirement Board utilizes and directs funding agents to provide whatever investment management and custodial functions best achieve the System's investment objectives. The Board establishes asset allocation policy, diversification guidelines, custodial functions including safe-guarding of investments, and other investment restrictions. Each money manager is generally granted full discretion in making investment decisions within their guidelines. The Board, staff, and consultants monitor and evaluate investment results. The Board, in its administration of this System and management of the investment program, is guided by the fiduciary standards in Section 59-1301 of the Idaho Code and the Idaho Uniform Prudent Investor Act, in Sections 68-501 through 68-514 of the Idaho Code and is empowered in its sole discretion to limit, control, and designate the types, kinds, and amounts of investments. Current year investment information and return can be found in the Investment Section of this report.

FUNDING STATUS

The funding objective of PERSI is to accumulate sufficient assets to ensure funds will be available to meet current and future benefit obligations to participants on a timely basis. If the level of funding is high, the ratio of assets to the actuarial accrued liability is also greater, which means better investment income potential. Each year an independent actuary engaged by PERSI calculates the amount of the annual contribution the plans must make to fully meet their obligations to retired employees. As of June 30, 2005, the PERSI Base Plan has succeeded in funding 94.2% of the present value of the projected benefits earned by employees. The remaining unfunded amount is being systematically funded over 6.2 years as part of the annual required contribution calculated by the actuary. The closed Firemen's Retirement Fund remains an actuarially funded plan. For GASB reporting purposes, the Notes to Required Supplemental Schedules on page 48 provides detailed information on each plan's remaining amortization period. The actuarial method for calculating accrued liability for both plans is Entry Age Normal with the objective of maintaining employer contributions approximately level as a percent of member payroll. For a more in-depth discussion of PERSI's funding, see Management's Discussion and Analysis and the Actuarial Section of this report.

MAJOR INITIATIVE

In 2003, PERSI initiated a major multi-year Business Process Reengineering project to improve and enhance its customer service delivery system to meet the growing demands for services from an aging membership. By restructuring the organization, the agency is better positioned to meet the increasing needs of its members and employers well into the future. To ensure success, PERSI contracted MAXIMUS, Inc. to serve as an objective third-party to look at and provide expert advice on the restructuring. MAXIMUS, Inc. facilitated the documentation of current processes, and then identified the how the ideal organization should look and how its services and processes should be delivered in the future. This process was Business Process Reengineering.

Three primary customer operating areas emerged from the reengineering process: the PERSI Answer Center, the PERSI Processing Center, and the Employer Service Center. Rounding out PERSI operations are Administration, Choice Plan, Information Technology, Communications, and Portfolio/Investments.

- **PERSI ANSWER CENTER (PAC):** To improve its already exemplary customer service without compromising the "personal touch" for which it is known, PERSI created a contact center with the goal of answering questions and/or responding to inquiries without transferring or passing callers around, and without asking members to call back. PERSI committed substantial financial resources for the PAC staff to receive the training necessary to ensure success, knowing there would be a return on investment through a better educated staff and more satisfied members.

- **PERSI PROCESSING CENTER (PPC):** PERSI formed a center dedicated to providing consistent and accurate forms, applications, and information request processing not otherwise completed by PAC. As part of the PPC effort, PERSI is identifying workflow solutions for several critical, high-volume business processes including retirement application processing, service credit determinations, and the review of disability, divorce, and separation paperwork. By integrating technical solutions — including digital imaging and automated workflow — with new business processes, PERSI expects to reduce operating costs, improve overall efficiency, and enhance customer service.

- **EMPLOYER SERVICE CENTER (ESC):** To provide internal efficiencies and simplify employer service delivery, PERSI launched a centralized service team dedicated to employers. We have combined the best technology and integrated processes to ensure employers receive quick, accurate, and timely responses to questions and have resources readily available to help resolve problems. This effort is being implemented as a multi-phased project, starting with the processing of transmittals on a first-in/first-out basis. This has been followed with dedicated phone numbers so employers can call directly into the ESC, bypassing the receptionist. The ESC goal of streamlined, effective customer service is consistent with PERSI's overall operating philosophy.

ACKNOWLEDGMENTS

This financial report of the Public Employee Retirement System of Idaho was prepared by staff under the leadership of the Retirement Board. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a method of determining responsible stewardship for the assets contributed by the members and their employers.

This report is being sent to the Governor, State Legislators, and other interested parties.

Respectfully submitted,

Jody B. Olson, Chairman　　Alan H. Winkle, Executive Director　　James E. Monroe, Financial Officer

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Retirement Board
Public Employee Retirement System of Idaho
Boise, Idaho

We have audited the accompanying basic financial statements of the Public Employee Retirement System of Idaho (the "System"), a component unit of the State of Idaho, as of June 30, 2005, 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 2004 financial statements and, in our report dated November 2, 2004, 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 System's 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 funds of the System as of June 30, 2005 and the changes in plan net assets of the pension 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 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 express no 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 50 through 52 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 purposes 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 19, 2005 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 19, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management is pleased to provide this 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, 2005. 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 10 of this report.

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

Financial Highlights

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

PERSI Base Plan	$ 788,494,640
Firefighters' Retirement Fund	16,814,037
PERSI Choice Plan 414(k)	3,055,242
PERSI Choice Plan 401(k)	35,176,225
Sick Leave Insurance Reserve Fund	18,514,290
Total increase in plan net assets	$ 862,054,434

- Investments for the two defined benefit plans, the PERSI Base Plan and the FRF, are pooled. For the fiscal year ended June 30, 2005, the rate of return net of investment expenses on the pooled investment assets was 10.3% compared with 17.6% for the prior year. 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 year ended June 30, 2005, was $819 million.

Net investment income:	
PERSI Base Plan	$ 769,968,881
Firefighters' Retirement Fund	21,267,341
PERSI Choice Plan 414(k)	5,519,836
PERSI Choice Plan 401(k)	9,629,286
Sick Leave Insurance Reserve Fund	13,089,800
Total net investment income	$ 819,475,144

- As of June 30, 2005 and 2004, 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:

	2005 Funding Ratio	Amortization Period	2004 Funding Ratio	Amortization Period
PERSI Base Plan	94.2%	6.2 years	91.7%	7.8 years
Firefighters' Retirement Fund	73.5%	9.0 years	69.5%	10.9 years

For the PERSI Base Plan and the FRF in 2005, contributions and other income of $393.7 million exceeded deductions to net assets of $379.6 million by $14.1 million. This increase in income in addition to investment gains of $791.2 million brought the defined benefits plans' net assets to $8.5 billion. For actuarial calculations, the System's actuary uses market value to determine the actuarial value of assets. For the July 1, 2005, valuation, the actuarial value of assets for the PERSI Base Plan was $8.2 billion. The aggregate actuarial liability for all PERSI Base Plan employers was $8.8 billion. On an actuarial basis, the assets held currently fund 94.2% of this liability.

The System's funding objective is to meet long-term benefit obligations through contributions and investment income and provide a reserve against market fluctuations. The funding ratio listed above gives an indication of how well this objective has been met at a specific point in time. The higher the funding ratio, the better the plan is funded. For more detailed information and history of the funding ratio, see the Schedule of Funding Progress on page 46 of this report. The actuarial funding ratio for the two defined benefit plans improved 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 these contribution rate increases, and improving investment markets, the amortization period of the unfunded liability has decreased and should continue to do so based on current assumptions. The PERSI Board decided to postpone, for a second year, the July 1, 2005 and 2006, scheduled rate increases.

Using the Annual Financial Report

This discussion and analysis is intended to serve as an introduction to the System's financial statements. The financial section is comprised of four components: (1) fund financial statements, (2) notes to the 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, 2005, indicates the net assets available to pay future payments and gives a snapshot at a particular point in time. The Statement of Changes in Plan Net Assets for the year ended June 30, 2005 provides a view of the current year's activity. It details the additions and deductions to the individual funds and supports the change to the prior year's ending net asset value on the Statement of Net Assets. All pension fund statements are presented on a full accrual basis and reflect all trust activities, as incurred.

Notes to Financial Statements—The notes provide additional information essential for a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 13–27 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 Administrative Expenses and Schedule of Investment 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 for investment purposes.

Defined Benefit Pension Trust Funds Net Assets

	As of June 30, 2005	As of June 30, 2004	$ Change	% Change
Assets:				
Cash and cash equivalents	$ 3,631,830	$ 3,319,118	$ 312,712	9.4 %
Investments sold receivable	819,110,168	712,838,249	106,271,919	14.9 %
Other receivables	40,848,719	37,985,473	2,863,246	7.5 %
Investments—at fair value	8,707,502,568	7,702,033,786	1,005,468,782	13.1 %
Prepaid retiree payroll	27,754,259	24,930,718	2,823,541	11.3 %
Capital assets—net of accumulative depreciation	3,516,630	4,550,368	(1,033,738)	(22.7)%
Total assets	9,602,364,174	8,485,657,712	1,116,706,462	13.2 %
Liabilities:				
Investments purchased payable	1,139,739,452	829,687,740	310,051,712	37.4 %
Benefits and refunds payable	63,069	492,672	(429,603)	(87.2)%
Other liabilities	8,762,883	6,987,207	1,775,676	25.4 %
Total liabilities	1,148,565,404	837,167,619	311,397,785	37.2 %
Net assets available for benefits	$8,453,798,770	$7,648,490,093	$ 805,308,677	10.5 %

The fiscal year ended June 30, 2005, was most notably marked by a continuation in favorable investment markets. Other Liabilities is higher at the end of FY 2005 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 is due to normal fluctuates 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, 2005	Year Ended June 30, 2004	$ Change
Additions:			
Employee contributions	$ 145,727,272	$ 131,237,106	$ 14,490,166
Employer contributions	247,842,553	224,336,265	23,506,288
Investment income	791,236,222	1,145,095,702	(353,859,480)
Other additions	149,317	68,284	81,033
Total additions	1,184,955,364	1,500,737,357	(315,781,993)
Deductions:			
Benefits and refunds paid	372,531,093	343,940,999	28,590,094
Administrative expenses	7,115,594	6,991,503	124,091
Total deductions	379,646,687	350,932,502	28,714,185
Changes in net assets available for benefits	$ 805,308,677	$1,149,804,855	$(344,496,178)

The annual amount of Investment Income and Changes in Net Assets Available for Benefits decreased from FY 2004 to FY 2005 because of a slowing of the growth in the investment market. The increase in Benefits and Refunds Paid is a result of increased number of retirees and COLA increase to benefits paid.

Defined Contribution Pension Trust Funds

During FY 2005, the System administered three defined contribution plans. The PERSI Choice Plan, a qualified plan under Internal Revenue Code, consists of a 401(k) plan and a 414(k) plan and provides retirement benefits to members of the Defined Benefit Pension Trust Funds. The Sick Leave Insurance Reserve Fund (the Fund) provides payment of eligible postretirement insurance premiums on behalf of retired state and school 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.

The Choice Plan was created during FY 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 FY 2001. The assets of this Plan cannot be used to pay the benefits of the 401(k) Plan and vice versa. Beginning with the year ending June 30, 2004, the Sick Leave Insurance Reserve Fund was reclassified from an agency fund to a defined contribution plan with the implementation of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. For clarity in this presentation, the Sick Leave Insurance Reserve Fund will be reported separately from the PERSI Choice Plan.

Defined Contribution Pension Trust Funds Net Assets

	As of June 30, 2005	As of June 30, 2004	$ Change	% Change
Assets:				
Cash	$ 112,699	$ 115,786	$ (3,087)	(2.7)%
Short-term investments	105,315		105,315	100.0 %
Investments—at fair value	358,955,236	302,399,536	56,555,700	18.7 %
Receivables	2,175,740	2,104,303	71,437	3.4 %
Total assets	361,348,990	304,619,625	56,729,365	18.6 %
Liabilities:				
Other liabilities	19,067	35,459	(16,392)	(46.2)%
Net assets available for benefits	$ 361,329,923	$ 304,584,166	$ 56,745,757	18.6 %

Investments increased from FY 2004 to FY 2005 because of the increase in employee contributions and the continued favorable investment market. Receivables include contributions that are not yet recorded by the recordkeeper at year end and accrued interest and dividends.

Defined Contribution Pension Trust Funds Changes in Net Assets

	Year Ended June 30, 2005	Year Ended June 30, 2004	$ Change	% Change
Additions:				
Employee contributions	$ 21,464,820	$ 17,489,692	$ 3,975,128	22.7 %
Employer contributions	16,270,833	16,726,939	(456,106)	(2.7)%
Investment income	28,238,922	36,160,864	(7,921,942)	(21.9)%
Transfers in	8,275,628	3,318,115	4,957,513	149.4 %
Other additions	10,595	9,410	1,185	12.6 %
Total additions	74,260,798	73,705,020	555,778	0.8 %
Deductions:				
Administrative expenses	53,660		53,660	100.0 %
Benefits and refunds paid	14,003,439	11,384,181	2,619,258	23.0 %
Transfers out	3,457,942	1,976,643	1,481,299	74.9 %
Total deductions	17,515,041	13,360,824	4,154,217	31.1 %
Changes in net assets available for benefits	$ 56,745,757	$ 60,344,196	$ (3,598,439)	(6.0)%

Investment Income decreased from FY 2004 to FY 2005 because of more moderate market growth than the prior year. Transfers In and Out only include rollovers from/to other plans. A large portion of the increase in Transfers In is the result of a PERSI employer’s DC plan transfer into the PERSI Choice Plan. Employee Contributions grew due to an increase in the number of employees with salary deferrals. Changes in Employer Contributions vary up or down according to individual employers’ desire to match employee contributions.

For FY 2004, the System changed the presentation of the Sick Leave Insurance Reserve Fund from an agency fund to an Other Postemployment Benefit (OPEB) in accordance with a new accounting standard issued by the Governmental Accounting Standards Board in April 2004. Investment Income decreased from FY 2004 to FY 2005 because of more moderate growth in the investment market. Beginning in FY 2005, a fee representing administrative expense is being assessed to the sick leave fund.

Plan Membership

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

Changes in Plan Membership

	Base Plan			Choice Plan		
	2005	2004	Change	2005	2004	Change
Active participants:	64,391	63,385	1.6 %	44,780	41,836	7.0 %
Actively contributing				8,218	6,778	21.2 %
Vested	40,796	39,999	2.0 %			
Non-vested	23,595	23,386	0.9 %			
Retirees and beneficiaries	27,246	26,043	4.6 %	522	420	24.3 %
Terminated vested	8,460	8,118	4.2 %	8,479	6,388	32.7 %

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 July 1, 2004	26,043
Retirements	1,935
Death of retiree/beneficiary	(732)
Ending June 30, 2005	27,246

Investment Activities

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

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

Economic Factors

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

As a result of the FY 2002 amortization period calculation being 39.3 years, the Board increased contribution rates 1% per year for three years beginning July 2004. The PERSI Board has postponed, for a second year, the rate increases scheduled for July 1, 2005 and July 1, 2006, due to a significant increase in funded status. These two increases are now scheduled for July 1, 2007 and 2008. The maximum amortization period allowed by state law for the Base Plan is 25 years. PERSI's Base Plan amortization period before any cost of living adjustment (COLA) as of July 1, 2005, is 6.2 years.

During FY 2004, an actuarial study of PERSI experience from July 1, 1999 through June 30, 2003, was done. An experience study is an analysis of economic assumptions and active member demographics. This study resulted in some changes to the economic assumptions and relatively minor changes to the demographic assumptions. Actuarial assumptions are estimates as to the occurrence of future events affecting such things as changes in pension costs, compensation, and rates of investment earnings and are used to measure and budget future costs. The most significant changes in the economic assumptions involved the recommended reduction of the inflation assumption from 4.00% to 3.75% and the general wage increase assumption from 4.75% to 4.50%. To maintain the 4.00% real investment return target derived from our asset allocation, the investment assumption was decreased from 8.00% to 7.75% which matches a trend nationwide. These changed assumptions will not change the actual cost of future benefits but will result in a slight decrease to the funding of the benefits. The effective date of these changes was June 30, 2004. The changes are included in the actuarial valuation dated July 1, 2005.

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

COMBINING STATEMENT OF PLAN NET ASSETS—PENSION FUNDS
AS OF JUNE 30, 2005 WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2004

	Pension Funds					Totals	
	PERSI Base Plan	Firefighters' Retirement Fund	PERSI Choice Plan 414(k)	PERSI Choice Plan 401(k)	Sick Leave Insurance Reserve Fund	2005	2004
ASSETS							
CASH AND CASH EQUIVALENTS	$ 3,533,837	$ 97,993	$ -	$ 37,622	$ 75,077	$ 3,744,529	$ 3,434,904
INVESTMENTS—At fair value:							
Fixed income investments:							
Domestic	2,052,306,470	56,910,116			72,820,634	2,182,037,220	1,905,420,592
International	55,445,555	1,537,496				56,983,051	59,889,873
Idaho commercial mortgages	252,934,663	7,013,836				259,948,499	259,763,230
Short-term investments	498,263,260	13,816,757		105,315		512,185,332	277,708,503
Real estate	77,196,628	2,140,650				79,337,278	59,687,610
Equity Securities:							
Domestic	3,545,284,156	98,310,139			109,282,253	3,752,876,548	3,482,488,760
International	1,785,482,929	49,511,144				1,834,994,073	1,657,691,373
Private equity	205,646,233	5,702,536				211,348,769	163,073,839
Mutual, collective, unitized funds			56,973,945	119,878,404		176,852,349	138,709,542
Total investments	8,472,559,894	234,942,674	56,973,945	119,983,719	182,102,887	9,066,563,119	8,004,433,322
RECEIVABLES:							
Investments sold	797,093,613	22,016,555				819,110,168	712,838,249
Contributions	4,987,308	29,057		265,826		5,282,191	5,352,594
Interest and dividends	34,869,230	963,124	241,728	374,534		36,448,616	33,456,550
Total receivables	836,950,151	23,008,736	241,728	640,360	-	860,840,975	751,647,393
ASSETS USED IN PLAN OPERATIONS—Net	3,516,630					3,516,630	4,550,368
DUE FROM OTHER FUNDS					1,293,652	1,293,652	1,280,632
RETIREE PAYROLL IN PROCESS	27,754,259					27,754,259	24,930,718
TOTAL ASSETS	$ 9,344,314,771	$ 258,049,403	$ 57,215,673	$ 120,661,701	$ 183,471,616	$ 9,963,713,164	$ 8,790,277,337

(Continued)

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

COMBINING STATEMENT OF PLAN NET ASSETS—PENSION FUNDS
AS OF JUNE 30, 2005 WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2004

	Pension Funds					Totals	
	PERSI Base Plan	Firefighters' Retirement Fund	PERSI Choice Plan 414(k)	PERSI Choice Plan 401(k)	Sick Leave Insurance Reserve Fund	2005	2004
LIABILITIES AND NET ASSETS							
LIABILITIES:							
Accrued liabilities	$ 7,276,927	$ 192,304	$ -	$ -	$ 19,067	$ 7,488,298	$ 5,742,034
Benefits and refunds payable	63,069					63,069	492,672
Due to other funds	1,293,652					1,293,652	1,280,632
Investments purchased	1,109,104,823	30,634,629				1,139,739,452	829,687,740
Total liabilities	1,117,738,471	30,826,933	-	-	19,067	1,148,584,471	837,203,078
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (see supplementary schedules of funding progress)	$8,226,576,300	$227,222,470	$57,215,673	$120,661,701	$183,452,549	$8,815,128,693	$7,953,074,259

See notes to financial statements.

(Concluded)

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS—PENSION FUNDS
FOR THE YEAR ENDED JUNE 30, 2005 WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2004

	Pension Funds					Totals	
	PERSI Base Plan	Firefighters' Retirement Fund	PERSI Choice Plan 414(k)	PERSI Choice Plan 401(k)	Sick Leave Insurance Reserve Fund	2005	2004
ADDITIONS:							
Contributions:							
Members	$ 145,638,100	$ 89,172	$ -	$ 21,464,820	$ -	$ 167,192,092	$ 148,726,798
Employers	236,116,938	11,725,615		203,026	16,067,807	264,113,386	241,063,204
Transfers in				8,275,628		8,275,628	3,318,115
Total contributions	381,755,038	11,814,787	-	29,943,474	16,067,807	439,581,106	393,108,117
Investment income:							
Net appreciation in fair value of investments	579,046,289	15,993,861	5,586,185	5,195,696	13,215,894	619,037,925	1,001,322,358
Interest, dividends and other investment income	223,427,569	6,171,301	56,994	4,474,236		234,130,100	208,641,123
Less investment expenses	(32,504,977)	(897,821)	(123,343)	(40,646)	(126,094)	(33,692,881)	(28,706,915)
Total investment income	769,968,881	21,267,341	5,519,836	9,629,286	13,089,800	819,475,144	1,181,256,566
Other—net	149,317				10,595	159,912	77,694
Total additions	1,151,873,236	33,082,128	5,519,836	39,572,760	29,168,202	1,259,216,162	1,574,442,377
DEDUCTIONS:							
Benefits and refunds paid to members and beneficiaries	356,263,002	16,268,091	276,432	3,126,755	10,600,252	386,534,532	355,325,180
Administrative expenses	7,115,594				53,660	7,169,254	6,991,503
Transfers out			2,188,162	1,269,780		3,457,942	1,976,643
Total deductions	363,378,596	16,268,091	2,464,594	4,396,535	10,653,912	397,161,728	364,293,326
INCREASE IN NET ASSETS	788,494,640	16,814,037	3,055,242	35,176,225	18,514,290	862,054,434	1,210,149,051
NET ASSETS HELD IN TRUST:							
Beginning of year	7,438,081,660	210,408,433	54,160,431	85,485,476	164,938,259	7,953,074,259	6,742,925,208
End of year	$ 8,226,576,300	$ 227,222,470	$ 57,215,673	$ 120,661,701	$ 183,452,549	$ 8,815,128,693	$ 7,953,074,259

See notes to financial statements.

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

1. GENERAL DESCRIPTION OF THE FUNDS

General—The Public Employee Retirement System of Idaho (the System or PERSI) is the administrator of five 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 three defined contribution plans, the Public Employee Retirement Fund Choice Plans 401(k) and 414(k) (PERSI Choice Plan) and the Sick Leave Insurance Reserve Fund.

Reporting Entity—The System is a 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. Statutes governing FRF are Title 72, Chapter 14 of 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% 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, 2005, the number of participating employer units in the PERSI Base Plan was:

Cities	143
School districts	135
Highway and water districts	121
State subdivisions	98
Counties	40
Other	147
	684

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

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

FRF has 22 participating employer units all consisting of fire departments participating in the PERSI Base Plan. As of June 30, 2005, there were 20 active members and 599 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 17.51% January 1, 2005 through June 30, 2005 (3.22% July 1, 2004 to December 31, 2004) 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 and the Sick Leave Insurance Reserve Fund are defined contribution retirement plans. The statute governing the Choice Plans is Idaho Code Title 59, Chapter 13. The statutes governing the Sick Leave Insurance Reserve Fund are Idaho Code, Sections 67-5339, 33-1216, 59-1365, and 33-1228.

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 Choice Plan are commingled for investment and recordkeeping purposes. Participants direct their investment mix without restriction and may elect to change their salary deferral every pay period. The 401(k) portion of the Choice Plan 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 IRS annual contribution limit. The 414(k) portion of the Choice Plan was established for Gain Sharing allocations from the PERSI Base Plan. The Gain Sharing amount (if any) is based on funding levels in the Base Plan. Eligibility for Gain Sharing requires twelve months of active PERSI Base Plan membership as defined in Idaho statutes and PERSI rules. On February 1, 2001, all eligible Base Plan members who were active as of June 30, 2000, and eligible to receive Gain Sharing contributions, received an allocation.

The System has entered into a contract with Mellon Human Resources & Investor Solutions (MHR&IS) for plan recordkeeping services. MHR&IS was acquired by Affiliated Computer Services, Inc. (ACS) in May 2005. The plan offers eleven investment options, which are mutual or collective funds. The plans include the PERSI Total Return Fund (PERSI TRF), seven equity funds, two fixed income funds, and a stable value fund. Participants may allocate their assets in 1% increments among these options; however, if no allocation preference is indicated, a default investment election to the PERSI TRF is made. The PERSI TRF is a unitized fund comprised of investment accounts of the PERSI Base Plan.

The PERSI Choice Plan has 684 employer units eligible to have participating employees. As of June 30, 2005, there were 47,626 participants with balances in the Choice Plan. Some of these participants are in both the 414(k) Plan and the 401(k) Plan. As of June 30, 2005, the Choice Plan 414(k) had 42,578 participants, and the Choice Plan 401(k) had 10,707. The administrative expenses of the PERSI Choice Plan, most of which are paid to MHR&IS, are funded by the PERSI Base Plan.

For the Sick Leave Insurance Reserve Fund, school districts and state agencies in Idaho provide payment of eligible postretirement insurance premiums on behalf of former employees based on unused accumulated sick leave at their retirement date. Employers are responsible for any unfunded benefit obligations. The System administers these funds on behalf of the employers, who fund the program by remitting a percentage of payroll to the System to cover future insurance premiums. Other PERSI employers may participate in the fund on a pay as you go basis.

