# Financial Section

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the pension and other trust funds of the Public Employee Retirement System of Idaho (the "System"), a component unit of the State of Idaho, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the management of the System. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the System's financial statements and, in our report dated October 27, 2008, we expressed an unqualified opinion on the respective financial statements of the pensions and other trust funds.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the pension and other trusts as of June 30, 2009, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2009, on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis information and supplementary information as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

October 20, 2009
Boise, Idaho

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# PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

## MANAGEMENT'S DISCUSSION AND ANALYSIS
## YEAR ENDED JUNE 30, 2009 (UNAUDITED)

Management is pleased to provide Management's Discussion and Analysis ("MD&A") of the financial activities of the Public Employee Retirement System of Idaho (the "System" or "PERSI") as of and for the year ended June 30, 2009. The June 30, 2008 amounts are combined and are provided for comparative purposes. This overview and analysis is designed to focus on current known facts and activities and resulting changes.

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

Financial Highlights

- Plan net assets for all pension and other funds administered by the System decreased $1.8 billion during fiscal year 2009 and decreased $571 million during the fiscal year 2008. The decreases in the Defined Benefit Plans, Choice Plans, and Sick Leave Fund were primarily due to the overall down turn in the investment market.

| | 2009 | 2008 |
|---|---|---|
| PERSI Base Plan | $ (1,758,322,568) | $ (545,083,259) |
| Firefighters' Retirement Fund | (48,683,077) | (17,518,273) |
| PERSI Choice Plan 414(k) | (13,387,646) | (6,153,975) |
| PERSI Choice Plan 401(k) | (9,508,433) | 20,715,413 |
| Sick Leave Insurance Reserve Fund - State | (8,447,797) | (8,845,372) |
| Sick Leave Insurance Reserve Fund - Schools | (12,900,478) | (14,118,723) |
| Total decrease/increase in plan net assets | $ (1,851,249,999) | $ (571,004,189) |

- Assets for the two defined benefit plans, the PERSI Base Plan and the FRF, are pooled for investment purposes. For the fiscal years ended June 30, 2009 and 2008, the rate of return net of investment expenses on the pooled investment assets are detailed below (these are plan-level returns). For the defined contribution plans, PERSI Choice Plan 414(k) and 401(k), individual participant returns may vary depending on their specific investment choices.

| | 2009 | 2008 |
|---|---|---|
| PERSI Defined Benefit Plans | (16.3)% | (4.6)% |
| PERSI Defined Contribution Plans | (16.2)% | (5.1)% |
| Sick Leave Insurance Reserve Fund | (16.3)% | (9.7)% |

All of the plans experienced unrealized losses as a result of an overall downturn in the investment market. Net investment income for all of the funds administered by the System for the fiscal years ended June 30, 2009 and 2008, was ($1.819) billion and ($562) million, respectively.

| | 2009 | 2008 |
|---|---|---|
| Net investment income: | | |
| PERSI Base Plan | $ (1,698,871,203) | $ (503,701,502) |
| Firefighters' Retirement Fund | (44,190,963) | (13,244,956) |
| PERSI Choice Plan 414(k) | (10,515,798) | (3,113,150) |
| PERSI Choice Plan 401(k) | (39,378,741) | (13,453,086) |
| Sick Leave Insurance Reserve Fund - State | (9,976,100) | (10,878,863) |
| Sick Leave Insurance Reserve Fund - Schools | (16,505,489) | (17,999,083) |
| Total net investment loss | $ (1,819,438,294) | $ (562,390,640) |

- As of June 30, 2009 and 2008, the funding ratio (actuarial value of assets divided by actuarial accrued liability) and amortization period (estimated time to payoff unfunded liability) for the unfunded actuarial liability for the Base Plan is as follows.

| | 2009 Funding Ratio | Amortization Period | 2008 Funding Ratio | Amortization Period |
|---|---|---|---|---|
| PERSI Base Plan | 74.1% | over 100 years | 93.3% | 15.6 years |
| Firefighters' Retirement Fund | 69.3% | 8.5 years | no | valuation |

For the PERSI defined benefit plans, deductions for benefits and administrative expenses exceeded contributions and other income by $63.9 million and $45.7 million for Fiscal Years 2009 and 2008, respectively. This increase in negative net cash flow is normal for a mature plan and has been included in our long-range actuarial planning. Investment income over a long time horizon fills in the gap. These changes combined with investment losses of $1.8 billion in 2009, decreased the net assets of the defined benefit plans to $8.9 billion. An investment loss of $516 million resulted in net assets for the defined benefit plans decreasing to $10.7 billion in 2008. For actuarial calculations, the System's actuary uses market value to determine the actuarial value of assets. For the July 1, 2009 and 2008 valuations, the actuarial value of assets for the PERSI Base Plan was $8.6 billion and $10.4 billion, respectively. The aggregate actuarial liability for all PERSI Base Plan employers was $11.7 billion on July 1, 2009. On an actuarial basis, the assets held as of July 1, 2009, fund 74.1% 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 30 of this report. The actuarial funding ratio for the two defined benefit plans declined of historically low investment performance well below the actuarial expected rate.

**Using the Annual Financial Report**

This discussion and analysis is intended to serve as an introduction to the System's financial statements. The financial section is comprised of four additional components: (1) fund financial statements, (2) notes to financial statements, (3) required supplementary information, and (4) 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, 2009 and 2008 indicates the net assets available to pay future payments and gives a snapshot at a particular point in time. The statement of changes in plan net assets for the years ended June 30, 2009 and 2008 provides a view of the current year's activity. It details the additions and deductions to the individual funds and supports the change to the prior year's ending net asset value on the statement of net assets. All pension fund statements are presented on a full accrual basis and reflect all trust activities, as incurred.

*Notes to Financial Statements* — The notes provide additional information essential for a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 31–46 of this report.

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

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

**Comparative Financial Statements**

***Defined Benefit Pension Trust Funds***

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

**Defined Benefit Pension Trust Funds Net Assets**

| | As of June 30, 2009 | As of June 30, 2008 | $ Change | % Change |
|---|---|---|---|---|
| Assets: | | | | |
| Cash and cash equivalents | $ 2,878,187 | $ 2,964,994 | $ (86,807) | (2.9)% |
| Investments sold receivable | 956,187,923 | 978,653,811 | (22,465,888) | (2.3)% |
| Other receivables | 41,381,903 | 51,597,217 | (10,215,314) | (19.8)% |
| Investments — at fair value | 8,983,739,876 | 11,009,984,968 | (2,026,245,092) | (18.4)% |
| Prepaid retiree benefits | 39,753,087 | 37,136,110 | 2,616,977 | 7.0 % |
| Capital assets — net of accumulative depreciation | 2,450,321 | 2,550,603 | (100,282) | (3.9)% |
| Total assets | 10,026,391,297 | 12,082,887,703 | (2,056,496,406) | (17.0)% |
| Liabilities: | | | | |
| Investments purchased payable | 1,127,886,499 | 1,375,704,493 | (247,817,994) | (18.0)% |
| Benefits and refunds payable | | 619,616 | (619,616) | (100.0)% |
| Other liabilities | 10,152,751 | 11,205,902 | (1,053,151) | (9.4)% |
| Total liabilities | 1,138,039,250 | 1,387,530,011 | (249,490,761) | (18.0)% |
| Net assets available for benefits | $ 8,888,352,047 | $ 10,695,357,692 | $ (1,807,005,645) | (16.9)% |

The fiscal year ended June 30, 2009, was marked by an overall downturn in the investment market. Liabilities for benefits and refunds payable vary at fiscal year end depending on member request and timing. Change in asset values and timing of payments can affect the balance of liabilities at the balance sheet date.

