
State of Rhode Island

State Employees' and Electing
Teachers OPEB System

FISCAL YEAR ENDED JUNE 30, 2015

Dennis E. Hoyle, CPA
Auditor General
State of Rhode Island and Providence Plantations
General Assembly
Office of the Auditor General



Office of the Auditor General

State of Rhode Island and Providence Plantations - General Assembly
Dennis E. Hoyle, CPA - Auditor General

oag.ri.gov

86 Weybosset Street • Providence, RI • 02903-2800
tel: 401.222.2435 • fax: 401.222.2111

March 9, 2016

JOINT COMMITTEE ON LEGISLATIVE SERVICES:

SPEAKER Nicholas A. Mattiello, Chairman
Senator M. Teresa Paiva Weed
Senator Dennis L. Algieri
Representative John J. DeSimone
Representative Brian C. Newberry

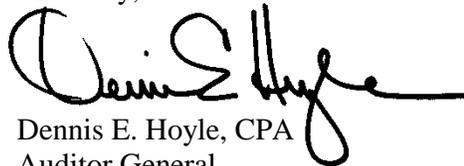
We have completed our audit of the financial statements of the Rhode Island State Employees' and Electing Teachers OPEB System (System) for the fiscal year ended June 30, 2015.

The System provides retiree healthcare benefits to state employees, electing teachers, and certain employees of the Board of Education.

Section 36-12.1-12 of the General Laws requires that the OPEB Board provide an annual report showing the financial transactions of the system. This report is intended to meet the reporting requirement of the General Laws for the fiscal year ended June 30, 2015.

Our report is contained herein as outlined in the Table of Contents.

Sincerely,



Dennis E. Hoyle, CPA
Auditor General

**RHODE ISLAND STATE EMPLOYEES' AND
ELECTING TEACHERS OPEB SYSTEM**

FISCAL YEAR ENDED JUNE 30, 2015

TABLE OF CONTENTS

	<u>PAGE</u>
I. <u>INDEPENDENT AUDITOR'S REPORT</u>	1
II. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u>	4
III. <u>BASIC FINANCIAL STATEMENTS</u>	
Statements of Fiduciary Net Position	10
Statements of Changes in Fiduciary Net Position	11
Notes to Financial Statements	12
IV. <u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
Schedules of Funding Progress	27
Schedules of Employer Contributions.....	28
Notes to Required Supplementary Information.....	29
V. <u>INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE</u>	32



Office of the Auditor General

State of Rhode Island and Providence Plantations - General Assembly

Dennis E. Hoyle, CPA - Auditor General

oag.ri.gov

86 Weybosset Street • Providence, RI • 02903-2800

tel: 401.222.2435 • fax: 401.222.2111

INDEPENDENT AUDITOR'S REPORT

JOINT COMMITTEE ON LEGISLATIVE SERVICES, GENERAL ASSEMBLY
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS:

BOARD OF THE RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB
SYSTEM

Report on the Financial Statements

We have audited the accompanying financial statements of the plans which comprise the Rhode Island State Employees' and Electing Teachers OPEB System (the System) as of June 30, 2015 and for the year then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an

Joint Committee on Legislative Services
Board of the Rhode Island State Employees' and Electing Teachers OPEB System

opinion on the effectiveness of the entity'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 financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of plans within the System as of June 30, 2015, and the changes in financial position and for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1(a), the financial statements present only the OPEB Trust Funds of the State of Rhode Island and Providence Plantations (the State) and do not purport to, and do not, present fairly the financial position of the State, as of June 30, 2015, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our opinions are not modified with respect to this matter.

Other Matters - Required Supplementary Information

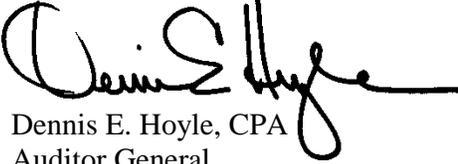
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9 and the Schedules of Funding Progress and the Schedules of Employer Contributions on pages 27 and 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2015 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other

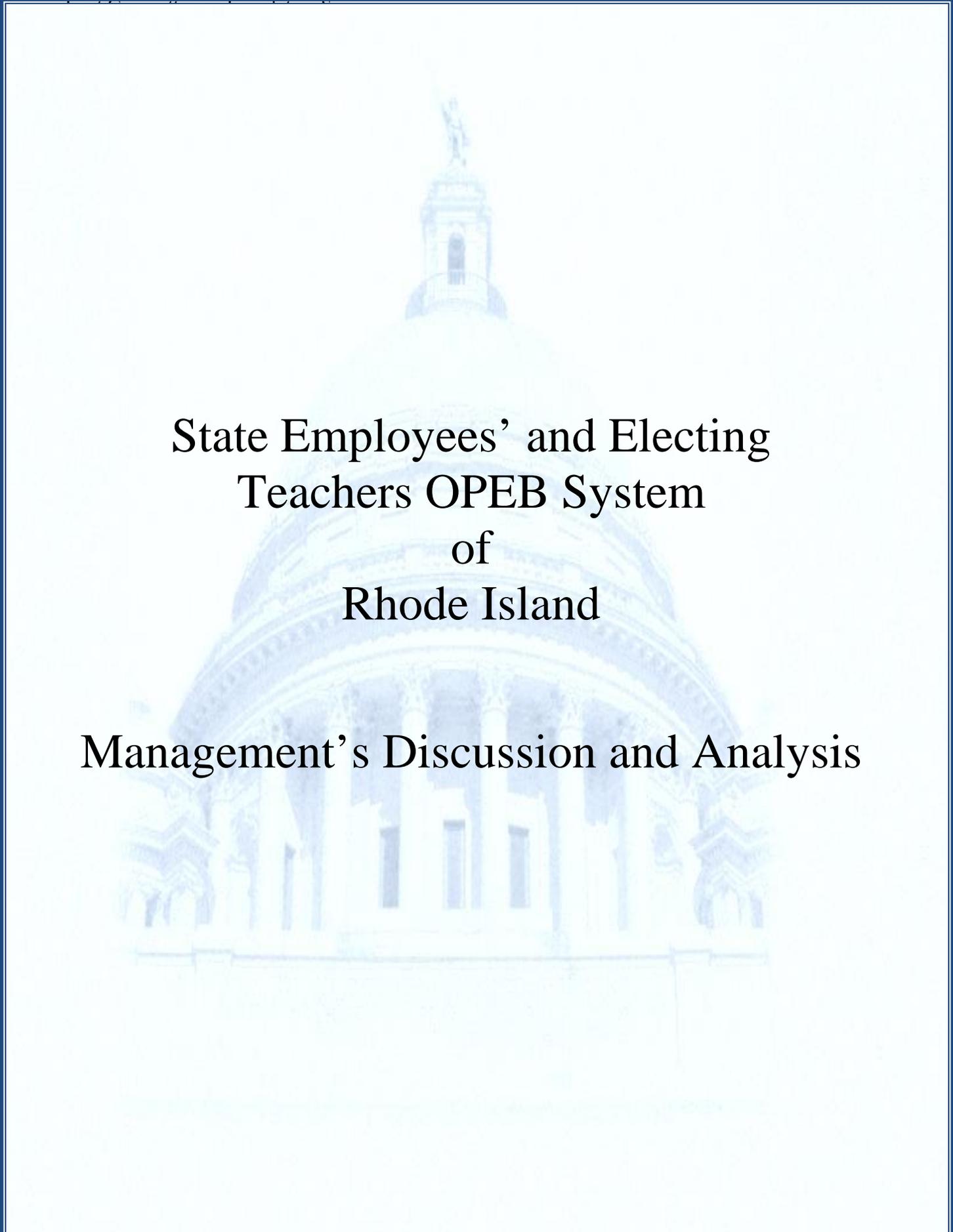
Joint Committee on Legislative Services
Board of the Rhode Island State Employees' and Electing Teachers OPEB System

matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.