School District Employees—For school district employees, the unused sick leave amount available for benefit is based on 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 and school district contributions was .65% and 1.15% of covered salary at June 30, 2005, respectively. Rules have been adopted to increase the contribution rate for school district employers to amortize the unfunded liability and to allocate higher costs to school districts that have a greater liability in the system.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting—The System's basic financial statements are prepared utilizing the accrual basis of accounting. Employee and employer contributions are recognized as additions to net assets when due and receivable, pursuant to formal commitments and statutory or contractual requirements, investment income is recognized when earned, and benefit payments and refunds and other expenses are recorded when the benefits are due and payable in accordance with the plans' terms. The pension funds are accounted for on a flow of economic resources measurement focus. The System adheres to Statement No. 25 of the Governmental Accounting Standards Board ("GASB No. 25"), *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and to GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.*

Investments—The System's investments are presented at fair value. Purchases and sales are recorded at the trade date. Investments of the PERSI Base Plan, FRF, and the PERSI TRF (an option of the PERSI Choice Plan) are pooled for investment purposes.

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 investment policy including policy related to deposit and investment risks identified in GASB Statement No. 40.

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 consultants and 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 managements' 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 2.5% of total investments.

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

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

Assets Used in Plan Operations—These assets represent buildings, equipment, and computer software development costs used by the System and are recorded at cost. Depreciation and amortization are provided on the straight-line method over the estimated useful lives of the assets. The estimated useful life for buildings is 30 years. The estimated useful life of the computer software development costs is five years. The particular type of equipment purchased in May 2005, but not put into service until FY 2006 has a 3-year useful life.

"Totals"—The summarized financial information as of and for the year ended June 30, 2004, presented in the "Totals" column on the accompanying basic financial statements, does not present consolidated financial information and is not necessary for a fair presentation of the basic financial statements but is presented only to facilitate financial analysis and for comparison purposes.

New Accounting Standards—In March 2003, the GASB issued Statement No. 40, Deposit and Investment Risk Disclosures. Statement No. 40 amends GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements. The objective of this Statement is to update the custodial credit risk disclosure requirements of GASB Statement No. 3 and to establish more comprehensive disclosure requirements addressing other common risks of the deposits and investments of state and local governments. The System has implemented this Statement for the fiscal year ended June 30, 2005.

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	$ 2,598,976
FDIC insured	203,075
Uninsured and uncollateralized	942,478
Total	$ 3,744,529

B. Investments

Investments of the pension trust funds are reported at fair market value. See note 2 for more details. The Board of Trustees maintains a formal Statement of Investment Policy, which addresses governing provisions and additional guidelines for the investment process. In fulfilling its responsibilities, the Board of Trustees has contracted with investment managers, a master global custodian, and a cash manager. Manager contracts include specific guidelines regarding the PERSI investments under management. For the year ended June 30, 2005, Mellon Global Securities Services was the global custodian for the majority of the investments of the combined PERSI Base Plan, FRF, and PERSI Choice Plan.

Investments at fair value as of June 30, 2005:

Domestic fixed income	$ 2,109,216,586
Co-mingled domestic fixed income (Sick Leave Insurance Reserve Fund)	72,820,634
Short-term investments	498,180,340
Idaho commercial mortgages	259,948,499
Total domestic fixed income securities	2,940,166,059
International fixed income	56,983,051
Total fixed income securities	2,997,149,110
Domestic equities	3,643,594,295
International equities	1,834,994,073
Short-term investments	14,004,992
Real estate	79,337,278
Private equity	211,348,769
Mutual funds (PERSI Choice Plan)	176,852,349
Co-mingled equity fund (Sick Leave Insurance Reserve Fund)	109,282,253
Total investments	$ 9,066,563,119

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

Futures contracts are contracts for delayed delivery or receipt of securities in which the seller agrees to make delivery and the buyer agrees to take delivery at a specified future date, of a specified instrument, at a specified price. Market risk arises due to market price and interest rate fluctuations that may result in a decrease in the fair value of futures contracts. Futures contracts are traded on organized exchanges and require initial margin in the form of cash or marketable securities. Daily, 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, 2005, the System had futures contracts with a fair value of $100,264 that are 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, 2005, the System had the following futures contracts exposure:

	Value covered by contract
Cash and cash equivalents-eurodollar	$147,128
U.S. Treasury bond futures	24,500
U.S. Treasury note futures	1,719

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, 2005, the System had option contracts payable with a fair value of $535,744 that is included in liabilities reported as Investments Purchased. At June 30, 2005, the System had the following options contracts exposure:

	Value covered by contract
Cash and cash equivalents purchased call options	$130,798
Cash and cash equivalents purchased put options	13,663
Fixed income purchased call options	24,500
Fixed income purchased put options	1,794
Fixed income written call options	607,045
Fixed income written put options	99,453

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

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

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, 2005, the System had sold forward currency contracts with a fair value of $809,001,906 and had bought forward currency contracts with a fair value of $809,107,799. Purchases of forward currency contracts are liabilities reported as Investments Purchased, and sales of forward currency contracts are receivables reported as Investments Sold. Unrealized losses of $105,892 at June 30, 2005 were recognized, which represents the loss which would occur from executing these forward foreign currency contracts at June 30, 2005.

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, 2005, the System had invested in TIPS with a fair value of $701,714,595.

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, 2005, the System’s fixed income assets that are not government guaranteed represented 57% of the fixed income portfolio. The System’s fixed income assets are shown with current credit ratings below.

Credit quality of fixed income securities at fair value:

Credit Quality S&P Rating Level	Domestic	International	Total
Agency (A-1+)	$ 1,216,509	$ -	$ 1,216,509
AAA	616,512,139	25,897,848	642,409,987
AA	50,070,878	5,802,060	55,872,938
A	173,078,732		173,078,732
BBB	108,743,478	4,881,125	113,624,603
BB	20,051,859	88,747	20,140,606
B	14,162,932		14,162,932
CCC	10,012,965		10,012,965
Not rated	353,430,059	76,153,878	429,583,937
Total credit risk fixed income securities	1,347,279,551	112,823,658	1,460,103,209
U.S. government	1,108,400,197		1,108,400,197
Pooled investments	169,606,648		169,606,648
Total fixed income securities investments	2,625,286,396	112,823,658	2,738,110,054
Reconciling Items From Report to Investments on Net Asset Statement			
401(k) Total Return Fund	(43,091,899)	(941,244)	(44,033,143)
USD denominated international	108,206,571	(108,206,571)	
Preferred/convertibles	(10,668,137)	(4,396,478)	(15,064,615)
International short sale liability		57,484,955	57,484,955
Idaho commercial mortgages	259,948,499		259,948,499
Other	484,629	218,731	703,360
Total	$2,940,166,059	$ 56,983,051	$ 2,997,149,110

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 70% of the System's short-term investments. Of the short-term investments at June 30, 2005, $14,004,992 were held by various counterparties not in the System's name and were neither insured nor registered. 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 establish 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.

Effective duration of domestic fixed income assets by security type:

Investment	Fair Value	Effective Duration in years
Asset-backed securities	$ 17,307,304	1.83
Asset-backed securities	390,607	N/A
Commercial paper	49,124,911	0.12
Commercial paper	219,583,466	N/A
Corporate bonds	390,512,201	4.62
Corporate bonds	908,999	N/A
Fixed income derivatives	(533,151)	N/A
Government agencies	123,505,885	3.3
Government bonds	408,906,167	5.43
Government mortgage-backed securities	446,127,615	2.31
Pooled investments	169,606,648	N/A
Preferred stock	2,503,408	2.22
Preferred stock	8,164,730	N/A
Private placements	24,244,829	3.63
Private placements	1,109,821	N/A
Repurchase agreements	62,108,362	N/A
TIPS	701,714,595	7.73
Total fixed income securities—domestic	2,625,286,397	
Reconciling items:		
401(k) Total Return Fund adjustment	(43,091,899)	
Idaho commercial mortgages	259,948,499	
USD denominated international securities	108,206,571	
Preferred/convertible stock	(10,668,137)	
Other	484,629	
Total	$ 2,940,166,060	

Effective duration of international fixed income assets by security type:

Investment	Fair Value	Effective Duration in years
Commercial paper	$ 13,818,694	0.03
Commercial paper	21,822,090	N/A
Corporate bonds	63,697,070	3.35
Corporate bonds	100,132	N/A
Government bonds	13,385,672	4.74
Total fixed income securities—international	112,823,658	
Reconciling items:		
401(k) Total Return Fund adjustment	(941,244)	
USD denominated international securities	(108,206,571)	
Preferred/convertible stock	(4,396,478)	
Short sale liability	57,484,955	
Other	218,731	
Total	$ 56,983,051	

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 these managers to maintain adequately diversified portfolios to limit foreign currency and security 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. Foreign currency risk arises due to foreign exchange rate fluctuations. 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, 2005, is highlighted in the table on the following page.

Currency exposures:

Currency	**Short-term Investments**	**Equities**	**Fixed Income**	**USD Equivalent Fair Value**
Australian Dollar	$ 125,710	$ 50,041,673	$ 1,072,475	$ 51,239,858
Botswana Pula		1,450,764		1,450,764
Brazil Real	961,091	23,326,677		24,287,768
British Pound Sterling	(991,086)	310,704,197	(43,217,762)	266,495,349
Canadian Dollar	296,521	13,086,437	14,245,780	27,628,738
Czech Koruna	7,910			7,910
Danish Krone	429	14,477,458		14,477,887
Egyptian Pound	482,128	11,683,379		12,165,507
Euro	1,026,916	556,683,103	(5,614,043)	552,095,976
Hong Kong Dollar	186,457	61,467,279		61,653,736
Hungarian Forint	47,502	6,763,138		6,810,640
Indonesian Rupian	624,739	33,495,396		34,120,135
Israeli Shekel	485,398	8,602,289		9,087,687
Japanese Yen	5,443,298	338,693,613		344,136,911
Malaysian Ringgit	87,994	10,776,490		10,864,484
Mexican New Peso	4,518	15,836,310	21,484,236	37,325,064
New Taiwan Dollar	764,087	39,253,528		40,017,615
New Turkish Lira	264,410	21,634,901		21,899,311
New Zealand Dollar	76,460	4,171,770		4,248,230
Norwegian Krone	14,630	4,783,021		4,797,651
Philippines Peso	18,703	5,732,007		5,750,710
Polish Zloty	12		6,257,328	6,257,340
South African Rand	131,167	50,008,314		50,139,481
Singapore Dollar	648,133	23,758,667	6,083,536	30,490,336
South Korean Won	58,729	104,658,602		104,717,331
Swedish Krona	409,661	15,382,247		15,791,908
Swiss Franc	101,102	99,653,605		99,754,707
Thailand Baht	149,894	38,822,728		38,972,622
Zimbabwe Dollar		373,401		373,401
Total securities subject to foreign currency risk	$ 11,426,513	$ 1,865,320,994	$ 311,550	1,877,059,057
Reconciling Items:				
401(k) Total Return Fund				(31,456,702)
Short sale liability				57,484,955
Reverse repurchase liability				2,228,703
Other				94,318
Total				$ 1,905,410,331

4. ASSETS USED IN PLAN OPERATIONS

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

Buildings and improvements	$ 5,449,460
Less: accumulated depreciation	(2,527,232)
	2,922,228
Computer software development	6,331,360
Less: accumulated amortization	(5,743,765)
	587,595
Equipment	6,807
Less: accumulated depreciation	
	6,807
Total assets used in plan operations	$ 3,516,630

For the year ended June 30, 2005, depreciation expense on the buildings and improvements was $152,762, and amortization expense on the computer software development costs was $908,379. The equipment was purchased in May 05, but not put into service until FY06. 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 that, expressed as percentages of annual covered payroll, 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 $2,176,000,000 and $43,000,000, respectively.

Actuarial valuations of the PERSI Base Plan and FRF are performed annually. The last valuations were performed as of July 1, 2005.

Normal cost is 14.03% of covered payroll and the amount available to amortize the unfunded actuarial liability is 4.79% of covered payroll for the PERSI Base Plan. There is no normal cost associated with FRF, and all contributions to FRF are available to pay benefits and reduce the unfunded actuarial liability. Police and Fire employers' contribution rates increased 1/10% effective July 1, 2003, as a result of a new death benefit. The PERSI Board also approved a contribution rate increase of 1% per year for 3 years beginning July 1, 2004, for a total increase of 3% split between employers and employees. The rate increases scheduled to begin July 1, 2005 and July 1, 2006, were postponed for two years.

The contribution rates for the year ended June 30, 2005, and subsequent years through June 30, 2008, are as follows:

Optional retirement plan employees of higher education:

Colleges and universities	3.03 %
Junior colleges	3.83 %

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

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

6. PENSION PLAN PARTICIPATION

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

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

The contribution requirements of the System and its employees are established and may be amended by the PERSI Board of Trustees. For the year ended June 30, 2005, the required contribution rate was 6.23% for general members and 7.65% for police/fighters. The employer rate as a percentage of covered payroll was 10.39% for general members and 10.73% for police/fighter members. PERSI contributions required and paid were $392,003, $361,053, and $341,595 for the three years ended June 30, 2005, 2004, and 2003 respectively.

7. COMMITMENTS

The accrual basis of accounting provides that expenses include only amounts associated with goods and services received and liabilities include only the unpaid amounts associated with such expenses. Accordingly, the System had committed approximately $653,400 in outstanding purchase orders and purchase commitments to fund ongoing administrative projects for the System. These amounts are not reported in the basic financial statements at June 30, 2005.

The System had private equity commitments as of June 30, 2005, of $518,447,933, of which $307,975,041 of funding had been provided, leaving an unfunded commitment of $210,472,892 at fiscal year end. The System also had a private real estate commitment as of June 30, 2005 for an amount of $168,000,000. Funding of $42,326,952 had been provided by the end of FY 2005, leaving an unfunded commitment of $125,673,048.

* * * * * *

REQUIRED SUPPLEMENTARY INFORMATION

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

SCHEDULES OF FUNDING PROGRESS—PUBLIC EMPLOYEE RETIREMENT FUND AND FIREFIGHTERS' RETIREMENT FUND FISCAL YEARS 2000–2005 (Dollars in millions)

PERSI

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) (a.)	(3) PV of Future ORP Contributions	(4) Unfunded AAL (UAAL) (2) - (1) - (3) (b.)	(5) Funded Ratios (1) : [(2) - (3)] (c.)	(6) Annual Covered Payroll (d.)	(7) UAAL as a Percentage of Covered Payroll (4) : (6)
July 1, 2000	$ 7,032.9	$ 6,105.1	$ 70.5	$ (998.3)	116.5 %	$ 1,827.2	(54.6)%
July 1, 2001	6,492.8	6,751.3	72.2	186.3	97.2	1,975.3	9.4
July 1, 2002	6,062.1	7,209.5	71.7	1,075.7	84.9	2,047.1	52.5
July 1, 2003	6,297.8	7,578.8	66.4	1,214.6	83.8	2,057.7	59.0
July 1, 2004	7,420.2	8,154.8	63.5	671.1	91.7	2,115.4	31.7
July 1, 2005	8,208.8	8,778.7	61.3	508.6	94.2	2,208.7	23.0

(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 ORP contributions. Amounts reported in this table do not include the value of the 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, 2000	$ 217.8	$ 293.4	$ 75.6	74.2 %	$ 30.8	245.5 %
July 1, 2001	200.4	316.2	115.8	63.4	32.9	352.0
July 1, 2002	181.5	300.3	118.8	60.4	34.4	345.3
July 1, 2003	182.7	310.7	128.0	58.8	37.0	345.9
July 1, 2004	210.4	302.6	92.2	69.5	39.8	231.7
July 1, 2005	227.2	309.1	81.9	73.5	42.2	194.1

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

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

SCHEDULES OF EMPLOYER CONTRIBUTIONS—PUBLIC EMPLOYEE
RETIREMENT FUND AND FIREFIGHTERS' RETIREMENT FUND
FISCAL YEARS 2000—2005 (Dollars in millions)

	PERSI Employer Contributions			FRF Employer Contributions (c.)		
Year Ended June 30	Total Employer Contributions (Statutory) (a.)	Annual Required Contribution (ARC) (b.)	Percentage Contributions	Total Employer Contributions	Annual Required Contribution	Percentage Contributions
2000	$ 182.9	$ 155.7	117.5 %	$ 8.7	$ 8.6	100.4 %
2001	197.9	152.2	130.0	9.2	6.3	147.3
2002	205.5	155.1	132.5	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

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

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

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2005

1. ACTUARIAL INFORMATION

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

	PERSI	FRF
Valuation date	July 1, 2005	July 1, 2005
Actuarial cost method	Entry age actuarial cost	Entry age actuarial cos
Amortization method	Level percentage of projected payroll—open	Level dollar amount—closed
Remaining amortization period	25 years	31 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
FOR THE YEAR ENDED JUNE 30, 2005

INVESTMENT AND RELATED SERVICES:	
Adelante Capital (formerly Lend Lease Rosen)	$ 2,287,677
Apollo Management	142,560
Baring Asset Management, Inc.	1,359,486
Sanford C. Bernstein	2,164,006
Bloomberg, LP	54,963
Brandes Investment Partners, LP	1,750,142
Bridgewater Associates	417,398
Callan Associates	238,525
Capital Guardian Trust Company	1,155,848
Chadwick, Saylor & Co., Inc.	181,779
Chisholm Partners, LP	406,362
Choice Plan Managers	163,989
Clearwater Advisors, LLC	369,817
D.B. Fitzpatrick & Co., Inc.	1,532,708
Donald Smith & Company	1,291,362
Fidelity Management Trust Company	306,627
Frazier Technology Ventures	84,377
Furman Selz Investments	8,954
Galen Associates	635,967
Genesis Asset Managers, Ltd.	1,495,139
Goense Bounds & Partners, LP	146,680
Gores Capital Partners	(16,829)
Green Equity Investors	204,078
Hamilton Lane Advisors, Inc.	263,805
Highway 12	207,793
Kohlberg & Co., LLC	204,348
Littlejohn & Company	231,558
Mellon Capital Management	627,842
Mellon Trust	2,663,549
Mondrian Investment Partners	644,163
Mountain Pacific Investment Advisors, Inc.	878,031
Navis Partners, LP	182,891
Pareto Partners	824,396
Peregrine Capital	630,249
Providence Investments	394,094
Prudential Investments	367,441
R.V. Kuhns & Associates	(3,562)
Rowe Price International, Inc.	979,733
Societe Generale	1,061,443
State Street Global Advisors	354,602
T3 Partners II, LP	419,155
TCW Asset Management	972,989
Thomas H. Lee	40,133

(Continued)

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

SCHEDULE OF INVESTMENT EXPENSES
YEAR ENDED JUNE 30, 2005

INVESTMENT AND RELATED SERVICES (Continued):	
Tukman Capital Management, Inc.	$ 1,351,188
W. Capital Partners	298,800
Wells Fargo Bank	65,800
Western Asset Management	244,893
Zesiger Capital Group	1,383,691
	31,670,640
CONSULTING SERVICES:	
Calhoun Law Group	5,525
CT Corporation	327
Deloitte & Touche LLP	59,350
Joseph L. Wyatt	425
Mellon Human Resources & Investor Solutions	1,378,783
Morrison & Foerster	1,000
Foster, Pepper, Shefelman PLLC	313,235
Milliman, Inc.	263,596
	2,022,241
	$ 33,692,881

(Concluded)

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2005

	PERSI Base Plan
PORTFOLIO-RELATED EXPENSES:	
Personnel expenses	$ 404,358
Operating expenses	137,946
Capital outlay	2,894
	545,198
OTHER ADMINISTRATIVE EXPENSES:	
Personnel expenses	2,823,473
Operating expenses	2,595,284
Capital outlay	90,498
Building depreciation expense	152,762
Software amortization expense	908,379
	6,570,396
SICK LEAVE-RELATED EXPENSES—Administrative operating expenses	53,660
	$7,169,254

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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*

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

We have audited the financial statements of the Public Employee Retirement System of Idaho (the "System") as of and for the year ended June 30, 2005, and have issued our report thereon dated October 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

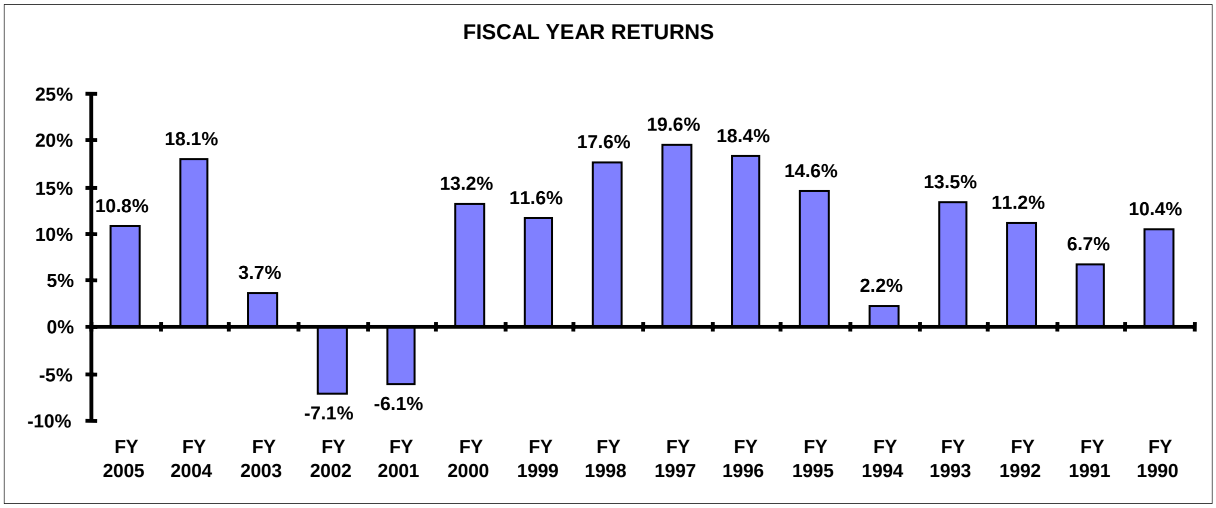
This report is intended solely for the information and use of the Retirement Board and management and is not intended to be and should not be used by anyone other than these specified parties.

October 19, 2005

INVESTMENT SECTION

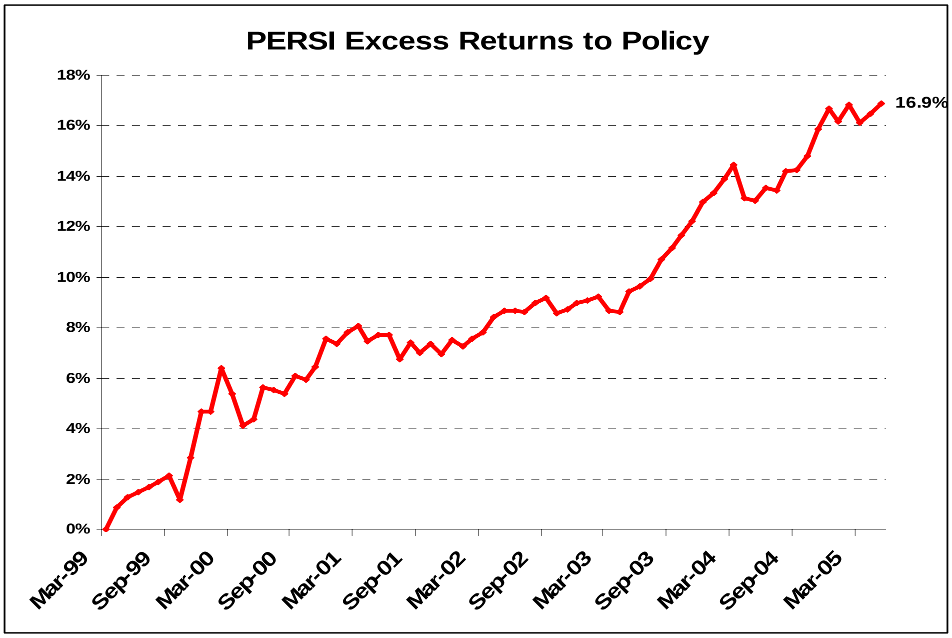
REPORT ON INVESTMENT ACTIVITY
Prepared by Robert M. Maynard, Chief Investment Officer

PERSI had another very good fiscal year. The 2005 fiscal year return of 10.78% was well above the actuarially needed average return of 7.75%. PERSI's peer performance rankings continued to be strong as well, ranking in the top 10% of public funds in the nation for recent years and well above median for almost all time periods.