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

**Defined Benefit Pension Trust Funds Changes in Net Assets**

| | Year Ended June 30, 2009 | Year Ended June 30, 2008 | $ Change | % Change |
|---|---|---|---|---|
| Additions: | | | | |
| Member contributions | $ 180,081,763 | $ 170,733,787 | $ 9,347,976 | 5.5 % |
| Employer contributions | 298,042,867 | 286,277,106 | 11,765,761 | 4.1 % |
| Investment income | (1,743,062,166) | (516,946,458) | (1,226,115,708) | (237.2)% |
| Other additions | 84,268 | 215,297 | (131,029) | (60.9)% |
| Total additions | (1,264,853,268) | (59,720,268) | (1,205,133,000) | (2018.0)% |
| Deductions: | | | | |
| Benefits and refunds paid | 535,919,699 | 496,975,684 | 38,944,015 | 7.8 % |
| Administrative expenses | 6,232,678 | 5,905,580 | 327,098 | 5.5 % |
| Total deductions | 542,152,377 | 502,881,264 | 39,271,113 | 7.8 % |
| Changes in net assets available for benefits | $ (1,807,005,645) | $ (562,601,532) | $ (1,244,404,113) | (221.2)% |

The annual amount of Investment Income and Changes in Net Assets Available for Benefits decreased from Fiscal Year 2008 to Fiscal Year 2009 because of the downturn in the investment market. The decrease in Other Additions was due to smaller average cash balances on hand for interest earnings at the State Treasurer Office. The increase in Benefits and Refunds Paid was a result of increased number of retirees and the 1% Cost of Living Adjustment (COLA) increase for benefits paid.

***Defined Contribution Pension Trust Funds***

During Fiscal Year 2009, the System administered two defined contribution plans. The PERSI Choice Plans, qualified plans under Internal Revenue Code, consist of a 401(k) plan and a 414(k) plan and provides another retirement benefit option to members of the Defined Benefit Pension Trust Funds.

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

### Defined Contribution Pension Trust Funds Net Assets

| | As of June 30, 2009 | As of June 30, 2008 | $ Change | % Change |
|---|---|---|---|---|
| Assets: | | | | |
| Cash | $ 12,676 | $ 18,117 | $ (5,441) | (30.0)% |
| Short-term investments | 655,896 | 959,778 | (303,882) | (31.7)% |
| Investments — at fair value | 286,163,525 | 308,347,728 | (22,184,203) | (7.2)% |
| Receivables | 1,259,847 | 1,662,400 | (402,553) | (24.2)% |
| Total assets | 288,091,944 | 310,988,023 | (22,896,079) | (7.4)% |
| Net assets available for benefits | $ 288,091,944 | $ 310,988,023 | $ (22,896,079) | (7.4)% |

Investments decreased from Fiscal Year 2008 to Fiscal Year 2009. The decrease reflects the overall downturn in the investment market. Receivables include contributions that are not yet recorded by the record keeper at year end plus accrued interest and dividends.

### Defined Contribution Pension Trust Funds Changes in Net Assets

| | June 30, 2009 | June 30, 2008 | $ Change | % Change |
|---|---|---|---|---|
| Additions: | | | | |
| Member contributions | $ 35,680,207 | $ 34,868,604 | $ 811,603 | 2.3 % |
| Employer contributions | 153,211 | 217,878 | (64,667) | (29.7)% |
| Investment income | (49,894,538) | (16,566,235) | (33,328,303) | (201.2)% |
| Transfers and rollovers in | 6,057,764 | 8,946,219 | (2,888,455) | (32.3)% |
| Total | (8,003,356) | 27,466,466 | (35,469,822) | (129.1)% |
| Deductions: | | | | |
| Benefits and refunds paid | 6,766,643 | 5,631,977 | 1,134,666 | 20.1 % |
| Transfers and rollovers out | 8,126,080 | 7,273,051 | 853,029 | 11.7 % |
| Total deductions | 14,892,723 | 12,905,028 | 1,987,695 | 15.4 % |
| Changes in net assets available for benefits | $ (22,896,079) | $ 14,561,438 | $ (37,457,517) | (257.2)% |

Investment Income and changes in net assets available for benefits decreased from Fiscal Year 2008 to Fiscal Year 2009 because of the downturn in the investment market. Transfers In and Transfers Out represent rollovers from/to other plans. Member Contributions grew due to an increase in the number of employees with salary deferrals. Changes in Employer Contributions vary up or down according to individual employers' desire to match employee contributions. The increase in Benefits and Refunds Paid is a result of an increase in the number of retirees receiving benefits.

### *Other Trust Funds*

During Fiscal Year 2009, the System administered two Sick Leave Insurance Reserve Fund (SLIRF) trusts. The PERSI SLIRF provides payment of eligible postretirement insurance premiums on behalf of retired state and public school district employees, based on accumulated unused sick leave at the time of retirement. The Fund's contributions are financed by state agency and school district employers of the System which make up the two separate trusts within the Fund.

### Sick Leave Insurance Reserve Funds Net Assets

| | As of June 30, 2009 | As of June 30, 2008 | $ Change | % Change |
|---|---|---|---|---|
| Assets: | | | | |
| Cash | $ 133,982 | $ 55,068 | $ 78,914 | 143.3 % |
| Investments — at fair value | 186,295,209 | 207,833,734 | (21,538,525) | (10.4)% |
| Prepaid insurance premiums | 1,145,220 | 1,079,293 | 65,927 | 6.1 % |
| Due from other funds | 1,625,810 | 1,584,932 | 40,878 | 2.6 % |
| Total assets | 189,200,221 | 210,553,027 | (21,352,806) | (10.1)% |
| Liabilities — other liabilities | 21,151 | 25,682 | (4,531) | (17.6)% |
| Net assets available for benefits | $ 189,179,070 | $ 210,527,345 | $ (21,348,275) | (10.1)% |

Investments decreased Fiscal Year 2008 to Fiscal Year 2009 because of the overall downturn in the investment markets. The increase in cash balance is the result of timing differences in operating cash needed to meet current liabilities.

### Sick Leave Insurance Reserve Funds Changes in Net Assets

| | Year Ended June 30, 2009 | Year Ended June 30, 2008 | $ Change | % Change |
|---|---|---|---|---|
| Additions: | | | | |
| Employer contributions | $ 19,558,689 | $ 18,832,297 | $ 726,392 | 3.9 % |
| Investment income | (26,481,589) | (28,877,944) | 2,396,355 | 8.3 % |
| Other additions | 8,608 | 27,865 | (19,257) | (69.1)% |
| Total additions | (6,914,292) | (10,017,782) | 3,103,490 | 31.0 % |
| Deductions: | | | | |
| Benefits and refunds paid | 14,339,783 | 12,867,321 | 1,472,462 | 11.4 % |
| Administrative expenses | 94,200 | 78,990 | 15,210 | 19.3 % |
| Total deductions | 14,433,983 | 12,946,311 | 1,487,672 | 11.5 % |
| Changes in net assets available for benefits | $ (21,348,275) | $ (22,964,093) | $ 1,615,818 | 7.0 % |

Investment Income decreased Fiscal Year 2009 from Fiscal Year 2008 because of the downturn in the investment markets. The decrease in Other Additions was due to a decrease in interest earnings on the cash balance held at the State Treasurer's Office.

## Plan Membership

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

### Changes in Plan Membership

| | Base Plan | | | Choice Plan | | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | Change | 2009 | 2008 | Change |
| Active participants | 67,813 | 66,765 | 1.6 % | 45,410 | 46,650 | (2.7)% |
| Vested - Base Plan | 42,205 | 41,502 | 1.7 % | | | |
| Non-vested - Base Plan | 25,608 | 25,263 | 1.4 % | | | |
| Actively contributing - Choice Plan | | | | 12,912 | 10,286 | 25.5 % |
| Retirees and beneficiaries | 32,197 | 30,912 | 4.2 % | 66 | 60 | 10.0 % |
| Terminated vested | 10,067 | 10,083 | 8.1 % | 10,235 | 10,154 | 0.8 % |

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

### Changes in Retirees and Beneficiaries (Base Plan)

| | |
|---|---|
| Beginning — June 30, 2008 | 30,912 |
| New Retirements | 2,216 |
| Death of retiree/beneficiary | 931 |
| Ending — July 1, 2009 | 32,197 |

### Investment Activities

Long-term (20-25 year) asset growth is vital to the Defined Benefit Plans' current and continued financial stability. Therefore, trustees have a fiduciary responsibility to act with prudence and discretion when making plan investment decisions. To assist the Board in this area, a comprehensive formal investment policy is updated periodically. As managers are added, specific detailed investment guidelines are developed, adopted, and become part of that manager's agreement.

