



Schedule of Employer Allocations and Collective Other  
Postemployment Benefit Amounts  
June 30, 2018

**Public Employee Retirement System  
of Idaho Sick Leave Insurance  
Reserve Fund – State Members**

Public Employee Retirement System of Idaho Sick Leave Insurance Reserve Fund – State  
Members  
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## Independent Auditor's Report

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

### **Report on Schedule of Allocations and Net Other Postemployment Benefit (OPEB) Amounts by Employer**

We have audited the accompanying schedule of employer allocations of Public Employee Retirement System of Idaho Sick Leave Insurance Reserve Fund – State Members (the Fund) as of and for the year ended June 30, 2018 and related notes. We have also audited the totals for the columns titled net OPEB liability (asset), total deferred outflows of resources, total deferred inflow of resources and plan OPEB expense (expense offset) (specified column totals) included in the accompanying schedule of collective OPEB 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 OPEB 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 OPEB 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 OPEB 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 OPEB 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 OPEB 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 OPEB 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 OPEB liability (asset), total deferred outflows of resources, total deferred inflow of resources, and plan OPEB 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 Public Employee Retirement System of Idaho (the System) 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 System's retirement board, Fund employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.



Boise, Idaho  
October 10, 2018

Public Employee Retirement System of Idaho Sick Leave Insurance Reserve Fund – State  
Members  
Schedule of Employer Allocations  
June 30, 2018

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<u>Employer</u>	<u>Total Employer Contributions</u>	<u>Employer Proportionate Allocation</u>
<b>State Offices and Departments</b>		
Accountancy Board	\$ 1,134	0.000158440
Administration Dept	46,112	0.006444876
Agriculture Dept	83,189	0.011626936
Attorney General	99,016	0.013838980
Barley Commission	809	0.000113138
Bean Commission	395	0.000055207
Beef Council	797	0.000111393
Board of Education	13,255	0.001852594
Board of Veterinary Medicine	702	0.000098116
Boise State University	1,056,920	0.147721192
Brand Inspector	9,163	0.001280707
Commerce Dept	15,319	0.002141071
Commission for Pardons and Paroles	10,425	0.001457057
Commission for the Blind	12,461	0.001741620
Commission On Aging	5,182	0.000724266
Commission on Hispanic Affairs	786	0.000109856
Commission On The Arts	3,125	0.000436808
Controller's Office	36,201	0.005059649
Correction Department	550,868	0.076992447
Correctional Industry	8,520	0.001190830
Dairy Council	72	0.000010077
Dentistry Board	1,150	0.000160770
Department of Environmental Quality	136,073	0.019018342
Division of Building Safety	45,006	0.006290309
Division of Financial Management	7,498	0.001047911
Division of Human Resources	89,745	0.012543310
Division of Veteran Services	5,706	0.000797490
Eastern Idaho Tech College	38,613	0.005396796
Endowment Fund Investment Bd	2,569	0.000359121
Finance Department	28,483	0.003980893
Fish & Game Department	213,335	0.029816933
Forest Products Commission	875	0.000122247
Governor's Office	7,842	0.001096076
Health & Welfare Department	890,420	0.124450127
Health District 1	34,392	0.004806887
Health District 2	15,130	0.002114589
Health District 3	28,085	0.003925360

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June 30, 2018

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<u>Employer</u>	<u>Total Employer Contributions</u>	<u>Employer Proportionate Allocation</u>
<b>State Offices and Departments</b>		
Health District 4	34,740	0.004855421
Health District 5	19,690	0.002751956
Health District 6	22,280	0.003113943
Health District 7	24,979	0.003491269
Historical Society	12,351	0.001726233
House of Representatives	1,237	0.000172957
Idaho Career & Technical Ed	14,440	0.002018217
Idaho Grape Growers & Wine Producers Comm	1,210	0.000169116
Idaho Public Television	18,823	0.002630810
Idaho Rangeland Resources Commission	470	0.000065701
Idaho State Police	219,923	0.030737694
Idaho State University	658,623	0.092052890
Independent Living Council	1,281	0.000179082
Industrial Commission	39,253	0.005486269
Insurance Department	23,554	0.003292077
Insurance Fund	108,348	0.015143304
Judicial Branch	192,999	0.026974639
Juvenile Corrections	115,124	0.016090343
Labor Department	166,161	0.023223537
Lands Department	126,872	0.017732392
Lava Hot Springs Foundation	3,740	0.000522770
Legislative Services	28,783	0.004022823
Lewis-Clark State College	153,234	0.021416803
Library	11,148	0.001558125
Lieutenant Governor	270	0.000037793
Liquor Dispensary	47,371	0.006620908
Lottery	14,365	0.002007763
Medicine Board	4,599	0.000642822
Military Division	118,188	0.016518658
Nursing Board	3,444	0.000481296
Occupational License Bur	10,636	0.001486601

