



INTERIM GASB 45 ACTUARIAL VALUATION

Fiscal Year Ending June 30, 2016

Portsmouth School District

Revised November 2016

Nyhart Actuary & Employee Benefits

8415 Allison Pointe Blvd., Ste. 300, Indianapolis, IN 46250

(317) 845-3500 – www.nyhart.com



November 29, 2016

**Christopher Diluro
Portsmouth School District
29 Middle Road
Portsmouth, RI 02871**

This report summarizes the interim GASB actuarial valuation for the Portsmouth School District 2015/16 fiscal year. To the best of our knowledge, the report presents a fair position of the funded status of the plan in accordance with GASB Statement No. 45 (Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions).

The information presented herein is based on the actuarial assumptions and substantive plan provisions summarized in this report and participant information furnished to us by the Plan Sponsor. We have reviewed the employee census provided by the Plan Sponsor for reasonableness when compared to the prior information provided but have not audited the information at the source, and therefore do not accept responsibility for the accuracy or the completeness of the data on which the information is based. When relevant data may be missing, we may have made assumptions we feel are neutral or conservative to the purpose of the measurement. We are not aware of any significant issues with and have relied on the data provided.

The discount rate and other economic assumptions have been selected by the Plan Sponsor. Demographic assumptions have been selected by the Plan Sponsor with the concurrence of Nyhart. In our opinion, the actuarial assumptions are individually reasonable and in combination represent our estimate of anticipated experience of the Plan. All calculations have been made in accordance with generally accepted actuarial principles and practice.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following:

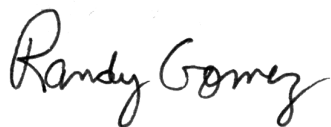
- plan experience differing from that anticipated by the economic or demographic assumptions;
- changes in economic or demographic assumptions;
- increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period); and
- changes in plan provisions or applicable law.

We did not perform an analysis of the potential range of future measurements due to the limited scope of our engagement.

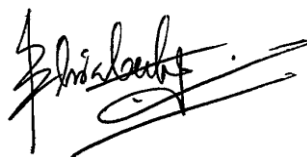
To our knowledge, there have been no significant events prior to the current year's measurement date or as of the date of this report that could materially affect the results contained herein.

Neither Nyhart nor any of its employees has any relationship with the plan or its sponsor that could impair or appear to impair the objectivity of this report. Our professional work is in full compliance with the American Academy of Actuaries "Code of Professional Conduct" Precept 7 regarding conflict of interest. The undersigned meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Should you have any questions please do not hesitate to contact us.



Randy Gomez, FSA, MAAA
Consulting Actuary



Evi Laksana, ASA, MAAA
Valuation Actuary

Summary of Results

Presented below is the summary of GASB 45 results for the fiscal year ending June 30, 2016 compared to the prior fiscal years as shown in the School District's Notes to Financial Statement.

	<i>As of July 1, 2014</i>		<i>As of July 1, 2015</i>	
Actuarial Accrued Liability	\$	3,922,350	\$	3,655,790
Actuarial Value of Assets	\$	0	\$	0
Unfunded Actuarial Accrued Liability	\$	3,922,350	\$	3,655,790
Funded Ratio		0.0%		0.0%

	<i>FY 2014/15</i>		<i>FY 2015/16</i>	
Annual Required Contribution	\$	461,368	\$	425,236
Annual OPEB Cost	\$	421,315	\$	385,681
Annual Employer Contribution	\$	431,277 ¹	\$	404,572 ²

	<i>As of June 30, 2015</i>		<i>As of June 30, 2016</i>	
Net OPEB Obligation	\$	792,045	\$	773,154

¹ FY 2014/15 total annual employer contribution for pay-go costs is the sum of (a) \$275,838 in actual premium payments for retirees and (b) \$155,439 for the implicit portion of pay-go costs.