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

### Economic Factors

PERSI, like any pension fund, has a broad range of opportunities for investment in the open market, as well as many choices for asset allocation and investment managers.

As of July 1, 2009, PERSI's Base Plan has a funded ratio of 74.1% and an amortization period on the unfunded actuarial liability well over the statutory 25 years. A contribution rate increase is under consideration. This decrease in the funded ratio was due to an investment return before expenses of -16.0% for Fiscal Year 2009. The actuarial experience loss (change in unfunded actuarial accrued liability) for Fiscal Year 2009 was approximately $2.28 billion leaving a $3.027 billion Unfunded Actuarial Accrued Liability at the year end.

As of September 30, 2009, the Base Plan had an investment return of +12.3% and a gain in net assets of over $1 billion making progress in recovering the losses experienced in Fiscal Year 2009.

# PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

## STATEMENTS OF PLAN NET ASSETS – PENSION TRUST FUNDS AND OTHER TRUST FUNDS
## JUNE 30, 2009 WITH COMPARATIVE FINANCIAL INFORMATION FOR JUNE 30, 2008

| | Pension Trust Funds | | | |
|---|---|---|---|---|
| | PERSI | Firefighters' | PERSI Choice Plan | |
| | Base Plan | Retirement Fund | 414(k) | 401(k) |
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 2,804,870 | $ 73,317 | $ - | $ 12,676 |
| Investments—at fair value | | | | |
| Fixed income investments | | | | |
| Domestic | 2,057,519,518 | 53,782,136 | - | - |
| International | 33,190,520 | 867,577 | - | - |
| Idaho commercial mortgages | 420,913,232 | 11,002,381 | - | - |
| Short-term investments | 352,651,367 | 9,218,063 | - | 655,896 |
| Real estate equities | 472,968,320 | 12,363,065 | - | - |
| Equity Securities | | | | |
| Domestic | 2,822,955,903 | 73,790,113 | - | - |
| International | 1,992,967,361 | 52,094,788 | - | - |
| Private equity | 601,726,809 | 15,728,722 | - | - |
| Mutual, collective, unitized funds | - | - | 50,452,055 | 235,711,470 |
| Total investments | 8,754,893,030 | 228,846,845 | 50,452,055 | 236,367,366 |
| Receivables | | | | |
| Investments sold | 931,946,180 | 24,241,743 | - | - |
| Contributions | 4,955,007 | 61,850 | - | 311,735 |
| Interest and dividends | 35,443,102 | 921,944 | 199,719 | 748,393 |
| Total receivables | 972,344,289 | 25,225,537 | 199,719 | 1,060,128 |
| Assets used in plan operations | 2,450,321 | - | - | - |
| Due from other plans | - | - | - | - |
| Prepaid retiree benefits | 39,753,088 | - | - | - |
| Total assets | 9,772,245,598 | 254,145,699 | 50,651,774 | 237,440,170 |
| **LIABILITIES** | | | | |
| Accrued liabilities | 8,315,672 | 211,269 | - | - |
| Benefits and refunds payable | - | - | - | - |
| Due to other plans | 1,625,810 | - | - | - |
| Investments purchased | 1,099,291,770 | 28,594,729 | - | - |
| Total liabilities | 1,109,233,252 | 28,805,998 | - | - |
| NET ASSETS HELD IN TRUST (see unaudited supplementary schedules of funding progress) | $ 8,663,012,346 | $ 225,339,701 | $ 50,651,774 | $ 237,440,170 |

*See notes to Financial Statements*

| Other Trust Funds | | | |
|---|---|---|---|
| Sick Leave Insurance Reserve Fund | | Totals | |
| State | Schools | 2009 | 2008 |
| $ 59,428 | $ 74,554 | $ 3,024,845 | $ 3,038,179 |
| 20,119,897 | 33,143,452 | 2,164,565,003 | 2,963,330,995 |
| - | - | 34,058,097 | 58,082,650 |
| - | - | 431,915,613 | 330,440,924 |
| - | - | 362,525,326 | 705,390,702 |
| - | - | 485,331,385 | 466,672,559 |
| 38,461,388 | 64,321,282 | 2,999,528,686 | 3,572,265,766 |
| 11,416,014 | 18,833,176 | 2,075,311,339 | 2,405,811,024 |
| - | - | 617,455,531 | 716,783,860 |
| - | - | 286,163,525 | 308,347,728 |
| 69,997,299 | 116,297,910 | 9,456,854,505 | 11,527,126,208 |
| - | - | 956,187,923 | 978,653,811 |
| - | - | 5,328,592 | 5,309,294 |
| - | - | 37,313,158 | 47,950,323 |
| - | - | 998,829,673 | 1,031,913,428 |
| - | - | 2,450,321 | 2,550,603 |
| 465,178 | 1,160,632 | 1,625,810 | 1,584,932 |
| 347,879 | 797,341 | 40,898,308 | 38,215,403 |
| 70,869,784 | 118,330,437 | 10,503,683,462 | 12,604,428,753 |
| 7,968 | 13,183 | 8,548,092 | 9,646,652 |
| - | - | - | 619,616 |
| - | - | 1,625,810 | 1,584,932 |
| - | - | 1,127,886,499 | 1,375,704,493 |
| 7,968 | 13,183 | 1,138,060,401 | 1,387,555,693 |
| $ 70,861,816 | $ 118,317,254 | $ 9,365,623,061 | $ 11,216,873,060 |

# PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

## STATEMENTS OF CHANGES IN PLAN NET ASSETS – PENSION TRUST FUNDS AND OTHER TRUST FUNDS
### YEAR ENDED JUNE 30, 2009 WITH COMPARATIVE FINANCIAL INFORMATION FOR JUNE 30, 2008

| | Pension Trust Funds | | | |
|---|---|---|---|---|
| | PERSI | Firefighters' | PERSI Choice Plan | |
| | Base Plan | Retirement Fund | 414(k) | 401(k) |
| ADDITIONS | | | | |
| Contributions | | | | |
| Members | $ 180,063,010 | $ 18,753 | $ - | $ 35,680,207 |
| Empolyers | 284,608,663 | 13,434,204 | - | 153,211 |
| Transfers and rollovers in | - | - | - | 6,057,764 |
| Total contributions | 464,671,673 | 13,452,957 | - | 41,891,182 |
| Investment income | | | | |
| Net appreciation in fair value of investments | (1,920,771,032) | (49,963,011) | (11,880,802) | (45,522,778) |
| Interest, dividends and other investment income | 261,769,103 | 6,809,126 | 1,551,520 | 6,224,418 |
| Less investment expenses | (39,869,274) | (1,037,078) | (186,516) | (80,380) |
| Total investment income- net | (1,698,871,203) | (44,190,963) | (10,515,798) | (39,378,740) |
| Other- net | 84,268 | - | - | - |
| Total additions | (1,234,115,262) | (30,738,006) | (10,515,798) | 2,512,442 |
| DEDUCTIONS | | | | |
| Benefits and refunds paid to members and beneficiaries | 517,974,628 | 17,945,071 | 1,814,867 | 4,951,776 |
| Administrative expenses | 6,232,678 | - | - | - |
| Transfers and rollovers out | - | - | 1,056,981 | 7,069,099 |
| Total deductions | 524,207,306 | 17,945,071 | 2,871,848 | 12,020,875 |
| DECREASE IN NET ASSETS | (1,758,322,568) | (48,683,077) | (13,387,646) | (9,508,433) |
| NET ASSETS HELD IN TRUST | | | | |
| Beginning of year | 10,421,334,914 | 274,022,778 | 64,039,420 | 246,948,603 |
| End of year | $ 8,663,012,346 | $ 225,339,701 | $ 50,651,774 | $ 237,440,170 |