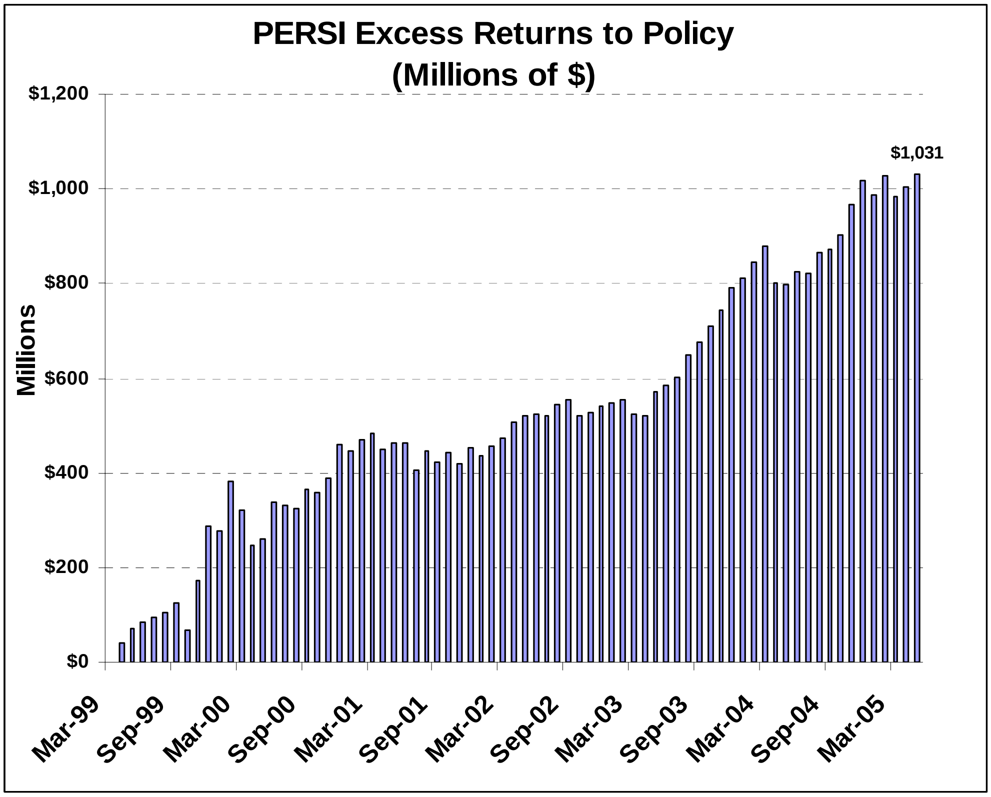


It has been a very good time, particularly in terms of returns relative to peers and to benchmarks. Starting in March1999, including the equity market crash of 2000-2003, and through today, PERSI has been on a very good investment streak. Even with the recession and equity market depression, PERSI is up over 40% cumulatively over that period, has handily exceeded the high points in total value of the boom years ($8.6 billion vs. $7.2 billion in January of 2001), has reached new highs starting in December 2003, and hasn't looked back (at least not yet).

And, compared to simply being passively invested in the market, PERSI has almost doubled its market return from extra efforts. PERSI has added 17% of extra value over the past six years or so:



These excess returns have added over $1 billion of value to the total fund size, as follows:



Similarly, PERSI peer rankings have also been very favorable over both the shorter and longer term. Except for poor relative rankings during the depths of the equity bear market (due to PERSI's higher equity allocations than many public funds), PERSI's peer rankings have been often in the top quartile, and sometimes in the top decile, of public funds nationally. And, for all cumulative time periods, PERSI has done markedly better than its underlying policy would have expected:

RANKINGS IN THE CALLAN PUBLIC FUND UNIVERSE

June 30, 2005

Percentile Rankings over Period

(1 is highest, 100 is lowest)

	QTR	*1Yr*	*2Yrs*	*3Yrs*	*4Yrs*	*5Yrs*	*7Yrs*	*10Yrs*
Return (%)	**2.6**	**10.8**	**14.4**	**10.7**	**6.0**	**3.4**	**5.9**	**9.6**
Policy Return (%)	2.0	8.7	12.2	9.2	4.6	1.9	4.6	8.8
Median Fund (%)	1.9	9.2	11.8	9.1	5.6	3.9	5.5	8.8
PERSI Rank 6	**9**	**9**	**11**	**36**	**62**	**29**	**18**	
Policy Rtn Rank	**41**	**61**	**42**	**48**	**87**	**91**	**88**	**49**

Consequently, despite a strategic policy that would have meant mediocre to poor peer performance for PERSI over the past ten years, both absolutely and relatively (as would be expected given the horrible equity markets of 2000-2003), PERSI has come through what should have been very rough waters with remarkable serenity.

During the last year, PERSI completed its restructuring of the fixed income portfolio, adding an active real return fixed income manager (Bridgewater), and adding two more active bond managers to the line-up (Western and Fidelity). In addition, Peregrine, a large cap growth manager, was added to the domestic equity line-up. The combination of these additions will give a slightly more aggressive cast to the fixed income line-up (to address a likely increase in interest rates over the next few years) and fill in, to a large extent, what had been a marked hole in the equity portfolio compared to the indices (US large cap quality growth stocks).

Almost all parts of PERSI's investment program had good annual and longer-term performance, either absolutely, relative to the markets, or mostly, both. US Equity (including private equity and real estate) returned 9.1% compared to the general equity market return of 8.1% (Russell 3000), global equity (managers who can invest both in the US and internationally) returned 10.6% compared to the world equity index of 10.6% (MSCI World), international equity returned 19.6%, beating the benchmark return of 14.1% (MSCI EAFE), and fixed income returned 8.2% outpacing the general investment grade market gain of 6.8% (Lehman Aggregate). These returns not only beat their individual benchmarks, but also outpaced the performance of PERSI's peers in their general categories. PERSI's domestic equity segment ranked in the top 20th percentile for domestic equity programs by fund sponsors, our international equity efforts ranked in the top 3rd percentile, and we were in the top 8th percentile for the fixed income segment [Callan Asset Class Rankings].

The best performing parts of the PERSI portfolio were emerging markets (46%), Real Estate Investment Trusts (REITs)(34%), private equity (22%), and international equities (20%). The top performing public security accounts were the Bernstein and Genesis emerging markets accounts (48.7% and 42.2%), the Adalente REIT portfolio (33.9%), Mondrian international equity (19.3%), and the Bernstein global equity account (17%). Compared to benchmarks, the greatest outperformance was by Bernstein Emerging Markets (outperforming the index by 12%), Genesis (+6.9%), and Bernstein Global (+6.7%).

At the other end, the worst PERSI return came from Tukman, both in absolute return (-4.6%) and in return relative to its benchmark (underperforming by 10.9%). Tukman invests in a concentrated portfolio of a few (15-20) large cap quality stocks and was badly hurt by corporate accounting and other problems with previously well-thought of companies like AIG and Fannie Mae.

FY 2005 Returns

	Relative to Benchmark FY 2005 (%)	Absolute FY 2005 (%)
Mellon R3000	-0.4	7.6
Tukman Capital Mgmt.	-10.7	-4.6
TCW	-8.9	3.7
D. Smith	-2.7	6.6
Mountain Pacific	-5.0	7.5
Lend Lease	0.3	33.9
Prudential	1.7	15.7
Barings	-3.2	7.1
Bernstein Global	6.7	17.0
Brandes	-0.7	9.6
Capital Guardian	-2.9	7.4
Zesiger Public	3.4	13.7
Mellon EAFE	-0.5	103.6
Rowe Price	-3.2	11.0
Mondrian	5.2	19.3
SGAM	-7.1	7.0
Bernstein Emg.	12.0	46.6
Genesis	6.9	41.1
State Street	0.1	7.6
Barings Fixed	1.1	7.9
DFB MBS	-0.7	5.4
Clearwater	-0.6	5.6
Idaho MTGS.	1.7	7.8
TIPS	4.4	11.2

PERSI's US equity segment returned 9.1%, compared to the general US market return (the Russell 3000) of 8.1%. This was primarily due to the high returns of the REIT portfolio managed by Adelante, with returns of 33.9%, beating the general equity market, although lagging the overall REIT market return of 34.2%. Tukman, as mentioned previously, had a poor year both absolutely (-4.6%) and relative to the S&P 500 (which was up 6.3%). Mountain Pacific although up 7.5%, lagged their benchmark, the Russell 2500, by 5.2%. TCW Domestic, a new equity manager, got off to a poor start with returns of only 3.7%, as did Donald Smith, with returns of only 6.6%. These poor US active manager returns were overcome by the excellent performance of not only the REIT returns from Adalente, but also another good year from private equity (21.8%) and private real estate (12.2%).

Global equity managers again had a good year, with overall returns for the segment of 10.6%, exceeding the world equity market returns of 10.4%. Bernstein Global led this group with returns of 17.0%, followed by Zesiger Capital with returns of 14.3%. Lagging the world indices were Brandes (9.6%), Capital Guardian (7.4%), and Barings (7.1%).

The international equity segment once again benefited from the dedicated exposure to emerging markets. Overall, the total international equity segment outperformed EAFE, with returns of 19.6% compared to the index return of 14.1%. This would not have occurred without emerging markets, which returned 44% for the year, with Bernstein Emerging returning 48.7% and Genesis returning 42.2% – both handily outperforming the emerging markets index of 34.9%. Mondrian, with a 19.3% return, was the only active international manager to outperform the EAFE index return of 14.1%. Both SGAM (7.0%) and Rowe Price (10.9%) continued their lagging performance from the previous year.

Fixed income had another excellent year in comparison with the general fixed income market. PERSI's fixed income total return of 8.2% handily beat (in fixed income terms) the general US investment grade market return of 6.8%. Once again, PERSI's large commitment to TIPS drove this relative outperformance, with a return of 11.6%. Barings fixed income outperformed the general market with returns of 7.8%, as did the Idaho Commercial Mortgage program, with returns of 7.9%. Mortgage Backed Securities portfolios managed by DBF (5.2%) and Clearwater (5.6%) both lagged the Lehman Mortgage index returns of 6.2%.

As a result, this last year has continued a run of good absolute and excellent relative performance that began over six years ago. In fact, the concern at the moment is that this stretch of performance may represent a peak, and could be a limit on how good PERSI can be. PERSI is not structured to be a consistent outstanding performer – instead, we are structured to be a median to slightly above median fund. We are set up to hit singles, not home runs. The exceptional stretch of absolute and relative performance may be due to a confluence of luck when most of our particular biases or special leanings all happened to perform well together. Most of those leanings are undertaken for diversification or other reasons (global equity, TIPS, Idaho Mortgages, REITS, etc.), not for "juicing up" our returns. We rely primarily on the markets, not special efforts, for our returns. The exceptional performance of those special efforts, almost all at the same time, is likely to be an occasion that will not be consistently repeated.

First, PERSI has had a long commitment to the concept and practice of global equity management. For asset allocation reasons (among other reasons, including a belief that the equity markets are increasingly global in scope), PERSI has taken a significant portion of its domestic equity commitment and given it to global equity managers, who may then invest that money anywhere in the world. To the extent global equity managers do better than the US equity market, PERSI will perform better than its policy benchmark. And, for some period, that has been the case. Over the five years through last calendar year, for example, the global equity managers collectively outperformed the Russell 3000 by over 30%.

Second, PERSI made a large commitment to REITs in 1999, rather than either the public real estate market or the public equity market. Again, to the extent that REITS outperform the US public equity market, PERSI will do better than its policy benchmarks, and REITS over the past five years have done very well indeed, beating the Russell 3000 by a cumulative amount of 170%.

Third, PERSI has had a long-standing commitment to emerging markets, a commitment PERSI reviewed after the Asian crisis of 1997, and ended up increasing, rather than eliminating. To the extent that emerging markets do better than the international developed markets (represented by the MSCI EAFE index), PERSI will do better than the policy benchmarks. And, over the five years ending last calendar year, the emerging markets have outperformed by more than 60%.

Finally, PERSI placed about one-third of its fixed income investments in TIPS — Treasury Inflation Protected Securities (actually TIIS —Treasury Inflation Indexed Securities) — at a time when the real interest rate on those instruments was 4.2%. This action was done for diversification reasons, namely that it was a pure protection from unexpected inflation and would have very low correlations with equity and other capital market instruments. It has always been expected the TIPS portfolio would, over the long term, underperform the general bond market (not only is one giving up what should be an inflation risk premium from the general Treasury market, but also one is giving up the corporate yield spread). We couldn't have been more wrong — TIPS have handily outperformed the Lehman Aggregate for a consistent period of time, and by more than 25% during the five years ending last calendar year.

Collectively, these four actions account for almost all of the excess return earned by PERSI. Over the five years ending last calendar year, PERSI earned 11.6% over its policy benchmark. All but 1% of this excess amount came from just these four areas.

There is every reason to doubt these four areas will continue to uniformly and consistently add to return. REITs have already had a tremendous run, and appear, at best, fairly valued compared to both the private real estate market and the rest of the public equity market. We have always expected TIPS to underperform the general bond market, and with real interest rates now at 1.5%-2%, it appears that expectation will likely start to occur.

Emerging markets is an area that might still see some outperformance, despite their recent run. For most of the 1990s, and through the Asian crisis of 1997, emerging markets had a prolonged period of underperformance. There may still be some period in this area of continued outperformance.

And, it may be PERSI's global equity managers can continue to outperform the US equity market. They did so even when international was underperforming the US market, and continued when the wind of better international and emerging market equity returns were in their sails. On the other hand, active management rarely has prolonged periods of uninterrupted success, and there was a period in the early to mid 1990s when global equity management was a noticeable drag on overall PERSI relative returns.

Nonetheless, it is nice to know there can be some market circumstances, like the last year and collectively over the past six years, where all the stars can be lined up at once. But the question we have had to face is our posture in light of likely capital market conditions over the upcoming decade. And, in general, after some review, we have decided to generally maintain our current course with only relatively minor expansions of existing activity, and not try and reach aggressively for any additional return through new approaches (such as hedge funds).

In reviewing our options, there were a couple of developments that dominated our thinking. First, it was clear the rebound after the recession and equity bear market was going to be over after a year or two — it was not going to be a long, drawn out affair. And, it was also clear the capital markets of the next 20 years were going to be different from the previous 20, if at least for the end of the secular decline of interest rates (and the resulting expansion of PE ratios) that began in the early 1980s. Third, it was clear we should not, and probably could not, rely on our larger macro themes to carry the burden of continued excellent absolute and relative returns.

The question was whether we should attempt to continue, through some extraordinary or new means, the outperformance of the past six years or, alternatively, simply maintain, in general, our current posture and expect our performance to track more with the general markets and our peers over the next three to five years. This, in turn, raised two questions. First, were there any obvious means or avenues to generate excess returns that had a high chance of success? Second, was there any underlying need to generate consistently higher-than-market returns?

As for the ability to find successful overall long-term strategies or investment areas that would give a high probability of generating excess returns, the landscape looks bleak. The flood of liquidity into the global capital markets over the past few years have, in general, arbitraged away most obvious pricing disparities between major investment instruments and strategies. We do not see any new strategy, instruments, or markets (like the TIPS and REITs markets in the late 1990s, or the relatively untested global equity investment approach of the early 1990s) that, at this time, offer clear opportunities.
Nor are we impressed with the recent moves of many institutional investors into more aggressive forms of active management — here, mainly, the hedge fund movement. Collectively for all institutional investors the hedge fund world appears, after fees and costs, to be a negative, not positive or even zero, sum game. Even those entering the area agree that in order to be successful, one had to pick the "top quartile" manager. Entering a field where the basic odds were 3 to 1 against us (could we pick, in advance, those top managers?) does not seem an attractive alternative. Consequently, every avenue

for generating extra market returns comes attached with the equivalent (or greater) risk that we will suffer rather than prosper.

Therefore, the second question becomes more important: namely, do we even need to reach for those extra returns? Like crisis managers or emergency room doctors, the appropriate first inquiry might be, instead, to make sure one avoids doing greater harm before looking toward potential other actions. Here our position is much stronger and bodes very well for the future.

PERSI has been very fortunate to have a legislature and Board that have good actual and intuitive sense of the importance of managing the liability side of the pension fund equation. It has always been a principle of the Board and Legislature that any benefit increases must be paid for by a corresponding increase in contribution rates. By statute, the contribution rate can never go below the independently actuarially calculated "normal cost" — the amount needed to fund current benefits. If, because of investment returns or otherwise, an unfunded liability does develop, the Board must statutorily raise rates at least as much as would be needed to pay off that unfunded liability within 25 years. Cost of Living increases above 1% can only be given after the Board annually determines that they can be paid for, and the Legislature concurs in that annual decision. And, after the "roaring '90s", the extra benefits given were only one-time payments (an extra check to retirees, a short contribution holiday for the employers, and a one-time deposit to active employees in a special 401k-type account), and those benefits were only given after a "one standard deviation" reserve account was provided for — an account that absorbed more than half of the record equity bear market that soon followed. As another example, in partial recognition of potentially tougher capital markets, the Board recently reduced the net discount rate (the needed investment rate of return) from 7.5% to 7.25%.

As a result of this tradition and these actions, our legislature and Board did not fall into the common trap of the late '90s of either lowering contribution rates too much or permanently increasing benefits (or both). We do not have medical benefits to contend with. While PERSI would like to achieve a 5% real return to maintain the discretionary COLA level, simply to keep up with the statutory benefits only needs a 3.5% or so real return. As stated earlier, with a 70/30 equity/debt posture, anything above 4% - 5% real equity returns and 1% - 2% real bond returns would be sufficient to at least meet statutory funding goals (assuming the actuary is not materially off base).

It is, therefore, our current conclusion we do not need to reach for returns, and that general exposure to the capital markets is probably sufficient to at least meet statutory benefits. In recognition of the elimination of the tailwind of declining interest rates and other factors, we have decided to play marginally harder around the edges of the portfolio, and not rely quite so much on outperformance based on a few big exposures that are different from the normal capital market approaches (REITs, TIPS, etc.). It is our hope the parts of the portfolio that have not added to excess return will begin to produce (private equity, private real estate, traditional active management in US and international equity, and more aggressive fixed income management).

But, we are not taking any new big bets, either from an overall portfolio perspective (new asset types or classes), or from aggressive or complicated investment styles (such as hedge funds). We do not see any big opportunities in the current capital markets. As a result, we do not intend to take significant actions to avoid the potential for poor markets as spreads widen to more historic levels, and the individual markets regain the risk premiums that have narrowed over the past few years. Thus, we are more in a "do not do significant greater harm in potential bad times" mode, than in an attempt to take significant actions to actively avoid any harm (big bets on hedge funds, real assets, commodities, or other similar actions). To stretch an analogy, we are positioned to be more of a turtle than a hare.

Overall, we are not trying to duplicate the unexpectedly good relative returns of the past six years, and the absolute returns of the last couple of years. We are not trying to add new macro strategies from the top, nor employ extremely aggressive or complicated active management strategies (like hedge funds) from below. We recognize over the next few years our returns may reflect market returns, and our peer rankings may drop more toward the middle of the pack. But, until markets present clear opportunities for both overall portfolio benefits and potential return enhancement, we will rely on more “grind it out” active management with some increased private components to generate incremental return. But, because our Board and Legislature have managed our liabilities and benefit structure well, we can quite comfortably meet our return needs even with mediocre or slightly worse capital markets over the next decade.

For the numbers presented, the source of the above-disclosed data is the Mellon Trust Services reporting system, which follows AIMR’s Performance Presentation Standards.

Investment Summary as of the Year Ended June 30, 2005

Types of Investment		Market Value		Percent of Total Market Value
Short-term Investments		$512,080,017		5.9%
Fixed Income				
Domestic	2,109,216,586		24.2%	
International	56,983,051		0.7%	
Commercial Mortgages	259,948,499		3.0%	
Total Fixed Income		2,426,148,136		27.9%
Common Stock				
Domestic Equity	3,643,594,295		41.7%	
International Equity	1,834,994,073		21.1%	
Total Common Stock		5,478,588,368		62.9%
Private Equity		211,348,769		2.4%
Real Estate		79,337,278		0.9%
Total Base Plan Investments		$8,707,502,568		100.0%
Other Funds:				
Sick Leave Insurance Reserve Fund		182,102,887		
Choice Plan 414(k)		56,973,945		
Choice Plan 401(k)		119,983,719		
Total Investments in All Funds		$9,066,563,119		

Schedule of Investments by Account (including interest and dividends receivable) as of June 30, 2005

Adelante Capital Management, LLC	$307,054,670
Apollo Management, LP	12,839,944
Baring Asset Management-Global Equity	244,494,623
Baring Asset Management-Global Fixed Income	214,727,729
Bernstein, LLC -Emerging Markets	167,049,937
Bernstein, LLC -Global Equity	179,443,907
Brandes Investment Partners, LP	447,552,142
Brandes International Equity Fund - Choice Plan	4,778,441
Bridgewater Associates	257,988,693
Capital Guardian	257,936,069
Chisholm Management, LP	19,181,303
Clearwater Advisors, LLC	152,574,521
D.B. Fitzpatrick & Co.-Fixed Income	162,984,119
D.B. Fitzpatrick & Co.-Idaho Mortgages	265,470,538
Dodge and Cox Income Fund – Choice Plan	3,467,186
Donald Smith & Co.	168,101,898
Dreyfus Prem Midcap Stock Fund - Choice Plan	2,535,127
Fidelity Management Trust Company	203,166,381
Frazier Technology Ventures II, LP	2,096,809
Furman Selz Investments, LP	13,007,685
Galen Associates, LP	33,635,147
Genesis Asset Managers	200,947,170
Goense Bounds & Partners, LP	3,952,913
Gores Capital Partners, LP	5,455,313
Green Equity Investors IV, LP	4,976,247
Hamilton Lane Secondary Fund, LLC	800,000
Harvest Partners III, LP	11,149,603
Highway 12 Ventures, LP	4,432,530
Ida-West, LLC	3,275,000
Kohlberg & Co., LLC	1,007,151
Koll Partners, LLC	42,803,442
Littlejohn, LP	15,899,337
McCown DeLeeuw & Co. IV, LP	117,287
Mellon Aggregate Bond Index - Choice Plan	1,022,801
Mellon Capital Management-R2000 Small Cap	140,659,494
Mellon Capital Management-S&P 500 Large Cap	1,306,740,632
Mellon Capital Management-Mid Cap Completion	213,126,655
Mellon Capital Management-International Stock Index	317,675,573
Mellon International EAFE Fund - Choice Plan	738,733
Mellon S&P 500 - Choice Plan	5,309,316
Mellon Transition Management Services	246,995
Mellon Wilshire 5000 - Choice Plan	947,176
Mondrian Investment Partners	184,286,188
Mountain Pacific Investment Advisors	286,741,294
Oaktree Capital Management, LLC	14,712,388
Pareto Partners, LLC	3,164,023
Peregrine Capital Management	157,760,578
PERSI Cash in Short-Term Investment Pool	1,715,605
PERSI Choice Plan Contribution Holding Account	105,315
PERSI Choice Plan Loan Fund	1,608,205

(Continued)

Providence Equity Partners, LP	29,167,987
Prudential Investments, LLC	38,079,029
Rowe Price International	221,935,290
Rowe Price Small Cap Fund - Choice Plan	4,353,882
SEI Stable Asset Fund - Choice Plan	7,007,056
Societe Generale Asset Management	214,768,926
State Street Global Advisors-Fixed Income	568,691,989
State Street Global Advisors-TIPS	495,206,776
State Street Global Advisors-Sick Leave Insurance Reserve	182,102,887
T3 Partners, LP	24,487,023
TCW Domestic	159,116,433
Thomas H. Lee, LP	9,186,579
Tukman Capital Management	241,884,103
Vanguard Growth & Income Fund - Choice Plan	6,498,447
W. Capital Partners, LP	5,134,018
Western Asset Management	204,223,125
Zesiger Capital Group, LLC	301,591,238
Zesiger Capital Group-Private Equity	17,483,830
Total Market Value, Including Investment Receivables and Payables	$8,782,382,451
Add: Investments Purchased	1,139,739,452
Less: Investments Sold	(819,110,168)
Less: Interest and Dividends Receivable (Base Plan, FRF, and Total Return Fund)	(36,448,616)
Total Market Value, Net of Investment Receivables and Payables	$9,066,563,119

(Concluded)

Investment Results (Defined Benefit Plans Only)

