



Schedule of Employer Allocations and Collective Other  
Postemployment Benefit Amounts  
June 30, 2019

**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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June 30, 2019

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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, 2019, 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, 2019, 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 schedules 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, 2019, 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, 2019, and our report thereon, dated October 16, 2019, 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.

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

Boise, Idaho  
November 12, 2019

Public Employee Retirement System of Idaho Sick Leave Insurance Reserve Fund – State  
Members  
Schedule of Employer Allocations  
June 30, 2019

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Employer	Total Employer Contributions	Employer Proportionate Allocation
<b>State Offices and Departments</b>		
Accountancy Board	\$ 1,171	0.000156207
Administration Dept	37,215	0.004964354
Agriculture Dept	90,861	0.012120548
Attorney General	102,903	0.013726910
Barley Commission	858	0.000114454
Bean Commission	442	0.000058961
Beef Council	924	0.000123258
Board of Education	14,461	0.001929048
Board of Veterinary Medicine	683	0.000091110
Boise State University	1,120,993	0.149536654
Brand Inspector	9,060	0.001208573
Commerce Dept	15,702	0.002094593
Commission for Pardons and Paroles	10,608	0.001415071
Commission for the Blind	12,594	0.001679997
Commission On Aging	5,284	0.000704868
Commission on Hispanic Affairs	831	0.000110853
Commission On The Arts	2,936	0.000391652
Controller's Office	38,218	0.005098151
Correction Department	580,411	0.077424853
Correctional Industry	10,114	0.001349173
Dentistry Board	1,211	0.000161543
Department of Environmental Quality	141,817	0.018917905
Division of Building Safety	47,473	0.006332737
Division of Financial Management	7,933	0.001058235
Division of Human Resources	6,122	0.000816654
Division of Veteran Services	92,237	0.012304102
Endowment Fund Investment Bd	2,399	0.000320018
Finance Department	28,745	0.003834485
Fish & Game Department	223,811	0.029855626
Forest Products Commission	883	0.000117789
Governor's Office	7,598	0.001013547
Health & Welfare Department	922,926	0.123115189
Health District 1	35,787	0.004773864
Health District 2	14,758	0.001968667
Health District 3	28,486	0.003799936
Health District 4	35,450	0.004728909
Health District 5	20,401	0.002721424

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Employer	Total Employer Contributions	Employer Proportionate Allocation
<b>State Offices and Departments</b>		
Health District 6	22,547	0.003007693
Health District 7	25,035	0.003339584
Historical Society	12,473	0.001663856
House of Representatives	1,564	0.000208632
Idaho Career & Technical Ed	15,404	0.002054841
Idaho Grape Growers & Wine Producers Comm	1,307	0.000174349
Idaho Public Television	19,539	0.002606436
Idaho Rangeland Resources Commission	494	0.000065898
Idaho State Police	227,059	0.030288898
Idaho State University	691,959	0.092304977
Idaho Workforce Development Council	2,040	0.000272129
Independent Living Council	1,280	0.000170748
Industrial Commission	40,535	0.005407231
Information Technical Services	12,667	0.001689735
Insurance Department	25,160	0.003356258
Insurance Fund	115,278	0.015377693
Judicial Branch	201,269	0.026848600
Juvenile Corrections	117,029	0.015611271
Labor Department	158,701	0.021170174
Lands Department	131,119	0.017490829
Lava Hot Springs Foundation	3,995	0.000532919
Legislative Services	29,465	0.003930531
Lewis-Clark State College	158,116	0.021092137
Library	11,551	0.001540864
Lieutenant Governor	271	0.000036150
Liquor Dispensary	48,950	0.006529764
Lottery	15,116	0.002016423
Medicine Board	5,117	0.000682590
Military Division	127,020	0.016944036
Nursing Board	3,196	0.000426336
Occupational License Bar	11,501	0.001534194
Office of Drug Policy	2,288	0.000305211
Office of Energy Resources	2,501	0.000333625
Office of Performance Evaluations	3,830	0.000510909
Office of Species Conservation	4,530	0.000604287
Outfitters & Guides	1,308	0.000174483
Parks & Recreation	44,777	0.005973100