*See notes to Financial Statements*

| Other Trust Funds | | | |
|---|---|---|---|
| Sick Leave Insurance Reserve Fund | | Totals | |
| State | Schools | 2009 | 2008 |
| $ - | $ - | $ 215,761,970 | $ 205,602,392 |
| 5,889,260 | 13,669,429 | 317,754,767 | 305,327,281 |
| - | - | 6,057,764 | 8,946,219 |
| 5,889,260 | 13,669,429 | 539,574,501 | 519,875,892 |
| (13,181,934) | (21,809,592) | (2,063,129,149) | (853,679,206) |
| 3,239,763 | 5,360,237 | 284,954,167 | 340,572,633 |
| (33,929) | (56,134) | (41,263,311) | (49,284,067) |
| (9,976,100) | (16,505,489) | (1,819,438,293) | (562,390,640) |
| 2,554 | 6,054 | 92,876 | 243,162 |
| (4,084,286) | (2,830,006) | (1,279,770,916) | (42,271,586) |
| 4,328,025 | 10,011,758 | 557,026,125 | 515,474,982 |
| 35,486 | 58,714 | 6,326,878 | 5,984,570 |
| - | - | 8,126,080 | 7,273,051 |
| 4,363,511 | 10,070,472 | 571,479,083 | 528,732,603 |
| (8,447,797) | (12,900,478) | (1,851,249,999) | (571,004,189) |
| 79,309,613 | 131,217,732 | 11,216,873,060 | 11,787,877,249 |
| $ 70,861,816 | $ 118,317,254 | $ 9,365,623,061 | $ 11,216,873,060 |

# PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

## NOTES TO FINANCIAL STATEMENTS
## YEAR ENDED JUNE 30, 2009

## 1. GENERAL DESCRIPTION OF THE FUNDS

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

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

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

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

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

State agencies, school districts, cities, counties, highway districts, water and sewer districts, and other political subdivisions contribute to the System. As of June 30, 2009 and 2008, the number of participating employer units in the PERSI Base Plan was:

| | 2009 | 2008 |
|---|---|---|
| Cities | 146 | 146 |
| School districts | 151 | 149 |
| Highway and water districts | 124 | 122 |
| State subdivisions | 97 | 96 |
| Counties | 41 | 40 |
| Other | 165 | 153 |
| | 724 | 706 |

As of June 30, 2009 and 2008, the number of benefit recipients and members in the System consisted of the following:

| | 2009 | 2008 |
|---|---|---|
| Members, retirees and beneficiaries currently receiving benefits during the fiscal year and terminated employees entitled to benefits but not yet receiving them: | | |
| Members: | | |
| Active | 67,813 | 66,765 |
| Terminated and vested | 10,067 | 10,083 |
| Retirees and beneficiaries | 32,197 | 30,912 |

FRF has 23 participating employer units all consisting of fire departments also participating in PERSI. As of June 30, 2009, there were 5 active members and 526 retired members or beneficiaries, collecting benefits from FRF. The FRF covers a closed group of firefighters who were hired before October 1, 1980, and who receive benefits in addition to those provided under the Base Plan. The cost of these additional benefits is paid by FRF member and employer contributions and receipts from a fire insurance premium tax.

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

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

Upon termination of employment, accumulated member contributions plus interest, accrued at 1.0% from January 1, 2009 through June 30, 2009 (17.51% from July 1, 2008 through December 31, 2008) compounded monthly per annum, are refundable. Withdrawal of such accumulated contributions results in forfeiture of the member's accrued benefit; however, state law does include provisions for reinstatement of forfeited service upon repayment of the accumulated contributions plus interest.

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

The PERSI Choice Plans are defined contribution pension plans made up of a qualified 401(k) plan and a 414(k) plan. The assets of the two plans within the PERSI Choice Plans are commingled for investment and recordkeeping purposes. Participants direct their investment mix with the following restrictions: 1. Within the two international fund options, a participant may make up to two transfers involving one or both of those funds within a rolling 90-calendar-day period. 2. Effective April 1, 2009 a growth and income fund option added a 60 day purchase restriction; a participant who moves any portion of their holdings out of this fund will be prohibited from reinvesting in this same fund for 60 days.

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

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

All 724 PERSI employer units are eligible to have participating employees in the PERSI Choice Plan. As of June 30, 2009, there were 45,410 participants, with balances in the PERSI Choice Plans. Some of these participants are in both the 414(k) Plan and the 401(k) Plan. As of June 30, 2009, the Choice Plan 414(k) had 36,046 participants, and the Choice Plan 401(k) had 23,331. The administrative expenses of the PERSI Choice Plans are paid to ACS and funded by the PERSI Base Plan.

***Other Trust Funds*** —The Sick Leave Insurance Reserve Fund (SLIRF) is classified as a trust fund. For state and school employers, unused sick leave benefits are subject to the guidance of Governmental Accounting Standard Board (GASB) Statement 16, *Accounting for Compensated Absences* prior to the time of retirement.

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

The SLIRF is a fund that exists for the payment of unused sick leave benefits in the form of insurance premiums for state employees and school district employees who separate from service by reason of retirement. The assets of the two trusts are commingled for investment purposes. The System administers these trusts on behalf of the participating employers. Employers' contributions are a percentage of payroll collected each pay cycle and are held in trust for future benefits.
The SLIRF is used to pay eligible postretirement insurance premiums on behalf of former employees based on unused accumulated sick leave at their retirement date. The school districts and the State are responsible for any unfunded benefit obligations, respectively, through contribution rate adjustments.

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

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

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

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

The rate for state agency contributions was 0.65% of covered salary at June 30, 2009. In April 2006, Rule 552 section 2, addressing contribution rates for school districts, was amended which included a phased rate increase implemented over three years. Contribution percentages are based on the number of days of paid sick leave earned during the contract year for certified teachers. March 1, 2009 the scheduled rate changes were delayed until July 2011 and July 2012. The scheduled rates are as follows:

| Days Earned | Beginning - July 1, 2006 | July 1, 2011 | July 1, 2012 |
|---|---|---|---|
| 9–10 days | 1.16 % | 1.18 % | 1.21% |
| 11–14 days | 1.26 | 1.35 | 1.44% |
| More than 14 days | Individual rate to be set by the Retirement Board based on current cost and actuarial data and reviewed annually. | | |

***Subsequent Events -*** The Company has evaluated subsequent events through October 14, 2009, the date which the financial statements were available to be issued.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The Board utilizes and directs individual fund managers to provide whatever investment management and custodial functions the Board has determined best achieves the System's investment objectives. Each fund manager is generally granted full discretion in making investment decisions, within asset allocation policy, portfolio investment policy, specific investment guidelines and other special restrictions set by the Board. The Board monitors overall investment performance and periodically evaluates the performance of each fund manager. The Board in its administration of the System and management of the investment program is guided by the Idaho Uniform Prudent Investor Act, Sections 68-501 through 68-514 of the Idaho Code and of fiduciary responsibilities in

the Idaho Code, Section 59-1301, and is empowered in its sole discretion to limit, control, and designate the types and amounts of investments. The Board has adopted an investment policy including policy related to deposit and investment risks identified in GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

The fair value of investments is based on published market prices and quotations from major investment brokers, when available. Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments of matching duration. The fair value of real estate investments is based on industry practice. For recent acquisitions, cost closely approximates fair value. The fair value of longer term real estate holdings is estimated based on the System's consultant assessments and/or independent appraisals. Short-term investments are reported at market value, when published market prices and quotations are available, or at cost plus accrued interest, which approximate market value. The fair values of private equity limited partnership investments by their nature have no readily ascertainable market prices. Similar to real estate, cost closely approximates fair value for recent acquisitions. Thereafter, the fair values of limited partnership funds are based on the valuations as presented by the general partner, approved by the funds' advisory committee, and reviewed by consultants. Generally, the companies within a fund are valued by the general partner, taking into account many factors such as the purchase price, estimated liquidation value, significant events like initial public offerings, bankruptcies, and additional rounds of financing, and other relevant factors. Because of the lack of published market prices for these investments, the estimated fair values may differ significantly from the values that would have been used had a ready market for the investments existed. Although these differences could be material to the individual company values, private equity represents 7.1% of total investments. PERSI's real estate and commercial mortgage investments are 6.5% and 4.9%, respectively of total investments.