MANAGERS	TOTAL MKT VAL (MILLIONS)	% OF TOTAL FUND	Investment Performance for Periods Ending FISCAL	1 YR	3 YRS *	5 YRS *
U.S. EQUITY						
MELLON CAPITAL MANAGEMENT MID CAP	$213.1	2.5%	16.9%	16.9%	15.7%	(1.5)%
MELLON CAPITAL MANAGEMENT R2000 SM CAP	140.7	1.6	9.7	9.7	12.6	6.4
MELLON CAPTIAL MANAGEMENT S&P 500 LC	1,306.7	15.3	6.5	6.5	8.3	(2.3)
MOUNTAIN PACIFIC	286.7	3.3	7.5	7.5	8.8	10.8
TUKMAN CAPITAL MANAGEMENT	241.9	2.8	(4.6)	(4.6)	2.2	2.6
TCW ASSET MANAGEMENT	159.1	1.9	3.7	3.7		
DONALD SMITH & CO	168.1	2.0	6.6	6.6		
PEREGRINE CAPITAL MANAGEMENT**	157.8	1.8				
TOTAL U.S. PUBLICLY TRADED EQUITY	$2,674.1	31.2%	5.9%	5.9%	8.3%	(1.5)%
BENCHMARK – Russell 3000			8.1%	8.1%	9.5%	(1.4)%
PRIVATE EQUITY						
IDA-WEST	$3.3	0.0%	16.5%	16.5%	39.0%	33.2%
GALEN III	33.6	0.4	(7.2)	(7.2)	1.0	(6.3)
HARVEST PARTNERS	11.1	0.1	26.7	26.7	(6.0)	3.7
FURMAN SELZ INVESTORS	13.0	0.2	47.8	47.8	37.0	17.8
MCCOWN DE LEEUW & CO	0.1	0.0	10.7	10.7	0.1	(12.2)
PROVIDENCE EQ PARTNERS	29.2	0.3	50.4	50.4	56.8	12.5
CHISOLM PARTNERS	19.2	0.2	8.2	8.2	(3.6)	(10.3)
LITTLEJOHN II	15.9	0.2	167.4	167.4	17.5	12.3
OAKTREE CAPITAL MANAGEMENT	14.7	0.2	19.1	19.1	18.9	4.4
GOENSE BOUNDS & PARTNERS	4.0	0.0	22.5	22.5	71.3	34.3
HIGHWAY 12 VENTURE	4.4	0.1	(0.6)	(0.6)	(14.3)	
T3 PARTNERS II	24.5	0.3	22.8	22.8	812.6	
THOMAS H. LEE EQ	9.2	0.1	25.4	25.4	(3.0)	
APOLLO MANAGEMENT	12.8	0.2	68.9	68.9	36.5	
ZESIGER CAPITAL GROUP	17.5	0.2	(5.5)	(5.5)	(12.6)	
GREEN EQUITY IV	5.0	0.1	56.1	56.1		
GORES CAPITAL PARTNERS	5.5	0.1	(23.8)	(23.8)		
W CAP PARTNERS	5.1	0.1	(10.1)	(10.1)		
FRAZIER TECHNOLOGY VENTURES II	2.1	0.0	(16.9)	(16.9)		
KOHLBERG & CO**	1.0	0.0				
HAMILTON LANE SECONDARY**	0.8	0.0				
TOTAL PRIVATE EQUITY	$232.0	2.8%	21.8%	21.8%	9.7%	0.0%
REAL ESTATE						
KOLL PARTNERS	$42.8	0.5%	6.0%	6.0%		
ADELANTE CAPITAL MANAGEMENT[1]	307.1	3.6	33.9	33.9	23.7%	22.0%
PRUDENTIAL INVESTMENT MANAGEMENT	38.1	0.4	15.7	15.7	12.1	10.3
TOTAL R/E MANAGERS	$388.0	4.5%	29.4%	29.4%	21.4%	19.8%
BENCHMARK - NCREIF			18.0%	18.0%	12.1%	10.6%
TOTAL U.S. EQUITY	$3,294.1	38.4%	9.1%	9.1%	9.6%	0.0%
BENCHMARK – Russell 3000			8.1%	8.1%	9.5%	(1.4)%
GLOBAL EQUITY						
BARING ASSET MANAGEMENT	$244.5	2.9%	7.1%	7.1%	9.3%	(7.0)%
BRANDES INVESTMENT PARTNERS	447.6	5.2	9.6	9.6	15.2	11.7
CAPITAL GUARDIAN	257.9	3.0	7.4	7.4	11.5	
ZESIGER CAPITAL GROUP	301.6	3.5	14.3	14.3	18.8	3.5
BERNSTEIN GLOBAL	179.4	2.1	17.0	17.0		
TOTAL GLOBAL EQUITY	$1,431.0	16.7%	10.6%	10.6%	13.2%	2.7%
TOTAL U.S./GLOBAL EQUITY	$4,725.1	55.1%	9.6%	9.6%	10.7%	0.8%
BENCHMARK – Russell 3000			8.1%	8.1%	9.5%	(1.4)%

(Continued)

Investment Results (Defined Benefit Plans only)

MANAGERS	TOTAL MKT VAL (MILLIONS)	% OF TOTAL FUND	Investment Performance for Periods Ending FISCAL	1 YR	3 YRS *	5 YRS *
INTERNATIONAL EQUITY						
GENESIS ASSET MANAGERS	$200.9	2.3%	42.2%	42.2%	30.0%	15.3%
MELLON CAPITAL MGMT INTL STK INDX	317.7	3.7	13.5	13.5	12.0	(0.4)
ROWE PRICE INTERNATIONAL	221.9	2.6	10.9	10.9	9.0	(2.3)
SOCIETE GENERALE ASSET MANAGEMENT	214.8	2.5	7.0	7.0	9.7	(4.9)
MONDRIAN INVESTMENT PARTNERS[2]	184.3	2.2	19.3	19.3		
BERNSTEIN EMERGING	167.0	2.0	48.7	48.7		
TOTAL INTERNATIONAL EQUITY	$1,306.6	15.3%	19.6%	19.6%	14.4%	0.6%
TOTAL INT'L EQUITY (HEDGED)[3]	$1,309.8	15.3%	19.5%	19.5%	13.9%	0.5%
BENCHMARK – EAFE Index Net			14.1%	14.1%	12.5%	(0.2)%
TOTAL EQUITY	$6,034.9	70.4%	11.7%	11.7%	11.5%	0.8%
BENCHMARK – Russell 3000			8.1%	8.1%	9.5%	(1.4)%
U.S. FIXED INCOME						
D.B. FITZPATRICK & CO	$163.0	1.9%	5.2%	5.2%	4.5%	6.8%
D.B. FITZPATRICK & CO-IDAHO MTGS	265.5	3.1	7.9	7.9	6.0	8.3
STATE ST GLOBAL ADVISORS	568.7	6.6	7.3	7.3	6.4	7.7
STATE ST GLOBAL ADVISORS-TIPS	495.2	5.8	11.6	11.6	10.8	11.0
CLEARWATER ADVISORS-TBA	152.6	1.8	5.6	5.6	4.6	
TOTAL U.S. FIXED INCOME	$1,645.0	19.2%	8.5%	8.5%	7.8%	9.0%
GLOBAL FIXED INCOME						
BARING ASSET MANAGEMENT	$214.7	2.5%	7.8%	7.8%	6.8%	7.8%
FIDELITY MANAGEMENT**	203.2	2.4				
BRIDGEWATER ASSOCIATES**	258.0	3.0				
WESTERN ASSET MANAGEMENT**	204.2	2.4				
TOTAL GLOBAL FIXED INCOME	$880.1	10.3%	7.8%	7.8%	5.9%	6.8%
TOTAL FIXED INCOME	$2,525.1	29.5%	8.2%	8.2%	7.4%	8.5%
BENCHMARK – LB Aggregate			6.8%	6.8%	5.8%	7.4%
OTHER						
UNALLOCATED CASH	$1.7	0.0%	5.0%	5.0%	5.4%	5.8%
MELLON TRANSITION MANAGEMENT SERVICES	0.2	0.0	31.4	31.4		
COMBINED TOTAL	$8,561.9	100.0%	10.8%	10.8%	10.7%	3.4%
BENCHMARK – 55% Russell 3000 30% Lehman Aggregate 15% MSCI EAFE Index			8.7%	8.7%	9.2%	1.2%
Add: Mutual Fund Holdings in 401(K) Plan	$38.4					
Sick Leave Fixed Income Investments	72.8					
Sick Leave Equity Securities	109.3					
Investments Purchased	1,139.7					
Less: Interest and Dividends Receivable	(36.4)					
Investments Sold	(819.1)					
Total Pension Fund Investments Net of Receivables	$ 9,066.6					

*Rates of Return are annualized
[1] Formerly Lend Lease Rosen
[2] Formerly Delaware International
[3] Includes Pareto Partners currency overlay account
** Accounts open less than one year

Prepared using a time-weighted rate of return in accordance with AIMR's Performance Presentation Standards.

(Concluded)

Schedule of Investment Income for the Last Six Years

Year	Interest	Dividends	Gains & Losses*	Total
2000	153,008,941	71,583,903	629,687,058	854,279,902
2001	165,528,342	63,318,176	(669,263,570)	(440,417,052)
2002	120,190,309	68,412,290	(663,804,822)	(475,202,223)
2003	107,626,722	82,726,663	47,095,088	237,448,473
2004	105,106,092	99,565,950	1,005,291,439	1,209,963,481
2005	108,964,781	121,363,908	622,839,336	853,168,025

*Includes realized and unrealized gains and losses and other investment income

List of Largest Assets Held

Largest Bond Holdings (by Market Value) June 30, 2005

	Par	Bonds		Market Value
1	$216,807,619	U.S. TREASURY INFLATION INDEX BD	3.875% 04/15/2029 DD 04/15/99	$304,716,387
2	261,240,065	U.S. TREASURY INFLATION INDEX NT	4.250% 01/15/2010 DD 01/15/00	293,976,580
3	38,960,000	U.S. TREASURY NOTES	4.000% 06/15/2009 DD 06/15/04	39,380,028
4	35,000,000	COMMIT TO PUR FHLMC GOLD SFM	5.000% 08/01/2035 DD 08/01/05	34,923,420
5	34,000,000	COMMIT TO PUR FNMA SF MTG	5.500% 08/01/2035 DD 08/01/05	34,403,750
6	18,304,703	U.S. TREASURY INFLATION INDEX BD	3.375% 04/15/2032 DD 10/15/01	24,900,839
7	22,000,000	COMMIT TO PUR FNMA SF MTG	6.500% 08/01/2035 DD 08/01/05	22,749,364
8	21,000,000	COMMIT TO PUR FNMA SF MTG	6.000% 08/01/2020 DD 08/01/05	21,689,052
9	20,700,000	COMMIT TO PUR GNMA SF MTG	5.500% 08/15/2035 DD 08/01/05	21,107,542
10	19,920,000	DEUTSCHE AUSGLEICHBANK EMT NTS	5.875% 05-FEB-2008 USD1000	20,856,240

Largest Stock Holdings (by Market Value) June 30, 2005

	Shares	Stock	Market Value
1	2,048,475	GENERAL ELECTRIC CO.	$ 70,979,659
2	2,519,517	MICROSOFT CORP.	62,584,802
3	868,508	EXXON MOBIL CORP.	49,913,155
4	1,743,441	PFIZER, INC.	48,084,103
5	924,710	WALMART STORES, INC.	44,571,022
6	932,250	CITIGROUP, INC.	43,097,918
7	631,818	WELLS FARGO & CO.	38,907,352
8	480,500	VORNADO REALTY TRUST	38,632,200
9	593,191	JOHNSON & JOHNSON	38,557,415
10	499,237	IBM CORP.	37,043,385

A complete list of portfolio holdings is available upon request.

Schedules of Fees and Commissions for the Year Ended June 30, 2005

Investment Fees	Average Assets Under Management	Fees	Basis Points
Investment Manager Fees:			
Equity Managers	$6,144,616,918	$18,932,149	31
Fixed Income Managers	1,986,247,812	1,557,038	8
Private Equity Managers	206,135,252	3,774,502	183
Real Estate Managers	340,190,089	3,703,706	109
Total Investment Manager Fees	$8,677,190,071	27,967,394	32
Other Investment Service Fees:			
Custodian/Record Keeping Fees		4,108,133	
Investment Consultant Fees		736,934	
Legal Fees		319,087	
Actuary/Audit Service Fees		271,250	
Total Investment Service Fees		5,435,078	6
Total Defined Benefit Plans Fees		$33,402,798	38
Total Defined Contribution Plans Fees		290,083	
Total Fees		$33,692,881	

Broker Commissions	Base Commission	Total Shares	Commission per Share
LEHMAN BROS INTL, LONDON	$ 456,540	16,909,833	0.02700
LEHMAN BROS INC, NEW YORK	217,287	6,161,748	0.03526
GOLDMAN SACHS & CO, NEW YORK	214,491	9,091,360	0.02359
JEFFERIES & CO INC, NEW YORK	193,667	3,984,679	0.04860
CREDIT SUISSE (EUROPE), LONDON	154,962	3,108,530	0.04985
CITIGROUP GBL MKTS/SALOMON, NEW YORK	140,982	37,467,510	0.00376
MERRILL LYNCH PIERCE FENNER SMITH INC, NEW YORK	123,674	4,072,216	0.03037
CITIGROUP GBL MKTS INC, NEW YORK	119,479	4,450,358	0.02685
SALOMON BROS INTL LTD, LONDON	107,238	4,432,569	0.02419
MORGAN STANLEY & CO INTL, LONDON	103,863	4,516,114	0.02300
CREDIT SUISSE, NEW YORK	101,349	3,102,502	0.03267
BANC OF AMERICA SECS LLC, CHARLOTTE	96,629	2,976,551	0.03246
UBS SECURITIES LLC, STAMFORD	94,520	5,845,825	0.01617
CANTOR FITZGERALD & CO INC, NEW YORK	92,354	2,807,039	0.03290
DEUTSCHE BANC ALEX BROWN INC, NEW YORK	86,484	3,527,349	0.02452
MORGAN STANLEY & CO INC, NEW YORK	85,063	4,196,159	0.02027
MERRILL LYNCH PIERCE FENNER, WILMINGTON	77,060	43,787,207	0.00176
UBS WARBURG ASIA LTD, HONG KONG	76,345	18,645,447	0.00409
CITATION GROUP, NEW YORK	74,565	2,521,515	0.02957
BERNSTEIN SANFORD C & CO, NEW YORK	73,684	1,770,087	0.04163
GOLDMAN SACHS INTL, LONDON	66,958	2,682,963	0.02496
PERSHING SECURITIES LTD, LONDON	66,886	2,617,232	0.02556
DEUTSCHE BK AG (INTL EQUITIES), LONDON	65,576	2,545,993	0.02576
OTHER BROKERS UNDER $60,000	2,112,905	1,937,373,646	0.00109
Total Broker Commissions	$5,002,561	2,128,594,432	0.00235

A complete list of broker commissions is available from PERSI. PERSI does not require that investment managers use specific brokers.

STATEMENT OF INVESTMENT POLICY AND GUIDELINES

I. Introduction

The Retirement Board of the Public Employee Retirement System of Idaho (“the Board”)(“the System”) hereby establishes its Statement of Investment Policy for the investment of the trust funds (“the Trust”) in accord with Idaho Code Chapter 13, Title 59.

II. Statutory Requirements

The investment of the Trust will be in accord with all applicable laws of the State of Idaho.

A. Sole Interest of Beneficiaries

Investments will be solely in the interest of the participants and beneficiaries and for the exclusive purpose of providing benefits to the participants and their beneficiaries and defraying reasonable expenses of administration.

B. Prudent Investments

Investments will be made with the judgment and care under the circumstances then prevailing, which people of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable outcome as well as the probable safety of their capital. Investments will be diversified so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.

C. Fiduciary Duties

The Board and its agents, including staff, consultants, and investment managers, will discharge their duties with respect to the fund solely in the interest of the members and retired employees, and with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

III. Investment Goals

A. General Objective

1. Purpose

The purpose of the investment of Trust assets is to provide funds to meet the obligations of the Public Employee Retirement System of Idaho (PERSI) while incurring the appropriate amount of risk consistent with attaining that goal. The Board will invest the assets of the Trust so as to meet the projected obligations of the System, and will reduce risk through diversification of the assets of the Trust.

2. Considerations

In determining the returns needed by the system, the acceptable risk levels, and the allowable investments, the Board will consider:

* The effect of particular investments on the total portfolio,
* The purpose of the plan,
* The diversification of the portfolio,
* Liquidity needs and the current return relative to the anticipated cash flow requirements, and
* The projected return of the portfolio as it relates to the funding objectives of the plan.

B. Specific PERSI return and risk objectives

1. Investment Returns

(a) Actuarial Assumptions

In projecting obligations and the returns needed to meet those obligations, the Board will consider studies performed by actuaries hired by the Board. The actuary uses an investment return assumption of 7.75% before fees and expenses in balancing projected obligations, projected contributions, and projected returns on assets. Assuming all of the actuarial assumptions are accurate, this 7.75% return will suffice to: (1) assure the payment of statutorily required benefits, which includes a 1% Cost of Living Adjustment (COLA); and (2) maintain the reduction of the level of the unfunded liability (if any) on the scheduled amortization (one year at a time). The assumed 7.75% return will not be sufficient to fund either discretionary COLAs (2-6%), retroactive COLAs, accelerate the amortization of the unfunded liability, build a stabilization reserve, or allow for gain-sharing distributions.

(b) Inflation and Salary Assumptions

This 7.75% rate assumes an inflation rate of 3.75% and an annual general state salary growth of 4.50%. To the extent that either inflation or salary growth are higher or lower than these rates, then the investment returns needed will also be higher or lower than the assumed 7.75%, although not on a 1:1 ratio. Consequently, the investment returns actually needed by the system do not have a nominal rate which can be determined with precision in advance -- the 7.75% rate currently used by the actuary is only a general midpoint accurate over long (15-20) year periods and is only as accurate as are the inflation and salary assumptions.

(c) Relation to Funding Policy

As set out in the Board's funding policy, to the extent investment markets allow, it is the desire of the Board to provide discretionary COLAs, accelerate the amortization of any unfunded liability, and provide for gain-sharing. It is also the goal of the Board to maintain a reasonable amortization of any unfunded liability, and not to exceed the 25 year amortization period set by statute. Therefore, it is the goal of the Board to set an expected rate of return above the actuarially assumed return so that (1) discretionary COLAs will have a reasonable chance of being consistently funded and (2) the scheduled amortization of any unfunded liability is not unreasonably jeopardized. Returns above that amount will be used to build a stabilization reserve and to distribute to the System participants through gain-sharing.

(d) Periodic Specific Return Goals

Because of the inflation sensitivity of both the returns needed by the system and the size of annual COLAs, an exact target return (either real or nominal) cannot be set in advance. Nonetheless, under most reasonable actuarial assumptions, PERSI has a relatively stable real return goal of between 4.75% - 5.25% if consistent funding of discretionary COLAs and providing for gain sharing is included as an objective. Consequently, specific return goals for upcoming periods will be set out in the strategic asset allocations periodically adopted by the Board.

2. Investment Risk and Strategic Asset Allocations

(a) Diversification Among Asset Classes

In controlling the risk level that is appropriate for the Trust, the Board will diversify the assets of the Trust among various asset classes as the Board may from time to time adopt as appropriate asset classes. The specific asset classes to be used will be set in conjunction with the strategic asset allocation adopted from time to time by the Board.

(b) Review of Asset Classes and Asset Allocation

In setting strategic allocations, the Board will focus on assuring that the expected long-term returns will meet expected long-term obligations with the appropriate level of risk sufficient to meet those objectives. The Board will at least once every four years determine the appropriate asset classes for the investment of Trust assets and conduct asset allocation studies to help determine the long term strategic allocations among desired asset classes so as to meet long-term return objectives with the appropriate level of risk.

(c) Content of Strategic Asset Allocations

The strategic asset allocation will set out the asset classes to be used, the long-term strategic “normal” percentage of assets to be invested in each asset class, the short to intermediate term ranges that will be considered allowable temporary deviations from the strategic normal allocation, the investment risk and return expectations for each asset class, the numerical investment return and risk expected to be realized, and the relation of the expected investment return to the real and actuarially assumed investment return.

(d) Strategic Policies

In addition to asset allocation, the Board may from time to time adopt strategic policies. “Strategic policies” are actions by the Board to invest in asset types that have not been singled out as “asset classes” in the asset allocation process, to overweight particular sectors within an asset class, or to employ particular strategies in the investment of Trust assets. The purposes of these actions are either to increase the return above the expected return or to reduce risk. Examples of types of strategic policies include: a tilt towards small capitalization stocks in U.S. equity allocations; a tilt toward mortgage exposures in fixed income; hedging international currency exposures through a currency overlay program, and adding international emerging markets exposure in international equities.

IV. Investment Structure

A. Overall Structure

In making individual investment policy decisions, the Board will have as an overall goal a flexible, simplified structure with clear roles and accountability.

1. Board Ultimately Responsible

The Board is ultimately responsible for all investment activities. In exercising this responsibility, the Board will hire investment personnel and agents and delegate various investment functions to those personnel and agents. Where the Board does not delegate investment powers or duties, the Board will either satisfy itself that it is familiar with such matters, or will retain persons who are familiar with such matters to consult or assist the Board in the exercise of those responsibilities. Where the Board delegates a responsibility, it will be delegated to a person who is familiar with such matters, and the Board will monitor and review the actions of those to whom responsibilities are delegated.

2. General Roles and Responsibilities of Board and Agents

The Board will favor a structure that accommodates a citizen Board and a small staff. The Board and staff will concentrate their activities on:

* Strategic decisions, primarily concerning asset allocation and strategic policies;
* Adjusting the mix between passive and active managers depending on, among other considerations, near-term concerns regarding the U.S. and other capital markets; and
* Delegating and monitoring all other activities, including hiring and monitoring investment managers.

The Board will rely on outside agents, and primarily investment managers, to be responsible for non-strategic decisions. This responsibility includes those investment decisions with shorter-term consequences such as the best near-term securities, regions, asset types, or asset classes.

B. Direct (Non-Delegated) Responsibilities of the Board

1. Specific Responsibilities

The Board will be directly responsible for

* Setting investment policy,
* Determining the investment structure of the Trust,
* Determining the asset classes to be utilized,
* Setting the strategic asset allocation,
* Determining strategic policies;
* Hiring agents to implement the strategic asset allocation;
* Hiring agents to implement strategic policies; and
* Monitoring the compliance of those agents with the investment policies and strategic allocations set by the Board.

2. Delegation and Monitoring of Specific Investment Activities

The Board will normally delegate investment decisions concerning specific securities or assets, or the tactical allocations of assets among asset types, to outside agents. The Board will retain direct responsibility for the monitoring of the activities of those agents through periodic reports from its staff or consultants. The Board may choose to exercise direct investment responsibility if unusual market conditions or other circumstances so indicate.

C. Employees, Consultants, and Advisors to the Board

1. Investment Staff

(a) Duties of Chief Investment Officer and Other Staff

The Board will hire a Chief Investment Officer and such other staff as it considers appropriate who will be generally responsible for the oversight of the investment of Trust assets, and, as part of that overall responsibility, will: (1) supervise, monitor, and evaluate the performance of the investment managers hired by the Board to assure compliance with investment policy and individual guidelines; (2) assist the Board in developing and adjusting investment policy, including reviewing and modifying the asset allocation as conditions warrant; (3) research current market conditions, evaluate new products, and seek out new approaches to improve portfolio return, reduce risk, and reduce costs and fees; (4) work with the consultants, custodians, investment managers, and other agents in the performance of their assigned duties; and (5) assist the Board with education and other efforts to promote good decision making. Except in special circumstances, PERSI staff will not be responsible for the investment, purchase, or sale of specific assets.

(b) Allocation of New Net Contributions

The Chief Investment Officer shall allocate new net contributions to or withdraw net distributions from the system among investment managers in accordance with the strategic and tactical ranges established by the Board in the strategic asset allocation. The Chief Investment Officer shall report to the Board regularly on the allocation of new net contributions or the withdrawal of net distributions.

(c) Tactical Asset Allocation

With prior notice to the Board, the Chief Investment Officer may shift assets among managers (including between passive and active managers) as long as the asset allocation is maintained within the strategic ranges. If conditions do not permit giving prior Board notice, the Chief Investment Officer is authorized to move assets among investment managers within the strategic ranges established by the Board. If such action is taken, the Chief Investment Officer shall notify the Chairman of the Board as soon as is practical either that action is contemplated or has been taken, as circumstances warrant.

(d) Minimum Qualifications of Chief Investment Officer

The Chief Investment Officer shall at least: (a) have a graduate degree in finance, law, business administration, or a related field, or (b) be a Chartered Financial Analyst; or (c) have three or more years experience in the investment of trust assets.

2. Actuaries

The Board will hire an actuary to provide studies that will: (1) determine the long term obligations faced by the System through annual actuarial valuations, (2) set out return objectives or assumptions that will be sufficient to meet those obligations; and (3) provide reviews at least once every four years of the actuarial valuation process, including updating the projections and assumptions in light of the experience of the System. The Board will set its long-term return objectives after considering information provided by those studies.

3. Investment Consultants

The Board will hire a qualified independent consultant, whose relationship does not impose a conflict of interest with the Board or staff, to provide investment performance measurement at least quarterly with the report available to the Board within three months of the quarter end. The report will at least compare actual investment returns of the system -- in total, by each asset class, and for each managed portfolio -- with both the investment objectives of the system and a composite of returns of other institutional investors. The Board may hire other independent investment consultants as needed to assist the Board in the management of its investment activities, including, but not limited to: (1) performing asset allocation studies, and reviewing and recommending modifications of the asset allocation as conditions warrant; (2) assisting in monitoring the investment managers to assure they are in compliance with the investment policy and their individual guidelines; (3) performing manager evaluations and searches as may be necessary; and (4) assisting in the development and adjustment of investment policy. Except for consultants retained solely for purposes of performance measurement, consultants will be fiduciaries of the Trust.

D. Managers or Agents with Delegated Responsibilities

1. Custodian

(a) Responsibilities

The Board will hire custodians and other agents who will be fiduciaries of the Trust and who will assume full responsibility for the safekeeping and accounting of all assets held on behalf of the Trust. Among other duties as may be agreed to, the custodian will be responsible for: (a) the receipt, delivery, and safekeeping of securities; (b) the transfer, exchange, or redelivery of securities; (c) the claiming, receipt, and deposit of all dividend, interest, and other corporate actions due the Trust; (d) the daily sweep of all uninvested funds into a cash management account or accounts; and, (e) the provision of reports to PERSI upon agreed time intervals that will include all purchases and sales of securities, all dividend declarations on securities held by the Trust, a list of securities held by the Trust, and a cash statement of all transactions for the Trust account.

(b) Authorization of Collective Investment Trusts

Assets of the Trust may be invested in any collective investment trust, which at the time of the investment provides for the pooling of the assets of plans described in Section 401(a) of the Internal Revenue Code of 1986, as amended, and which is exempt from Federal income tax. Assets of the Trust may be commingled with assets of other trusts if invested in any collective investment trust authorized by this policy. The provisions of the trust agreement, as amended by the trustee thereof from time to time, of each collective investment trust in which Trust assets are invested are by this reference incorporated as a part of the trust estate comprising the Trust. The provisions of the collective investment trust will govern any investment of Trust assets in that trust.

2. Investment Managers

The Board will hire investment managers who will be fiduciaries of the Trust and who will be responsible for the investment of Trust assets in specific securities or assets within or among the asset classes.

(a) Minimum Qualifications

Investment managers shall be registered with the Securities and Exchange Commission (unless they are banks, insurance companies, or other category exempted from such registration requirements), have been in the business of investment management at least two years (or the main personnel of the investment management firm have worked together in the business of investment management for at least two years), and, usually, have other United States pension fund assets under management.