Dennis E. Hoyle, CPA
Auditor General

December 17, 2015



State Employees' and Electing
Teachers OPEB System
of
Rhode Island

Management's Discussion and Analysis

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Management's Discussion and Analysis

The Rhode Island State Employees' and Electing Teachers OPEB System (the System) provides this Management's Discussion and Analysis of their financial performance for the readers of the System's financial statements. This narrative provides an overview of the System's financial activity for the fiscal year ended June 30, 2015. This analysis is to be considered in conjunction with the financial statements to provide an objective analysis of the System's financial activities based on the status of the System and issues currently facing management.

The System is administered by the State of Rhode Island OPEB Board and was authorized, created and established under Chapter 36-12.1 of the RI General Laws. The Board was established under Chapter 36-12.1 as an independent board to hold and administer, in trust, the funds of the OPEB system.

Pursuant to legislation enacted by the General Assembly, a trust was established in fiscal year 2011 to accumulate assets and pay benefits and other costs associated with the system. In addition, beginning in fiscal year 2011 the State and other participating employers were required by law to fund the plans on an actuarially determined basis. Previously the System had been funded on a pay-as-you-go basis with annual contributions designed to fund only current year claims, premiums and administrative costs.

The System administers other post-employment benefits plans for the following groups:

- **State employees** - covers state employees and certain employees of the Narragansett Bay Commission, RI Airport Corporation, and RI Commerce Corporation.
- **Teachers** – covers certified public school teachers electing to participate in the System.
- **Judges** – covers judges and magistrates.
- **State police officers**
- **Legislators** – covers retired and former members of the General Assembly.
- **Board of Education (BOE)** – covers certain employees of the University and Colleges, primarily faculty.

The plans within the System generally provide healthcare coverage to pre-Medicare eligible retirees and Health Reimbursement Account contributions or Medicare supplemental plan coverage for those members who are eligible for Medicare. The retirees' contribution to the cost of the various plans offered varies based on their years of service.

Understanding the System's Financial Statements

The Statements of Fiduciary Net Position provide a snapshot of the financial position of the System at June 30, 2015. The Statements of Changes in Fiduciary Net Position summarize the additions and deductions that occurred during the fiscal year. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the financial statements. The Required Supplementary Information consists of schedules and related notes, which demonstrate the System's progress in accumulating funds to meet future OPEB benefit obligations for members of the System.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Management's Discussion and Analysis

Financial Highlights for the Fiscal Year Ended June 30, 2015

- Fiduciary net position increased by \$37.7 million in fiscal 2015 to \$147.4 million. The System began accumulating assets for the future payment of post-employment benefits in 2011.
- Total post-employment health care benefits paid were \$41.1 million, a decrease of \$11.2 million over the amount of benefits paid in fiscal year 2014.
- Contributions to all plans from members and employers for fiscal year 2015 totaled \$68.1 million, a decrease of \$10.1 million compared to the contributions received in fiscal year 2014.

The reduction in benefits paid and contributions received was primarily a result of a change in the manner that benefits are provided to Medicare eligible retirees covered by the State Employees plan that was enacted in the 2013 session of the General Assembly. Effective October 1, 2014 the State established a health reimbursement account (HRA) for each Medicare eligible retiree who elects to receive health insurance coverage through the state sponsored program. The amount deposited by the State into each HRA varies based on the date of retirement and years of service at retirement but will be based on the lowest-cost Medicare supplemental plan available through the program that meets the plan requirements defined in the law. Amounts available in each retiree's HRA may be used by the retiree for any eligible medical care expense including reimbursement for health insurance premiums.

- The System experienced a net gain from investing activities of \$6.4 million for the fiscal year ended June 30, 2015.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Management's Discussion and Analysis

Assets, Liabilities and Fiduciary Net Position – All Plans		
	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Assets:		
Cash and cash equivalents	\$ 6,026,263	\$ 3,584,881
Advance held by claims processing agent	775,000	775,000
Investments	142,245,385	109,198,637
Receivables	<u>2,141,070</u>	<u>2,310,173</u>
Total assets	<u>151,187,718</u>	<u>115,868,691</u>
Liabilities:		
Accounts payable and incurred but not reported claims	2,616,228	3,162,801
Advance contributions	-	3,032,884
Other liabilities	<u>1,184,752</u>	<u>7</u>
Total liabilities	<u>3,800,980</u>	<u>6,195,692</u>
Fiduciary Net Position:	<u>\$147,386,738</u>	<u>\$109,672,999</u>

Summary of Changes in Fiduciary Net Position – All Plans		
	<u>Year Ended June 30, 2015</u>	<u>Year Ended June 30, 2014</u>
Additions:		
Contributions:		
Employer	\$58,693,855	\$ 59,784,071
Member	9,421,089	18,401,081
Other income	1,380,443	718,225
Amortization of advance contributions	3,032,884	3,032,885
Net investment gain	<u>6,385,309</u>	<u>14,118,230</u>
Total Additions	<u>78,913,580</u>	<u>96,054,492</u>
Deductions:		
Benefits	41,105,721	52,332,576
Administrative expenses	<u>94,127</u>	<u>168,700</u>
Total Deductions	<u>41,199,848</u>	<u>52,501,276</u>
Increase in Fiduciary Net Position:	37,713,732	43,553,216
Fiduciary Net Position:		
Beginning of year	<u>109,673,006</u>	<u>66,119,790</u>
End of year	<u>\$147,386,738</u>	<u>\$109,673,006</u>

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Management's Discussion and Analysis

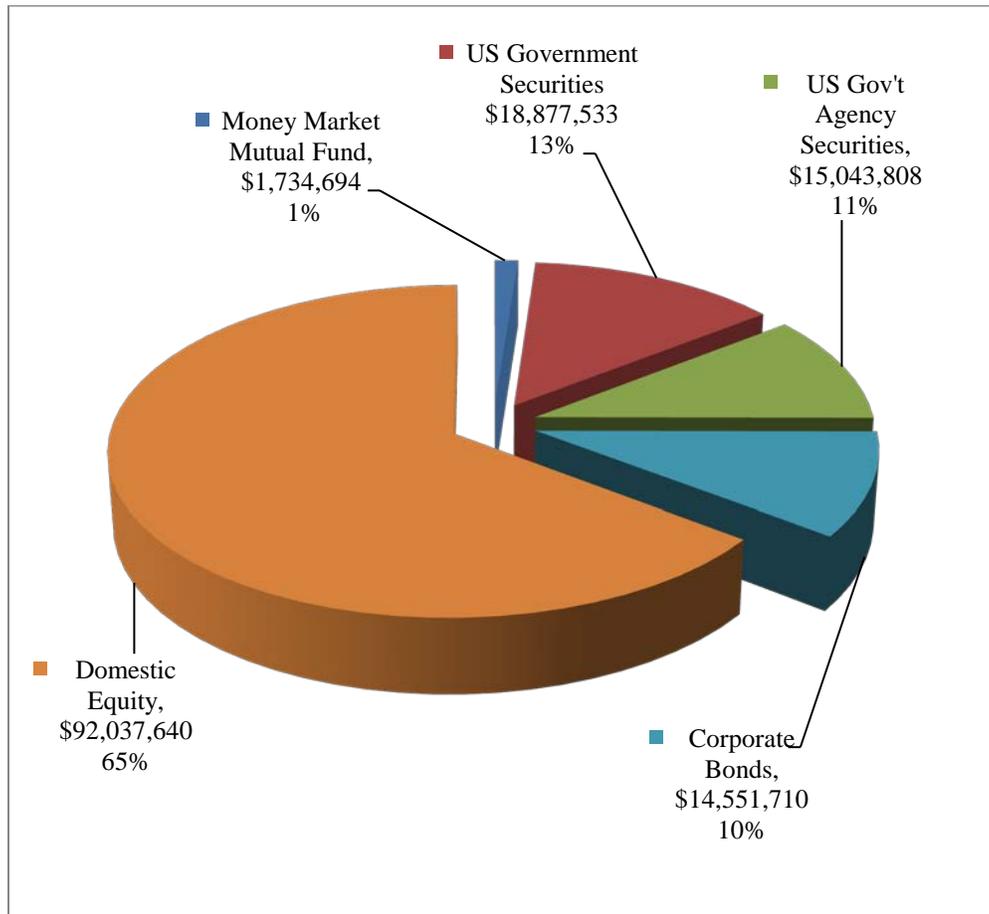
Investments

The SIC monitors investment performance of the System and conducts periodic asset/liability (A/L) studies to identify an optimal diversified investment portfolio that maximizes return within an acceptable level of risk. As long-term investors, the SIC is committed to its strategic asset allocation that has been developed as part of a comprehensive A/L study which incorporates capital market return expectations, risks and correlations associated with each asset class as well as the unique profile and objectives of the System.