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

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

***Assets Used in Plan Operations*** — These assets represent buildings, equipment, and computer software development costs used by the System and are recorded at cost. Depreciation and amortization are calculated on the straight-line method over the estimated useful lives of the assets. The estimated useful life for buildings is 30 years. The estimated useful life of the computer software development costs is 5 years. Computer and technology equipment has a 3-year useful life.

***Totals*** — The basic financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the System's basic financial statements for the year ended June 30, 2008, from which the summarized information was derived.

## 3. DEPOSITS AND INVESTMENTS

### *A. Deposits*

Cash and cash equivalents are deposited with various financial institutions and are carried at cost plus accrued interest. Cash balances represent operating cash accounts held by various banks and on deposit with the State Treasurer. Cash held by the State Treasurer is held in the System's name and is fully insured or collateralized with securities held by the State Treasurer or by its agent in the State Treasurer's name. Cash deposits in bank accounts for operations are covered by federal depository insurance up to $250,000. 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 | $ 2,517,409 |
| FDIC insured/collateralized | 371,748 |
| Uninsured and uncollateralized | 135,688 |
| Total | **$ 3,024,845** |

### *B. Investments*

Investments of the pension trust funds are reported at fair value. See Note 2 for more details. The Board of Trustees maintains a formal Statement of Investment Policy, which addresses governing provisions and additional guidelines for the investment process. In fulfilling its responsibilities, the Board of Trustees has contracted with investment managers, a master global custodian, other custodians, and a cash manager. Manager contracts include specific guidelines regarding the PERSI investments under management. For the year ended June 30, 2009, BNY Mellon Asset Servicing is the global custodian for the majority of the investments of the combined PERSI Base Plan, FRF, and PERSI Choice Plans.

Investments at fair value as of June 30, 2009 are as follows:

| | |
|---|---|
| Domestic fixed income | $ 2,111,301,654 |
| Co-mingled domestic fixed income (Sick Leave Insurance Reserve Fund) | 53,263,349 |
| International Fixed Income | 34,058,097 |
| Idaho commercial mortgages | 431,915,613 |
| Short-term investments | 362,525,326 |
| Real Estate | 485,331,385 |
| Domestic equities | 2,896,234,609 |
| Domestic equities-Convertibles | 511,407 |
| Co-mingled domestic equity-(Sick Leave Insurance Reserve Fund) | 102,782,670 |
| International equities | 2,045,062,149 |
| Co-mingled international equity-(Sick Leave Insurance Reserve Fund) | 30,249,190 |
| Private Equity | 617,455,531 |
| Mutual Funds, collective, unitized funds | 286,163,525 |
| **Total Investments** | **$ 9,456,854,505** |

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

Futures contracts are contracts for delayed delivery or receipt of securities in which the seller agrees to make delivery and the buyer agrees to take delivery at a specified future date, of a specified instrument, at a specified price. Market risk arises due to market price and interest rate fluctuations that may result in a decrease in the fair value of futures contracts. Futures contracts are traded on organized exchanges and require initial margin in the form of cash or marketable securities. Each day the net change in the futures contract value is settled in cash with the exchanges. Holders of futures contracts look to the exchange for performance under the contract. Accordingly, the credit risk due to the nonperformance of counterparties to futures contracts is minimal. At June 30, 2009, the System had futures contracts with a fair value of $(59,242), which is included in Fixed Income Investments. Cash equivalents and short-term investments in amounts necessary to settle the futures contracts were held in the portfolio so that no leverage was employed, in accordance with the System's Statement of Investment Policy.

At June 30, 2009, the System had the following net futures contracts exposure:

| | Exposure covered by contract |
|---|---|
| Cash and cash equivalents — Eurodollar | $ 39,445,213 |
| U.S. Treasury bond futures | (2,012,109) |
| U.S. Treasury note futures | 39,415,375 |
| German Treasury note futures | 6,801,310 |

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, 2009, the System had option contracts payable with a fair value of $92,691, which is included in liabilities reported as Investments Purchased.

At June 30, 2009, the System had the following options contracts exposure:

| | Exposure covered by contract |
|---|---|
| Cash and cash equivalents written call options | $ 3,488 |
| Cash and cash equivalents written put options | 1,000 |
| Fixed income written call options | 76,734 |
| Fixed income written put options | 11,469 |

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, 2009, the System had entered into forward currency contracts to sell foreign currencies with a fair value of $952,551,870 and had entered into forward currency contracts to buy foreign currencies with a fair value of $958,831,275. Forward currency contracts are receivables or payables reported as investments sold or investments purchased. Net unrealized losses of $6,279,405 at June 30, 2009 were recorded, which represent the loss which would occur from executing these forward foreign currency contracts at June 30, 2009.

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

***TIPS*** — Treasury Inflation Protected Securities (TIPS) are fixed income securities issued by the U.S. Treasury that pay a fixed coupon rate plus an adjustment for subsequent inflation. At June 30, 2009, the System had invested in TIPS with a fair value of $1,039,631,454.

### *C. Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the System. The System's investment policies requires each portfolio manager to maintain a reasonable risk level relative to its benchmark and provided expected credit risk exposures in their portfolio guidelines. If the actual credit risk exposure falls outside of these expectations, managers will be required to report these occurrences to Staff and these disclosures are to be made available to the Board.

As of June 30, 2009, the System's fixed income assets that are not government guaranteed represented 58% of the fixed income portfolio. The System's fixed income assets are shown with current credit ratings in the table below.

| Credit Quality S&P Rating Level | Domestic | International | Total |
|---|---|---|---|
| Agency (A-1+) | $ 337,351,321 | $ - | $ 337,351,321 |
| AAA | 86,553,675 | 15,738,916 | 102,292,591 |
| AA | 20,999,024 | 1,496,186 | 22,495,210 |
| A | 305,875,590 | 11,757,679 | 317,633,269 |
| BBB | 114,799,102 | 1,855,883 | 116,654,985 |
| BB | 18,952,592 | 29,750 | 18,982,342 |
| B | 15,655,096 | 6,585 | 15,661,681 |
| CCC | 7,150,632 | - | 7,150,632 |
| CC | 750,520 | - | 750,520 |
| C | 26,004 | - | 26,004 |
| D | 1,999,090 | 12,924 | 2,012,014 |
| Not rated | 275,302,447 | 3,160,175 | 278,462,622 |
| Total credit risk fixed income securities | 1,185,415,093 | 34,058,098 | 1,219,473,191 |
| U.S. government | 1,252,050,191 | - | 1,252,050,191 |
| Pooled investments | 72,138,984 | - | 72,138,984 |
| Idaho mortgages | 431,915,613 | - | 431,915,613 |
| Total | $ 2,941,519,881 | $ 34,058,098 | $ 2,975,577,979 |

Each portfolio is managed in accordance with operational guidelines that are specific as to expected portfolio characteristics that usually, but not always, include credit quality and exposure levels. Per the System's investment policy, these characteristics are established and monitored within each portfolio, with variances reported by the manager.