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June 30, 2018

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<u>Employer</u>	<u>Total Employer Contributions</u>	<u>Employer Proportionate Allocation</u>
<b>State Offices and Departments</b>		
Office of Drug Policy	2,032	0.000283945
Office of Energy Resources	2,763	0.000386231
Office of Performance Evaluations	3,809	0.000532401
Office of Species Conservation	4,324	0.000604292
Outfitters & Guides	1,239	0.000173216
Parks & Recreation	43,132	0.006028372
Pharmacy Board	5,030	0.000703044
Potato Commission	14,615	0.002042610
Prof Eng & Surveyors	1,765	0.000246674
Public Defense Commission	2,530	0.000353616
Public Employee Retirement System	21,461	0.002999567
Public Utilities Commission	16,558	0.002314214
Racing Commission	424	0.000059300
Real Estate Comm	4,152	0.000580330
Secretary of State	8,544	0.001194187
Senate	1,053	0.000147170
Soil Conservation Comm	6,548	0.000915235
State Appellate Public Defender	9,978	0.001394631
State Bar	11,100	0.001551331
STEM Action Center	1,821	0.000254566
Superintendent of Public Instruction	55,351	0.007736235
Tax Appeals Board	1,871	0.000261504
Tax Commission	131,850	0.018428133
Transportation Dept	494,095	0.069057491
Treasurer	10,020	0.001400447
Vocational Rehab	45,202	0.006317622
Water Resources Dept	56,216	0.007857100
Wheat Commission	1,773	0.000247785
<b>Community Colleges</b>		
College of Southern Idaho	176,141	0.024618469
College of Western Idaho	144,614	0.020212076
North Idaho College	177,308	0.024781575
<b>Total employer contributions</b>	<u>\$ 7,154,832</u>	<u>1.000000000</u>

Public Employee Retirement System of Idaho Sick Leave Insurance Reserve Fund– State Members  
 Schedule of Collective OPEB Amounts  
 June 30, 2018

Deferred Outflows of Resources			Deferred Inflows of Resources					
Changes of Assumptions	Differences Between Expected and Actual Experience	Total Deferred Outflows of Resources Excluding Employer Specific Amounts*	Net Difference Between Projected and Actual Investment Earnings on OPEB Plan Investments	Changes of Assumptions	Differences Between Expected and Actual Experience	Total Deferred Inflows of Resources Excluding Employer Specific Amounts*	Plan OPEB Expense (Offset)	June 30, 2018 Net OPEB Liability (Asset)
\$ 156,827	\$ -	\$ 156,827	\$ 3,191,046	\$ -	\$ 4,840,542	\$ 8,031,588	\$ (4,604,437)	\$ (114,770,061)

\*Employer specific amounts are excluded from this schedule.



**Note 1 - Significant Accounting Policies**

The Public Employee Retirement System of Idaho Sick Leave Insurance Reserve Fund – State Members (the Fund) is administered by the Public Employee Retirement System of Idaho (the System). Employer contributions to the Fund are calculated on eligible compensation for active members reported by employers.

The Schedule of Collective OPEB Amounts presents the deferred inflow of resources, deferred outflow of resources, OPEB expense (expense offset) and net OPEB liability (asset) at the Fund level. The Schedule of Employer Allocations (collectively, the Schedules) reflects current year employer contributions and 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 OPEB liability (asset) are recognized on an accrual basis of accounting. The fiscal year 2018 employer contribution total used as the denominator for the allocation calculation in the schedule of employer allocations can be reconciled to the System’s CAFR for the fiscal year ended June 30, 2018, as follows:

Contributions from employers per CAFR	\$ 7,161,239
Reconciliation differences adjusted in the schedule of employer allocations	<u>(6,407)</u>
Contributions per schedule of employer allocations	<u>\$ 7,154,832</u>

**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.

Public Employee Retirement System of Idaho Sick Leave Insurance Reserve Fund– State  
Members  
Notes to Schedule of Employer Allocations and Collective OPEB Amounts  
June 30, 2018

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**Components of Net OPEB Liability (Asset)**