(b) Guidelines

Investment Managers shall manage assets in accordance with additional guidelines established by contract and as may be added to or modified from time to time. The additional guidelines will contain minimum diversification requirements that must be followed by that manager. These guidelines will also set out the investment return expected to be achieved by that manager, and shall be linked to a benchmark that represents the passive index fund that would be used to replicate the manager's assignment.

(c) Responsibilities and Discretion

Subject to the restrictions set out in this policy or as may be set out in individual contracts or guidelines, an investment manager shall have full discretionary power to direct the investment, exchange, and liquidation of the assets entrusted to that manager. The manager shall place orders to buy and sell securities and, by notice to the custodian, cause the custodian to deliver and receive securities on behalf of the Trust.

(d) Corporate Governance

The Board, unless otherwise stated, will delegate the voting of proxies to the investment manager or custodian. The Board will adopt and from time to time modify a proxy voting policy. The staff will review the investment manager's policies governing the voting of proxies to assure consistency both with the policy of the Board and, to the extent feasible, among the various investment managers.

(e) Transactions and Brokerage

All securities transactions shall be executed by reputable broker/dealers or banks, and shall be on a best price and best execution basis.

3. Use of Passive and Active Managers

(a) Purpose and Use of Active Management

The Board recognizes that passive (index fund) investing has lower costs than active investing, with regard to both management fees and transaction costs. Further, the Board also recognizes that there is uncertainty concerning whether active investing can generally outperform passive investing, particularly in the large, liquid, and efficient portions of the capital markets. Also, the Board has great confidence that a passive investment of assets in an efficient asset allocation will likely meet long-term (20 year) obligations.

Contribution rates, COLAs, and the ability to provide for gain-sharing, however, are based on 1-5 year returns. The Board does have concern that over 1-5 year periods the ability consistently to fund COLAs and to keep contribution rates stable are in considerable jeopardy from two sources: (1) expected "normal" market fluctuations are such that annual returns will likely not meet hurdle rates approximately 40% of the time, with actual negative returns to be expected once every six years; and (2) that most of

Trust assets under the strategic asset allocation will be invested in U.S. capital markets, and are thus vulnerable to poor U.S. returns.

One purpose of active management of Trust assets is to address these two concerns. Active managers will be hired for the purpose of providing greater stability of returns, and better returns, than would be achievable under purely passive management over rolling 3-5 year periods. Active managers will be responsible for timing of markets and the tactical allocation of assets among and within the capital markets (including between the U.S. and international markets).

In addition to providing extra returns, active managers will also be employed to smooth returns, provide higher long-term returns, provide protection in adverse markets, and to add exposure and additional diversification to the portfolio than that achievable solely through investment in passive indices representing the strategic asset allocation and strategic policies.

(b) Structure

In using outside managers, the Board will favor a structure using a reasonable number of managers with broad mandates and benchmarks. This preference will be implemented so as to achieve the following goals: to relieve the Board from making timing decisions in allocating assets among numerous specialized managers, to simplify the structure of the fund, and to reduce the number of active managers and thus expenses to the Trust.

Passive managers will be favored for the core, liquid, efficient markets (such as S&P 500 stocks and U.S. Government/Corporate bonds), and active managers will be favored for relatively inefficient markets (such as international emerging markets). Global managers will be used to provide flexibility in reacting to near-term concerns that may arise concerning any particular region or market, particularly the U.S. capital markets, and to provide an appropriate balance between efficient long-term asset allocations (which favor US assets) and near-term allocations (which have a greater preference for international assets) to meet the real (inflation adjusted) return needs of the System. Consequently, actual allocations to international equities in the overall portfolio from time to time may be above that in the strategic asset allocation due to the activities of the global equity managers. The actual exposure to international equities will be maintained within the strategic range unless there is prior review by the Board before those ranges are exceeded.

(c) Balance between Passive and Active Management

The balance between active and passive management will be set from time to time with the following considerations in mind: concentration of active investment efforts where there is the most potential for excess returns, implementation of views concerning the state of the U.S. and international capital markets, and reduction of fees and other costs.

(d) Monitoring Standards

Active managers will be monitored under two standards: First, over rolling 3-5 year periods managers will be expected to exceed, after fees, the benchmark index that represents the passive alternative to the mandate given the manager, and to rank in the top half of the universe of managers that best fits that manager’s mandate. Second, over shorter periods of time, managers will be expected to maintain key personnel, a consistent style, and investment capability. Passive managers will be monitored on their ability to track their benchmark index over both short (1 quarter to one year) and long periods (3 to 5 year). The Board may consider other information it considers relevant, including composite manager indices, in determining whether to retain or terminate managers.

V. Asset Class Policies

A. U.S. Equities

1. Objective

The overall objective of the U.S. equity asset class is to obtain, over time, a return after fees that equals or exceeds the returns of the Russell 3000 Index, both absolutely and on a risk-adjusted basis.

2. Allowable Investments

Managers may invest in stocks that do not pay dividends. Managers may invest in equity securities outside of the Russell 3000 Index. Managers may use derivative securities for purposes of enhancing liquidity, reducing transaction or other costs, or partially hedging an existing exposure in the portfolio.

3. Manager Styles

Managers for this asset class may include index funds, style managers (such as value and growth), "core" managers, and global managers. Global managers are managers who may invest in securities located anywhere in the world, both within and outside of the United States.

4. Benchmarks

The Russell 3000 index will be the benchmark for the passive index funds, core managers, and global managers. Other style or capitalization indices maintained by a qualified organization may be used as the benchmark for style managers. Active U.S. equity managers are expected to exceed, over rolling 3-5 year intervals, the applicable benchmark by 75 basis points annually after fees, and to rank in the top 50th percentile of active managers with similar mandates.

B. International Equities

1. Objective

The overall objective of the International Equity Asset Class is to obtain, over time, a return after fees that equals or exceeds the returns of the Morgan Stanley Capital International Europe, Australia, and Far East (MSCI EAFE) Index (unhedged), or the FT Actuaries World ex U.S. Index, both absolutely and on a risk-adjusted basis.

2. Allowable Investments

Managers may invest in stocks that do not pay dividends. Managers may invest in American Depository Receipts or American Depository Shares. Managers may invest in equity securities of companies or in countries that are not included in the indices. Managers may use derivative securities for purposes of enhancing liquidity, reducing transaction or other costs, or partially hedging an existing exposure in the portfolio. Managers may, at their discretion, hedge the currency exposure of all or part of their portfolios. Managers may not overhedge their portfolio, although proxy hedging for purposes of liquidity and cost savings is allowed.

3. Manager Styles

Managers for this asset class may include index funds, general international managers, regional or specialized managers (such as emerging markets), and global managers. The Board may from time to time hire a currency overlay manager to hedge the currency exposure in those portfolios where managers do not actively or normally consider hedging their exposure.

4. Benchmarks

The MSCI EAFE Index (unhedged), or the FT Actuaries World ex U.S. (unhedged) will be the benchmark for the passive index funds, general international managers, and global managers. Regional or specialized indices (unhedged) maintained by a qualified organization may be used as the benchmark for other active managers. Active international equity managers are expected to exceed, over rolling 3-5 year intervals, the applicable benchmark by 75 basis points annually after fees, and to rank in the top 50th percentile of active managers with similar mandates.

C. Fixed Income

1. Objectives

The overall objective of the Fixed Income Asset Class is to obtain, over time, a return after fees that equals or exceeds the returns of the Lehman Brothers Aggregate Bond Index (Aggregate Bond Index) both absolutely and on a risk-adjusted basis.

The Fixed Income Asset Class shall consist of investments in mortgages and in both dollar and non-dollar fixed income securities. Mortgages shall consist of investments in mortgage backed securities, and direct ownership of commercial mortgages through the Idaho Commercial Mortgage Program.

The objective of the non-mortgage fixed income securities is to obtain, over time, a return after fees that equals or exceeds the returns of the Lehman Brothers Government/Credit Bond Index (Government/Credit Bond Index) on a risk-adjusted basis. The overall objective of the mortgage securities is to obtain, over time, a return after fees that equals or exceeds the returns of the Lehman Brothers Mortgage Index (Mortgage Index) on a risk-adjusted basis.

2. Allowable Investments

Managers may invest in debt securities that do not pay interest. Active managers may invest in securities in companies or countries not included in the indices. Managers may use derivative securities for purposes of enhancing liquidity, reducing transaction or other costs, or partially hedging an existing exposure in the portfolio. Fixed income managers may, at their discretion and to the extent allowed by their contracts and guidelines, use currency forward or futures markets as may be considered appropriate to implement fixed income strategies.

3. Manager Styles

Managers in this asset class may include index funds, domestic bond managers, specialized managers, and global managers.

4. Benchmarks

The Government/Corporate Index or Aggregate Index will be the benchmark for all non-mortgage fixed income managers. The Mortgage Index will be the benchmark for all mortgage managers. The Aggregate Index will be the benchmark for the asset class. Active fixed income managers are expected to exceed, over rolling 3-5 year intervals, the applicable benchmark by 25 basis points annually after fees, and to rank in the top 50th percentile of active managers with similar mandates.

D. Real Estate

1. Objectives

Private equity real estate investments will be considered part of the U.S. Equity asset class. The overall objective of private equity real estate investments is to attain a 6% real rate of return overall, over a long-term holding period, as long as this objective is consistent with maintaining the safety of principal. The 6% real rate of return includes both income and appreciation, is net of investment management fees, and is net of inflation as is measured annually by the Consumer Price Index. Over a short term basis, the objective is to earn a nominal minimum income yield of 6% on each individual investment, or inflation plus 3%, whichever is greater.

2. Allowable Investments

Allowable private equity real estate investments will include open-end and closed-end commingled real estate funds, publicly traded real estate investment trusts, and direct real estate investments originated by selected real estate advisors who structure similar investments with other institutional investors. The real estate asset sector will not include solely debt obligations; in particular, straight mortgage interests will be considered part of the fixed income asset class.

3. Need for Income Component of Return

Upon acquisition, each real estate investment must have as a goal the expectation of production of annual income measured by realized return and not capital appreciation. Thus, a significant proportion of income producing properties and not purely development properties should be the objective of any commingled fund acquired.

4. Protection of the Trust

Investment vehicles should be chosen that will protect the Trust, including provision for investments that do not contain debt or liability with recourse beyond the Trust commitment to the related business entity, provision for inspection and evaluation of environmental hazards prior to the purchase of any property, and the provision of insurance coverage to protect against environmental and natural hazards.

5. Reporting

A comprehensive reporting system for individual investments or funds will be maintained so that poorly performing investments and deficiencies in portfolio diversification can be identified and active portfolio management facilitated. Investment managers shall be required to present opinions of fair market value as part of quarterly and annual reporting requirements, and audited financial statements shall be required at least annually for each investment entity.

E. Alternative Investments

1. Definition and Board Approval

The Board may from time to time authorize the investment of Trust assets in entities or structures that do not fit the asset descriptions listed above. Examples of such investments are venture capital partnerships, private equity, leveraged buy-out funds, private debt, and direct ownership of individual assets such as oil and gas partnerships. These investments shall only be entered into with the specific approval by the Board or a subcommittee given specific delegation by the Board of each investment vehicle, or investment manager.

2. Objectives and Benchmarks

If the alternative investment is an equity investment, the objective for the investment will be to exceed, over time and after fees, the return achieved by the Russell 2000 Index times 1.35. If the alternative investment is a debt investment, then the objective will be to exceed, over time and after fees, the returns achieved by the Lehman Brothers Government/Credit Index plus 3%. It is recognized that these investments will experience greater volatility than the comparable publicly traded securities and indices.

VI. GASB 40 Reporting (Section VI adopted May 26, 2005)

A. Purpose

The Governmental Accounting Standards Board has identified that state and local governments have deposits and investments which are exposed to risks that may result in losses. GASB Statement number 40 (GASB 40) is intended to inform users of the financial statements about the risks that could affect the ability of a government entity to meet its obligations. GASB 40 has identified general deposit and investment risks as credit risk, including concentration of credit risk and custodial credit risk, interest rate risk, and foreign currency risk and requires disclosures of these risks and of policies related to these risks. This portion of the Investment Policy addresses the monitoring and reporting of those risks.

In general, the risks identified in GASB 40, while present, are diminished when the entire portfolio is viewed as whole. For example, interest rate risk experienced by fixed income instruments often react in the exact opposite direction as that experienced by equities. Thus, interest rate exposure as set out in GASB 40 will not reflect the cross-influences of impacts across the broad range of investments that make up the PERSI portfolio. And, in fact, the general underlying measures used in GASB 40 across most of the risks identified (credit, concentration, and interest rate risk in particular) were tools that were developed primarily for portfolios dominated by fixed income investments, and are often only poorly transferred, if at all, to portfolios, like PERSI's, that are dominated by equity interests.

Consequently, it is the policy of PERSI that the risks addressed in GASB 40 are to be monitored and addressed primarily through the guidelines agreed to by those managers, and by regular disclosures in reports by managers of levels of risks that may exceed expected limits for those portfolios.

B. Specific Areas of Risk

1. Credit Risk

Summary: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to PERSI.

Policy: Managers will provide PERSI with 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.

2. Custodial Credit Risk

Summary: 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.

Policy: PERSI minimizes exposure to custodial credit risk by requiring that investments, to the extent possible, be clearly marked as to PERSI ownership and further to the extent possible, be held in the System's name.

3. Concentration of Credit Risk

Summary: Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issue.

Policy: Managers will provide PERSI with expected concentration of credit risk exposures in their portfolio guidelines. If the concentration of credit risk exceeds expectations, managers are to be 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 total PERSI portfolio.

4. Interest Rate Risk

Summary: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk to PERSI's fixed income portfolio is monitored using the effective duration methodology. Effective duration measures the volatility of the price of a bond given a change in interest rates, taking into account the optionality on the underlying bond.

Policy: Managers will provide PERSI with the expected portfolio duration in their portfolio guidelines. If the duration of the portfolio differs from expectations, managers are to be required to report these occurrences to Staff and these disclosures are to be made available to the Board.

5. Foreign Currency Risk

Summary: Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. PERSI's currency risk exposures, or exchange rate risk, primarily reside within the international equity investment holdings.

Policy: The PERSI Board recognizes that international investments (equity or fixed income) will have a component of currency risk associated with it. Currency risk and hedging exposures are dependent on the underlying international exposure, which fluctuates over time. The individual manager guidelines will outline the expected currency exposures (either specifically or through ranges of security exposures to particular currency areas) of the underlying portfolio and if the actual currency exposure differs from the expected, managers are to be required to report these occurrences to staff and these disclosures are to be made available to the Board.

VII. Asset Allocation

For purposes of asset allocation, alternative equity investments will be treated as part of the U.S. equity asset class, and alternative debt investments will be treated as part of the fixed income asset class.

STRATEGIC ASSET ALLOCATION

Asset Class	Expected Return	Expected Risk	Strategic Normal	Strategic Ranges	Actual Allocation Year Ended June 30, 2005
U.S. Equity	10.4%	19%	54%	44% - 57%	55%
International Equity	11.0%	22%	15%	12% - 25%	15%
Total Equities			69%	66% - 75%	70%
Fixed Income	6.6%	7%	30%	27% - 33%	30%
Cash	4.0%	1%	1%	0% - 5%	0%

Total Fund	Expected Return	Expected Inflation	Expected Real Return	Expected Risk
Actuary	8.00%	4.25%	3.75%	n/a
Portfolio	9.30%	3.75%	5.55%	13.50%

ACTUARIAL SECTION

A MILLIMAN GLOBAL FIRM
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November 22, 2005

Retirement Board
Public Employee Retirement System
State of Idaho
P.O. Box 83720
Boise, Idaho 83720-0078

Members of the Board:

Milliman has performed annual actuarial valuations for the Public Employee Retirement System of Idaho since the System's inception. It is anticipated that future actuarial valuations will be performed every year with the next valuation to be as of July 1, 2006. Various benefit increases have occurred since the System was established in 1965. The most recent significant benefit changes were effective July 1, 2000.

Contribution Rates

The financing objective of the System is to establish contribution rates that will tend to remain level as percentages of payroll. From October 1, 1986 through September 30, 1992, the recommended total contribution rates had a weighted average of 14.31% of covered salaries: 8.89% of salary for the employers and 6.4% for Fire & Police members; 5.34% for General/Teachers members.

To cover the cost of the benefit improvements in October 1992, 1993 and 1994, the contribution rates were increased. The contribution rates were temporarily reduced between November 1997 and April 25, 2000 when the Board adopted as permanent the new lower rate of 15.78%, based on the funding status of the system. Our July 1, 2002 valuation found that the contribution rates were not sufficient to amortize the unfunded actuarial accrued liability within 25 years of the valuation date, as required by Section 59-1322, Idaho Code. Therefore, in November 2002, the Board approved three 1% contribution rate increases to take effect on July 1, 2004, July 1, 2005 and July 1, 2006. Effective July 1, 2003, the contribution rate for Fire and Police employers was also increased by 0.1% to offset the cost of the $100,000 duty-related death benefit. The July 1, 2004 contribution rate increase took effect as scheduled, but the other two increases were delayed by the Board to July 1, 2007 and July 1, 2008.

The historical and future changes are shown in the table below.

Year of Change	Total Rate*	Weighted Total * Member Rate	Weighted Total * Employer Rate	Fire & Police Member Rate	Fire & Police Employer Rate	General/Teachers Member Rate	General/Teachers Employer Rate
1993	17.16%	6.51%	10.65%	7.82%	10.87%	6.38%	10.63%
1994	18.75	7.12	11.63	8.53	11.85	6.97	11.61
1998	17.78	6.75	11.03	8.10	11.25	6.60	11.01
2000	15.78	5.98	9.80	7.21	10.01	5.86	9.77
2003	15.82	6.01	9.81	7.21	10.11	5.86	9.77
2004	16.84	6.41	10.43	7.65	10.73	6.23	10.39
2005	16.84	6.41	10.43	7.65	10.73	6.23	10.39
2006	16.84	6.41	10.43	7.65	10.73	6.23	10.39
2007	17.83	6.79	11.04	8.09	11.34	6.60	11.00
2008	18.82	7.16	11.66	8.53	11.95	6.97	11.61

* *Note that actual weighted average total rates may differ slightly from these amounts due to small shifts in the projected future salaries between Fire & Police and General/Teacher members.*

Our July 1, 2005 actuarial valuation included the July 1, 2007 and July 1, 2008 increases, and found that the System's rates are sufficient to pay the System's normal cost rate of 14.03%. As of July 1, 2005 there is an unfunded actuarial accrued liability of $508.6 million. The portion of the total Member and Employer contribution rates shown above that is not needed to pay the System's normal cost is sufficient to amortize the unfunded actuarial accrued liability over 6.2 years. Thus, the current contribution basis meets the requirements of Section 59-1322, Idaho Code, which requires the unfunded actuarial accrued liability to be amortized within 25 years of the valuation date.

Funding Status

Based on the July 1, 2005 actuarial valuation, the unfunded actuarial accrued liability was decreased by $239.1 million due to a large asset gain recognized as of July 1, 2005. Specifically, the System's assets earned a gross return before expenses of 10.80%, which is 3.05% over the actuarial assumption of 7.75%. All other actuarial experience gains and losses increased the actuarial accrued liability by $12.6 million. Thus, the total experience gain for the year was $226.5 million. The delay in the effective date of the scheduled contribution rate changes increased the actuarial accrued liability by $2.0 million. Also, the actuarial accrued liability was decreased by $13.2 million because actual contributions were more than the normal cost and the interest on the unfunded actuarial accrued liability. The March 1, 2005 COLA increased the actuarial accrued liability by $53.8 million.

The March 1, 2005 Restoration of Purchasing Power Benefit increased the actuarial accrued liability by $21.4 million. All of these items then resulted in a total actuarial gain of $162.5 million and a change in funding status from a 91.7% funding ratio on July 1, 2004 to 94.2% on June 30, 2005. The funding ratio is the ratio of the actuarial value of the assets over the value of the actuarial accrued liability.

Assumptions

Our July 1, 2005 actuarial valuation report presented summaries of the actuarial assumptions and methods used in the valuation. Various assumptions were revised for the July 1, 2004 valuation as a result of an experience study covering the period July 1, 1999 through June 30, 2003. There were no assumption changes for the July 1, 2005 valuation. The next major experience study, to be completed in 2006, will cover the period July 1, 2001 through June 30, 2005.

Certification Statement

In preparing our actuarial valuation reports, we relied, without audit, upon the financial statements prepared by the staff of the System. We also relied upon the member and beneficiary data provided to us by the staff. We compared the data for the July 1, 2005 actuarial valuation with corresponding information from the prior valuation and tested for missing or incomplete items, such as birth dates and hire dates. Based on these tests, we believe the data to be sufficient and reliable for the purposes of our calculations. It should be noted that if any data or other information is inaccurate or incomplete, our calculations may need to be revised.

The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. The assumptions used in the actuarial valuations were recommended by us and approved by the Board. The Retirement Board has the final decision regarding the appropriateness of the assumptions. They represent our best estimate of future conditions affecting the System, and we believe they are reasonably related to the past experience of the System. Nevertheless, the emerging costs of the System will vary from those presented in our report to the extent that actual experience differs from that projected by the actuarial assumptions.

The enclosed Exhibits 1 through 9 provide further related information. Milliman is completely responsible for these exhibits. Specifically, they are:

- Exhibit 1 Summary of Actuarial Assumptions and Methods
- Exhibit 2 Schedule of Active Member Valuation Data
- Exhibit 3 Schedule of Retiree and Beneficiary Valuation Data
- Exhibit 4 Schedule of Funding Progress
- Exhibit 5 Solvency Test
- Exhibit 6 Analysis of Actuarial Gains or Losses
- Exhibit 7 Schedule of Contributions from the Employer
- Exhibit 8 Schedule of Contributions from All Other Contributing Entities
- Exhibit 9 Provisions of Governing Law

We, Robert L. Schmidt and Karen I. Steffen, are Consulting Actuaries for Milliman. We are members of the American Academy of Actuaries, Fellows of the Society of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

Robert L. Schmidt, F.S.A., M.A.A.A.	Karen I. Steffen, F.S.A., M.A.A.A.
Consulting Actuary	Consulting Actuary

KIS/RLS/pap

Public Employee Retirement
System of Idaho

EXHIBIT 1: SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS EFFECTIVE JULY 1, 2005

1. Investment Return (Adopted July 1, 2004)

The annual rate of investment return on the assets of the System is assumed to be 7.75% (including 0.50% for expenses), compounded annually.

2. Actuarial Value of Assets (Adopted July 1, 1994)

All assets are valued at market as of the valuation date.

3. Actuarial Assumptions

The actuarial assumptions and methods were adopted by the Board based upon recommendations from the retained actuary. The actuarial assumptions are based on periodic studies of the System's actual experience.

4. Mortality (Adopted July 1, 1998)

Contributing Members, Service Retirement Members, and Beneficiaries:

- **Teachers**

  Males 1994 Group Annuity Mortality Table for males, set back two years.

  Females 1994 Group Annuity Mortality Table for females, set back one year.

- **Fire & Police**

  Males 1994 Group Annuity Mortality Table for males with no setback.

  Females 1994 Group Annuity Mortality Table for females, set forward two years.

  20% of Fire and Police active member deaths are assumed to be duty related.

- **General Employees and All Beneficiaries**

  Males 1994 Group Annuity Mortality Table for males with no setback.

  Females 1994 Group Annuity Mortality Table for females, set back one year.

Disabled Members

The 1983 Railroad Retirement Board Totally Disabled Annuitants Mortality Table, with no age adjustment for men and set back ten years for women.

5. Service Retirement (Adopted July 1, 2004)

Annual rates of retirement assumed to occur among persons eligible for a service retirement are illustrated in the following table:

	Fire & Police		General Employees			
			Male		Female	
Age	First Year Eligible	Thereafter	First Year Eligible	Thereafter	First Year Eligible	Thereafter
55	30%	20%	30%	10%	30%	15%
60	30	25	30	15	30	20
65	50	45	80	75	65	65
70	*	*	30	30	30	25

	Teachers			
	Male		Female	
Age	First Year Eligible	Thereafter	First Year Eligible	Thereafter
55	23%	10%	22%	10%
60	23	15	40	20
65	76	65	75	70
70	*	*	*	*

* *For all ages older than the age indicated, retirement is assumed to occur immediately.*

6. Early Retirement (Adopted July 1, 2004)

Annual rates of retirement assumed to occur among persons eligible for a reduced early retirement benefit are illustrated in the following table:

		General Employees		Teachers	
Age	Fire & Police	Male	Female	Male	Female
50	6%	*	*	*	*
55	7	3%	3%	7%	6%
60		7	9	13	15

* *For all ages younger than the age indicated, withdrawal is assumed to occur (see Section 7).*

7. Other Terminations of Employment (Adopted July 1, 2004)

Assumed annual rates of termination are illustrated below. Rates are based only on years of service.