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Employer	Total Employer Contributions	Employer Proportionate Allocation
<b>State Offices and Departments</b>		
Pharmacy Board	4,830	0.000644306
Potato Commission	15,002	0.002001216
Prof Eng & Surveyors	2,277	0.000303744
Public Defense Commission	2,403	0.000320552
Public Employee Retirement System	22,260	0.002969408
Public Utilities Commission	17,225	0.002297756
Racing Commission	444	0.000059228
Real Estate Comm	4,214	0.000562133
Secretary of State	9,350	0.001247258
Senate	1,202	0.000160343
Soil Conservation Comm	7,293	0.000972861
State Appellate Public Defender	10,913	0.001455757
State Bar	11,463	0.001529125
STEM Action Center	2,292	0.000305745
Superintendent of Public Instruction	56,700	0.007563587
Tax Appeals Board	1,940	0.000258789
Tax Commission	136,253	0.018175687
Transportation Dept	528,151	0.070453547
Treasurer	10,346	0.001380121
Vocational Rehab	46,520	0.006205610
Water Resources Dept	57,612	0.007685245
Wheat Commission	1,815	0.000242115
<b>Community Colleges</b>		
College of Eastern Idaho	53,746	0.007169534
College of Southern Idaho	181,784	0.024249367
College of Western Idaho	157,985	0.021074662
North Idaho College	182,126	0.024294989
<b>Total employer contributions</b>	<b>\$ 7,496,443</b>	<b>1.000000000</b>

Public Employee Retirement System of Idaho Sick Leave Insurance Reserve Fund– State Members  
 Schedule of Collective OPEB Amounts  
 June 30, 2019

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, 2019 Net OPEB Liability (Asset)
\$ 126,668	\$ 1,233,640	\$ 1,360,308	\$ 3,548,902	\$ -	\$ 3,909,668	\$ 7,458,570	\$ (5,480,882)	\$ (125,972,114)



# 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, 2019

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## 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, 2018 to June 30, 2019, (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 2019 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, 2019, as follows:

Contributions from employers per CAFR	\$ 7,497,670
Reconciliation differences adjusted in the schedule of employer allocations	<u>(1,227)</u>
Contributions per schedule of employer allocations	<u>\$ 7,496,443</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, 2019

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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, 2019 are as follows:

Total OPEB liability	\$ 99,213,537
Fund fiduciary net position	<u>225,185,651</u>
Employers' net OPEB liability (asset)	<u>\$ (125,972,114)</u>
Fund fiduciary net position as a percentage of total OPEB asset	<u>226.97%</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 expenses. The net OPEB liability was determined by an actuarial valuation as of July 1, 2019. 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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Asset Class	Target Allocation	Long-Term Expected Nominal Rate of Return (Arithmetic)	Long-Term Expected Real Rate of Return (Arithmetic)
		Rate of Return (Arithmetic)	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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Notes to Schedule of Employer Allocations and Collective OPEB Amounts  
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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)	<u>\$ (121,748,083)</u>	<u>\$ (125,972,114)</u>	<u>\$ (129,922,305)</u>

**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	\$ 10,919,337
Expected investment return	(14,641,438)
Expenses and other items from actual operations	47,183
Amortization of difference between expected and actual experience	(749,456)
Amortization of changes of assumptions	30,159
Amortization of net difference between projected and actual investment earnings on OPEB investments	<u>(1,086,667)</u>
Plan OPEB expense (expense offset)	<u>\$ (5,480,882)</u>

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 7.8 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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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:

2020	\$ (1,805,964)
2021	(1,805,964)
2022	(1,805,962)
2023	(1,008,200)
2024	1,278
Thereafter	326,550

**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, 2019:

	<u>Total OPEB Liability (a)</u>	<u>Fiduciary Net Position (b)</u>	<u>Net OPEB Liability (Asset) (a)-(b)</u>
Balances at June 30, 2018	\$ 91,490,186	\$ 206,260,247	\$ (114,770,061)
Changes for the year			
Service costs	4,326,780	-	4,326,780
Interest	6,592,557	-	6,592,557
Differences between expected and actual experience	1,415,058	-	1,415,058
Contributions - employer	-	7,497,670	(7,497,670)
Net investment income	-	16,085,961	(16,085,961)
Benefit payments	(4,611,044)	(4,611,044)	-
Administrative expense	-	(47,183)	47,183
Net Changes	<u>7,723,351</u>	<u>18,925,404</u>	<u>(11,202,053)</u>
Balances at June 30, 2019	<u>\$ 99,213,537</u>	<u>\$ 225,185,651</u>	<u>\$ (125,972,114)</u>