The components of the net OPEB liability (asset) of the Fund, for participating employers, as of June 30, 2018 are as follows:

Total OPEB liability	\$ 91,490,186
Fund fiduciary net position	<u>206,260,247</u>
Employers' net OPEB liability (asset)	<u>\$ (114,770,061)</u>
Fund fiduciary net position as a percentage of total OPEB asset	<u>225.45%</u>

The net OPEB liability (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 OPEB liability was determined by an actuarial valuation as of July 1, 2017, and rolled forward to June 30, 2018. 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 OPEB liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**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 OPEB plan investment expense
Health care trend rate	N/A*

\* Health care trend rate is not applicable as the benefit is based on the unused sick leave hours at retirement, and is calculated as a fixed dollar amount that can be applied to premiums.

The long-term expected rate of return on OPEB Fund 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 OPEB 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.

Even though history provides a valuable perspective for setting the investment return assumption, the approach used 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 more conservative than the current allocation of the System’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.

Public Employee Retirement System of Idaho Sick Leave Insurance Reserve Fund– State  
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Notes to Schedule of Employer Allocations and Collective OPEB Amounts  
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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%
<b>Valuation Assumptions Chosen by PERSI Board</b>			
Long-Term Expected Real Rate of Return, Net of Investment Expenses			4.05%
Assumed Inflation			3.00%
<b>Long-Term Expected Geometric Rate of Return, Net of Investment Expenses</b>			<b>7.05%</b>

Discount rate – The discount rate used to measure the total OPEB liability was 7.05%. The projection of cash flows used to determine the discount rate assumed that contributions from Fund employers will be made at the current contribution rate. Based on these assumptions, the Fund’s 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 Fund investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The long-term expected rate of return was determined net of OPEB plan investment expense but without reduction for OPEB plan administrative expense.

Public Employee Retirement System of Idaho Sick Leave Insurance Reserve Fund– State  
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Sensitivity of the net OPEB liability (asset) to changes in the discount rate – The following presents the net OPEB liability (asset) of the Fund’s employers calculated using the discount rate of 7.05% as well as what the employer’s liability (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%)
Employer's net OPEB liability (asset)	\$ (110,883,766)	\$ (114,770,061)	\$ (118,457,449)

**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 OPEB Expense (Expense Offset)**

Plan OPEB expense (expense offset) consists of changes that are expensed immediately. The following table provides the detail of the plan OPEB expense (expense offset):

Service costs and interest	\$ 10,378,010
Expected investment return	(13,328,152)
Expenses and other items from actual operations	44,182
Amortization of difference between expected and actual experience	(930,874)
Amortization of changes of assumptions	30,159
Amortization of net difference between projected and actual investment earnings on OPEB investments	(797,762)
Plan OPEB expense (expense offset)	\$ (4,604,437)

The amortization period is based on the remaining expected service lives of all employees that are provided with OPEB through the System determined at the beginning of the measurement period. The amortization period was calculated at 6.2 years. The amortization of the net difference between projected and actual investment earnings on OPEB plan investments is amortized over a closed 5 year period inclusive of this fiscal year.

Public Employee Retirement System of Idaho Sick Leave Insurance Reserve Fund– State  
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Notes to Schedule of Employer Allocations and Collective OPEB Amounts  
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The amount reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense (expense offset) as follows:

2019	\$ (1,698,477)
2020	(1,698,477)
2021	(1,698,477)
2022	(1,698,475)
2023	(900,715)
Thereafter	(180,140)

**Changes in Net OPEB Liability (Asset)**

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

	Total OPEB Liability (a)	Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a)-(b)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Balances at June 30, 2017	\$ 91,367,986	\$ 186,497,610	\$ (95,129,624)
Changes for the year			
Service costs	4,170,390	-	4,170,390
Interest	6,207,620	-	6,207,620
Effect of plan changes	(5,771,416)	-	(5,771,416)
Changes in assumptions	186,986	-	186,986
Contributions - employer	-	7,161,239	(7,161,239)
Net investment income	-	17,316,960	(17,316,960)
Benefit payments	(4,671,380)	(4,671,380)	-
Administrative expense	-	(44,182)	44,182
	<u>122,200</u>	<u>19,762,637</u>	<u>(19,640,437)</u>
Net Changes			
	<u>122,200</u>	<u>19,762,637</u>	<u>(19,640,437)</u>
Balances at June 30, 2018	<u>\$ 91,490,186</u>	<u>\$ 206,260,247</u>	<u>\$ (114,770,061)</u>