Years of	Fire and	General Employees		Teachers	
Service	Police	Male	Female	Male	Female
5	8.0%	10.0%	11.0%	6.0%	7.0%
10	4.6	5.5	6.8	3.3	3.3
15	3.2	3.6	4.6	2.0	2.0
20	2.0	2.6	3.4	1.6	1.6
25	2.0	2.0	2.3	1.6	1.6
30	2.0	2.0	2.0	1.6	1.6

8. Disability Retirement (Adopted July 1, 2004)

Annual rates assumed for disability retirement are illustrated in the following table:

Age	Fire & Police	General Employees Male	General Employees Female	Teachers Male	Teachers Female
25	.01%	.05%	.01%	.01%	.03%
35	.03	.10	.02	.05	.05
45	.18	.10	.07	.05	.08
55	.30	.50	.23	.35	.24

9. Future Salaries (Adopted July 1, 2004)

In general, the total annual rates at which salaries are assumed to increase include 4.50% per annum for increase in the general wage level of the membership plus increases due to promotions and longevity. The general wage level increases are due to inflation and increases in productivity. The total ultimate rates assumed are illustrated below.

Years of Service	Fire and Police	General Employees Male	General Employees Female	Teachers Male	Teachers Female
5	7.8%	6.8%	7.5%	8.5%	9.0%
10	6.7	5.7	6.3	7.3	7.5
15	5.5	5.2	5.3	6.0	6.3
20	5.3	5.0	5.0	5.3	5.3

Note that rates shown in items 5-8 are central rates of decrement.

10. Vesting (Adopted July 1, 2004)

The following table illustrates the assumed probability that vested terminating members will elect to receive deferred benefits instead of withdrawing accumulated contributions.

Age	Fire and Police	General Employees Male	General Employees Female	Teachers Male	Teachers Female
25	29%	30%	42%	23%	59%
35	43	53	60	61	80
45	53	63	66	73	83
55	--	--	--	--	90

11. Growth in Membership (Adopted July 1, 2004)

In general, the combined effects of stable active membership and salary levels are assumed to produce a 4.50% average annual expansion in the payroll of covered members.

12. Interest on Employee Contributions (Adopted July 1, 2004)

The credited interest rate on employee contributions is assumed to be 7.25%.

13. Postretirement Benefit Increases (Cost of Living Adjustments)

A nondiscretionary postretirement increase of 1% per year is assumed for the valuation. See Exhibit 3 for total discretionary and nondiscretionary increases granted by the Board for the past ten years.

14. Actuarial Cost Method

The entry age actuarial cost method is used, as specified by Idaho law. The aggregate normal cost rate is based on separate rates developed for each valuation group. The normal cost rates used in this valuation were calculated based on all current active members, for each sex and type of employee in this valuation. The actuarial present values of projected benefits and of projected salaries for all active members were calculated. The ratio of the two is the aggregate normal cost rate. The aggregate rate remains unchanged between valuations, unless actuarial assumptions, benefits or contribution rates are changed. The current aggregate normal cost rate was adopted July 1, 2004.

The unfunded actuarial accrued liability (UAAL) created by this method, including gains and losses, is amortized as a level percentage of the System's projected payroll.

Commencing July 1, 1990, 3.03% of the payroll of higher education faculty covered by the Optional Retirement Program (ORP) is payable to PERSI until July 1, 2015. Commencing July 1, 1997, 3.83% of the payroll of community college and post-secondary vocational educational institutions covered by the ORP is payable to PERSI until July 1, 2011. The difference between the future ORP contributions and the actuarial accrued liability computed under the actuarial cost method is the portion of the actuarial accrued liability used to determine the UAAL, or funding reserve, for PERSI.

15. Experience Studies

The last experience study was for the period July 1, 1999 through June 30, 2003, and reviewed all assumptions except mortality. Mortality will be studied in 2006 for the period from July 1, 2001 through June 30, 2005. Assumptions were adopted and have remained in effect as noted.

16. Recent Changes

Contribution rates for employers and employees are scheduled to increase over the next few years, with the final increase coming on July 1, 2008.

EXHIBIT 2: SCHEDULE OF ACTIVE MEMBER VALUATION DATA

		Annual Salaries*		
Valuation Date July 1	Number	Annual Valuation Payroll	Average Annual Pay	% Increase in Average Annual Pay
1996	56,802	$1,451,730,000	$25,558	2.8%
1997	57,237	1,511,204,000	26,403	3.3
1998	57,528	1,562,205,000	27,156	2.9
1999	59,248	1,673,056,000	28,243	4.0
2000	60,388	1,798,222,000	29,778	5.4
2001	62,125	1,924,389,000	30,976	4.0
2002	62,376	2,036,004,000	32,641	5.4
2003	62,385	2,063,615,000	33,079	1.3
2004	63,385	2,124,040,000	33,510	1.3
2005	64,391	2,197,385,000	34,126	1.8

* *Actuarial valuation payroll is computed as the sum of the annualized salaries for all active members; and differs from the actual payroll shown in the financial section of the annual report.*

EXHIBIT 3: SCHEDULE OF RETIREE AND BENEFICIARY VALUATION DATA **

Valuation Date July 1	Number			COLA
	Total	Added	Removed	Increases Granted Previous March 1
1996	19,903	1,329	698	2.6%
1997	20,499	1,434	838	2.9
1998	21,134	1,416	781	2.2
1999	21,756	1,464	842	1.6 + 100% restoration
2000	22,456	1,597	897	2.3
2001	23,253	1,840	1,043	3.4
2002	24,018	1,612	847	2.7
2003	24,991	1,790	817	1.0
2004	26,043	1,875	823	2.2
2005	27,246	1,959	756	2.7 + 100% restoration

Valuation Date July 1	Annual Benefits				
	Total Rolls End of Year	Added to Rolls*	Removed from Rolls	Average	% Increase in Average
1996	$148,740,000	$16,945,000	$4,533,000	$7,473	5.6%
1997	160,908,000	17,418,000	5,250,000	7,850	5.0
1998	173,519,000	17,894,000	5,283,000	8,210	4.6
1999	193,441,000	25,956,000	6,034,000	8,891	8.3
2000	209,549,000	22,757,000	6,649,000	9,332	5.0
2001	235,269,000	33,251,000	7,531,000	10,118	8.4
2002	255,374,000	26,672,000	6,567,000	10,633	5.1
2003	279,219,000	30,190,000	6,345,000	11,173	5.1
2004	307,410,000	35,243,000	7,052,000	11,804	5.6
2005	343,077,000	42,022,000	6,355,000	12,592	6.7

* *Includes postretirement increases*.

** *Information regarding the number of retirees and beneficiaries added to, and removed from, the rolls was not used in the actuarial valuations.*

EXHIBIT 4: SCHEDULE OF FUNDING PROGRESS (ALL DOLLAR AMOUNTS IN MILLIONS)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)(1)	Present Value of Future ORP Contributions	Unfunded Actuarial Accrued Liabilities (UAAL)(2)	Funded Ratio(3)	Covered Payroll(4)	UAAL as a Percentage of Covered Payroll
July 1, 1996	$3,761.2	$4,461.5	$60.8	$639.5	85.5%	$1,497.4	42.7%
July 1, 1997	4,609.8	4,801.9	63.2	128.9	97.3	1,575.5	8.2
July 1, 1998	5,488.2	5,060.0	65.7	(493.9)	109.9	1,627.7	(30.3)
July 1, 1999	6,171.9	5,536.8	68.9	(704.0)	112.9	1,733.5	(40.6)
July 1, 2000	7,032.9	6,105.1	70.5	(998.3)	116.5	1,827.2	(54.6)
July 1, 2001	6,492.8	6,751.3	72.2	186.3	97.2	1,975.3	9.4
July 1, 2002	6,062.1	7,209.5	71.7	1,075.7	84.9	2,047.1	52.5
July 1, 2003	6,297.8	7,578.8	66.4	1,214.6	83.8	2,057.7	59.0
July 1, 2004	7,420.2	8,154.8	63.5	671.1	91.7	2,115.4	31.7
July 1, 2005	8,208.8	8,778.7	61.3	508.6	94.2	2,208.7	23.0

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

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

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

(4) Covered Payroll includes compensation paid to all active employees on which contributions are calculated. Covered Payroll differs from the Active Member Valuation Payroll shown in Exhibit 2, which is an annualized compensation of only those members who were active on the actuarial valuation date.

EXHIBIT 5: SOLVENCY TEST (ALL DOLLAR AMOUNTS IN MILLIONS)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities for: Active Member Contributions (A)	Retirees and Beneficiaries (B)	Active Members (Employer Financed Portion) (C)	Portion of Actuarial Accrued Liabilities Covered by Assets (A)	(B)	(C)
July 1, 1996	$3,761.2	$941.2	$1,471.7	$2,048.6	100.0%	100.0%	65.8%
July 1, 1997	4,609.8	1,019.5	1,617.0	2,165.4	100.0	100.0	91.1
July 1, 1998	5,488.2	1,089.7	1,766.1	2,204.2	100.0	100.0	100.0
July 1, 1999	6,171.9	1,158.1	1,978.1	2,400.6	100.0	100.0	100.0
July 1, 2000	7,032.9	1,329.7	2,173.8	2,601.6	100.0	100.0	100.0
July 1, 2001	6,492.8	1,502.0	2,487.6	2,761.7	100.0	100.0	90.6
July 1, 2002	6,062.1	1,622.4	2,665.3	2,921.8	100.0	100.0	60.7
July 1, 2003	6,297.8	1,677.8	2,882.9	3,018.1	100.0	100.0	57.6
July 1, 2004	7,420.2	1,717.7	3,198.1	3,239.0	100.0	100.0	77.3
July 1, 2005	8,208.8	1,875.1	3,606.7	3,296.9	100.0	100.0	82.7

**Public Employee Retirement
System of Idaho**

EXHIBIT 6: ANALYSIS OF ACTUARIAL GAINS OR LOSSES (ALL DOLLAR AMOUNTS IN MILLIONS)

	Gain(Loss) for Period		
	2002-2003	2003-2004	2004-2005
Investment Income Investment income was greater (less) than expected.	$ (274.5)	$ 650.8	$ 239.1
Pay Increases Pay increases were less (greater) than expected.	169.0	133.9	88.5
Membership Growth (Additional) liability for new members.	(10.1)	(12.5)	(12.4)
Return to Employment Less (more) reserves were required for terminated members returning to work.	(5.3)	(7.0)	(3.9)
Death After Retirement Retirees died younger (lived longer) than expected.	11.4	6.9	4.3
Other Miscellaneous gains (and losses) resulting from other causes. (1)	(37.7)	16.6	(88.4)
Total Gain (Loss) During the Period From Actuarial Experience	$ (179.7)	$ 788.7	$ 227.2
Contribution Income Actual contributions were greater (less) than the normal cost and interest on the Unfunded Actuarial Accrued Liability.	(32.5)	(58.2)	13.2
Non-Recurring Items Changes in actuarial assumptions caused a gain (loss).	None	(165.3)	None
Changes in actuarial methods caused a gain (loss).	27.3	4.1	(0.7)
Changes in plan provisions caused a gain (loss). (2)	13.5	8.5	(2.0)
Composite Gain (Loss) During the Period	$ (138.9)	$ 577.8	$ 237.7

Note: Effects related to losses are shown in parentheses. Numerical results are expressed as a decrease (increase) in the actuarial accrued liability.

(1) For 2004-2005, this includes a $28.7 million loss due to data corrections on Social Security Option Benefits and $59.7 million loss for active and inactive member experience.
(2) For 2004-2005, this includes a $2.0 million loss due to the delay in the scheduled contribution rate increases.

Public Employee Retirement System of Idaho

EXHIBIT 7: SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND ALL OTHER CONTRIBUTING ENTITIES (ALL DOLLAR AMOUNTS IN MILLIONS)

Fiscal Year Ending	Covered Employee Payroll(1)	Actual PERSI Employer Contributions Dollar Amount(2)	Actual ORP Contributions Dollar Amount	Total Actual Employer Contributions	Annual Required Contribution (ARC)(3)	Percentage of ARC Dollars Contributed
6/30/00	$1,827.2	$179.1	$3.8	$182.9	$155.7	117%
6/30/01	1,975.3	193.6	4.3	197.9(4)	152.2	130
6/30/02	2,047.1	200.6	4.9	205.5	155.1	132
6/30/03	2,057.7	201.7	5.0	206.7	188.3	110
6/30/04	2,115.4	207.3	5.3	212.6	218.8	97
6/30/05	2,208.7	230.4	5.8	236.2	236.7	100

(1) *Computed as the dollar amount of the actual PERSI employer contribution made as a percentage of payroll divided by the Actual PERSI contribution rate, expressed as a percentage of payroll.*

(2) *The actual PERSI employer contributions are expressed as a percentage of payroll. Employer contributions are made as a percentage of actual payroll in accordance with statute and the Board's Funding Policy. Thus, the actual employer contributions set by both statute and the Board's Funding Policy may differ from the computed ARC employer contribution rate for GASB disclosure purposes. Dollar amounts shown exclude additional receipts due to merger of retirement systems.*

(3) *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 assumed applicable for employers commencing October 1 of the calendar year followingthe valuation date. For Optional Retirement Plan (ORP) employers, the ARC is equal to 3.03% of salaries of university members in the ORP until 2015 and 3.83% of salaries of junior college members in the ORP until 2011.*

(4) *Includes $77,690,500 of gain sharing credits. Actual cash contributions were $120,220,992.*

EXHIBIT 8: SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER EXPRESSED AS A PERCENTAGE OF PAYROLL

Fiscal Year Ending	Actual PERSI Employer Contribution %(1)	Annual Required Contribution (ARC) %(2)	Percentage of ARC Contributed
6/30/00	9.80%	8.315%	117%
6/30/01	9.80	7.490	130
6/30/02	9.80	7.335	132
6/30/03	9.80	8.91	110
6/30/04	9.80	10.093	97
6/30/05	10.43	10.453 (3)	100

(1) *The actual PERSI employer contributions are expressed as a percentage of payroll. Employer contributions are made as a percentage of actual payroll in accordance with statute and the Board's Funding Policy. Thus, the actual employer contributions set by both statute and the Board's Funding Policy may differ from the computed ARC employer contribution rate for GASB disclosure purposes. Dollar amounts shown exclude additional receipts due to merger of retirement systems.*

(2) *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 assumed applicable for employers commencing October 1of the calendar year following the valuation date. For Optional Retirement Plan (ORP) employers, the ARC is equal to 3.03% of salaries of university members in the ORP until 2015 and 3.83% of salaries of junior college members In the ORP until 2011.*

(3) *See Table C-5 of the valuation for further disclosures. The ARC of 10.453% for the PERSI fiscal year ending June 30, 2005 is based on three months at 10.31% as computed in the 2002 valuation and 9 months at 10.50% as computed in the 2003 valuation.*

EXHIBIT 9: PROVISIONS OF GOVERNING LAW

All actuarial calculations are based on our understanding of the statutes governing the Public Employee Retirement System of Idaho, as contained in Sections 59-1301 through 59-1399, inclusive, of the Idaho Code, with amendments effective through July 1, 2005. The benefit and contribution provisions of this law are summarized briefly below, along with corresponding references to the Idaho Code. This summary does not attempt to cover all the detailed provisions of the law. Only those benefits in effect through July 1, 2005 are considered in this valuation.

The items in parentheses are the provisions applicable to firefighters and police officers.

Effective Date

The effective date of the Retirement System was July 1, 1965.

Member Contribution Rate

The member contribution rate effective July 1, 2005 is 6.23% (7.65%) of salary.

On November 26, 2002, the Board approved a gradual increase to the combined employer and employee contribution rate. This change will increase the member contribution rate to 6.97% (8.53%) by July 1, 2007. This rate will remain in effect then until the employer contribution rate is again changed, at which time the member contribution rate will be fixed at 60% (72%) of the employer contribution rate. For firefighters and police officers, the 72% adjustment is applied after reducing the employer rate by 0.10%, reflecting the 1993 changes in disability provisions for firefighters and police members and the 2003 addition of a $100,000 death benefit for fire and police members who die in the line of duty. Member contributions have been “picked up” on a pre-tax basis by the employer since June 30, 1983. (Sections 59-1331 and 59-1332).

Employer Contribution Rate

The employer contribution rate is set by the Retirement Board (Section 59-1322).

The current contribution rates are set by Board rule and include scheduled increases through July 1, 2008.

Service Retirement Allowance

Eligibility
Age 65 (60) with five years of service, including six months of membership service (Section 59-1341).

Amount of Allowance
For each year of credited service, the annual service retirement allowance is 2.0% (2.3%) of the highest 42-month average salary (Section 59-1342).

Minimum Benefit
$60 ($72) annual allowance for each year of service. The dollar amounts increase after 1974 according to the rate of cost of living increases in retirement allowances (Section 59-1342).

Maximum Benefit
In no case may a member's regular retirement benefit exceed the highest three-year average salary of the member (Section 59-1342).

Normal Form
Straight life retirement allowance plus any death benefit (Section 59-1351).

Optional Form
Actuarial equivalent of the normal form under the options available, according to the mortality and interest basis adopted by the Board (Section 59-1351).

Early Retirement Allowance

Eligibility
Age 55 (50) with five years of service, including six months of membership service (contributing members only) (Section 59-1345).

Amount of Allowance
Full accrued service retirement allowance if age plus service equals 90 (80); otherwise, the accrued service retirement allowance, reduced by 3% for each of the first five years by which the early retirement date precedes the date the member would be eligible to receive the full accrued benefit, and by 5.75% for each additional year (Section 59-1346).

Vested Retirement Allowance

Eligibility
Former contributing members with five years of membership service are entitled to receive benefits after attaining age 55 (50) (Section 59-1345).

Amount of Allowance
Same as early retirement allowance (Section 59-1345).

Disability Retirement Allowance

Eligibility
Five years of membership service. For a police officer or a firefighter hired after July 1, 1993, who is disabled from an occupational cause, there is no service requirement (Section 59-1352).

Amount of Allowance
Projected service retirement allowance based on accrued service plus service projected to age 65 (60) (latter limited to excess of 30 years over accrued service) less any amount payable under workers' compensation law (Section 59-1353).

Normal Form
Temporary annuity to age 65 (60) plus any death benefit. Service retirement allowance becomes payable at age 65 (60) (Section 59-1354).

Death Benefits

After Retirement
Under the normal form of the retirement allowance, the excess, if any, of the member's accumulated contributions with interest at retirement over all payments received. Otherwise, payable according to the option elected (Section 59-1361).

Before Retirement
A. An automatic joint and survivor option applied to the actuarial equivalent of the member's accrued service retirement allowance is paid to the surviving spouse of a member with at least five years of service who dies while:

i. contributing;
ii. not contributing, but eligible for benefits; or
iii. retired for disability

B. If a member with at least five years of service has no spouse, a lump sum payment is made equal to twice the accumulated contributions with interest (Section 59-1361).

C. If a member has less than five years of service, a lump sum payment is made equal to the accumulated contributions with interest (Section 59-1361).

Withdrawal Benefits

Fire and police members are entitled to an additional $100,000 payment if death occurs in the line of duty (Section 59-1361 A).

Postretirement Increases

Accumulated contributions with interest (Section 59-1358). The interest rate is determined by the Board (Section 59-1301 (26)).

A 1% annual postretirement increase is effective March of each year. An additional postretirement increase of up to 5% each year may be authorized by the Board, subject to the approval of the Legislature, if it finds that the System's assets are no less in value than its actuarial liabilities, including those created by the additional increase. Increases are based on a cost-of-living factor reflecting the changes in the Consumer Price Index, subject to a maximum total increase of 6% in any year (Section 59-1355).

Gain Sharing

Beginning in 2000, under Section 59-1309, Idaho Code, the Board may allocate all or a portion of "extraordinary gains" to active and retired members and employers as Gain Sharing.

Extraordinary gains are defined as the excess, if any, at the close of the fiscal year of the Assets over Actuarial Accrued Liabilities plus an amount necessary to absorb a one standard deviation market event without increasing contribution rates, as determined by the Board. Under the Board's current investment policy, assets in excess of a 113% funded ratio are considered extraordinary gains. The Board has the authority to rescind the Gain Sharing up to the date of distribution.

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November 28, 2005

Retirement Board
Public Employee Retirement System
State of Idaho
P.O. Box 83720
Boise, Idaho 83720-0078

Members of the Board:

Milliman has performed annual actuarial valuations of the Idaho Firefighters' Retirement Fund (FRF) from 1981 through 1988 and biennial valuations from July 1, 1990 to July 1, 2000. Since the July 1, 2001 valuation, actuarial valuations have occurred annually. The next actuarial valuation is scheduled for July 1, 2006.

Contribution Rates

FRF covers a closed group of firefighters who were hired before October 1, 1980 and who receive benefits in excess of those provided under the Public Employee Retirement System of Idaho (PERSI). The cost of these excess benefits is paid by member contributions, employer contributions, and receipts from a fire insurance premium tax. Employer contributions comprise two elements: 8.65% of the salaries of covered members and an additional rate applied to the salaries of all firefighters of the employer. The additional rate is designed to meet the costs of the Fund not covered by other resources. Idaho Code Section 59-1394 requires the cost of the excess benefits to be retired by the schedule of contributions over a given period of time not to exceed 50 years.

FRF benefits were offset by PERSI benefits effective October 1, 1980. Effective July 1,1990, all members hired after June 30, 1978 are to receive the same FRF benefits as members hired earlier.

Effective October 1, 1994, the PERSI benefits and contributions were increased. The FRF additional contribution rate to fund the excess benefits was decreased to 15.40% and the total employer contributions for FRF members remained fixed at 35.90% for Class A & B firefighters and 27.25% for Class D firefighters.

The Retirement Board lowered the PERSI contribution rates starting October 31, 1997 and made the reduction permanent as of April 25, 2000. The FRF excess contribution rate was increased to 17.24% since the total employer contributions for FRF members remained fixed at the 35.90% / 27.25% rates.

The Retirement Board raised the PERSI contribution rates, with the first increase effective July 1, 2004 and additional increases effective July 1, 2005 and July 1, 2006; an additional 0.1% contribution was added to provide for a $100,000 death benefit for duty-related deaths. The FRF excess contribution rate was maintained at 17.24%. In 2004, the Board delayed the scheduled rate increases for July 1, 2005 and July 1, 2006 to July 1, 2006 and July 1, 2007, and in September 2005 the Board delayed them again, to July 1, 2007 and July 1, 2008. The total employer contributions for FRF members will also gradually increase to 37.84% / 29.19% by July 1, 2008 due to the increasing PERSI rates.

Funding Status

Based on the July 1, 2005 actuarial valuation, the current schedule of contribution rates will amortize the FRF excess benefit costs by June 30, 2014 or 9.0 years from the valuation date. This is shorter than the expected amortization period of 9.9 years based on the July 1, 2004 valuation. It is shorter than the Fund's original funding goal, which is to amortize the liabilities over 13 years or by June 30, 2018 (40 years from July 1, 1978). The current amortization period is less than the statutory maximum of 50 years.

The unfunded actuarial accrued liability (UAAL) was decreased by $6.2 million due to an asset gain recognized as of July 1, 2005. Specifically, the Fund's assets earned a gross return before expenses of 10.67% for the 2005 plan year, exceeding the actuarial assumption of 7.75%. All experience gains and losses (including the asset gain) over the year resulted in the UAAL being decreased by $5.1 million. Also, the actuarial accrued liability was decreased by $5.2 million because actual contributions were more than the normal cost and the interest on the unfunded actuarial accrued liability. The funding status increased from a 69.5% funding ratio on July 1, 2004 to 73.5% on June 30, 2005. The funding ratio is the ratio of the actuarial value of the assets over the value of the actuarial accrued liability.

Assumptions

Our July 1, 2005 actuarial valuation report presented summaries of the actuarial assumptions and methods used in the valuation. The FRF assumptions generally reflect the assumptions used for the PERSI Fire and Police members, but are modified to reflect the characteristics expected of the closed group of FRF members. There were no significant assumption changes between the July 1, 2004 and July 1, 2005 valuation. The next major PERSI experience study, to be completed in 2006, will cover the period July 1, 2001 through June 30, 2005.

Certification Statement

In preparing our actuarial valuation report, we relied, without audit, upon the financial statements prepared by the staff of the System. We also relied upon the member and beneficiary data provided us by the staff. We compared the data for the July 1, 2005 actuarial valuation with corresponding information from the prior valuation and tested for missing or incomplete items, such as birth dates and hire dates.

Based on these tests, we believe the data to be sufficient and reliable for the purposes of our calculations. It should be noted that if any data or other information is inaccurate or incomplete, our calculations may need to be revised.

The assumptions and methods used for funding purposes do not meet the parameters set for the disclosures presented in the financial section by Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. Thus, separate costs were developed and reported for GASB disclosure purposes. We believe the current funding policy is reasonable for a closed group and based on the FRF funding policy prior to 1980. However, it is expected that actual employer contributions will differ from the Annual Required Contribution (ARC) computed for GASB disclosure purposes.

The assumptions used in the actuarial valuations were recommended by us and approved by the Board. The Retirement Board has the final decision regarding the appropriateness of the assumptions. They represent our best estimate of future conditions affecting the Fund, and we believe they are reasonably related to the past experience of the Fund. Nevertheless, the emerging costs of the Fund will vary from those presented in our report to the extent that actual experience differs from that projected by the actuarial assumptions.