### *D. Custodial Credit Risk*

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

The System's short-term investments are created through daily sweeps of excess cash by the System's custodian and cash manager into short-term investment funds. Clearwater Advisors, LLC is the System's cash manager and invests the bulk of the System's cash in short-term instruments. Clearwater Advisors manages approximately 94% of the System's short-term investments. Of the short-term investments at June 30, 2009, $16,890,090 was held by various counterparties not in the System's name. The remainder of the pooled short-term investment funds is invested in bank-maintained collective investment funds except collective vehicles held and managed by individual investment managers.

### *E. Concentration of Credit Risk*

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

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

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

***F. Interest Rate Risk***

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

Effective duration of domestic fixed income assets by security type:

| Investment | Fair Value | Effective Duration in Years |
|---|---|---|
| Asset-backed Securities | $ 3,991,376 | 0.39 |
| Asset-backed Securities | 1,515,526 | N/A |
| Mortgages | 27,631,056 | 1.89 |
| Mortgages | 2,806,719 | N/A |
| Commercial Paper | 238,393,705 | 0.07 |
| Commercial Paper | 23,385,325 | N/A |
| Corporate Bonds | 345,269,378 | 5.83 |
| Corporate Bonds | 10,227 | N/A |
| Fixed Income Derivatives | (55,757) | 24.37 |
| Fixed Income Derivatives | (69,028) | N/A |
| Government Agencies | 184,427,056 | 3.51 |
| Government Bonds | 238,382,805 | 6.16 |
| Government Mortgage-backed Securities | 215,716,823 | 2.95 |
| Pooled Investments | 18,875,635 | 0.08 |
| Pooled Investments | 53,263,350 | N/A |
| Preferred Stock | 225,356 | 1.51 |
| Preferred Stock | 243,756 | N/A |
| Private Placements | 30,678,870 | 2.11 |
| Private Placements | 111,244,705 | N/A |
| TIPS | 1,013,667,385 | 4.86 |
| Idaho Mortgages | 431,915,613 | N/A |
| Total | $ 2,941,519,881 | |

Continued

Effective duration of international fixed income assets by security type:

| Investment | Fair Value | Effective Duration in Years |
|---|---|---|
| Asset Backed Securities | $ 256,474 | 3.49 |
| Asset Backed Securities | 42,723 | N/A |
| Corporate Bonds | 1,455,597 | 4.84 |
| Government Agencies | 8,341,270 | 3.62 |
| Government Bonds | 23,977,476 | 4.89 |
| Fixed Income Derivatives | (15,442) | N/A |
| Total | $ 34,058,098 | |

### *G. Foreign Currency Risk*

Foreign currency risk is the risk that changes in currency exchange rates will adversely impact the fair value of an investment. The System's currency risk exposures, or exchange rate risk, primarily reside within the international equity investment holdings. The System expects the managers of these holdings to maintain adequately diversified portfolios to limit foreign currency risk. Per the System's investment policy, individual manager guidelines outline at a minimum, ranges of currency exposure which are monitored within each portfolio. Managers are required to report variances to the System. Currency gains and losses will result from exchange rate fluctuations. The System's exposure to foreign currency risk expressed in U.S. dollars as of June 30, 2009, is highlighted in the table below:

Currency exposures:

| Currency | Short-term Investment | Equities | Fixed Income | Total USD Equivalent Fair Value |
|---|---|---|---|---|
| AUSTRALIAN DOLLAR | $ (3,156,717) | $ 78,815,386 | $ 3,644,799 | $ 79,303,468 |
| BRAZIL REAL | 1,059,818 | 91,851,704 | 1,674,863 | 94,586,385 |
| BRITISH POUND STERLING | 2,680,905 | 275,184,482 | 3,149,260 | 281,014,646 |
| CANADIAN DOLLAR | (2,856,103) | 37,781,427 | 11,358,265 | 46,283,589 |
| CHILEAN PESO | 50,388 | 2,698,088 | - | 2,748,476 |
| CHINESE YUAN RENMINBI | - | 27,050 | - | 27,050 |
| CZECH KORUNA | 50,562 | 3,337,202 | - | 3,387,764 |
| DANISH KRONE | 38,108 | 5,899,525 | - | 5,937,634 |
| EGYPTIAN POUND | 56 | 17,124,949 | - | 17,125,004 |
| EURO CURRENCY UNIT | (4,062,010) | 543,616,538 | 6,752,300 | 546,306,828 |
| HONG KONG DOLLAR | 4,940,774 | 174,102,750 | - | 179,043,524 |
| HUNGARIAN FORINT | 32,009 | 9,912,526 | - | 9,944,535 |
| INDONESIAN RUPIAN | 20,221 | 60,845,711 | - | 60,865,932 |
| ISRAELI SHEKEL | 40,759 | 17,463,903 | - | 17,504,662 |
| JAPANESE YEN | (8,566,677) | 288,585,743 | - | 280,019,066 |
| KENYAN SHILLING | - | 289,685 | - | 289,685 |
| MALAYSIAN RINGGIT | - | 7,505,660 | - | 7,505,660 |
| MEXICAN NEW PESO | (4,699,311) | 14,253,829 | 5,036,166 | 14,590,684 |
| NEW TAIWAN DOLLAR | 1,620,026 | 54,798,232 | - | 56,418,258 |
| NEW TURKISH LIRA | (375,384) | 60,643,709 | - | 60,268,325 |
| NEW ZEALAND DOLLAR | 3,851 | 2,196,474 | - | 2,200,324 |
| NORWEGIAN KRONE | 137,955 | 6,527,715 | - | 6,665,670 |
| PHILIPPINES PESO | 66,229 | 2,721,347 | - | 2,787,576 |
| POLISH ZLOTY | (1,418,888) | - | 2,939,267 | 1,520,379 |
| S AFRICAN COMM RAND | 755,309 | 101,760,080 | - | 102,515,390 |
| SINGAPORE DOLLAR | 151,161 | 22,030,362 | - | 22,181,523 |
| SOUTH KOREAN WON | 1,063,569 | 97,676,057 | - | 98,739,626 |
| SRI LANKA RUPEE | - | 426,690 | - | 426,690 |
| SWEDISH KRONA | 15,268 | 23,133,355 | - | 23,148,623 |
| SWISS FRANC | 878,448 | 75,228,113 | - | 76,106,560 |
| THAILAND BAHT | 218,431 | 31,028,714 | - | 31,247,144 |
| ZIMBABWE DOLLAR | - | 341,867 | - | 341,867 |
| Total value of investments subject to foreign currency risk | $ (11,311,244) | $ 2,107,808,870 | $ 34,554,921 | $ 2,131,052,547 |

## 4. ASSETS USED IN PLAN OPERATIONS

Assets used in plan operations at June 30, 2009, consist of the following:

| | 2009 |
|---|---|
| Buildings and improvements | $ 5,515,888 |
| Less accumulated depreciation | (3,160,106) |
| Total buildings and improvements | 2,355,782 |
| Computer software development | 6,331,360 |
| Less accumulated amortization | (6,331,360) |
| Total computer software development | - |
| Equipment | 210,544 |
| Less accumulated depreciation | (116,005) |
| Total equipment | 94,539 |
| Total assets used in plan operations - net | $ 2,450,321 |

For the year ended June 30, 2009, depreciation expense on the buildings and improvements was $160,695. The computer software development costs were fully depreciated as of June 30, 2006. The equipment had a total depreciation expense of $38,196 for 2009. The depreciation costs are included in administrative expenses.