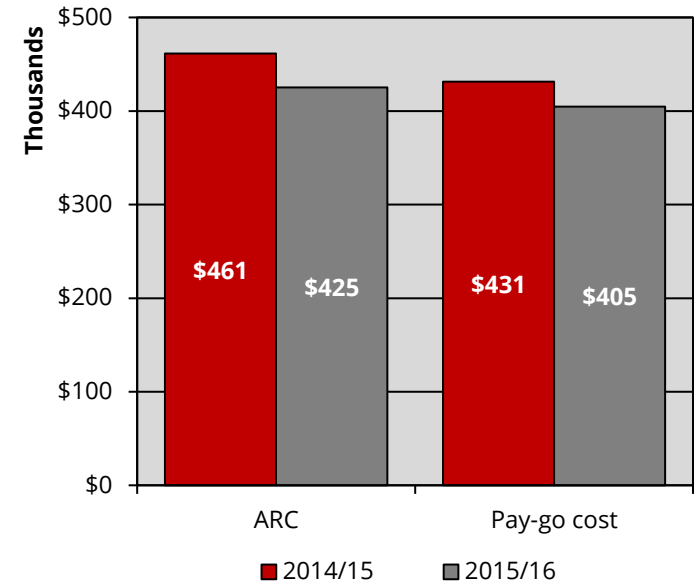
² FY 2015/16 total annual employer contribution for pay-go costs is the sum of (a) \$230,829 in actual premium payments for retirees and (b) \$173,743 for the implicit portion of pay-go costs.

Development of Annual Required Contribution (ARC)

Required Supplementary Information	FY 2014/15	FY 2015/16
Actuarial Accrued Liability as of beginning of year	\$ 3,922,350	\$ 3,655,790
Actuarial Value of Assets as of beginning of year	0	0
Unfunded Actuarial Accrued Liability (UAAL)	\$ 3,922,350	\$ 3,655,790
Covered payroll ³	\$ 19,008,574	\$ 19,578,831
UAAL as a % of covered payroll	20.6%	18.7%

Annual Required Contribution	FY 2014/15	FY 2015/16
Normal cost as of beginning of year	\$ 104,411	\$ 92,722
Amortization of the UAAL	339,212	316,159
Total normal cost and amortization payment	\$ 443,623	\$ 408,881
Interest to end of year	17,745	16,355
Total Annual Required Contribution (ARC)	\$ 461,368	\$ 425,236

Cash vs Accrual Accounting



Annual Required Contribution (ARC) is the annual expense recorded in the income statement under GASB 45 accrual accounting. It replaces the cash basis method of accounting recognition with an accrual method. The GASB 45 ARC is higher than the pay-as-you-go cost because it includes recognition of employer costs expected to be paid in future accounting periods.

³ 2015/16 covered payroll is the 2014/15 covered payroll increased by the payroll growth assumption (3.0%).

Development of Annual OPEB Cost and Net OPEB Obligation

Net OPEB Obligation			FY 2014/15			FY 2015/16
ARC as of end of year	\$		461,368	\$		425,236
Interest on Net OPEB Obligation (NOO) to end of year			32,080			31,682
NOO amortization adjustment to the ARC			(72,133)			(71,237)
Annual OPEB cost	\$		421,315	\$		385,681
Annual employer contribution for pay-go cost			(431,277) ⁴			(404,572) ⁵
Annual employer contribution for pre-funding			0			0
Change in NOO	\$		(9,962)	\$		(18,891)
NOO as of beginning of year			802,007			792,045
NOO as of end of year	\$		792,045	\$		773,154

Pay-as-you-go Cost is the expected total employer cash cost for the coming period based on all explicit and implicit subsidies. It is also the amount recognized as expense on the Income Statement under pay-as-you-go accounting.

Net OPEB Obligation is the cumulative difference between the annual OPEB cost and employer contributions. This obligation will be created if cash contributions are less than the current year expense under GASB 45 accrual rules.

The net obligation is recorded as a liability on the employer's balance sheet which will reduce the net fund balance.

The value of implicit subsidies is considered as part of cash contributions for the current period. Other cash expenditures that meet certain conditions are also considered as contributions for GASB 45 purposes.

⁴ FY 2014/15 total annual employer contribution for pay-go costs is the sum of (a) \$275,838 in actual premium payments for retirees and (b) \$155,439 for the implicit portion of pay-go costs.

⁵ FY 2015/16 total annual employer contribution for pay-go costs is the sum of (a) \$230,829 in actual premium payments for retirees and (b) \$173,743 for the implicit portion of pay-go costs.

Summary of GASB 45 Financial Results

Presented below is the summary of GASB 45 results for the fiscal year ending June 30, 2016 and prior fiscal years as shown in the School District's Notes to Financial Statements.