The following asset allocation targets are in place at the close of fiscal 2015:

Fiscal 2015 – Asset Allocation Targets	
Domestic Equity	65%
Fixed Income	35%

Pooled Investment Trust - Asset Allocation - Actual - Fair Value at June 30, 2015



RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Management's Discussion and Analysis

Investment Performance

The System's actuarial investment return assumption is 5.0%. The allocation of assets among equity and fixed income securities in the future may have a significant impact on actual investment performance. The actual investment return, net of investment expenses, for the fiscal year ended June 30, 2015 was 5.47% while the composite benchmark return was 5.55%.

Beginning with the actuarial valuation performed as of June 30, 2011, the System uses a four-year smoothed market methodology to determine the actuarial value of assets.

Funded Status

Independent actuarial valuations of the System are conducted every two years. As part of these valuations, the progress toward funding OPEB obligations of the System will be measured by comparing the actuarial value of assets to the actuarial accrued liability. This measure is referred to as the funded ratio or funded status.

Details of the funded status of each plan within the System are included in the Schedules of Funding Progress, which can be found on page 27. The most recent actuarial valuation of the plans within the System was performed as of June 30, 2013.

Next Year's Contribution Rates

The fiscal 2016 employer contribution rates are all based upon actuarial valuations performed at June 30, 2013. The net employer contribution rates (expressed as a percent of covered payroll) for fiscal year 2016 are 5.97% for State employees, 1.53% for Legislators, 33.39% for State Police, and 3.11% for members of the Board of Education plan. There is no fiscal 2016 required contribution to the Judges plan due to its funded status. The State's contribution for retired teachers is not expressed as a percent of payroll and is budgeted at \$2,321,057 for fiscal year 2016.

Future health care inflation experience is a key variable that could have a major impact on future employer contributions to the System. Trustees of the System, after consultation with the System's actuaries, will continue to carefully monitor this and other actuarial assumptions and make adjustments to future valuations as appropriate. In addition, the assumed rate of return of 5% could be adversely impacted by equity and debt market conditions as well as the continuance of historically low interest rates currently being experienced in the national and world economies.

The General Laws were amended in the 2013 session of the General Assembly to modify the manner in which health insurance is provided to Medicare eligible retirees covered under the System's plan covering state employees. Effective October 1, 2014 the State established a health reimbursement account (HRA) for each Medicare eligible retiree who elects to receive health insurance coverage through the state sponsored program. The amount deposited by the State into each HRA varies based on the date of retirement and years of service at retirement but is based on the lowest-cost Medicare supplemental plan available through the program that meets the plan requirements defined in the law. Amounts available in each retiree's HRA may be used for any eligible medical care expense including reimbursement for health insurance premiums. The law requires the Director of the Department of Administration to maximize options with respect to the individual policies available to Medicare eligible retirees. Management believes these changes will

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Management's Discussion and Analysis

reduce costs for Medicare eligible retirees while increasing flexibility and options available to plan members.

The System's actuary modified the actuarially required contributions for fiscal year 2016 developed as of the June 30, 2013 valuation to reflect the changes discussed above.

Contacting the System's Management

This discussion and analysis presentation is designed to provide a general overview of the System's financial activity. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

**Office of Accounts and Control
1 Capitol Hill
Providence, RI 02908**

State of Rhode Island and Providence Plantations
Statements of Fiduciary Net Position
Rhode Island State Employees' and Electing Teachers OPEB System
June 30, 2015

	State Employees'	Teachers	Judicial	State Police	Legislators	Board of Education	Memorandum Total
Assets							
Cash and cash equivalents	\$ 3,935,897	\$ 680,646	\$ 144,938	\$ 730,158	\$ 208,355	\$ 326,269	\$ 6,026,263
Advance held by claims processing agent	775,000						775,000
Contributions receivable	1,732,568		500	271,492		136,510	2,141,070
Investments at fair value - equity in pooled trust	92,549,430	6,537,611	2,822,848	23,104,294	2,393,012	14,838,190	142,245,385
Total assets	<u>98,992,895</u>	<u>7,218,257</u>	<u>2,968,286</u>	<u>24,105,944</u>	<u>2,601,367</u>	<u>15,300,969</u>	<u>151,187,718</u>
Liabilities							
Accounts payable	574,801	42,796	10,414	106,879	7,014	36,324	778,228
Incurred but not reported claims	1,340,000	256,000	16,000	142,000	24,000	60,000	1,838,000
Other	1,184,752						1,184,752
Total liabilities	<u>3,099,553</u>	<u>298,796</u>	<u>26,414</u>	<u>248,879</u>	<u>31,014</u>	<u>96,324</u>	<u>3,800,980</u>
Net position held in trust for other postemployment benefits	<u>\$ 95,893,342</u>	<u>6,919,461</u>	<u>2,941,872</u>	<u>23,857,065</u>	<u>2,570,353</u>	<u>15,204,645</u>	<u>147,386,738</u>

The accompanying notes are an integral part of this financial statement.

State of Rhode Island and Providence Plantations
Statements of Changes in Fiduciary Net Position
Rhode Island State Employees' and Electing Teachers OPEB System
For the Year Ended June 30, 2015

	<u>State Employees'</u>	<u>Teachers</u>	<u>Judicial</u>	<u>State Police</u>	<u>Legislators</u>	<u>Board of Education</u>	<u>Memorandum Total</u>
Additions							
Contributions							
Member contributions (note 4)	\$ 5,081,408	\$ 2,123,765	\$ 386,787	\$ 248,720	\$ 228,072	\$ 1,352,337	\$ 9,421,089
Employer contributions (note 4)	45,694,525	2,321,057	13,377	8,134,524		2,530,372	58,693,855
Total contributions	<u>50,775,933</u>	<u>4,444,822</u>	<u>400,164</u>	<u>8,383,244</u>	<u>228,072</u>	<u>3,882,709</u>	<u>68,114,944</u>
Amortization of advanced contributions (note 4)	2,074,138	478,041				480,705	3,032,884
Other income (note 5)	1,067,181	136,348	23,344	100,721	24,856	27,993	1,380,443
Investment income							
Net appreciation in fair value of investments	3,372,606	260,586	120,139	815,717	112,373	574,555	5,255,976
Interest and dividends	779,745	59,699	26,340	190,859	23,894	129,531	1,210,068
	<u>4,152,351</u>	<u>320,285</u>	<u>146,479</u>	<u>1,006,576</u>	<u>136,267</u>	<u>704,086</u>	<u>6,466,044</u>
Less investment expense	(52,097)	(3,863)	(1,745)	(12,806)	(1,570)	(8,654)	(80,735)
Net investment income	<u>4,100,254</u>	<u>316,422</u>	<u>144,734</u>	<u>993,770</u>	<u>134,697</u>	<u>695,432</u>	<u>6,385,309</u>
Total additions	<u>58,017,506</u>	<u>5,375,633</u>	<u>568,242</u>	<u>9,477,735</u>	<u>387,625</u>	<u>5,086,839</u>	<u>78,913,580</u>
Deductions							
Benefits	32,089,714	3,878,158	383,330	2,545,089	393,703	1,815,727	41,105,721
Administrative expense (note 6)	75,968	5,899	608	2,243	762	8,647	94,127
Total deductions	<u>32,165,682</u>	<u>3,884,057</u>	<u>383,938</u>	<u>2,547,332</u>	<u>394,465</u>	<u>1,824,374</u>	<u>41,199,848</u>
Net increase (decrease)	25,851,824	1,491,576	184,304	6,930,403	(6,840)	3,262,465	37,713,732
Net position held in trust for other post-employment benefits							
Net position - beginning	70,041,518	5,427,885	2,757,568	16,926,662	2,577,193	11,942,180	109,673,006
Net position - ending	<u>\$ 95,893,342</u>	<u>\$ 6,919,461</u>	<u>\$ 2,941,872</u>	<u>\$ 23,857,065</u>	<u>\$ 2,570,353</u>	<u>\$ 15,204,645</u>	<u>\$ 147,386,738</u>

