



Schedule of Employer Allocations and Collective Pension
Amounts

June 30, 2018

Firefighters' Retirement Fund

Firefighters' Retirement Fund

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Independent Auditor's Report

To the Retirement Board
Firefighters' Retirement Fund
Boise, Idaho

Report on Schedule of Allocations and Net Pension Amounts by Employer

We have audited the accompanying schedule of employer allocations of the Firefighters' Retirement Fund (the Fund) as of June 30, 2018 and related notes. We have also audited the totals for the columns titled net pension liability (asset), total deferred outflow of resources, total deferred inflow of resources, and total pension expense (expense offset) (specified column totals) included in the accompanying schedule of collective pension amounts (collectively the Schedules) of the Fund as of and for the year ended June 30, 2018, and related notes.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of the Schedules in accordance with accounting principles generally accepted in the United States of America; this includes design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedules that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on the schedule of employer allocations and specified column totals included in the schedule of collective pension amounts based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of employer allocations and specified column totals included in the schedule of collective pension amounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and specified column totals included in the schedule of collective pension amounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and specified column totals included in the schedule of collective pension amounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedule of employer allocations and specified column totals included in the schedule of collective pension amounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule of employer allocations and specified column totals included in the schedule of collective pension amounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the Schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability (asset), total deferred outflow of resources, total deferred inflow of resources, and total pension expense (expense offset) for the total of all participating entities for the Fund as of and for the year ended June 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Fund as of and for the year ended June 30, 2018, and our report thereon, dated October 10, 2018, expressed an unmodified opinion on those financial statements.

Restriction on Use

Our report is intended solely for the information and use of the Fund's management, the Fund Board, Fund employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Boise, Idaho
October 10, 2018

Firefighters' Retirement Fund
Schedule of Employer Allocations
June 30, 2018

<u>Employer</u>	<u>Total Employer Contributions</u>	<u>Employer Proportionate Allocation</u>
Blackfoot Fire Department	\$ 87,301	0.023321503
Boise Fire Department	1,369,336	0.365801649
Buhl Fire District	10,541	0.002815981
Burley Fire Department	29,821	0.007966319
Caldwell Fire Department	151,041	0.040348687
Coeur d' Alene Fire Department	297,135	0.079375918
Idaho Falls Fire Department	506,319	0.135256966
Jerome Fire Department	38,192	0.010202530
Ketchum Fire Department	46,648	0.012461453
Kootenai County Fire & Rescue	29,380	0.007848594
Kuna Fire District	46,409	0.012397589
Lewiston Fire Department	224,937	0.060089301
Moscow Fire Department	15,841	0.004231688
Nampa Fire Department	342,281	0.091436125
Payette Fire Department	12,188	0.003255957
Pocatello Fire Department	294,535	0.078681344
Rexburg-Madison Fire	13,391	0.003577169
Sandpoint Fire Department	35,276	0.009423588
Shoshone County Fire District #1	15,536	0.004150129
Shoshone County Fire District #2	29,524	0.007886888
Twin Falls Fire Department	144,310	0.038550585
Whitney Fire Protection District	3,444	0.000920039
Totals	3,743,385	1.0000000
Plus: Fire Premium Tax	<u>3,962,841</u>	
Total Employer Contributions in the Fund Statement of Changes in Fiduciary Net Position	<u><u>\$ 7,706,226</u></u>	

Firefighters' Retirement Fund
Schedule of Collective Pension Amounts
June 30, 2018

Deferred Outflows of Resources			Deferred Inflows of Resources					
Differences Between Expected and Actual Experience	Changes of Assumptions	Total Deferred Outflows of Resources Excluding Employer Specific Amounts*	Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	Changes of Assumptions	Differences Between Expected and Actual Experience	Total Deferred Inflows of Resources Excluding Employer Specific Amounts*	Plan Pension Expense (Expense Offset)	June 30, 2018 Net Pension Liability (Asset)
\$ -	\$ -	\$ -	\$ 3,441,251	\$ -	\$ -	\$ 3,441,251	\$ (22,100,245)	\$ (113,170,156)

* Employer specific amounts are excluded from this schedule.