Schedule of Funding Progress

<i>As of</i>	<i>Actuarial Accrued Liability (AAL)</i>	<i>Actuarial Value of Assets (AVA)</i>	<i>Unfunded Actuarial Accrued Liability (UAAL)</i>	<i>Funded Ratio</i>	<i>Covered Payroll</i>	<i>UAAL as % of Covered Payroll</i>
	<i>A</i>	<i>B</i>	<i>C = A - B</i>	<i>D = B / A</i>	<i>E</i>	<i>F = C / E</i>
July 1, 2015	\$ 3,655,790	\$ -	\$ 3,655,790	0.0%	\$ 19,578,831	18.7%
July 1, 2014	\$ 3,922,350	\$ -	\$ 3,922,350	0.0%	\$ 19,008,574	20.6%
July 1, 2013	\$ 4,067,108	\$ -	\$ 4,067,108	0.0%	\$ 19,170,981	21.2%

Schedule of Employer Contributions

<i>FYE</i>	<i>Employer Contributions</i>	<i>Annual Required Contribution (ARC)</i>	<i>% of ARC Contributed</i>
	<i>A</i>	<i>B</i>	<i>C = A / B</i>
June 30, 2016	\$ 404,572	\$ 425,236	95.1%
June 30, 2015	\$ 431,277	\$ 461,368	93.5%
June 30, 2014	\$ 463,468	\$ 468,795	98.9%

Historical Annual OPEB Cost

<i>As of</i>	<i>Annual OPEB Cost</i>	<i>% of Annual OPEB Cost Contributed</i>	<i>Net OPEB Obligation</i>
June 30, 2016	\$ 385,681	104.9%	\$ 773,154
June 30, 2015	\$ 421,315	102.4%	\$ 792,045
June 30, 2014	\$ 426,916	108.6%	\$ 802,007

Summary of Key Actuarial Assumptions

For a more complete summary of assumptions, refer to the GASB 45 Financial Report for fiscal year ending June 30, 2015.

Discount Rate	4.0% unfunded
Inflation Rate	3.0% per year
Payroll Growth	3.0% per year (used for total covered payroll projection only)
Cost Method	Projected Unit Credit with linear proration to decrement
Amortization	Level dollar amount over fifteen years based on an open group
Health Care Trend Rates	Annual trend rates are as shown below:

FYE	Medical / Rx
2017	8.5%
2018	8.0%
2019	7.5%
2020	7.0%
2021	6.5%
2022	6.0%
2023	5.5%
2024+	5.0%

Actuary's Notes

Adjustments have been made to the Actuarial Accrued Liability, Normal Cost, and expected Benefit Payments for actual premium increases from 2015/16 to 2016/17 and the following substantive plan provision and assumption changes:

1. AFSCME employees who retire after July 1, 2015 are no longer eligible to continue coverage with the School District after the expiration of the five-year subsidy period, regardless of whether they are eligible for Medicare or not. This change caused a decrease in the School District's liabilities.
2. For NEA employees who retire on/after October 1, 2013 are eligible for subsidized single coverage for the first six years of retirement equal to the District co-share in effect for active employees on the date of retirement multiplied by the premium during each year of retirement. In the prior valuation we have assumed that the District subsidy is based on the District co-share in effect for active employees on the date of retirement multiplied by the premium in effect in the first year of retirement. This change caused a slight increase in the School District's liabilities.
3. For NEA employees who retire on/after September 1, 2013, they are not eligible to continue coverage under the School District's group health plan at the end of the six-year period (or nine-year period if employees meet the requirements for Early Notification Incentive and elect the additional three years of subsidized individual coverage) regardless of whether they are eligible for Medicare or not. This change caused a decrease in the School District's liabilities.
4. Termination, retirement, and health care coverage election rates have been updated to better reflect actual School District experience. A comparison of current assumptions to prior assumptions can be seen in the November 2016 Experience Study report. The net impact of these changes is a decrease in liabilities.

Premium rates

Comparison of monthly premium rates are as shown below:

Pre-65 Health Plans	Eff. 7/1/2015		Eff. 7/1/2016	
	Single	Family	Single	Family
Healthmate Certified ⁶	\$ 568.50	\$ 1,468.42	\$ 612.09	\$ 1,581.01
Healthmate Non-Certified	\$ 595.38	\$ 1,537.79	\$ 677.62	\$ 1,750.20
Post-65 Health Plans (cost per person)	Eff. 7/1/2015	Eff. 7/1/2016		
Plan 65	\$ 192.66	\$ 203.94		

⁶ Certified employees have a new Healthmate plan that was effective on September 1, 2016. The rates shown above are effective on September 1, 2016.