

**State Employees' and Electing Teachers OPEB System**

**State Employees' OPEB Cost-Sharing Plan**

**Schedules of Employer Allocations**

**Schedules of OPEB Amounts by Employer**

**June 30, 2017 Measurement Date**

**For Fiscal 2018 Employer Reporting**



**Dennis E. Hoyle, CPA, Auditor General**

**Office of the Auditor General**

**General Assembly**

**State of Rhode Island and Providence Plantations**



# Office of the Auditor General

State of Rhode Island and Providence Plantations - General Assembly

Dennis E. Hoyle, CPA - Auditor General

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September 26, 2018

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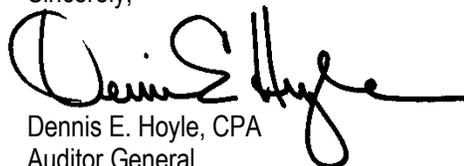
We have completed our audit of the Schedules of Employer Allocations and Schedules of OPEB Amounts by Employer for the State Employees' OPEB Cost-Sharing Plan administered by the State Employees' and Electing Teachers OPEB System of the State of Rhode Island for the fiscal year ended June 30, 2017.

**These Schedules will be used by employers participating in the State Employees' OPEB Cost-Sharing Plan to meet their fiscal 2018 financial reporting responsibilities under generally accepted accounting principles – specifically the requirements of Governmental Accounting Standards Board Statement No. 75 – *Accounting and Financial Reporting for OPEB*.**

Other reports containing similar information for the Board of Education OPEB Cost-Sharing Plan will be issued under separate cover.

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

Sincerely,



Dennis E. Hoyle, CPA  
Auditor General

State Employees' and Electing Teachers OPEB System  
**State Employees' OPEB Cost-Sharing Plan**  
Schedules of Employer Allocations  
Schedules of OPEB Amounts by Employer  
June 30, 2017 Measurement Date

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**State Employees' and Electing Teachers OPEB System**

**State Employees' OPEB Cost-Sharing Plan**

**Schedule of Employer Allocations**

**Schedule of OPEB Amounts by Employer**

**June 30, 2017 Measurement Date**

**INTRODUCTION**

The **State Employees' OPEB Cost-sharing Plan** covers state employees and certain employees of quasi-public agencies. As a cost-sharing plan, separate valuations are not made for individual employers participating in the plan.

As a cost-sharing plan – the net OPEB liability is apportioned based on proportionate contributions – see Schedule A.

**The measurement date is June 30, 2017 – the information included herein is intended for use in Fiscal 2018 financial reporting by employers participating in the State Employees' OPEB Cost-sharing Plan.** These include the State of Rhode Island and certain component units of the State of Rhode Island.

The net OPEB liability and other measures included herein have been developed consistent with the requirements of GASB Statement No. 75 – *Accounting and Financial Reporting for OPEB*. Such amounts are intended for accounting and financial reporting by governments which prepare their financial statements in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board. These amounts may and will likely differ from amounts reported in actuarial valuations used to measure actuarially determined contribution amounts consistent with the plan's adopted funding policies.



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## INDEPENDENT AUDITOR'S REPORT

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

TRUSTEES OF THE STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM:

### ***Report on Schedules***

We have audited the accompanying Schedule of Employer Allocations of the STATE EMPLOYEES' OPEB COST-SHARING PLAN (the Plan) as of and for the year ended June 30, 2017, and the related notes. We have also audited the total for all entities of the columns titled beginning net OPEB liability, ending net OPEB liability, total deferred outflows of resources, total deferred inflows of resources, and total OPEB expense (specified column totals) included in the accompanying Schedule of OPEB Amounts by Employer as of and for the year ended June 30, 2017, and the related notes.

### ***Management's Responsibility for the Schedules***

Management is responsible for the preparation and fair presentation of these schedules 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 the schedules that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on the Schedule of Employer Allocations and the specified column totals included in the Schedules of OPEB Amounts by Employer 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 schedules of employer allocations and specified column totals included in the Schedule of OPEB Amounts by Employer are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedules of employer allocations and specified column totals included in the Schedule of OPEB Amounts by Employer. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedules of employer allocations and specified column totals included in the schedules of OPEB amounts by employer, 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 schedules of employer allocations and specified column totals included in the Schedule of OPEB Amounts by Employer 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 the entity's

Joint Committee on Legislative Services, General Assembly  
Trustees of the State Employees' and Electing Teachers OPEB System:

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 schedules of employer allocations and specified column totals included in the Schedule of OPEB Amounts by Employer.