Note 1 - Significant Accounting Policies

Employer contributions to the Firefighters' Retirement Fund (the Fund) are calculated on creditable compensation for active members reported by employers. Employer contributions are accrued when paid and employers are statutorily required to pay a fixed percentage of compensation.

The Schedule of Collective Pension Amounts presents the deferred inflow of resources, deferred outflow of resources, pension expense (expense offset) and net pension asset at the Fund level. The Schedule of Employer Allocations (collectively, the Schedules) reflects current year employer contributions. Contributions and adjustments to contributions reported in the current year for service performed in a prior year are recognized as contributions in the current year and included in the Schedule of Employer Allocations. The Schedule of Employer Allocations includes the following for each individual employer:

- Employer name
- The amount of employer contributing entity's contributions for the period July 1, 2017 to June 30, 2018, (the fiscal year).
- The employer contributing entity's contributions as a percentage of total employer contributions, as defined by state statute.

The Schedule of Employer Allocations has been rounded and presenting the first nine decimal places.

Basis of Accounting

Contributions for employers and the net pension asset are recognized on an accrual basis of accounting.

Use of Estimates in the Preparation of the Schedules

The preparation of the Schedules in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts and disclosures. Actual results could differ from those estimates.

Relationship to the Fund's Basic Financial Statements

The Schedule of Employer Allocations also includes a reconciliation from total employer contributions to employer contributions shown in the Fund's Statement of Changes in Fiduciary Net Position. The fire premium tax is a separate funding arrangement thus has not been included for allocation purposes.

Components of Net Pension Asset

The Fund's fiduciary net position is 140.15% of the Fund's total pension liability. Therefore, the Fund has a net pension asset. The components of the net pension asset of the Fund, for participating employers, as of June 30, 2018 are as follows:

Total pension liability	\$ 281,878,396
Fund fiduciary net position	<u>395,048,552</u>
Employers' net pension asset	<u><u>\$ (113,170,156)</u></u>
Fund fiduciary net position as a percentage of total pension liability	<u><u>140.15%</u></u>

The net pension asset is calculated using a discount rate of 7.05%, which is the expected rate of return on investments reduced by investment and administrative expenses. The net pension asset was determined by an actuarial valuation as of July 1, 2018, applied to all prior periods included in the measurement. Actuarial valuation involves estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the net pension asset are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. An experience study was performed for the period 2013 through 2017. This study reviewed all economic and demographic assumptions.

Actuarial Assumptions

The following are the actuarial assumptions and the entry age normal cost method, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	3.75 percent
Salary inflation	3.75 percent
Investment rate of return	7.05 percent, net of pension plan investment expense
Cost of Living (COLA) adjustments	3.75 percent

Mortality rates were based on the RP – 2000 combined table for healthy males or females as appropriate with the following offsets:

- No offset for male fire and police
- Forward one year for female fire and police
- Set back one year for all general employees and all beneficiaries

The long-term expected rate of return on pension plan investments was determined using the building block approach and a forward-looking model in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Firefighters' Retirement Fund
Notes to Schedule of Employer Allocations and Collective Pension Amounts
June 30, 2018

Even though history provides a valuable perspective for setting the investment return assumption, we rely primarily on an approach which builds upon the latest capital market assumptions. The assumptions and the System's formal policy for asset allocation are shown below. The formal asset allocation policy is somewhat more conservative than the current allocation of PERSI's assets.

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation.

Asset Class	Target Allocation	Long-Term Expected Nominal Rate of Return (Arithmetic)	Long-Term Expected Real Rate of Return (Arithmetic)
Core Fixed Income	30.00%	3.05%	0.80%
Broad US Equities	55.00%	8.30%	6.05%
Developed Foreign Equities	15.00%	8.45%	6.20%
Assumed Inflation - Mean		2.25%	2.25%
Assumed Inflation - Standard Deviation		1.50%	1.50%
Portfolio Arithmetic Mean Return		6.75%	4.50%
Portfolio Standard Deviation		12.54%	12.54%
Portfolio Long-Term (Geometric) Expected Rate of Return		6.13%	3.77%
Assumed Investment Expenses		0.40%	0.40%
Portfolio Long-Term (Geometric) Expected Rate of Return, Net of Investment Expenses		5.73%	3.37%
Portfolio Long-Term Expected Real Rate of Return, Net of Investment Expenses			4.19%
Portfolio Standard Deviation			14.16%
Valuation Assumptions Chosen by PERSI Board			
Long-Term Expected Real Rate of Return, Net of Investment Expenses			4.05%
Assumed Inflation			3.00%
Long-Term Expected Geometric Rate of Return, Net of Investment Expenses			7.05%