The accompanying notes are an integral part of this financial statement.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

**Notes to Financial Statements
Fiscal Year Ended June 30, 2015**

1. Plan Descriptions

(a) General

The Rhode Island State Employees' and Electing Teachers OPEB System (the "System") acts as a common investment and administrative agent for benefits to be provided for six defined benefit other post-employment plans as listed below:

Plan	Members	Plan Type
State employees	State employees and certain employees of the Narragansett Bay Commission, RI Airport Corporation, and RI Commerce Corporation.	Cost-sharing multiple employer
Teachers	Certified public school teachers electing to participate in the System.	Single-employer
Judges	Judges and magistrates.	Single-employer
State police	State police officers.	Single-employer
Legislators	Retired and former members of the General Assembly.	Single-employer
Board of Education (BOE)	Certain employees of the Board of Education inclusive of URI, RIC and CCRI and the Office of Higher Education.	Cost-sharing multiple employer

Although the assets of the plans are commingled for investment purposes, each plan's assets are accounted for separately and may be used only for the payment of benefits to the members of that plan, in accordance with the terms of that plan.

The System's financial statements are included as Trust Funds within the Fiduciary Funds in the Comprehensive Annual Financial Report of the State of Rhode Island and Providence Plantations. The accompanying financial statements are not intended to present the financial position and results of operations of the State.

The System is administered by the OPEB Board and was authorized, created and established under Chapter 36-12.1 of the RI General Laws. The Board was established under Chapter 36-12.1 as an independent board to hold and administer, in trust, the funds of the OPEB system. The four members of the OPEB Board are: the State Controller, the State Budget Officer, the State Personnel Administrator and the General Treasurer, or their designees.

Members of the System, which include State employees, legislators, judges, State police officers, certified public school teachers and employees of certain component units, if they meet certain eligibility requirements, are eligible to receive some form of retiree health care benefits. In addition, certain employees of the Board of Education receive benefits under another plan known as the Rhode Island Board of Education Health Care Insurance Retirement Program (the "BOE Plan").

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Notes to Financial Statements Fiscal Year Ended June 30, 2015

1. Plan Descriptions (continued)

(b) Membership and Benefit Provisions

The plans within the System generally provide healthcare coverage to pre-Medicare eligible retirees and health reimbursement account contributions or Medicare supplement coverage for members who are Medicare eligible. Members may purchase coverage for spouses and dependents. Depending on the plan and the time of retirement, the cost to purchase coverage for spouses and dependents is either at the “active rate” applicable to active employees or at the retiree rate. Dental and vision coverage is generally not provided (except for those plans that allow active health care coverage to continue after retirement – judges, state police and legislators). Dental and vision coverage may be purchased by these groups with no state subsidy.

Members of the System must meet the eligibility and services requirements set forth in the RI General Laws or other governing documents. RIGL Sections 16-17.1-1 and 2, 36-10-2, 36-12.1, 36-12-2.2 and 36-12-4 govern the provisions of the System, and they may be amended in the future by action of the General Assembly.

Active employees (other than the Board of Education active members) do not make contributions to the respective plans. Retired member contributions consist of the required retiree share of coverage based on the time of retirement and years of service. Other member contributions include purchased coverage for spouses or dependents or for non-subsidized coverage for dental and vision care.

A summary of the principal provisions of the plans follow:

State Employees

For State employees who retired on or before September 30, 2008, the State provides two types of subsidies for health care benefits. The Tier I subsidy applies to non-Medicare eligible plans and provides that the State will pay the portion of the cost of retiree health care for the retiree and any dependents above the active group rate. The retiree pays the active group monthly rate and the State pays the difference between the active group rate and the early retiree rate. This subsidy is not based on years of service and ends at age 65. In addition to the Tier I benefits, the State pays a portion of the cost of retiree health care above the Tier I costs for certain retirees meeting eligibility requirements based upon the age and service of the retiree, which is referred to as the Tier II benefit.

For State employees who retired on or before September 30, 2008, the fiscal 2015 contributions are as follows:

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Notes to Financial Statements Fiscal Year Ended June 30, 2015

1. Plan Descriptions (continued)

(b.) Membership and Benefit Provisions

<u>Age at Retirement</u>	<u>Years of Service</u>	<u>Amount of Cost Paid by Retiree</u>
Below 60:	28-34	10%
	35+	0%
From 60 to 65:	10 – 15	50%
	16 – 22	30%
	23 – 27	20%
	28+	0%
Greater than 65:	10 – 15	50%
	16 – 19	30%
	20 – 27	10%
	28+	0%

For members age 59 through 64 who retire on or after October 1, 2008, with a minimum of 20 years of service, the State pays 80% of the actual cost of health care coverage.

At age 65, State retirees must purchase Medicare Part B (deducted from their Social Security payment) and also enroll in a health reimbursement account plan to which the OPEB Trust contributes based upon 80% of the lowest-cost Medicare supplemental plan available through the program that meets the plan requirements defined in the law.

The General Laws were amended in the 2013 session of the General Assembly to modify the manner in which health insurance is provided to Medicare eligible retirees covered under the System's plan covering state employees. Effective October 1, 2014 the State established health reimbursement accounts (HRA) for each Medicare eligible retiree who elects to receive health insurance coverage through the state sponsored program. The amount deposited by the State into each HRA varies based on the date of retirement and years of service at retirement but is based on the lowest-cost Medicare supplemental plan available through the program that meets the plan requirements defined in the law. Amounts available in each retiree's HRA can be used for any eligible medical care expense including reimbursement for health insurance premiums.

Teachers

Teachers who elect to participate in the System and retired on or before September 30, 2008, receive the Tier I subsidy but no other State cost sharing. For all teachers retiring on or after October 1, 2008, the Tier I subsidy ends and there is no other cost sharing by the State. Retired teachers may purchase coverage through the System at the actual cost for retirees.

Judges

Effective July 1, 2012 new retirees (and spouses and dependents) that are eligible for Medicare are required to enroll in Medicare and a Medicare Supplemental plan. Retirees who retired before that date are able to continue on the active health care plan provided they enroll in Medicare Part B.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Notes to Financial Statements Fiscal Year Ended June 30, 2015

1. Plan Descriptions (continued)

State Police

Retired state police officers (including spouses and dependents) receive the active health care plan benefits or Medicare supplement coverage with the same co-share percentage in effect at the date of their retirement.

Legislators

Effective July 1, 2012 new retirees (and spouses and dependents) that are eligible for Medicare are required to enroll in Medicare and a Medicare Supplemental plan. Retirees who retired before that date are able to continue on the active health care plan provided they enroll in Medicare Part B.

Board of Education

The BOE Plan offers three types of retiree health care benefits: (1) a self-insured health care plan for retirees not covered by Medicare, (2) a self-insured Medicare supplement plan for Medicare eligible post-65 retirees and (3) a fully insured Medicare HMO plan for Medicare eligible post-65 retirees.

The Tier I non-Medicare eligible plan subsidy provides that the Board will pay the portion of the cost of post-retirement health care for the retiree between the active group rate and the early retiree rate. This subsidy is based on years of service and ends when the retiree enrolls in Medicare. This subsidy is available only to eligible employees retiring before July 1, 2008.

To be eligible for coverage, the retiree retiring before July 1, 2008 must have worked a minimum of 10 years for the Board and must be 60 years of age, unless they have 28 years or more of service. Depending on the years of service and the retiree's age, the Board will pay from 50% to 100% of medical insurance premium while the retiree contributes from 50% to 0%.