The enclosed Exhibits 1 through 9 provide further related information. Milliman is completely responsible for these exhibits. Specifically, they are:

- Exhibit 1 Summary of Actuarial Assumptions and Methods
- Exhibit 2 Schedule of Active Member Valuation Data
- Exhibit 3 Schedule of Retiree and Beneficiary Valuation Data
- Exhibit 4 Schedule of Funding Progress
- Exhibit 5 Solvency Test
- Exhibit 6 Analysis of Actuarial Gains or Losses
- Exhibit 7 Schedule of Contributions from the Employer and All Other Contributing Entities
- Exhibit 8 Contribution Rates as a Percent of Pay
- Exhibit 9 Provisions of Governing Law

We, Robert L. Schmidt and Karen I. Steffen, are Consulting Actuaries for Milliman. We are members of the American Academy of Actuaries and Fellows of the Society of Actuaries,
and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

Robert L. Schmidt, F.S.A., M.A.A.A.
Consulting Actuary

Karen I. Steffen, F.S.A., M.A.A.A.
Consulting Actuary

KIS/RLS/pap

Idaho Firefighters' Retirement Fund

EXHIBIT 1: SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS EFFECTIVE JULY 1, 2004

1. Investment Return (Adopted July 1, 2004)

The annual rate of investment return on the assets of the Fund is assumed to be 7.75% (including 0.50% for expenses), compounded annually.

2. Actuarial Value of Assets (Adopted July 1, 1994)

All assets are valued at market as of the valuation date.

3. Actuarial Assumptions

The actuarial assumptions and methods were adopted by the PERSI Board based upon recommendations from the retained actuary. The actuarial assumptions are based on periodic studies of the PERSI total fund's actual experience.

4. Service Retirement (Adopted July 1, 1992)

Annual rates of retirement assumed to occur among persons eligible for a service retirement are illustrated in the following table:

Years Since Becoming Eligible to Retire (1)	Age	Probability of Service Retirement
0 - 4	N/A	10.0%
5+	35 - 49	40.0
	50 - 59	40.0
	60	60.0
	61	30.0
	62	65.0
	63	40.0
	64	40.0
	65 - 69	60.0
	70	*Immediate retirement is assumed at age 70*

(1) Eligibility occurs after 20 years of service, or attained age 60 with five years of service.

5. Mortality (Adopted July 1, 1998)

The mortality rates used for all members of the fund, active and retired, are from the 1994 Group Annuity Mortality Table for males with no setback. The mortality rates assumed for spouses are from the 1994 Group Annuity Mortality Table for females, set back one year. The mortality rates used for all disabled retired members is the 1983 Railroad Retirement Board Totally Disabled Annuitants Mortality Table with no age adjustment.

6. Disability Retirement (Adopted July 1, 1996)

Annual rates assumed for disability retirement are illustrated in the following table:

Age	Duty-Related	Non-Duty-Related
25	.030%	.015%
35	.030	.015
45	.100	.100
55	.400	.400

7. Other Terminations of Employment (Adopted July 1, 2002)

Assumed annual rates of termination for persons who are not eligible for service retirement are illustrated below:

Years of Service	Annual Rate
5	8.0%
10	4.0
15	2.5
20	2.0

8. Future Salaries (Adopted July 1, 2004)

In general, the total annual rates at which salaries are assumed to increase include 4.50% per year for increases in the general wage level of membership. The general wage level increases are due to inflation and increases in productivity. Due to the closed group and the aging of the membership, the general wage assumption is assumed to adequately cover any additional increases due to promotions and longevity.

9. Replacement of Terminated Members

The Firefighters' Retirement Fund is a closed group. No new members are permitted. The total number of firefighters in PERSI (including those hired October 1, 1980 and later) is assumed to remain unchanged from year to year.

10. Postretirement Benefit Increases (Cost of Living Adjustments) (Adopted July 1, 2004)

FRF benefits are based on paid salary and are assumed to increase at the same rate as the average paid firefighter's salary, or 4.50% per year. For members whose FRF benefits are offset by their PERSI benefits, the PERSI benefits are assumed to have post-retirement benefit increases of 3.75% per year. The assumptions regarding PERSI future post-retirement benefit increases is part of the funding policy for the FRF.

11. Probability of Marriage

It is assumed that there is an 85% probability that the member has an eligible spouse. The spouse’s age is assumed to be three years younger than the member's.

12. Fire Insurance Premiums (Adopted July 1, 2004)

The fire insurance premiums received for the plan year ending June 30, 2005 amounted to $4,268,619 or approximately 10.12% of all firefighters' covered compensation during the same period. Future fire insurance premiums are expected to provide contributions as a decreasing percentage of compensation, due to the assumption that the firefighters' covered compensation (including Class D members) will increase at the rate of 4.50% per year, but future fire insurance premiums are assumed to increase at a rate of only 3.75% per year. In addition, scheduled decreases in the fire insurance premium tax rate will result in reduced funds being transferred to the FRF plan. The rate for the increase for covered compensation was adopted July 1, 2004. The rate for the increase of fire insurance premiums was adopted July 1, 2004.

13. Actuarial Cost Method (Adopted July 1, 1996) – Funding Policy

The actuarial present value of future benefits not provided by PERSI, less the actuarial value of the assets and the present value of future statutory contributions for Class A & B members, is amortized as a level percentage of covered compensation, which includes the Class D firefighters. This can be considered a modified aggregate cost method. Contributions under this funding policy are reasonable for a closed group of members but are expected to be less than the GASB reported Annual Required Contribution (ARC).

14. Actuarial Cost Method (Adopted July 1, 1998) – GASB Disclosures

For GASB disclosure purposes, costs are determined based on the entry age normal cost method. The actuarial present value of future benefits not provided by PERSI less the present value of future normal costs equals the actuarial accrued liability. The unfunded actuarial accrued liability (UAAL) is equal to the actuarial accrued liability less the actuarial value of the assets. The UAAL is amortized as a level dollar amount over a fixed amortization period. The current amortization period is based on a closed 40-year period from July 1, 1996. The ARC is then the total of the normal cost allocated to the current plan year plus the amortization payment on the UAAL. This assumption was adopted July 1, 1998 but applied retroactively to the July 1, 1996 valuation.

15. Experience Studies

The last experience study was for the period July 1, 1999 through June 30, 2003, and reviewed all assumptions except mortality. Mortality will be studied in 2006 for the period July 1, 2001 to June 30, 2005. Assumptions were adopted and have remained in effect as noted. The FRF assumptions generally reflect the assumptions used for the PERSI Fire and Police members, but are modified to reflect the characteristics expected of the closed group of FRF members.

16. Recent Changes

The investment return assumption, wage growth assumption, and the inflation assumption were modified effective July 1, 2004. Contribution rates will be increasing for PERSI, but since the excess contribution rate for firefighter employers will remain constant, this will not have a significant effect on the funding of the FRF plan.

Idaho Firefighters' Retirement Fund

EXHIBIT 2: SCHEDULE OF ACTIVE MEMBER VALUATION DATA

		Annual Salaries		
Valuation Date July 1	Number	Total[1]	Average	Annual Increase in Average
1992	269	$9,344,000	$34,736	6.7%
1994	222	8,702,000	39,198	6.2
1996	194	8,514,433	43,889	5.8
1998	163	7,954,048	48,798	5.4
2000	129	7,174,924	55,620	6.8
2001	103	5,771,086	56,030	0.7
2002	81	4,981,492	61,500	9.8
2003	57	3,750,432	65,797	7.0
2004	42	2,840,572	67,633	2.8
2005	20	1,526,466	76,323	12.8

(1) *Annualized average salaries for covered members for the 12-month period commencing October 1 of the previous calendar year. For years ending after June 30, 2003, the 12-month period is the period from July 1 to June 30 of the previous calendar year.*

Idaho Firefighters' Retirement Fund

EXHIBIT 3: SCHEDULE OF RETIREE AND BENEFICIARY VALUATION DATA[1]

Valuation Date July 1	Number Total	Number Added	Number Removed	COLA Increases Granted Previous January 1
1992	367	50	19	4.52%
1994	411	50	6	7.15
1996	431	34	14	3.54
1998	482	72	21	5.00
2000	508	43	17	3.33
2001	526	31	13	7.55
2002	558	41	9	1.51
2003	576	27	9	4.41
2004	582	21	15	2.56
2005	599	25	8	4.33

Valuation Date July 1	Annual Benefits				
	Total [2]	Added[3]	Removed	Average	Increases in Average
1992	$6,998,946	$1,299,940	$526,867	$19,071	7.2%
1994	8,975,984	2,131,836	154,795	21,839	7.0
1996	10,411,707	1,668,685	232,962	24,157	5.2
1998	12,950,197	2,942,954	404,464	26,868	5.5
2000	14,420,361	1,896,872	426,708	28,387	2.8
2001	16,607,752	2,529,792	342,401	31,574	11.2
2002	17,834,237	1,458,868	232,384	31,961	1.2
2003	19,329,902	1,725,487	229,822	33,559	5.0
2004	20,095,076	1,148,461	383,287	34,528	2.9
2005	21,699,127	1,833,685	229,634	36,226	4.9

(1) *Information regarding the number of retirees and beneficiaries added to, and removed from, the rolls was not used in the actuarial valuations.*

(2) *Combined annual benefits from FRF and PERSI. The FRF benefits comprised $16,274,402 of the 2005 total.*

(3) *Includes postretirement increases.*

Idaho Firefighters' Retirement Fund

EXHIBIT 4: SCHEDULE OF FUNDING PROGRESS
(all dollar amounts in millions)

Actuarial Valuation Date July 1	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL) [1]	Unfunded Actuarial Accrued Liabilities (UAAL) [2]	Funded Ratio	Covered Payroll [3]	UAAL as a Percentage of Covered Payroll
1992	$87.3	$194.5	$107.2	44.9%	$19.7	544.2
1994	100.6	240.4	139.8	41.8	22.6	618.6
1996	132.1	246.7	114.6	53.5	24.6	465.9
1998	179.0	284.0	105.0	63.0	28.0	375.0
2000	217.8	293.4	75.6	74.2	30.8	245.5
2001	200.4	316.2	115.8	63.4	32.9	352.0
2002	181.5	300.3	118.8	60.4	34.4	345.3
2003	182.7	310.7	128.0	58.8	37.0	345.9
2004	210.4	302.6	92.2	69.5	39.8	231.7
2005	227.2	309.1	81.9	73.5	42.2	194.1

(1) Actuarial present value of future excess benefits less actuarial present value of excess statutory contributions over amounts required by PERSI, for years prior to 1996. For years after 1996, the excess of the actuarial present value of future excess benefits less the present value of future normalcost contributions under the entry age cost method.

(2) Actuarial accrued liabilities less actuarial value of assets.

(3) Covered Payroll includes compensation paid to all active firefighters on which excess benefit contributions are calculated. Covered Payroll differs from the Active Member Valuation Payroll shown in Exhibit 2, which is an annualized compensation of only those Class A and Class B members who were active on the actuarial valuation date. For years prior to 1996, Covered Payroll is estimated. See footnote to Exhibit 7.

Idaho Firefighters' Retirement Fund

EXHIBIT 5: SOLVENCY TEST
(all dollar amounts in millions)

		Actuarial Liabilities[1] for			Portion of Actuarial Liabilities Covered by Assets		
Actuarial Valuation Date	Actuarial Value of Assets	(A) Active Member Contributions	(B) Retirees and Beneficiaries	(C) Active Members (Employer Financed Portion)	(A)	(B)	(C)
1992	$87.3	$1.8	$119.0	$86.2	100.0%	71.8	0.0%
1994	100.6	1.3	171.8	76.8	100.0	57.8	0.0
1996	132.1	1.1	182.5	67.3	100.0	71.8	0.0
1998	179.0	0.9	226.0	60.8	100.0	78.8	0.0
2000	217.8	0.9	239.9	55.0	100.0	90.4	0.0
2001	200.4	0.3	274.5	43.0	100.0	72.9	0.0
2002	181.5	0.2	270.5	30.4	100.0	67.0	0.0
2003	182.7	0.2	289.4	21.5	100.0	63.1	0.0
2004	210.4	0.1	287.7	15.2	100.0	73.1	0.0
2005	227.2	0.1	301.6	7.4	100.0	75.3	0.0

(1) Computed based on funding policy methods and assumptions.

Idaho Firefighters' Retirement Fund

EXHIBIT 6: ANALYSIS OF ACTUARIAL GAINS OR LOSSES (all dollar amounts in millions)

	Gain (Loss) for Period		
	2002-2003	**2003-2004**	**2004-2005**
Investment Income Investment income was greater (less) than expected.	($7.5)	$17.9	$6.2
Pay Increases Pay increases and COLAs were less (greater) than expected.	(0.7)	6.3	1.1
Death After Retirement Retirees died younger (lived longer) than expected.	–	6.8	–
Other Miscellaneous gains (and losses) resulting from other causes.	(0.7)	1.9	(2.2)
Total Gain (Loss) During the Period From Actuarial Experience	($8.9)	$32.9	$5.1
Contribution Income Actual contributions were greater (less) than the normal cost and interest on the Unfunded Actuarial Accrued Liability.	(0.3)	3.0	5.2
Non-Recurring Items Changes in actuarial assumptions and benefits caused a gain (loss).	None	(0.1)	None
Composite Gain (Loss) During the Period	($9.2)	$35.8	$10.3

Note: Effects related to losses are shown in parentheses. Numerical results are expressed as a decrease (increase) in the actuarial accrued liability.

EXHIBIT 7: SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND ALL OTHER CONTRIBUTING ENTITIES (actual dollar amounts)

Fiscal Year Ending	Covered Employee Payroll(1)	Statutory Employer Contribution(2)	Additional Employer Contribution(2)	Insurance Premium Payment from the State	Total Employer Contributions	Annual Required Contribution (ARC)(3)	Percentage of ARC Contributed
1997	$26,671,313	$ 799,570	$ 4,107,381	$ 2,575,053	$7,482,004	$9,447,790	79.2%
1998	27,953,792	717,489	4,648,494	2,634,818	8,000,801	9,447,790	84.7
1999	30,091,784	673,975	5,187,823	2,706,956	8,568,754	8,643,708	99.1
2000	30,830,049	615,335	5,315,101	2,744,153	8,674,589	8,643,708	100.4
2001	32,938,022	583,440	5,678,515	2,964,981	9,226,936	6,265,400	147.3
2002	34,426,786	463,017	5,935,178	3,150,114	9,548,309	9,339,992	102.2
2003	37,005,298	352,350	6,379,713	3,383,388	10,115,451	9,447,664	107.1
2004	39,789,908	301,089	7,421,215	4,001,053	11,723,357	10,200,418	114.9
2005	42,198,856	181,916	7,275,080	4,268,619	11,725,615	7,225,585	162.3

(1) *Computed as the dollar amount of the actual employer contribution made as a percentage of payroll divided by the contribution rate, expressed as a percentage of payroll.*

(2) *Employer contributions are made as a percentage of actual payroll rather than as a dollar amount. The Statutory Employer FRF contributions in excess of PERSI required contributions are payable only on Class A and Class B active member payroll. The Additional Employer FRF contributions are payable on Class A & B and Class D active member payrolls.*

(3) *Starting July 1, 1996, the Annual Required Contributions (ARC) is computed as a dollar amount based on the entry age cost method and future payroll contributions from Class A & B members only. The ARC is computed for GASB reporting purposes only. The actual employer contributions as a percentage of payroll varied from those determined by the actuarial valuation based on the funding policy as shown in Exhibit 8 of this report. Thus, as long as the actual contributions are made as a percentage of payroll under the current funding policy methods and assumptions, as required by the most recent actuarial valuation, the actual dollar amount of the employer contributions will differ from the dollar amount of the Annual Required Contributions (ARC).*

EXHIBIT 8: CONTRIBUTION RATES AS A PERCENT OF PAY

	State Contributions	Employer Contributions				Total Employer Contributions For Members	
	Fire Insurance						
Year[1]	Premium Tax[2]	PERSI Rate	Statutory FRF Rate	Additional Rate	Social Security	Hired Before 10/1/80[3]	Hired After 9/30/80[4]
Effective Date:	July 1	October 1	January 1	October 1	January 1	October 1	October 1
1992	11.53%	9.75%	8.65%	23.34%	7.65%	41.74%	40.74%
1994	11.80	11.85	8.65	15.40	7.65	35.90	34.90
1996	10.88	11.85	8.65	15.40	7.65	35.90	34.90
1998	7.30	10.01	8.65	17.24	7.65	35.90	34.90
2000	7.60	10.01	8.65	17.24	7.65	35.90	34.90
2001	7.10	10.01	8.65	17.24	7.65	35.90	34.90
2002	7.60	10.01	8.65	17.24	7.65	35.90	34.90
2003	7.60	10.11	8.65	17.24	7.65	36.00	35.00
2004	6.60	10.73	8.65	17.24	7.65	36.62	35.62
2005	6.70	10.73	8.65	17.24	7.65	36.62	35.62

(1) Rates become effective on dates shown in given year. Biennial valuations were performed from 1988 to 2000.

(2) Rate based on previous 12 months of income from previous tax, expressed as a percentage of salaries on the valuation date for years prior to 1996. After 1996, expressed as a percentage of the value of future fire insurance premium taxes over the value of future covered compensation.

(3) PERSI rate plus Statutory FRF rate plus additional rate.

(4) PERSI rate plus additional rate plus Social Security.

Idaho Firefighters' Retirement Fund

EXHIBIT 9: PROVISIONS OF GOVERNING LAW

This exhibit outlines our understanding of the laws governing the Firefighters' Retirement Fund (FRF), compared with the provisions that apply to firefighters of the Public Employee Retirement System of Idaho (PERSI), as contained in Sections 59-1301 through 59-1399 for PERSI and Sections 72-1401 through 72-1472 for FRF, inclusive of the Idaho Code through July 1, 2005. Each currently active firefighter hired before October 1, 1980 is entitled to receive the larger of (a) a benefit based on the FRF provisions, considering all of his service as a firefighter, and (b) a PERSI benefit, based on membership service beginning October 1, 1980 plus prior service rendered before July 1, 1965. Firemen hired October 1, 1980 and later (Class D members) are not entitled to FRF benefits.

In 1990, the law was changed to provide benefits to all members of FRF equally. Prior to the change, members hired after July 1, 1978 and before October 1, 1980 (Class C members) received a lower level of benefits. Class A members are members hired prior to July 1, 1976 who chose Option 1, where contributions are calculated on the basis of statewide average paid firefighter's salary. Benefits are based on the statewide average salary in effect at the date of retirement. Class B members are all Option 2 members hired prior to July 1, 1978, where contributions are calculated on the basis of the individual's annual average salary, but benefits are based on actual pay.

Retirement Provisions Affecting Firefighters In Idaho

July 1, 2005

	Public Employee Retirement System (Including July 1, 2000 Benefit Changes)	Firefighters' Retirement Fund
Member Contribution Rate	7.65% of salary increasing to 8.53% by July 1, 2008.	11.45% of salary. *
Service Retirement Allowance		
Eligibility	Age 60 with five years of service, including six months of membership service.	20 years of service. **
Amount of Annual Allowance	2.30% of the highest 3.5-year average salary for each year of credited service.	40% of final five-year average salary * plus 5.00% of average salary for each year of service in excess of 20 years.
Maximum Benefit	100% highest three-year average salary.	65% of final five-year average salary. *
Minimum Benefit	For retirement during or prior to 1974, $72 annual allowance for each year of service, increasing in subsequent years at the rate of cost-of-living increases in retirement allowances.	None.

* *For firefighters employed prior to July 1, 1976 who chose Option 1, contributions are calculated on the basis of the statewide average paid firefighter's salary. Benefits are based on the statewide average salary in effect at the date of retirement.*

For firefighters employed prior to July 1, 1976 who chose Option 2, contributions are calculated on the basis of the individual member's average salary, but benefits are based on actual pay.

** *Completed years of service. No partial years of service are recognized.*

	Public Employee Retirement System	Firefighters' Retirement Fund
Non-Duty Disability Retirement Allowance		
Eligibility	Five years of membership service.	Five years of service. **
Amount of Annual Allowance	Projected service retirement allowance based on accrued service plus service projected to age 60 (projected service is limited to excess of 30 years over accrued service), less any amount payable under workers' compensation law.	2.00% of final five-year average salary* times years of service**, or same as service retirement benefit if eligible.
Normal Form	Temporary annuity to age 60 plus any death benefit.	Payable for firefighter's lifetime, with 100% of benefit continued to eligible surviving spouse or children.
Duty Disability Retirement Allowance		
Eligibility	If hired after July 1, 1993, no service requirement, otherwise same as non-duty disability retirement.	No age or service requirements.
Amount of Annual Allowance	Same as non-duty disability retirement.	65% of final five-year average salary.
Normal Form	Same as non-duty disability retirement.	Same as non-duty disability retirement.
Special Disability Benefit		
Eligibility	Firefighters hired October 1, 1980 and prior to July 1, 1993, with less than 10 years of service.	None.
Benefit	Same as FRF disability benefit.	None.

*** Completed years of service. No partial years of service are recognized.*

	Public Employee Retirement System	Firefighters' Retirement Fund
Death Benefits Before Retirement		
Eligibility	Five years of service for surviving spouse's benefit.	Non-duty death: Five years of service.** Duty death: No service requirement. Benefits are payable to surviving spouse or, if no eligible surviving spouse, to unmarried children under 18.
Amount of Benefit	1. Accumulated contribution with interest, or 2. The surviving spouse of a member with five years of service who dies while: i. contributing; ii. noncontributing, but eligible for benefits; or iii. retired for disability receives an automatic joint and survivor option applied to the actuarial equivalent of the member's accrued service retirement allowance.	100% of the benefit the firefighter would have received as a duty or non-duty disability allowance, depending on cause of his death.
Normal Form	Payable for member's lifetime, with death benefit determined by option selected at retirement.	Payable for firefighter's lifetime, with 100% of benefit continued to eligible surviving spouse or children.
Optional Form	Actuarial equivalent of the normal form under the options available according to the mortality and interest basis adopted by the Board.	None.
Death Benefits After Retirement		
Eligibility	Designated beneficiary or estate.	Surviving spouse or, if no eligible surviving spouse, unmarried children under 18.
Amount of Benefit	Under the normal form of the retirement allowance, the excess, if any, of the member's accumulated contributions with interest at retirement over all payments received. Otherwise payable according to the option elected.	100% of firefighter's retirement allowance.

*** Completed years of service. No partial years of service are recognized.*

	Public Employee Retirement System	Firefighters' Retirement Fund
Early Retirement Allowance		
Eligibility	Age 50 with five years of service including six months of membership service (contributing members only).	None.
Amount of Allowance	Full accrued service retirement allowance if age plus service equals 80; otherwise, the accrued service retirement allowance reduced by 3.00% for each of the first five years by which the early retirement date precedes the date the member would be eligible to receive his full accrued benefit, and by 5.75% for each additional year.	None.
Vested Retirement Allowance		
Eligibility	Former contribution members with five years of membership service are entitled to receive benefits after attaining age 50.	Firefighters who terminate after five years of service** are entitled to receive benefits beginning at age 60.
Amount of Allowance	Same as early retirement allowance.	2.00% of final five-year average salary times years of service. **
Withdrawal Benefit	Accumulated contributions with interest.	Accumulated contributions with interest.
Postretirement Increases		
Amount of Adjustment	A 1.00% annual postretirement increase is effective each January. An additional postretirement increase of up to 5.00% each year may be authorized by the Board if it finds that the value of the System's assets are no less than its actuarial liabilities, including those created by the additional increase. Increases are based on a cost-of-living factor reflecting the changes in the Consumer Price Index, subject to a maximum total increase of 6.00% in any year.	Benefits increase or decrease by the same percentage by which the average paid firefighter's salary increases or decreases.

*** Completed years of service. No partial years of service are recognized.*

STATISTICAL SECTION

The System is the administrator of five pension funds including two defined benefit retirement plans, the Public Employee Retirement Fund Base Plan (PERSI Base Plan) and the Firefighters' Retirement Fund (FRF), and three defined contribution plans, the Public Employee Retirement Fund Choice Plans 401(k) and 414(k) (PERSI Choice Plan) and the Sick Leave Insurance Reserve Fund. The data in Tables 1 through 4 of this section was provided by the System's actuary and the data in the remaining tables was provided by the System's own records.

During FY 2005, the number of active PERSI members increased from 63,385 to 64,391. The number of retired members or annuitants receiving monthly allowances increased from 26,043 to 27,246. The number of inactive members who have not been paid a separation benefit increased from 18,837 to 20,028. Of these inactive members, 8,460 have achieved vested eligibility. Total membership in PERSI increased from 108,265 to 111,665 during the fiscal year. As of June 30, 2005, there were 684 public employers in Idaho who were PERSI members. Table 1 illustrates how the distribution of active, retired, and inactive members has changed over the years.

The average age of active members and their average years of public employment continue their upward trend as shown in Table 1.