## 5 CONTRIBUTIONS

The System's funding policy for the PERSI Base Plan and FRF is determined by the Board within limitations, as defined by Idaho law. The funding policy provides for periodic employer contributions at actuarially determined rates (expressed as percentages of annual covered payroll), that are adequate to accumulate sufficient assets to pay benefits when due. Level percentages of payroll employer contribution rates are determined using the Entry Age Actuarial Cost Method for the PERSI Base Plan and a modified aggregate funding method for FRF. Under the Entry Age Actuarial Cost Method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit age. FRF amortizes the difference between the value of the FRF benefits not provided by the Base Plan and the FRF assets over the earnings of all firefighters. The PERSI Base Plan amortizes any unfunded actuarial accrued liability based on a level percentage of payroll. FRF amortizes any unfunded liability based on a level dollar amount. The maximum amortization period for the Base Plan permitted under Section 59-1322, Idaho Code, is 25 years. The maximum amortization period for FRF permitted under Section 59-1394, Idaho Code, is 50 years. The payroll for employees covered by the PERSI Base Plan and FRF was approximately $2,678,675,000 and $555,000, respectively for the year ended June 30, 2009.

Normal cost is 14.62% of covered payroll and the amount available to amortize the unfunded actuarial liability is 2.27% 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.

Senate Bill 1183 changed the current payment rate of 3.03% of pay to 1.49% for the optional retirement plan of colleges and universities, effective July 1, 2007.

The contribution rates for the year ended June 30, 2009 and forward are:

Optional retirement plan employees of higher education:

| | |
|---|---|
| Colleges and universities | 1.49 % |
| Junior colleges | 3.83% |

| | Active Members | | Employers | |
|---|---|---|---|---|
| | General/ Teacher | Fire/ Police | General/ Teacher | Fire/ Police |
| Contribution rate effective July 1, 2004 | 6.23 % | 7.65 % | 10.39 % | 10.73 % |

FRF employer and employee contribution rates for firefighters hired before October 1, 1980, are 25.89% and 3.80%, respectively, in addition to the PERSI Police and Fire rates shown above. The employer contribution rate for firefighters hired after October 1, 1980, is 17.24%.

## *ACTUARIAL INFORMATION*

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

| | PERSI | FRF |
|---|---|---|
| Valuation date | July 1, 2009 | July 1, 2009 |
| Actuarial cost method | Entry age actuarial cost | Entry age actuarial cost |
| Amortization method | Level percentage of projected payroll — open | Level dollar amount — closed |
| Remaining amortization period | 25 years | 30 years |
| Asset valuation method | Market value | Market value |
| Actuarial assumptions: | | |
| Investment rate of return | 7.75 % | 7.75 % |
| Projected salary increases — | 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 % |

**SCHEDULES OF FUNDING PROGRESS**
**PUBLIC EMPLOYEE RETIREMENT FUND AND FIREFIGHTERS' RETIREMENT FUND**
**FISCAL YEAR 2009**
**(Dollars in millions) (UNAUDITED)**

**PERSI**

| Actuarial Valuation Date | (1) Actuarial Value of Assets | (2) Actuarial Accrued Liability (AAL) (a.) | (3) PV of Future ORP Contributions | (4) Unfunded AAL (UAAL) (2)-(1)-(3) (b.) | (5) Funded Ratios (1) : [(2)-(3)] (c.) | (6) Annual Covered Payroll (d.) | (7) UAAL as a Percentage of Covered Payroll (4) : (6) |
|---|---|---|---|---|---|---|---|
| July 1, 2009 | 8,646.0 | 11,732.2 | 59.6 | 3,026.6 | 74.1 | 2,683.5 | 112.8 |

(a.) Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.
(b.) Actuarial accrued liabilities less actuarial value of assets and present value of future Optional Retirement Plan (ORP) Contributions. Amounts reported in this table do not include the value of any discretionary COLA or Gain Sharing allocations granted after the valuation date. If negative, amount is referred to as a funding reserve.
(c.) Funded Ratio is the ratio of the actuarial value of assets over the actuarial accrued liabilities less the present value of future ORP contributions.
(d.) Covered Payroll includes compensation paid to all active employees on which contributions are calculated.

**FRF**

| Actuarial Valuation Date | (1) Actuarial Market Value of Assets | (2) Actuarial Accrued Liability (AAL) | (3) Unfunded AAL (UAAL) (2)-(1) | (4) Funded Ratios (1) : (2) | (5) Annual Covered Payroll (e.) | (6) UAAL as a Percentage of Covered Payroll (3) : (5) |
|---|---|---|---|---|---|---|
| July 1, 2009 | 225.3 | 325.3 | 100.0 | 69.3 | 55.7 | 179.5 |

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

A multi year presentation of funding progress for the Fiscal Years 2004 – 2009 can be found immediately following the notes to the Financial Statements in the Required Supplementary Information Section starting on page 49.

## 6. Pension plan participation

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

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

The contribution requirements of the System and its employees are established and may be amended by the PERSI Board of Trustees. For the years ended June 30, the required contribution rates were 6.23% for general members 7.65% for police/fire fighter. The employer rate as a percentage of covered payroll was 10.39% for general members and 10.73% for police/fire fighter. PERSI general member contributions required and paid were $285,350, $281,773, and $273,306, for the three years ended June 30, 2009, 2008, and 2007, respectively.

## 7. OTHER POST EMPLOYMENT BENEFITS

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

## 8. COMMITMENTS

The System had unfunded private equity commitments as of June 30, 2009 of $505,250,349.

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# PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

## *REQUIRED SUPPLEMENTARY INFORMATION*

## PUBLIC EMPLOYEE RETIREMENT FUND AND FIREFIGHTERS' RETIREMENT FUND SCHEDULES OF FUNDING PROGRESS

### FISCAL YEARS 2004–2009

**(Dollars in millions) (UNAUDITED)**

**PERSI**

| Actuarial Valuation Date | (1) Actuarial Value of Assets | (2) Actuarial Accrued Liability (AAL) (a.) | (3) PV of Future ORP Contributions | (4) Unfunded AAL (UAAL) (2)-(1)-(3) (b.) | (5) Funded Ratios (1) : [(2)-(3)] (c.) | (6) Annual Covered Payroll (d.) | (7) UAAL as a Percentage of Covered Payroll (4) : (6) |
|---|---|---|---|---|---|---|---|
| July 1, 2004 | 7,420.2 | 8,154.8 | 63.5 | 671.1 | 91.7 | 2,115.4 | 31.7 |
| July 1, 2005 | 8,208.8 | 8,778.7 | 61.3 | 508.6 | 94.2 | 2,208.7 | 23.0 |
| July 1, 2006 | 9,177.1 | 9,699.0 | 60.2 | 461.7 | 95.2 | 2,343.5 | 19.7 |
| July 1, 2007 | 10,945.8 | 10,431.9 | 59.5 | (573.4) | 105.5 | 2,421.0 | (23.7) |
| July 1, 2008 | 10,402.0 | 11,211.8 | 60.9 | 748.9 | 93.3 | 2,578.9 | 29.0 |
| July 1, 2009 | 8,646.0 | 11,732.2 | 59.6 | 3,026.6 | 74.1 | 2,683.5 | 112.8 |

(a.) Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.
(b.) Actuarial accrued liabilities less actuarial value of assets and present value of future Optional Retirement Plan (ORP) Contributions. Amounts reported in this table do not include the value of any discretionary COLA or Gain Sharing allocations granted after the valuation date. If negative, amount is referred to as a funding reserve.
(c.) Funded Ratio is the ratio of the actuarial value of assets over the actuarial accrued liabilities less the present value of future ORP contributions.
(d.) Covered Payroll includes compensation paid to all active employees on which contributions are calculated.