Employees retiring after June 30, 2008, who are not yet 65 years of age, who have worked a minimum of 10 years for the Board and are at least 60 years of age or who have 28 years or more of service, may purchase health insurance coverage at the actual (100%) retiree premium rate for themselves and their spouses. The Board will continue to pay a portion of the post-65 Tier II benefits, 50% to 100% of medical insurance premium, depending on the years of service and the retiree's age while the retiree will contribute from 50% to 0%.

Active employees covered by the BOE plan contribute .9% of their salary. The contribution of employees covered under the BOE plan can be changed by the Board of Education.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

**Notes to Financial Statements
Fiscal Year Ended June 30, 2015**

1. Plan Descriptions (continued)

A summary of membership by plan and the number of participating employers as of the June 30, 2013 actuarial valuation (the most recent information available) follows:

<u>Group</u>	<u>Members</u>			<u>Participating Employers</u>
	<u>Active</u>	<u>Retired</u>	<u>Total</u>	
State employees	11,351	9,078	20,429	4
Teachers	N/A	1,614	1,614	N/A
Judicial	81	73	154	1
State police officers	219	347	566	1
Legislators	113	103	216	1
BOE employees	1,768	775	2,543	1

2. Summary of Significant Accounting Policies

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The Governmental Accounting Standards Board (GASB) is responsible for establishing generally accepted accounting principles for other post-employment benefit plans established by governmental entities.

Basis of Accounting - The financial statements of the System are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Plan member contributions are recognized in the period in which the contributions are withheld from retiree benefits. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions.

Benefits are recorded based on (1) recognition of a claim liability for a plan covered service for self-insured coverage or (2) when premiums are due and payable for insured coverage. Accordingly, at fiscal year-end, an estimated liability for incurred but not reported claims is recognized in the financial statements for self-insured coverage.

Investment transactions are recorded on a trade date basis.

Method Used to Value Investments - Investments are recorded in the financial statements at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than a forced liquidation sale.

Short-term investments are generally carried at cost which approximates fair value.

The fair value of fixed income securities is generally based on published market prices and quotations from national security exchanges and securities pricing services.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

**Notes to Financial Statements
Fiscal Year Ended June 30, 2015**

2. Summary of Significant Accounting Policies (continued)

Commingled funds consist of an institutional domestic equity index fund. The fair value of the commingled fund is the reported net asset value (NAV) based upon the fair value of the underlying securities or assets held in the fund.

Cash and Cash Equivalents - Cash represents deposits held in a financial institution. Cash equivalents are highly liquid investments with a maturity of three months or less at the time of purchase.

Investment expenses – Investment management expenses are presented separately as a component of net investment income and include investment consultants, custodial fees and direct investment expenses allocated by managers. In some instances investment related costs are not readily separable from investment income and consequently investment income is recorded net of related expenses.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies. These estimates are subject to a certain amount of uncertainty in the near term, which could result in changes in the values reported for those assets in the statements of fiduciary net position. Estimates also affect the reported amounts of income/additions and expenses/deductions during the reporting period. Actual results could differ from these estimates.

Memorandum Total Columns - Total columns on the financial statements are captioned “memorandum only” to indicate that they are presented only to facilitate financial analysis. Data in these columns are not comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

3. Cash Deposits and Investments

Cash Deposits and Cash Equivalents

At June 30, 2015 the carrying amounts of the plans’ cash deposits are listed below:

	State Employees	Teachers	Judicial	State Police	Legislators	BOE	Total
Cash Deposits:							
Book Balance	\$ 2,358,597	\$ 142,708	\$ 144,938	\$ 627,133	\$ 208,355	\$ 263,934	\$ 3,745,665
Bank Balance	2,352,745	142,708	144,938	627,133	208,355	263,934	3,739,813
Cash Equivalents:	<u>1,577,300</u>	<u>537,938</u>	<u>-</u>	<u>103,025</u>	<u>-</u>	<u>62,335</u>	<u>2,280,598</u>
Total Cash Deposits and Cash Equivalents:	<u>\$ 3,935,897</u>	<u>\$ 680,646</u>	<u>\$ 144,938</u>	<u>\$ 730,158</u>	<u>\$ 208,355</u>	<u>\$ 326,269</u>	<u>\$ 6,026,263</u>

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Notes to Financial Statements Fiscal Year Ended June 30, 2015

3. Cash Deposits and Investments (continued)

The bank and book balances represent the plans' deposits in short-term trust accounts which include demand deposit accounts and interest-bearing, collateralized bank deposit accounts.

In accordance with Rhode Island General Law Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. In addition, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the uninsured deposit amounts. At June 30, 2015, the System's cash deposits were either federally insured or collateralized.

At June 30, 2015, the System had cash equivalent investments consisting of \$2,280,598 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The System's investment accounted for 0.8% of the total investment in OSIP at June 30, 2015. Funds of agencies, authorities, commissions, boards, municipalities, political subdivisions, and other public units of the State are eligible to invest in OSIP. OSIP operates in a manner consistent with SEC Rule 2a-7 like pool and thus, reports all investments at amortized cost rather than fair value. The OSIP is not rated and the weighted average maturity of investments held in the pool, by policy, is not to exceed 60 days. OSIP issues a publicly available financial report that can be obtained by writing to the Office of the General Treasurer, Finance Department, 50 Service Avenue - 2nd Floor, Warwick, RI 02886.

Investments

The State Investment Commission oversees all investments made by the State of Rhode Island, including those made for the System. The General Treasurer makes certain short-term investments on a daily basis. Rhode Island General Law Section 35-10-11 (b)(3) requires that all investments shall be made in securities as would be acquired by prudent persons of discretion and intelligence who are seeking a reasonable income and the preservation of capital.

The assets of each of the plans are pooled for investment purposes only, and units are assigned to the plans based on their respective share of market value. The custodian bank holds assets of the System in a Pooled Account and each plan holds units in the account. The number of units held by each plan is a function of each plans' respective contributions to, or withdrawals from the account.

Investment expense is allocated to each plan based on the plan's units in the pooled trust at the end of each month.

The following table presents the fair value of investments by type that are held within the pooled trust at June 30, 2015:

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Notes to Financial Statements Fiscal Year Ended June 30, 2015

3. Cash Deposits and Investments (continued)

<u>Investment Type</u>	<u>Fair Value</u>
Money Market Mutual Fund	\$ 4,832,270
US Government Securities	18,877,533
US Government Agency Securities	15,043,808
Corporate Bonds	14,551,710
Commingled Funds - Domestic Equity	92,037,640
	<hr style="width: 100%;"/>
	145,342,961
Net investment payable	(3,097,576)
	<hr style="width: 100%;"/>
Investments at Fair Value	\$ 142,245,385
	<hr style="width: 100%;"/>

Consistent with a target asset allocation model adopted by the State Investment Commission, the System maintains a diversified portfolio by sector, credit rating and issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The following table shows the System's fixed income investments by type, fair value and the effective duration at June 30, 2015:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
US Government Agency Securities	\$ 15,043,808	3.52
US Government Securities	18,877,533	5.89
Corporate Bonds	14,551,710	6.51
	<hr style="width: 100%;"/>	
Total Fixed Income	\$ 48,473,051	4.86
	<hr style="width: 100%;"/>	

The System's investment in the Dreyfus Institutional Cash Advantage Fund, a money market mutual fund, had an average weighted maturity of 67 days at June 30, 2015.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Notes to Financial Statements Fiscal Year Ended June 30, 2015

3. Cash Deposits and Investments (continued)

Credit Risk

The System manages exposure to credit risk generally by adhering to an overall target weighted average credit quality for the portfolio.

The System's exposure to credit risk as of June 30, 2015 is as follows:

<u>Rating(1)</u>	<u>US Government Agency Obligations</u>	<u>Corporate Bonds</u>
Aaa	\$ 15,043,808	\$ 812,024
Aa		439,422
A		4,454,225
Baa		8,564,489
Ba		281,550
Fair Value	\$ 15,043,808	\$ 14,551,710

(1) Moody's Investor Service

The System's investment in a short-term money market mutual fund (Dreyfus Institutional Cash Advantage Fund) was rated AAAM by Standard & Poor's Investors Service.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a System's investments in a single issuer. There is no single issuer exposure within the System's portfolio that comprises more than 5% of the overall portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2015 all securities were registered in the name of the System (or in the nominee name of its custodial agent) and were held in the possession of the System's custodial bank, Bank of New York Mellon.