Discount rate – The discount rate used to measure the total pension asset was 7.05%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate. Based on these assumptions, the pension plans' net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset. The long-term expected rate of return was determined net of pension plan investment expense but without reduction for pension plan administrative expense.

Firefighters' Retirement Fund
Notes to Schedule of Employer Allocations and Collective Pension Amounts
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Sensitivity of the net pension asset to changes in the discount rate – The following presents the net pension asset of FRF employers calculated using the discount rate of 7.05% as well as what the employers' asset would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease (6.05%)	Current Discount Rate (7.05%)	1% Increase (8.05%)
Employers' net pension asset	\$ (83,953,452)	\$ (113,170,156)	\$ (138,034,913)

Deferred Inflow of Resources and Deferred Outflow of Resources

Each employer will need to calculate two additional types of deferred outflows of resources and deferred inflows of resources which are employer specific amounts. These amounts relate the (1) net impact from changes in proportion (allocation percentage) between the periods; and (2) contributions made to the plan subsequent to the measurement date and before the end of the employer's reporting period.

Plan Pension Expense (Expense Offset)

Plan pension expense (expense offset) consists of plan changes that are expensed immediately as well as amortizations relating to the difference between expected and actual experience, changes in actuary assumptions and differences between projected and actual investment earnings on pension plan investments. The following table provides the detail of the plan pension expense (expense offset):

Service costs and interest	\$ 19,841,800
Expected investment return	(26,244,976)
Changes of benefit terms recognized immediately	(615,405)
Contributions, expenses, and other items from actual operations	25,465
Fire premium tax	(3,962,841)
Amortization of difference between expected and actual experience	(9,182,411)
Amortization of assumption changes or inputs	1,386,562
Amortization of net difference between projected and actual investment earnings on pension plan investments	(3,348,439)
Plan Pension Expense (Expense Offset)	\$ (22,100,245)

The amortization period is based on the remaining expected service lives of all employees that are provided with pensions through the System determined at the beginning of the measurement period. The amortization period was calculated at 1.0 years. The amortization of the net difference between projected and actual investment earnings on pension plan investments is amortized over a closed 5 year period inclusive of this fiscal year.

Firefighters' Retirement Fund
Notes to Schedule of Employer Allocations and Collective Pension Amounts
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The amount reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense (credit) as follows:

2019	\$ 2,526,269
2020	(542,199)
2021	(4,449,454)
2022	(975,867)
	(3,441,251)

Changes in Net Pension Liability (Asset)

The following table represents the changes in total pension liability (asset) and fiduciary net position for the year ended June 30, 2018:

	Total Pension Liability (a)	Fund Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balances at June 30, 2017	\$ 289,382,253	\$ 375,177,883	\$ (85,795,630)
Changes for the year			
Interest	19,841,800	-	19,841,800
Effect of plan changes	(615,405)	-	(615,405)
Differences between expected and actual experience	(9,182,411)	-	(9,182,411)
Changes in assumptions	1,386,562	-	1,386,562
Contributions	-	3,747,753	(3,747,753)
Fire premium tax	-	3,962,841	(3,962,841)
Net investment income	-	31,124,311	(31,124,311)
Benefit payments including refunds of employee contributions	(18,934,403)	(18,934,403)	-
Administrative expense	-	(29,833)	29,833
Net Changes	<u>(7,503,857)</u>	<u>19,870,669</u>	<u>(27,374,526)</u>
Balances at June 30, 2018	<u>\$ 281,878,396</u>	<u>\$ 395,048,552</u>	<u>\$ (113,170,156)</u>