**FRF**

| Actuarial Valuation Date | (1) Actuarial Market Value of Assets | (2) Actuarial Accrued Liability (AAL) | | (3) Unfunded AAL (UAAL) (2)-(1) | (4) Funded Ratios (1) : (2) | (5) Annual Covered Payroll (e.) | (6) UAAL as a Percentage of Covered Payroll (3) : (5) |
|---|---|---|---|---|---|---|---|
| July 1, 2004 | 210.4 | 302.6 | | 92.2 | 69.5 | 39.8 | 231.7 |
| July 1, 2005 | 227.2 | 309.1 | | 81.9 | 73.5 | 42.2 | 194.1 |
| July 1, 2006 | 248.8 | 312.3 | | 63.5 | 79.7 | 45.0 | 141.1 |
| July 1, 2007 | 291.5 | 314.8 | | 23.3 | 92.6 | 47.6 | 48.9 |
| July 1, 2008 | | | No Valuation | | | | |
| July 1, 2009 | 225.3 | 325.3 | | 100.0 | 69.3 | 55.7 | 179.5 |

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

## PUBLIC EMPLOYEE RETIREMENT FUND AND FIREFIGHTERS' RETIREMENT FUND SCHEDULES OF EMPLOYER CONTRIBUTIONS

### FISCAL YEARS 2004–2009

**(Dollars in millions) (UNAUDITED)**

| | PERSI Employer Contributions | | | FRF Employer Contributions (c.) | | |
|---|---|---|---|---|---|---|
| Year Ended June 30 | Total Employer Contributions (Statutory) | Annual Required Contribution (ARC) (a.) | Percentage Contributions | Total Employer Contributions | Annual Required Contribution | Percentage Contributions |
| 2004 | 212.6 | 218.8 | 97.0 | 11.7 | 10.2 | 114.9 |
| 2005 | 236.2 | 236.7 | 100.0 | 11.7 | 7.2 | 162.3 |
| 2006 | 250.8 | 238.1 | 105.0 | 12.0 | 6.5 | 186.2 |
| 2007 | 259.5 | 235.4 | 110.0 | 12.1 | 5.0 | 240.8 |
| 2008 | 273.3 | 251.4 | 109.0 | | No Valuation | |
| 2009 | 284.6 | 232.0 | 123.0 | 13.2 | 1.8 | 723.6 |

(a.) For PERSI employers, the Annual Required Contribution (ARC) is equal to the normal cost rate plus a 25-year amortization of any Unfunded Actuarial Accrued Liability or minus a 25-year amortization of any Funding Reserve amount. The ARC determined as of the valuation date is applicable for employers' fiscal years commencing October 1, of the calendar year following the valuation date. For ORP employers, the ARC is equal to 1.49% of salaries of university members in the ORP until 2025 and 3.83% of salaries of junior college members in the ORP until 2011.

# PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
## YEAR ENDED JUNE 30, 2009

### 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, 2009 | July 1, 2009 |
| Actuarial cost method | Entry age actuarial cost | Entry age actuarial cost |
| Amortization method | Level percentage of projected payroll — open | Level dollar amount — closed |
| Remaining amortization period | 25 years | 30 years |
| Asset valuation method | Market value | Market value |
| Actuarial assumptions: | | |
| Investment rate of return | 7.75 % | 7.75 % |
| Projected salary increases — | 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 % |

# PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

## *ADDITIONAL SUPPLEMENTARY SCHEDULES*

# PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
## SCHEDULE OF INVESTMENT EXPENSES
## YEAR ENDED JUNE 30, 2009

| | |
|---|---|
| INVESTMENT AND RELATED SERVICES: | |
| Adelante Capital | $ 1,268,725 |
| Apollo Management | 397,381 |
| Baring Asset Management, Inc. | 1,375,016 |
| Sanford C. Bernstein | 3,262,668 |
| BCA Publication, Inc. | 6,000 |
| Blackstone | 255,707 |
| Bloomberg, LP | 60,325 |
| Brandes Investment Partners, LP | 1,582,930 |
| Bridgepoint Cap LTD | 274,968 |
| Callan Associates | 256,791 |
| Capital Guardian Trust Company | 1,234,198 |
| Cerberus Institutional Partners | 36,000 |
| Chadwick, Saylor & Co., Inc. | 2,654,630 |
| Chisholm Partners, LP | 213,825 |
| Choice Plan Managers | 266,896 |
| Clearwater Advisors, LLC | 630,075 |
| CVC European Equity | 319,679 |
| D.B. Fitzpatrick & Co., Inc. | 1,723,950 |
| Donald Smith & Company | 1,294,730 |
| Enhanced Equity | 747,827 |
| Fidelity | 484,867 |
| First Reserve | 87,463 |
| Fortis Investment | 890,311 |
| Frazier Technology Ventures | 159,803 |
| Galen Partners, LP | 484,194 |
| Genesis Asset Managers, Ltd. | 2,336,856 |
| Goense Bounds & Partners, LP | 75,705 |
| Gores Capital Partners, LLP | 67,438 |
| Green Equity Investors IV, LP | 433,872 |
| Hamilton Lane Advisors, Inc. | 155,000 |
| Hamilton Lane Co-Investment Fund | (379,308) |
| Hamilton Lane Secondary Fund | 200,000 |
| Highway 12 | 902,279 |
| J.H. Whitney & Co., LLC | 429,883 |
| KKR 2006 Fund | 397,747 |
| Kohlberg & Co. | 523,651 |
| Lindsay Goldberg & Bessemer | 664,178 |
| Littlejohn & Company | 60,741 |
| Mellon Capital Management | 495,847 |
| Mellon Trust | 2,371,446 |
| Mondrian Investment Partners | 825,649 |
| Mountain Pacific Investment Advisors, Inc. | 738,638 |
| Navis Partners, LP | 96,376 |
| Newbridge Asia | 88,005 |
| Pareto Partners | 650,158 |
| Peregrine Capital Management | 758,667 |
| Providence Investments | 352,776 |

(Continued)

# PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

## SCHEDULE OF INVESTMENT EXPENSES

## YEAR ENDED JUNE 30, 2009

| | |
|---|---|
| INVESTMENT AND RELATED SERVICES: | |
| Prudential Investments | 385,100 |
| State Street Global Advisors | 387,543 |
| TCW Asset Management | 887,218 |
| TPG Partners, LP | 1,190,771 |
| Tukman Grossman Capital Management, Inc. | 1,404,777 |
| Wells Fargo Bank | 70,465 |
| Western Asset | 819,506 |
| Zesiger Capital Group | 1,883,015 |
| | 39,242,958 |
| CONSULTING/OTHER SERVICES: | |
| ACS HR Solutions, LLC | 1,243,509 |
| Capmark Finance, Inc. | 19,536 |
| Eide Bailly, LLP | 60,000 |
| Foster, Pepper, PLLC | 363,108 |
| Milliman, Inc. | 193,682 |
| Robert Storer | 65,126 |
| Whiteford, Taylor & Preston | 9,457 |
| William Raver | 65,935 |
| | 2,020,353 |
| | $ 41,263,311 |

(Concluded)

# PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
## SCHEDULE OF ADMINISTRATIVE EXPENSES
## YEAR ENDED JUNE 30, 2009

| | |
|---|---|
| PORTFOLIO-RELATED EXPENSES: | |
| Personnel expenses | $ 530,732 |
| Operating Expenses | 140,908 |
| Capital Outlay | 4,767 |
| | 676,407 |
| OTHER ADMINISTRATIVE EXPENSES: | |
| Personnel expenses | 3,316,849 |
| Operating expenses | 2,006,105 |
| Capital outlay | 34,425 |
| Building depreciation expense | 160,695 |
| Equipment depreciation expense | 38,197 |
| | 5,556,271 |
| SICK LEAVE FUND EXPENSES — Administrative personnel expenses | 94,200 |
| | $ 6,326,878 |

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CPAs & BUSINESS ADVISORS

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

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

We have audited the financial statements of the pension and other trust funds of the Public Employee Retirement System of Idaho (the "System"), a component unit of the State of Idaho, as of and for the year ended June 30, 2009, and have issued our report thereon dated October 14, 2009. 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 System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the System's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the System's financial statements that is more than inconsequential will not be prevented or detected by the System's internal control.

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

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

*Compliance and Other Matters*

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

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

Boise, Idaho
October 20, 2009

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