Derivatives and Other Similar Investments

Through its commingled fund, the System indirectly holds derivative type instruments, primarily equity index futures.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

**Notes to Financial Statements
Fiscal Year Ended June 30, 2015**

4. Funding Policy, Funded Status, and Funding Progress

RIGL Sections 36-10-2, 36-12.1, 36-12-2.2 and 36-12-4 govern the provisions of the System. The contribution requirements of plan members, the State, and other participating employers are established and may be amended by the General Assembly.

Beginning in fiscal year 2011, the State and other participating employers were required by law to fund the Plans on an actuarially determined basis. For the fiscal year ended June 30, 2015, the State and other participating employers paid \$58,693,855 into the plans.

The table below displays the funded status of each plan at June 30, 2013, the most recent actuarial valuation date (in thousands):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
State Employees	\$ 39,527	\$ 637,059	\$ 597,532	6.2%	\$ 671,762	88.9%
Teachers	3,230	12,569	9,339	25.7%	n/a	n/a
Judicial	2,151	1,054	(1,097)	204.1%	13,447	-8.2%
State Police	9,587	70,385	60,798	13.6%	17,748	342.6%
Legislators	2,202	1,549	(653)	142.2%	1,695	-38.5%
BOE	7,486	55,706	48,220	13.4%	113,375	42.5%

Covered payroll and the UAAL as a percentage of covered payroll is not presented for teachers since the required contribution by the State is the Tier I subsidy for teachers who have elected to participate in the State’s Retiree Health Care Benefit Plan.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in the actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, show whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Notes to Financial Statements Fiscal Year Ended June 30, 2015

4. Funding Policy, Funded Status, and Funding Progress (continued)

The accompanying schedules of funding progress and employer contributions, presented as required supplementary information, present multi-year trend information about (1) whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits, and (2) information about the amounts contributed to the plans by employers in comparison to the annual required contribution (ARC), an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The annual required contributions for fiscal year 2015 were determined based on the June 30, 2011 valuations for all plans.

As of the June 30, 2011 actuarial valuation, the Unfunded Actuarial Accrued Liability (UAAL) was amortized by a level (principal and interest combined) percent of payroll contribution for State Employees, State Police, and Board Governors, and by a level dollar amount for Judges, Legislators and Teachers. The UAAL was determined using the actuarial value of assets and actuarial accrued liability calculated as of the valuation date.

As of the June 30, 2011 actuarial valuation, the UAAL for all plans, except teachers, was amortized over the remainder of a closed 30-year (or shorter) period from June 30, 2006. The remaining amortization period at June 30, 2011 was 25 years. The UAAL for teachers is being amortized as a level dollar amount over an 8-year period from June 30, 2007. The remaining amortization period at June 30, 2011 was four years.

The following table summarizes the assumptions and methods employed in the June 30, 2011 valuation. Other assumptions, including those relating to rates of termination, rates of retirement, percent married, and retiree health care election rates, were based on the most recent experience study at that time for the Employees' Retirement System of Rhode Island as well as on anticipated experience changes in conjunction with the adopted retirement plan changes enacted through legislation.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

**Notes to Financial Statements
Fiscal Year Ended June 30, 2015**

4. Funding Policy, Funded Status, and Funding Progress (continued)

Summary of Actuarial Methods and Assumptions as of June 30, 2011 valuation						
	Plan					
	State Employees	Teachers	Judicial	State Police	Legislators	Board of Education
Actuarial Cost Method	Individual Entry Age					
Amortization Method	Level Percent of Payroll	Level Dollar	Level Dollar	Level Percent of Payroll	Level Dollar	Level Percent of Payroll
Equivalent Single Remaining Amortization Period	25 years	4 years	25 years	25 years	25 years	25 years
Asset Valuation Method	Four year smoothed market					
Actuarial Assumptions						
Investment Rate of Return	5.00%					
Projected Salary Increases	4.00% to 12.00%					
Valuation Health Care Cost Trend Rate	9% in 2012, grading to 4.0% in 2021					

The table below details the fiscal 2015 contribution rates for each of the plans.

Plan	Employee (Active)	Employer
State employees	none	6.75% *
Teachers	not applicable	\$2,321,057*
Judicial	none	.12%
State Police	none	39.0%
Legislators	none	none
Board of Education	0.9%	2.30%*

* Net rate after applying credit for amortization of unearned revenue as described on the following page.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

**Notes to Financial Statements
Fiscal Year Ended June 30, 2015**

4. Funding Policy, Funded Status, and Funding Progress (continued)

Employer contributions include amounts (\$566,603) paid by the State for employees who retired under an early retirement incentive program. The cost of retiree health benefits for these individuals is charged as an annual operating cost to the department or agency from which they were employed immediately prior to retirement.

Prior to the establishment of the OPEB trust funds in 2010, the State maintained two internal service funds and an agency fund to record activity related to retiree health benefits. The remaining balances in those funds as of June 30, 2010 were transferred to the applicable OPEB trust fund in fiscal year 2011 and were recorded as advance contributions for the funds/plans listed below.

State Employees	\$4,148,276
Teachers	956,083
Board of Education	961,409

One-half of each of the amounts above was recognized as revenue in fiscal year 2014 and the balance was recognized in fiscal year 2015 to partially satisfy the annual required contributions to those respective plans as outlined above.

The most recent actuarial valuations of the plans within the System were performed as of June 30, 2013.

Several changes were made in OPEB specific actuarial assumptions and methods between the June 30, 2011 and June 30, 2013 valuations. Changes to the OPEB specific assumptions include a decrease in the wage inflation and long term health care cost inflation assumptions from 4% to 3.5%. In addition, the excise tax load expected to be imposed under the Patient Protection and Affordable Care Act on pre-65 liabilities was changed from 7.4% to 11%. Also, there was a change in actuarial method; the premium development methodology was changed to create a single premium rate for all groups.

The Patient Protection and Affordable Care Act includes an excise tax on high cost health plans beginning in 2018. The excise tax is 40% of costs above a threshold. The actual actuarial assumptions used in the two most recent valuations assume that the plans will be subject to the excise tax in 2018.

The General Laws were amended in the 2013 session of the General Assembly to modify the manner in which health insurance is provided to Medicare eligible retirees covered under the System's plan covering state employees. Effective October 1, 2014, health reimbursement accounts (HRA) were established for each Medicare eligible retiree who elects to receive health insurance coverage through the state sponsored program. In addition, certain changes in benefits offered under the program are effective in July 2014 and January 2015. The effect on the Actuarial Accrued Liability resulting from these changes is reflected in the valuation table on the preceding page.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

**Notes to Financial Statements
Fiscal Year Ended June 30, 2015**

4. Funding Policy, Funded Status, and Funding Progress (continued)

The following table summarizes the assumptions and methods employed in the June 30, 2013 valuation. Other assumptions, including those relating to rates of termination, rates of retirement, percent married, and retiree health care election rates, were based on the most recent experience study for the Employees' Retirement System of Rhode Island as well as on anticipated experience changes in conjunction with the adopted retirement plan changes enacted through legislation.

Summary of Actuarial Methods and Assumptions as of June 30, 2013 valuation						
	Plan					
	State Employees	Teachers	Judicial	State Police	Legislators	Board of Education
Actuarial Cost Method	Individual Entry Age					
Amortization Method	Level Percent of Payroll	Level Dollar	Level Percent of Payroll			
Equivalent Single Remaining Amortization Period	23 years closed	Determined By Statutory Contribution	30 years open	23 years closed	30 years open	23 years closed
Asset Valuation Method	Four year smoothed market					
Actuarial Assumptions						
Investment Rate of Return	5.00%					
Projected Salary Increases	3.5% to 6.5%	N/A	3.5%	3.50% to 11.5%	3.75% to 8.0%	3.5% to 6.5%
Valuation Health Care Cost Trend Rate	9% in 2014, grading to 3.5% in 2023					
Note: The actuarial assumptions do not include a separate general inflation rate assumption.						