Table 1
Membership

	Active Members			Retired Members		Inactive Members
Fiscal Year Ended	Number	Average Age	Average Years of Service	Number	Average Age	Number
1996	56,802	44.1	9.2	19,903	73.5	8,479
1997	57,237	44.3	9.5	20,499	73.2	11,153
1998	57,528	44.6	9.7	21,134	73.2	12,945
1999	59,248	44.8	9.8	21,756	73.1	14,180
2000	60,388	45.0	9.8	22,456	73.1	18,497
2001	62,125	45.1	9.7	23,253	72.7	18,723
2002	62,376	45.4	10.0	24,018	72.7	18,267
2003	62,385	45.7	10.2	24,991	72.5	18,599
2004	63,385	45.9	10.2	26,043	72.3	18,837
2005	64,391	46.0	10.2	27,246	72.1	20,028

Table 2
Schedule of Retired Members by Type of Benefit

Amount of Monthly Benefit	Total Number of Retirees	Type of Retirement: Regular	Type of Retirement: Disability	Type of Retirement: Beneficiary	Option Selected: Joint & Survivor	Option Selected: Straight Life*
$0 - 250	5,643	4,803	16	824	1,297	4,346
251 - 500	4,771	4,088	74	609	877	3,894
501 - 750	3,517	3,000	143	374	688	2,829
751 - 1,000	2,689	2,268	162	259	533	2,156
1,001 - 1,250	2,118	1,766	168	184	449	1,669
1,251 - 1,500	1,686	1,428	143	115	392	1,294
1,501 - 1,750	1,368	1,212	106	50	350	1,018
1,751 - 2,000	1,104	968	85	51	314	790
Over 2,000	4,350	4,093	176	81	1,412	2,938
Totals	27,246	23,626	1,073	2,547	6,312	20,934

Joint & Survivor (also known as Contingent Annuitant)
***** *Single Life Options include Straight Life, Cash Refund, Social Security and all other FOPs.*

Table 3
Distribution of Active Members
64,391 Total

Cities	6,344	9.9%
Counties	6,882	10.7%
Schools	28,710	44.6%
State	18,031	27.9%
All others	4,424	6.9%
Total	64,391	100.0%

Table 4
Schedule of Average Benefit Payment Amount

Retirement Effective Dates	Years Credited Service < 5*	5-10	10-15	15-20	20-25	25-30	30+
Period 7/1/99 to 6/30/00							
Average Monthly Benefit	$ 517	$ 277	$ 505	$ 804	$1,212	$1,857	$2,639
Number of Retirants	76	221	189	186	195	220	235
Period 7/1/00 to 6/30/01							
Average Monthly Benefit	$ 691	$ 326	$ 514	$ 872	$1,320	$2,099	$2,858
Number of Retirants	87	227	241	231	242	247	324
Period 7/1/01 to 6/30/02							
Average Monthly Benefit	$ 516	$ 276	$ 564	$ 907	$1,308	$2,109	$2,947
Number of Retirants	75	227	267	207	236	198	295
Period 7/1/02 to 6/30/03							
Average Monthly Benefit	$ 584	$ 301	$ 571	$ 914	$1,500	$2,118	$2,927
Number of Retirants	67	258	251	255	241	264	411
Period 7/1/03 to 6/30/04							
Average Monthly Benefit	$ 445	$ 251	$ 548	$ 918	$1,435	$2,197	$3,053
Number of Retirants	64	301	228	245	257	299	367
Period 7/1/04 to 6/30/05							
Average Monthly Benefit	$ 340	$ 325	$ 600	$ 951	$1,473	$2,104	$2,951
Number of Retirants	52	262	282	262	268	283	410

* Elected and appointed officials are vested after five months of continuous service.

Table 5
Schedule of Benefit Expenses by Type (1)

	Age & Service Benefits			Disabilities Retirants (2)			Refunds			
Fiscal Year	Retirants	Survivors (3)	Death in Service Benefits	Pre-NRA	Post-NRA	Survivors	Death	Separation	DC Benefits (4)	Total
2001	$227,350,223	$22,501,874	(3)	$6,682,375	$5,725,127	(3)	$4,570,629	$20,207,120	$ 899,539	$287,936,887
2002	232,856,198	17,968,893	(3)	7,959,961	5,150,169	$ 21,516	4,310,763	21,799,204	2,466,580	292,533,284
2003	256,035,493	18,866,589	(3)	9,035,051	5,500,590	22,042	4,481,725	20,154,162	1,951,818	316,047,470
2004	280,763,933	19,735,004	(3)	11,273,747	5,675,595	22,619	6,277,761	20,192,340	11,384,181	355,325,180
2005	307,745,370	20,840,882	(3)	12,909,391	5,781,296	352,314	3,133,222	21,768,619	14,003,439	386,534,532

(1) Amounts are approximate. Actual 2001 benefit expenses were allocated based on membership information at 7/1/2002.
(2) The split between duty and non-duty disabilities is not available.
(3) Benefit amounts are not available. For 2001, the split of benefit amounts by survivor type was not available. All survivors are included with the Age & Service Benefits survivors.
(4) Benefits paid from the defined contribution plans. With the reclassification of the Sick Leave Insurance Reserve Fund in 2004, there is a substantial increase in DC Benefits Paid.
NRA = Normal Retirement Age. PERSI members with disability benefits convert to age & service retirants at NRA (60 for Fire & Police, 65 for other members). Data prior to Fiscal Year 2001 is unavailable. For purposes of this table, data will be accumulated going forward.

Table 6
History of Cost-of-Living Adjustments

Year	CPI Rate	PERSI COLA Rate (1)	Maximum COLA	Difference
1979	8.90%	6.00%	6.00%	0.00%
1980	12.20	6.00	6.00	0.00
1981	12.60	6.00	6.00	0.00
1982	10.20	6.00	6.00	0.00
1983	5.10	5.10	5.10	0.00
1984	2.90	2.90	2.90	0.00
1985	4.20	4.20	4.20	0.00
1986	3.20	1.00	3.20	2.20 (2)
1987	1.50	1.50	1.50	0.00
1988	4.50	1.00	4.50	3.50 (2)
1989	4.20	1.00	4.20	3.20 (2)
1990	4.70	4.70	4.70	0.00
1991	5.60	5.60	5.60	0.00
1992	3.80	3.80	3.80	0.00 (3)
1993	3.10	3.10	3.10	0.00 (3)
1994	2.80	2.80	2.80	0.00 (3)
1995	2.90	2.90	2.90	0.00
1996	2.60	2.60	2.60	0.00
1997	2.90	2.90	2.90	0.00
1998	2.20	2.20	2.20	0.00
1999	1.60	1.60	1.60	0.00 (3)
2000	2.30	2.30	2.30	0.00
2001	3.40	3.40	3.40	0.00
2002	2.70	2.70	2.70	0.00
2003	1.80	1.00	1.80	0.80 (2)
2004	2.20	2.20	2.20	0.00
2005	2.70	2.70	2.70	0.00 (3)

1 For years 1978 through 1986, adjustments were effective January 1. Beginning in 1987, adjustments were effective March 1.
2 The discretionary portion of the COLA was not approved.
3 Retro-active COLA was effective for the discretionary portion that was not approved in prior years.

Table 7
Schedule of Revenues by Source

Year	Employee Contributions	Employer Contributions(1)	Investment Income(2)	Gains & Losses	Other Income	Total(3)
1996	$ 111,275,022	$ 183,978,827	$121,513,338	$ 460,864,748	$152,853	$ 877,784,788
1997	115,599,984	193,604,102	129,568,877	627,809,854	407,761	1,066,990,578
1998	109,305,482	180,322,741	144,779,498	683,857,465	385,412	1,118,650,598
1999	110,900,497	181,659,638	162,852,260	475,499,565	411,586	931,323,546
2000	118,270,877	191,534,944	201,552,566	628,751,044	301,280	1,140,410,711
2001	127,533,104	131,997,290	203,096,882	(669,224,044)	386,742	(206,210,026)
2002	135,637,682	220,398,889	162,149,168	(663,804,822)	137,215	(145,481,868)
2003	145,862,839	217,096,030	171,792,158	40,395,034	132,967	575,279,028
2004	148,726,798	241,063,204	179,934,208	1,001,322,358	77,694	1,571,124,262
2005	167,192,092	264,113,386	200,437,219	619,037,925	159,912	1,250,940,534

1 *Employer contributions for 2001 did not include $77,690,500 of employer gain sharing credits.*
2 *Investment income is reported net of investment expense.*
3 *Total does not include the transfer in activity related to the DC Choice Plan.*

Table 8
Schedule of Expenses by Type

Year	Retirement Allowance	Refunds	Administrative Expense	Total (1)
1996	$ 155,990,318	$ 16,701,947	$ 2,974,975	$ 175,667,240
1997	168,717,822	18,966,734	3,246,044	190,930,600
1998	182,788,207	23,019,945	3,172,208	208,980,360
1999	200,025,199	19,938,836	3,596,797	223,560,832
2000	220,960,251	24,560,909	4,283,525	249,804,685
2001	263,159,138	24,777,749	5,874,271	293,811,158
2002	266,887,469	25,645,815	7,034,588	299,567,872
2003	291,220,969	24,826,501	6,614,117	322,661,587
2004	328,787,900	26,537,280	6,991,503	362,316,683
2005	362,205,823	24,328,709	7,169,254	393,703,786

1 *Total does not include the transfer out activity related to the DC Choice Plan.*

PERSI Participating Employers

State Agencies

Accountancy Board
Administration Department
Aging, Commission on
Agriculture Department
Arts, Commission
Athletic Commission
Attorney General
Barley Commission
Bean Commission
Beef Council, Idaho
Blind & Visually Impaired Comm.
Boise State University
Brand Inspector, State
Building Safety Division
Canola & Rapeseed Commission
Certified Shorthand Reporters
Code Commission, Idaho
Commerce and Labor Department
Controller's Office
Corrections Department
Correctional Industries
Dairy Council
Deaf and Blind School
Dentistry Board
Eastern Idaho Technical College
Education Board
Engineers & Land Surveyors, Prof.
Environmental Quality Dept.
Finance Department
Financial Management Division
Fish and Game Department
Forest Products Commission
Governor, Office of the
Health and Welfare Department
Health District #1
Health District #2
Health District #3
Health District #4
Health District #5
Health District #6
Health District #7
Hispanic Affairs Commission
Historical Society
Idaho Rangeland Resources Comm.
Human Resources Division
Human Rights Commission
Idaho Div. Prof.-Tech. Education
Idaho Public Television
Idaho State Bar
Idaho State Police
Idaho State University
Independent Living Council
Industrial Commission
Insurance Department
Insurance Fund, State
Investment Board
Judicial Branch
Juvenile Corrections Department
Lands, Department
Lava Hot Springs Foundation
Legislative Services
Legislature - House of Reps.
Legislature - Senate
Lewis-Clark State College
Library, Idaho State
Lieutenant Governor
Liquor Dispensary
Lottery, Idaho State
Medicine Board
Military Division
Nursing Board
Occupational Licenses Bureau
Optometry Board
Outfitters and Guides Board
Parks & Recreation Department
Pea & Lentil Commission, Idaho
Pharmacy Board
Potato Commission, Idaho
Professional Geologists Board
Public Employee Retirement System
Public Utilities Commission
Racing Commission
Real Estate Commission
Secretary of State
Species Conservation Office
State Appellate Public Defender
Superintendent of Public Instruction
Tax Appeals Board
Tax Commission
Transportation Department
Treasurer, State of Idaho
University of Idaho
Veterans Services Division
Veterinary Medicine Board
Vocational Rehabilitation
Water Resources Dept
Wheat Commission
Women's Commission

Political Subdivisions

Ada County
Adams County
Bannock County
Bear Lake County
Benewah County
Bingham County
Blaine County
Boise County
Bonner County
Bonneville County
Boundary County
Butte County
Camas County
Canyon County
Caribou County
Cassia County
Clark County
Clearwater County
Custer County
Elmore County
Fremont County
Gem County
Idaho County
Jefferson County
Jerome County
Kootenai County
Latah County
Lemhi County
Lewis County
Lincoln County
Madison County
Nez Perce County
Oneida County
Owyhee County
Payette County
Power County
Shoshone County
Teton County
Valley County
Washington County

City of Aberdeen
City of Albion
City of American Falls
City of Ammon
City of Arco
City of Ashton
City of Athol
City of Bancroft
City of Blackfoot

City of Bliss
City of Bloomington
City of Boise
City of Bonners Ferry
City of Bovill
City of Buhl
City of Burley
City of Caldwell
City of Cascade
City of Castleford
City of Challis
City of Chubbuck
City of Clark Fork
City of Coeur d' Alene
City of Cottonwood
City of Council
City of Craigmont
City of Culdesac
City of Dalton Gardens
City of Deary
City of Declo
City of Donnelly
City of Dover
City of Downey
City of Driggs
City of Dubois
City of Eagle
City of Emmett
City of Fairfield
City of Filer
City of Firth
City of Franklin
City of Fruitland
City of Garden City
City of Genesee
City of Georgetown
City of Glenns Ferry
City of Gooding
City of Grace
City of Grangeville
City of Greenleaf
City of Hagerman
City of Hailey
City of Hayden
City of Hayden Lake
City of Heyburn
City of Homedale
City of Hope
City of Horseshoe Bend
City of Idaho Falls
City of Inkom
City of Iona
City of Island Park
City of Jerome
City of Juliaetta
City of Kamiah
City of Kellogg
City of Kendrick
City of Ketchum
City of Kimberly
City of Kooskia
City of Kootenai
City of Kuna
City of Lapwai
City of Lava Hot Springs
City of Lewiston
City of Mackay
City of Malad
City of Malta
City of Marsing
City of McCall
City of McCammon
City of Melba
City of Menan
City of Meridian
City of Middleton
City of Montpelier
City of Moscow
City of Mountain Home
City of Moyie Springs
City of Mullan
City of Nampa
City of New Meadows
City of New Plymouth
City of Nez Perce
City of Notus
City of Old Town
City of Orofino
City of Osburn
City of Paris
City of Parma
City of Paul
City of Payette
City of Pinehurst
City of Plummer
City of Pocatello
City of Ponderay
City of Post Falls
City of Potlatch
City of Preston
City of Priest River
City of Rathdrum
City of Rexburg
City of Richfield
City of Rigby
City of Ririe
City of Roberts
City of Rupert
City of Salmon
City of Sandpoint
City of Shelley
City of Shoshone
City of Smelterville
City of Soda Springs
City of Spirit Lake
City of St. Anthony
City of St. Charles
City of St. Maries
City of Sugar City
City of Sun Valley
City of Tensed
City of Teton
City of Tetonia
City of Troy
City of Twin Falls
City of Ucon
City of Victor
City of Wallace
City of Weippe
City of Weiser
City of Wendell
City of Wilder
City of Winchester
City of Worley

Cascade Medical Center
Council Community Hospital
Elmore Medical Center
McCall Memorial Hospital District
Salmon River Hospital District
Weiser Memorial Hospital

Ada County Drainage District #2
Aberdeen-Springfield Canal Co.
American Falls Reservoir District#1
American Falls Reservoir District #2
Avondale Irrigation District
Bench Sewer District
Big Lost River Irrigation
Big Wood Canal Company
Black Canyon Irrigation District
Boise-Kuna Irrigation District
Boise Project Board of Control
Burley Irrigation District
Caldwell Irrigation Lateral District
Canyon Hill Irrigation District

Cataldo Water District
Central Orchards Sewer District
Central Shoshone County Water Dist.
Clearwater Soil & Water Conservation
Coolin Sewer District
Dalton Gardens Irrigation District
Eagle Sewer District
East Green Acres Irrigation District
E&W Cassia Sewer & Water District
East Shoshone County Water District
Fish Haven Area Rec Sewer District
Fremont-Madison Irrigation District
Grand View Mutual Canal Company
Hayden Area Regional Sewer Board
Hayden Lake Irrigation District
Idaho Irrigation District
Kalispel Bay Water/Sewer District
King Hill Irrigation District
Kingston-Cataldo Sewer District
Kingston Water District
Kootenai-Ponderay Sewer District
Lake Irrigation District
Lewiston Orchards Irrigation District
Little Wood River Irrigation District
Milner Low Lift Irrigation District
Minidoka Irrigation District
Mountain Home Irrigation District
Nampa-Meridian Irrigation District
New Sweden Irrigation District
New York Irrigation District
North Kootenai Water District
Orofino Cr-Whiskey Cr Water/Sewer
Owyhee Project Sewer Board
Owyhee Sewer District
Payette Lakes Water/Sewer District
People's Canal & Irrigation Company
Pinehurst Water District
Pioneer Irrigation District
Portneuf Soil & Water District
Progressive Irrigation District
Riverside Independent Water/Sewer
Riverside Irrigation District
Riverside Irrigation District Ltd.
Roseberry Irrigation District
Ross Point Water District
Settlers Irrigation District
Snake River Valley Irrigation District
South Fork Coeur d' Alene Sewer
Southside Water & Sewer District
Sun Valley Water & Sewer District
Twin Falls Canal Company
Valley Soil & Water Conservation
Water District #1
Water District #11
Water District #31
Water District #32C
Water District #34
Water District # 37 and #37M
Water District #37N
Water District #63
Weiser Irrigation District
West Boise Sewer District
West Bonner Water & Sewer District
Wilder Irrigation District

Ada County Highway District
Atlanta Highway District
Bliss Highway District #2
Buhl Highway District
Burley Highway District
Canyon Highway District #4
Central Highway District
Clarkia Better Roads Highway District
Clearwater Highway District
Cottonwood Highway District
Dietrich Highway District #5
Downey-Swan Lake Highway District
East Side Highway District
Evergreen Highway District
Fenn Highway District
Ferdinand Highway District
Fruitland Highway District #1
Gem Highway District
Glenns Ferry Highway District
Golden Gate Highway District
Gooding Highway District
Grangeville Highway District
Greencreek Highway District
Hagerman Highway District
Hillsdale Highway District
Homedale Highway District
Jerome Highway District
Kamiah Highway District
Keuterville Highway District
Kidder-Harris Highway District
Lakes Highway District
Minidoka County Highway District
Mountain Home Highway District
Nampa Highway District
North Highway District
North Latah County Highway District
Notus-Parma Highway District
Plummer-Gateway Highway District
Post Falls Highway District
Prarie Highway District
Raft River Highway District
Richfield Highway District #3
Sandpoint Ind. Highway District
Shoshone Highway District #2
So. Latah County Highway Dist. #2
Targhee Reg Public Transit Authority
Twin Falls Highway District
Union Independent Highway District
Weiser Valley Highway District
Wendell Highway District #6
West Point Highway District #4
Winona Highway District
Worley Highway District

Ada Planning Association
American Falls Housing Authority
Association of Idaho Cities
Bear Lake Regional Commission
Bingham County Senior Citizens Ctr.
Blaine County Recreational District
Boise City/Ada Cty. Housing Auth.
Caldwell Housing Authority
Canyon County Org. on Aging
Capital City Development Corp.
Clearwater-Potlatch Timber Protection
Dry Creek Cemetery District
Eastern Idaho Fair Board
Foster Grandparents of Southeast ID
Gem County Mosquito Abatement
Gem County Recreation District
Genesee Cemetery District
Gooding Cemetery District
Grangeville Cemetery District.
Hagerman Cemetery District
Hayden Area Recreational District
Housing Authority of Pocatello
Idaho School Board Association

Idaho Co. Reciprocal Mgmt. Program
Idaho Crop Improvement Association
Idaho Public Employees Association
Idaho Association of Counties
Idaho Heritage Trust, Inc.
Idaho Education Association
Idaho Assoc. of School Administrators
Idaho Risk Management Program
Lincoln County Cemetery District
Lincoln County Housing Authority
Local Highway Technical Assistance
M-A-R Cemetery District
Marsing-Homedale Cemetery
Meridian Cemetery District
Moscow Cemetery District
Nampa Housing Authority
Nampa Urban Renewal
Nez Perce County Fair Board
North Fremont Cemetery District
North Idaho Fair
Orofino Cemetery District
Port of Lewiston
Rexburg Cemetery District
Shelley Cemetery District
Southern Idaho Solid Waste District
Twin Falls Housing Authority
Valley Recreation Dist. of Hazelton
W. Bonner Cemetery Maintenance
West End Cemetery District
Wilder Cemetery District
Wilder Housing Authority

Aberdeen Library District
Ada County Free Library District
American Falls Free Library
Bear Lake County Free Library
Boundary County Free Library
Burley Public Library
East Bonner County Library District
Franklin County Library District
Fremont County Library District
Jefferson Free Library District
Latah County Library
Madison County Library District
Meadows Valley Public Library Dist.
Meridian Free Library
North Bingham County Library District
Oneida County Library
Portneuf Library District
Prairie-River Library District
Priest Lake Public Library
Salmon Library Association
South Bannock Free Library District
Valley of Tetons District Library Board
West Bonner Library District

Blackfoot Fire Department
Boise Fire Department
Buhl Fire Department
Burley Fire Department
Caldwell Fire Department
Central Fire District
Coeur d' Alene Fire Department
Cottonwood Rural Fire District
Donnelly Rural Fire Protection Assn
Franklin County Fire Dept.
Gem County Fire Protection Dist.
Greater Swan Valley Fire Protection
Hagerman Fire Protection District
Idaho Falls Fire Department
Jerome Fire Department
Ketchum Fire Department
Kootenai County Fire and Rescue
Kuna Fire District
Lewiston Fire Department
McCall Rural Fire District
Mica Kidd Island Fire District
Moscow Fire Department
Nampa Fire Department
No. Ada CtyFire/Rescue District
No. Ada Cty Fire/Rescue Volunteers
Northern Lakes Fire Protection Dist.
Northside Fire District
Payette Fire Department
Plummer-Gateway Fire Protect. Dist
Pocatello Fire Department
Rexburg-Madison Fire Department
Sagle Fire District
Saint Maries Fire Protection District
Sandpoint Fire Department
Shoshone County Fire District #1
Shoshone County Fire District #2
Shoshone Co. Fire Protection Dist #2
South Central Region E911
So. Idaho Timber Protection Assoc.
Spirit Lake Fire Protection District
Star Joint Fire Protection District
Teton County Fire Protection District
Timberlake Fire Protection District
Twin Falls Fire Department
Weiser Area Rural Fire District
Wendell Rural Fire District
Westside Fire District
Whitney Fire Protection District
Wood River Fire Protection District
Worley Ambulance Association
Worley Fire Protection District

Junior Colleges and Public School Districts

North Idaho College
College of Southern Idaho
Aberdeen School District
American Falls School District
ANSER Charter School
Arbon School District
Avery School District
Basin School District
Bear Lake School District
Blackfoot Charter Comm. Learning Ctr.
Blackfoot School District
Blaine County School District
Bliss School District
Boise Independent School District
Bonneville School District
Boundary School District
Bruneau-Grandview School District
Buhl School District
Butte County School District
Caldwell School District
Camas County School District
Cambridge School District
Canyon-Owyhee School District
Cascade School District
Cassia County School District
Castleford School District
Challis School District
Clark County School District
Clearwater School District
Coeur d' Alene Charter Academy
Coeur d' Alene School District
Cottonwood School District
Council School District
Culdesac School District
Dietrich School District
Emmett School District

Filer School District
Firth School District
Fruitland School District
Garden Valley School District
Genesee School District
Glenns Ferry School District
Gooding School District
Grace School District
Grangeville School District
Hagerman School District
Hansen School District
Hidden Springs Charter School
Highland School District
Homedale School District
Horseshoe Bend School District
Idaho Distance Education Academy
Idaho Falls School District
Idaho High School Activities Assoc.
Idaho Leadership Academy
Idaho Virtual Academy
Inspire Virtual Charter School
Jerome School District
Kamiah School District
Kellogg School District
Kendrick School District
Kimberly School District
Kootenai School District
Kuna School District
Lake Pend Oreille School District
Lakeland School District
Lapwai School District
Lewiston Independent School District
Liberty Charter School
Mackay School District
Madison School District
Marsh Valley School District
Marsing School District
McCall Donnelly School District
Meadows Valley School District
Melba School District
Meridian High School, Inc.
Meridian Medical Arts Charter
Meridian School District
Middleton School District
Midvale School District
Minidoka County School District
Moscow Charter School
Moscow School District
Mountain Home School District
Mullan School District
Murtaugh School District
Nampa School District
New Plymouth School District
Nez Perce School District
North Gem School District
North Star Charter School
Notus School District
Oneida School District
Parma School District
Payette School District
Pleasant Valley School District
Plummer-Worley School District
Pocatello Community Charter
Pocatello School District
Post Falls School District
Potlatch School District
Prairie School District
Preston School District
Renaissance Charter School
Richard McKenna Charter HS
Richfield School District
Rigby School District
Ririe School District
Rockland School District
Salmon School District
Sandpoint Charter School
Shelley School District
Shoshone School District
Snake River School District
Soda Springs School District
South Lemhi School District
St. Anthony School District
St. Maries School District
Sugar-Salem School District
Swan Valley School District
Teton School District
Three Creek School District
Thomas Jefferson Charter School
Troy School District
Twin Falls School District
Valley School District
Vallivue School District
Victory Charter School
Wallace School District
Weiser School District
Wendell School District
West Bonner County School District
West Jefferson School District
West Side School District
Whitepine Charter School
Whitepine School District
Wilder School District

Several publications and reports are distributed to members and employers to keep them informed about the status of their membership accounts and PERSI, including:

- Comprehensive Annual Financial Report
- Member Handbook
- Membership Account Statement
- Remittance Advice
- Newsletters
- Brochures
- Information Returns (Form 1099)
- Statement for Recipients of Annuities (Form W-2P)
- Pre-Retirement Education Materials
- Reports to Legislature
- Memorandums to Employers

To receive any of these, contact PERSI at 208-334-3365. Additional PERSI information can be found on PERSI's Web site at www.persi.state.id.us.

PERSI Office Locations:

Boise

Office Location:	Mailing Address:	Telephone:
607 North 8th Street	P.O. Box 83720	208-334-3365
Boise, ID	Boise, ID 83720-0078	1-800-451-8228

Coeur d'Alene

Office Location & Mailing Address:	Telephone:
2005 Ironwood Parkway	208-769-1474
Suite 226	1-800-962-8228
Coeur d'Alene, ID 83814	

Pocatello

Office Location:	Mailing Address:	Telephone:
850 East Center	P.O. Box 1058	208-236-6225
Suite "D"	Pocatello, ID 83204	1-800-762-8228
Pocatello, ID		

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PERSI

Public Employee Retirement System of Idaho

Costs associated with this publication are available from the Public Employee Retirement System of Idaho in accordance with Section 60-202, Idaho Code. 12-05/300/106001