



Schedule of Employer Allocations and Collective Other
Postemployment Benefit Amounts
June 30, 2020

**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, 2020, 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, 2020, 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, 2020, 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, 2020, and our report thereon, dated October 20, 2020, 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 black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
October 20, 2020

Public Employee Retirement System of Idaho Sick Leave Insurance Reserve Fund – State
Members
Schedule of Employer Allocations
June 30, 2020

	<u>Employer Contributions</u>	<u>Proportionate Share</u>
State Offices & Departments		
Accountancy Board	\$ 703	0.000156493
Administration Dept	22,372	0.004980181
Agriculture Dept	54,811	0.012201355
Attorney General	61,022	0.013583972
Barley Commission	454	0.000101064
Bean Commission	274	0.000060995
Beef Council	570	0.000126886
Board of Education	8,856	0.001971414
Board of Veterinary Medicine	374	0.000083255
Boise State University	693,662	0.154414559
Brand Inspector	5,729	0.001275320
Commerce Dept	8,937	0.001989446
Commission For Pardons And Paroles	5,902	0.001313831
Commission for the Blind	7,392	0.001645517
Commission on Aging	2,995	0.000666710
Commission on Hispanic Affairs	494	0.000109968
Commission on the Arts	1,855	0.000412937
Controller`s Office	22,666	0.005045628
Correction Department	357,677	0.079621683
Correctional Industry	7,148	0.001591200
Dentistry Board	710	0.000158052
Department of Environmental Quality	83,527	0.018593760
Division Occ & Prof License	7,028	0.001564487
Division of Building Safety	28,254	0.006289560
Division of Financial Management	5,247	0.001168023
Division of Human Resources	4,181	0.000930723
Division of Veteran Services	57,535	0.012807739
Endowment Fund Investment Bd	1,500	0.000333912
Finance Department	15,434	0.003435728
Fish & Game Department	132,902	0.029585019
Forest Products Commission	659	0.000146699
Governor`s Office	4,621	0.001028671
Health & Welfare Department	557,215	0.124040394
Health District 1	20,992	0.004672982
Health District 2	8,432	0.001877029
Health District 3	16,549	0.003683936
Health District 4	20,714	0.004611098
Health District 5	12,164	0.002707801
Health District 6	13,210	0.002940649
Health District 7	15,131	0.003368278
Historical Society	8,166	0.001817815
House of Representatives	889	0.000197898
Id Workforce Development Council	1,266	0.000281821
Idaho Division of Prof-Tech Education	9,073	0.002019720
Idaho Grape Growers & Wine Producers Comm	775	0.000172521

Public Employee Retirement System of Idaho Sick Leave Insurance Reserve Fund – State
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Schedule of Employer Allocations
June 30, 2020

State Offices & Departments continued	Employer Contributions	Proportionate Share
Idaho Public Television	11,943	0.002658605
Idaho Rangeland Resources Commission	334	0.000074351
Idaho State Police	136,971	0.030490810
Idaho State University	414,413	0.092251557
Independent Living Council	759	0.000168959
Industrial Commission	22,208	0.004943674
Info Tech Services	15,461	0.003441739
Insurance Department	13,489	0.003002756
Insurance Fund	70,890	0.015780665
Judicial Branch	124,497	0.027714001
Juvenile Corrections	70,052	0.015594120
Labor Department	93,017	0.020706308
Lands Department	78,710	0.017521458
Lava Hot Springs Foundation	2,337	0.000520234
Legislative Services	17,549	0.003906544
Lewis-Clark State College	93,306	0.020770641
Library	6,639	0.001477893
Lieutenant Governor	158	0.000035172
Liquor Dispensary	30,353	0.006756814
Lottery	8,518	0.001896173
Medicine Board	3,084	0.000686522
Military Division	78,627	0.017502982
Nursing Board	2,215	0.000493076
Office of Drug Policy	1,416	0.000315213
Office of Energy Resources	1,679	0.000373758
Office of Performance Evaluations	2,212	0.000492408
Office of Species Conservation	3,177	0.000707225
Outfitters & Guides	779	0.000173411
Parks & Recreation	26,797	0.005965221
Pharmacy Board	2,980	0.000663371
Potato Commission	8,435	0.001877697
Prof Eng & Surveyors	1,362	0.000303192
Public Defense Commission	1,314	0.000292507
Public Employee Retirement System	13,287	0.002957790
Public Utilities Commission	8,627	0.001920437
Racing Commission	265	0.000058991
Real Estate Comm	2,596	0.000577890
Secretary Of State	4,779	0.001063843
Senate	634	0.000141133
Soil Conservation Comm	4,141	0.000921819
State Appellate Public Defender	6,514	0.001450067
State Bar	5,812	0.001293796
Stem Action Center	1,548	0.000344597
Superintendent of Public Instruction	31,253	0.006957161
Tax Appeals Board	1,179	0.000262455
Tax Commission	77,274	0.017201794
Transportation Dept	314,253	0.069955162

Public Employee Retirement System of Idaho Sick Leave Insurance Reserve Fund – State
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Schedule of Employer Allocations
June 30, 2020