5. Other Income

Drug rebates received from drug manufacturers relating to claims paid for retirees totaling \$1,380,443 are included in other income.

6. Administrative Expenses

Pursuant to General Law section 36-12.1-15, for fiscal years 2011 through 2014, the State Controller was authorized to disburse from the OPEB trust funds the actual costs of administering the funds. Beginning in fiscal years 2015 a restricted receipts account within the General Fund was to be funded and used to pay the expenses of the OPEB Board, the cost of maintaining the OPEB System, and the costs of administering the OPEB System. This restricted receipt account was to be funded from a transfer from the OPEB trust funds equal to 25 basis points of the average total investments before

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Notes to Financial Statements Fiscal Year Ended June 30, 2015

lending activities for the preceding five fiscal years or \$200,000, whichever was greater. Any non-encumbered funds on June 30 of any fiscal year were to be returned to the OPEB System. For fiscal year 2015 the Trust continued to disburse administrative expenses, which totaled \$94,127, from the OPEB trust funds themselves, rather than transfer funds per the formula mentioned previously to the restricted receipt account in the general fund. The Trust expects to request that the applicable section of the general laws be changed to allow for the current practice to continue in future years.

Administrative expenses recorded within the OPEB System consist primarily of actuarial, investment advisory, custodial fees, and plan design/administration services. Other costs related to administering the post-employment benefit program such as enrollment of retirees, payment of claims, accounting, and investment monitoring have not been allocated to the System.

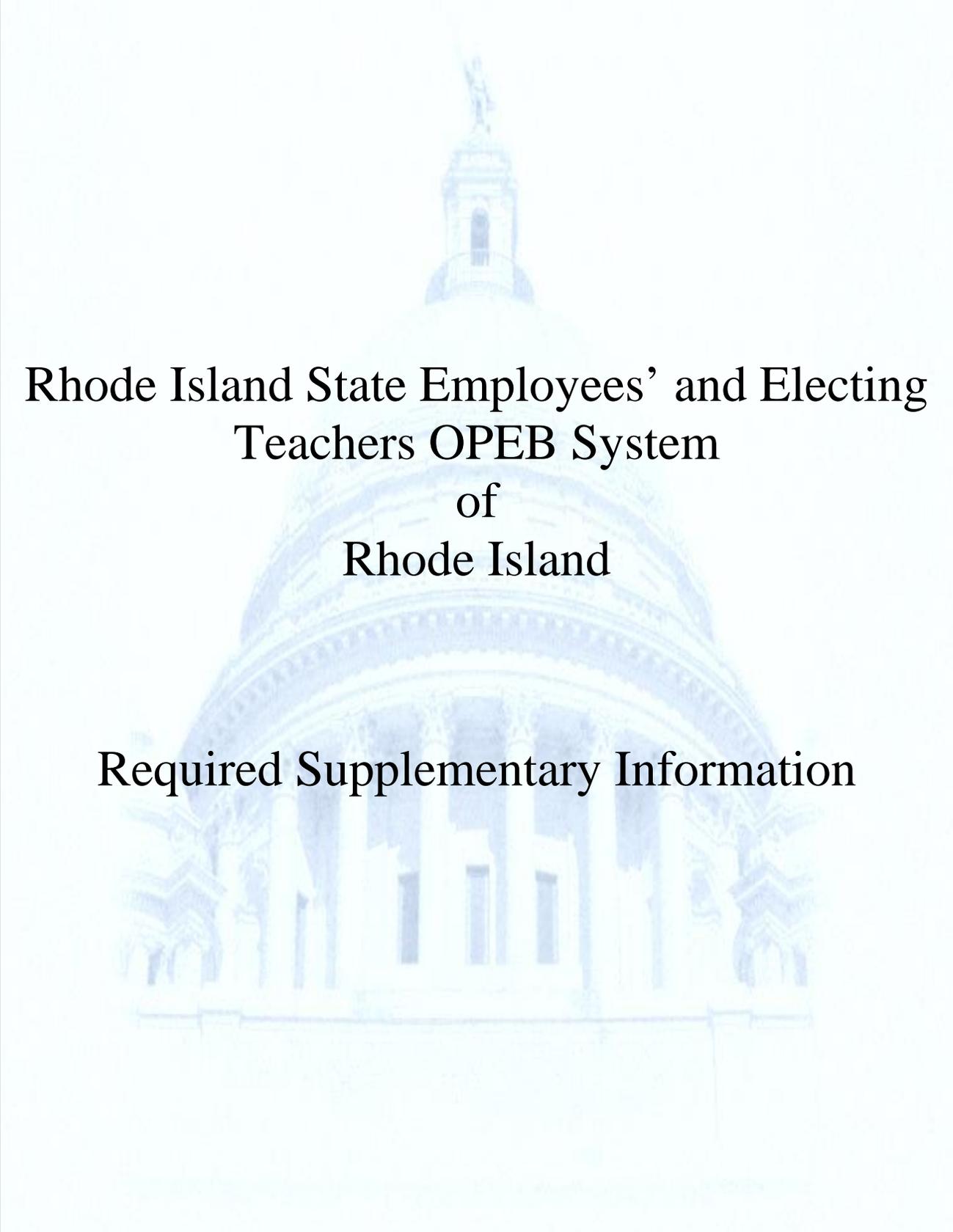
7. Contingencies

The most recent actuarial valuation of the plans within the System as of June 30, 2013, reflect that the plans will be subject to the excise tax on high cost health plans beginning in 2018. The tax is 40% of costs above a certain threshold. Changes in federal law, which implement the tax or changes in plan design and benefits to avoid the tax could impact future actuarial valuations.

In January 2015, a civil lawsuit was filed by AFSCME Council 94 Retiree Chapter in Providence Superior Court. The suit alleges that amendments to Rhode Island General Law Section 36-12-4 and passage of Rhode Island General Law Section 36-13-4.1 which changed how the State administers health coverage for Medicare-eligible retirees constitute a breach of contract and are unconstitutional. The complaint seeks declaratory and equitable relief. This case is currently pending in Superior Court, and discovery is underway.

8. Subsequent Event

Subsequent to June 30, 2015, litigation challenging the various pension reform measures enacted in previous years by the General Assembly (2009, 2010, and 2011) was settled. The final settlement approved by the Court on July 8, 2015 also included enactment of the pension settlement provisions by the General Assembly. To the limited extent those enacted benefit or other changes could impact retirement rates and the beginning of eligibility for retiree health care, those factors will be included in the next actuarial valuation to be performed at June 30, 2015.



**Rhode Island State Employees' and Electing
Teachers OPEB System
of
Rhode Island**

Required Supplementary Information

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
Schedules of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a) / c
State Employees						
6/30/2013	\$ 39,527,000	\$ 637,059,000	\$ 597,532,000	6.2%	\$ 671,762,000	88.9%
6/30/2011 *	11,545,000	728,207,000	716,662,000	1.6%	600,273,000	119.4%
6/30/2009	-	673,640,000	673,640,000	0.0%	574,569,000	117.2%
Teachers						
6/30/2013	\$ 3,230,000	\$ 12,569,000	\$ 9,339,000	25.7%	n/a	n/a
6/30/2011	2,040,000	11,512,000	9,472,000	17.7%	n/a	n/a
6/30/2009	-	13,529,000	13,529,000	0.0%	n/a	n/a
Judicial						
6/30/2013	\$ 2,151,000	\$ 1,054,000	\$ (1,097,000)	204.1%	\$ 13,447,000	-8.2%
6/30/2011	841,000	2,610,000	1,769,000	32.2%	10,813,000	16.4%
6/30/2009	-	8,665,000	8,665,000	0.0%	9,395,000	92.2%
State Police						
6/30/2013	\$ 9,587,000	\$ 70,385,000	\$ 60,798,000	13.6%	\$ 17,748,000	342.6%
6/30/2011	1,488,000	81,759,000	80,271,000	1.8%	17,384,000	461.8%
6/30/2009	-	67,079,000	67,079,000	0.0%	16,725,000	401.1%
Legislators						
6/30/2013	\$ 2,202,000	\$ 1,549,000	\$ (653,000)	142.2%	\$ 1,695,000	-38.5%
6/30/2011	1,442,000	1,443,000	1,000	99.9%	1,615,000	0.1%
6/30/2009	-	11,752,000	11,752,000	0.0%	1,612,000	729.0%
Board of Education						
6/30/2013	\$ 7,486,000	\$ 55,706,000	\$ 48,220,000	13.4%	\$ 113,375,000	42.5%
6/30/2011	3,189,000	53,751,000	50,562,000	5.9%	125,340,000	40.3%
6/30/2009	-	58,476,000	58,476,000	0.0%	106,665,000	54.8%

* as restated August 9, 2013
See notes to required supplementary information.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
Schedules of Employer Contributions

State Employees		
Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2013	45,800,436	100%
2014	49,071,814	100%
2015	47,768,663	100%

Teachers		
Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2013	2,321,057	100%
2014	2,799,098	100%
2015	2,799,098	100%

Judicial		
Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2013	777,955	100%
2014	12,983	100%
2015	13,377	100%

State Police		
Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2013	6,218,245	100%
2014	7,838,838	100%
2015	8,134,524	100%

Legislators		
Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2013	-	N/A
2014	-	N/A
2015	-	N/A

Board of Education		
Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2013	3,105,608	100%
2014	3,094,222	100%
2015	3,011,077	100%

See notes to required supplementary information.

RHODE ISLAND EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

**Notes to Required Supplementary Information
Fiscal Year ended June 30, 2015**

1. Actuarial Assumptions and Methods

The information presented in the required supplementary information schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation dated June 30, 2013, follows.

Summary of Actuarial Methods and Assumptions as of June 30, 2013 valuation						
	Plan					
	State Employees	Teachers	Judicial	State Police	Legislators	Board of Education
Plan Type	Cost sharing multiple employer	Single Employer	Single Employer	Single Employer	Single Employer	Cost sharing multiple employer
Actuarial Cost Method	Individual Entry Age					
Amortization Method	Level Percent of Payroll	Level Dollar	Level Percent of Payroll			
Equivalent Single Remaining Amortization Period	23 years closed	Determined by statutory contribution	30 years open	23 years closed	30 years open	23 years closed
Asset Valuation Method	Four year smoothed market					
Actuarial Assumptions						
Investment Rate of Return	5.00%					
Projected Salary Increases	3.50% to 6.50%	NA	3.50%	3.50% to 11.5%	3.75% to 8.00%	3.50% to 6.50%
Valuation Health Care Cost Trend Rate	9% in 2014, grading to 3.5% in 2023					
Note: The actuarial assumptions do not include a separate general inflation rate assumption.						

RHODE ISLAND EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Notes to Required Supplementary Information Fiscal Year ended June 30, 2015

2. Schedules of Funding Progress

Changes affecting the June 30, 2013 Actuarial Valuation:

Several changes were made in OPEB specific actuarial assumptions and methods between the June 30, 2011 and June 30, 2013 valuations. Changes to the OPEB specific assumptions include a decrease in the wage inflation and long term health care cost inflation assumptions from 4% to 3.5%. In addition, the excise tax load expected to be imposed under the Patient Protection and Affordable Care Act on pre-65 liabilities was changed from 7.4% to 11%. Also, there was a change in actuarial method; the premium development methodology was changed to create a single premium rate for all groups.

The General Laws were amended in the 2013 session of the General Assembly to modify the manner in which health insurance is provided to Medicare eligible retirees covered under the System's plan covering state employees. Effective October 1, 2014 the State established health reimbursement accounts (HRA) for each Medicare eligible retiree who elects to receive health insurance coverage through the state sponsored program. In addition, certain changes in benefits offered under the program are effective in July 2014 and January 2015.

Changes affecting the June 30, 2011 Actuarial Valuation:

With the creation of the trust effective July 1, 2010, the State Employees and Board of Education plans met the requirements of cost-sharing multiple employer plans. These plans were previously considered agent multiple-employer plans absent the creation of the trust.

A number of changes in actuarial assumptions were made between the June 30, 2009 and June 30, 2011 valuations. These changes include reflecting new assumptions adopted by the Employees Retirement System of Rhode Island (ERSRI) and the State Police Retirement Benefits Trust of Rhode Island (SPRBT), changes to the OPEB specific assumptions as well as the provisions of the Retirement Security Act, which was enacted on November 18, 2011 and included comprehensive pension reform measures. The June 30, 2011 valuation also reflects the potential excise tax under the Patient Protection and Affordable Care Act.

Changes from the ERSRI and SPRBT experience studies include changes to the retirement and disability rates and salary expectations. In addition, new mortality assumptions were adopted for all plans which provide for future mortality improvement by using generational mortality.

The significant decrease in the unfunded actuarial accrued liability for the Judicial and Legislator plans is primarily due to retirement eligibility changes resulting from enactment of the Retirement Security Act and an increase in the Medicare election rate.

Changes to the OPEB specific assumptions include a change in the medical trend assumption from 9% decreasing to 4.5% in 8 years to 9% decreasing to 4.0% in 10 years, a change in the Medicare election rate for Legislators from 75% electing Medicare to 100% electing Medicare and the addition of the assumption that current retired Teachers over age 65 in the Early Retiree Plan are assumed to not be eligible for Medicare.

RHODE ISLAND EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Notes to Required Supplementary Information Fiscal Year ended June 30, 2015

2. Schedules of Funding Progress (continued)

The June 30, 2011 actuarial valuation employs a four-year smoothed market methodology for the determination of the actuarial value of assets. In addition, the Judicial and Legislator plans changed from a level percent of payroll amortization method to the level dollar method.

The Patient Protection and Affordable Care Act includes an excise tax on high cost health plans beginning in 2018. The excise tax is 40% of costs above a threshold. The actuarial assumptions used in the most recent valuation assume that the plans will be subject to the excise tax as early as 2018.

Changes affecting the June 30, 2009 Actuarial Valuation:

With the creation of the trust effective July 1, 2010, the State Employees and Board of Education plans met the requirements of cost-sharing multiple employer plans. These plans were previously considered agent multiple-employer plans absent the creation of the trust.

The following changes in actuarial assumptions were made between the June 30, 2007 and June 30, 2009 valuations. These changes include an increase in the investment return assumption from 3.566% to 5.00%, a change in the medical trend assumption from 10% decreasing to 4.5% in 7 years to 9% decreasing to 4.5% in 9 years except for the Board of Education plan. For the Board of Education plan, the medical trend assumption changed from 9% decreasing to 4.5% in 10 years to 9% decreasing to 4% in 10 years. In addition, the wage inflation assumption was changed to 0% for two years before reverting to 4.5% to reflect the current economic environment.

3. Schedules of Employer Contributions

For fiscal years 2014 and 2015, the annual required contribution for the State employees, Teachers, and Board of Education plans was satisfied, in part, by the recognition of unearned revenue, which was applied to reduce the net actual contribution required of the employers (see Note 4 to the financial statements). The amount shown in the schedule is the gross actuarially determined contribution.



Office of the Auditor General

State of Rhode Island and Providence Plantations - General Assembly
Dennis E. Hoyle, CPA - Auditor General

oag.ri.gov

86 Weybosset Street • Providence, RI • 02903-2800
tel: 401.222.2435 • fax: 401.222.2111

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Joint Committee on Legislative Services, General Assembly
State of Rhode Island and Providence Plantations:

Board of the Rhode Island State Employees' and Electing Teachers OPEB System

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the plans which comprise the Rhode Island State Employees' and Electing Teachers OPEB System (the System) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated December 17, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purposes of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

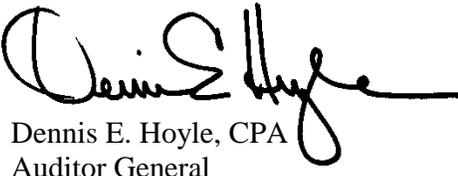
Joint Committee on Legislative Services, General Assembly
Board of the Rhode Island State Employees' and Electing Teachers OPEB System

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dennis E. Hoyle, CPA
Auditor General

December 17, 2015