	Employer Contributions	Proportionate Share
State Offices & Departments continued		
Treasurer	6,328	0.001408662
Vocational Rehab	27,038	0.006018869
Water Resources Dept	33,983	0.007564880
Wheat Commission	1,100	0.000244869
Community Colleges		
College of Eastern Idaho	33,271	0.007406383
College of Southern Idaho	93,521	0.020818502
College of Western Idaho	89,411	0.019903584
North Idaho College	99,644	0.022181530
Grand Total: All State Employers		
Totals	4,492,206	1.000000000
Plus: Unreconciled contributions	2,011	
Total employer contributions in the Statement of Changes in Fiduciary Net Position	\$ 4,494,217	

Public Employee Retirement System of Idaho Sick Leave Insurance Reserve Fund– State Members
 Schedule of Collective OPEB Amounts
 June 30, 2020

Deferred Outflows of Resources				Deferred Inflows of Resources				
Net Difference								
Between								
Projected and		Total Deferred			Total Deferred			
Actual		Outflows of			Inflows of			
Investment		Resources			Resources		Plan OPEB	
Earnings on		Excluding			Excluding		Expense	
OPEB Plan		Employer Specific			Employer Specific		(Expense	
Investments		Amounts			Amounts		Offset)	
	Changes of	Expected and		Changes of				June 30, 2020
	Assumptions	Actual		Assumptions	Actual			Net OPEB
		Experience			Experience			Liability (Asset)
<u>\$ 2,585,175</u>	<u>\$ 96,509</u>	<u>\$ 1,052,222</u>	<u>\$ 3,733,906</u>	<u>\$ 8,770,761</u>	<u>\$ 4,863,151</u>	<u>\$ 13,633,912</u>	<u>\$ (6,884,834)</u>	<u>\$ (141,152,909)</u>

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, 2020

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, 2019 to June 30, 2020, (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 2020 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, 2020, as follows:

Contributions from employers per CAFR	\$ 4,494,217
Reconciliation differences adjusted in the schedule of employer allocations	<u>(2,011)</u>
Contributions per schedule of employer allocations	<u>\$ 4,492,206</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, 2020

Components of Net OPEB Liability (Asset)

The components of the net OPEB liability (asset) of the Fund, for participating employers, as of June 30, 2020 are as follows:

Total OPEB liability	\$ 93,296,577
Fund fiduciary net position	<u>234,449,486</u>
Employers' net OPEB liability (asset)	<u>\$ (141,152,909)</u>
Fund fiduciary net position as a percentage of total OPEB asset	<u>251.29%</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 OPEB total was determined by an actuarial valuation as of July 1, 2020. 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 OPEB total 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
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.

**Net of OPEB plan investment expenses

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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Capital Market Assumptions from Callen 2020

Asset Class	Target Allocation	Long-Term	Long-Term
		Expected Nominal Rate of Return (Arithmetic)	Expected Real Rate of Return (Arithmetic)
Core Fixed Income	30.00%	2.80%	0.55%
Broad US Equities	55.00%	8.55%	6.30%
Developed Foreign Equities	15.00%	8.70%	6.45%
Assumed Inflation - Mean		2.25%	2.25%
Assumed Inflation - Standard Deviation		1.50%	1.50%
Portfolio Arithmetic Mean Return		6.85%	4.60%
Portfolio Standard Deviation		12.33%	12.33%
Portfolio Long-Term (Geometric) Expected Rate of Return		6.25%	3.89%
Assumed Investment Expenses		0.40%	0.40%
Portfolio Long-Term (Geometric) Expected Rate of Return, Net of Investment Expenses		5.85%	3.49%

Investment Policy Assumptions from PERSI November 2019

Portfolio Long-Term Expected Real Rate of Return, Net of Investment Expenses	4.14%
Portfolio Standard Deviation	14.16%

Economic/Demographic Assumptions from Milliman 2018

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 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	<u>\$ (134,484,450)</u>	<u>\$ (141,152,909)</u>	<u>\$ (147,219,951)</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	\$ 11,044,270
Expected investment return	(15,865,288)
Expenses and other items from actual operations	47,225
Amortization of difference between expected and actual experience	(1,026,567)
Amortization of changes of assumptions	(1,259,659)
Amortization of net difference between projected and actual investment earnings on OPEB investments	<u>175,185</u>
Plan OPEB expense (expense offset)	<u>\$ (6,884,834)</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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Notes to Schedule of Employer Allocations and Collective OPEB Amounts
June 30, 2020

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:

2021	\$ (2,111,041)
2022	(2,111,039)
2023	(1,313,277)
2024	(303,807)
2025	(1,385,511)
Thereafter	(2,675,331)

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, 2020:

	<u>Total OPEB Liability (a)</u>	<u>Fiduciary Net Position (b)</u>	<u>Net OPEB Liability (Asset) (a)-(b)</u>
Balances at June 30, 2019	\$ 99,213,537	\$ 225,185,651	\$ (125,972,114)
Changes for the year			
Service costs	3,939,068	-	3,939,068
Interest	7,105,202	-	7,105,202
Differences between expected and actual experience	(2,161,468)	-	(2,161,468)
Changes in assumptions	(10,060,579)	-	(10,060,579)
Contributions - employer	-	4,494,217	(4,494,217)
Net investment income	-	9,556,026	(9,556,026)
Benefit payments	(4,739,183)	(4,739,183)	-
Administrative expenses	-	(47,225)	47,225
Net Changes	<u>(5,916,960)</u>	<u>9,263,835</u>	<u>(15,180,795)</u>
Balances at June 30, 2020	<u>\$ 93,296,577</u>	<u>\$ 234,449,486</u>	<u>\$ (141,152,909)</u>