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

**Opinions**

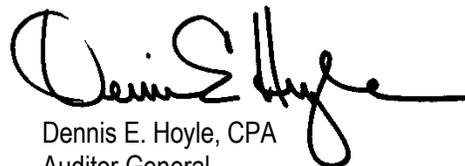
In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations for state employees, beginning net OPEB liability, ending net OPEB liability, total deferred outflows of resources, total deferred inflows of resources, and total OPEB expense for the total of all participating state employee entities for the State Employees' Cost-Sharing Plan as of and for the year ended June 30, 2017, in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the State Employees' OPEB Plan within the State Employees' and Electing Teachers OPEB System of the State of Rhode Island as of and for the year ended June 30, 2017, and our report thereon, dated September 10, 2018 expressed an unmodified opinion on those financial statements.

**Restriction on Use**

Our report is intended solely for the information and use of the State Employees' and Electing Teachers OPEB System's management, the trustees of State Employees' and Electing Teachers OPEB System, the System's employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.



Dennis E. Hoyle, CPA  
Auditor General

September 24, 2018

**STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM**  
**STATE EMPLOYEES' OPEB COST SHARING PLAN**  
*Schedule of Employer Allocations*

State, proprietary fund, or component unit	Fiscal 2017 employer contribution	
	Amount	%
State of Rhode Island	\$ 38,137,559	89.24864629%
University of Rhode Island	2,405,449	5.62917593%
Rhode Island College	833,781	1.95119509%
Community College of Rhode Island	613,936	1.43671855%
Lottery	317,833	0.74378532%
Division of Higher Education Assistance	30,832	0.07215223%
Narragansett Bay Commission	350,893	0.82115118%
Rhode Island Commerce Corporation	5,574	0.01304506%
Rhode Island Airport Corporation	35,950	0.08413035%
	\$ 42,731,807	100.000000000%

*See notes to schedules.*

State Employees' and Electing Teachers OPEB System  
State Employees - Schedule of OPEB Amounts by Employer  
June 30, 2017 Measurement Date

Schedule B

Participating Employer	FY 2017 Contributions	Proportionate Share	Net OPEB Liability Beginning of Year	Total OPEB Expense	Ending Net OPEB Liability
State of Rhode Island	\$ 38,137,559	89.24864629%	\$ 469,222,167	\$ 34,549,420	\$ 463,596,595
University of Rhode Island	2,405,449	5.62917593%	29,595,229	2,179,134	29,240,408
Rhode Island College	833,781	1.95119509%	10,258,352	755,335	10,135,363
Community College of Rhode Island	613,936	1.43671855%	7,553,506	556,174	7,462,946
Lottery	317,833	0.74378532%	3,910,430	287,930	3,863,547
Division of Higher Education Assistance	30,832	0.07215223%	379,338	27,931	374,790
Narragansett Bay Commission	350,893	0.82115118%	4,317,178	317,879	4,265,419
Rhode Island Commerce Corporation	5,574	0.01304506%	68,584	5,050	67,762
Rhode Island Airport Corporation	35,950	0.08413035%	442,313	32,568	437,010
<b>Total for All Employers</b>	<b>\$ 42,731,807</b>	<b>100.00000000%</b>	<b>\$ 525,747,097</b>	<b>\$ 38,711,421</b>	<b>\$ 519,443,840</b>

State Employees' and Electing Teachers OPEB System  
 State Employees - Schedule of OPEB Amounts by Employer  
 June 30, 2017 Measurement Date

Schedule B

Participating Employer	Collective Deferred Outflows for Plan as a Whole Unrecognized Current Year Deferred Outflow of Resources					
	Differences Between Expected and Actual Experience	Changes of Assumptions	Net Difference Between Projected and Actual Investment Earnings	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Contributions After the Measurement Date	Total Deferred Outflows of Resources
State of Rhode Island	\$ -	\$ 27,815,209	\$ -	\$ -	\$ -	\$ 27,815,209
University of Rhode Island	-	1,754,388	-	-	-	1,754,388
Rhode Island College	-	608,109	-	-	-	608,109
Community College of Rhode Island	-	447,767	-	-	-	447,767
Lottery	-	231,808	-	-	-	231,808
Division of Higher Education Assistance	-	22,487	-	-	-	22,487
Narragansett Bay Commission	-	255,920	-	-	-	255,920
Rhode Island Commerce Corporation	-	4,066	-	-	-	4,066
Rhode Island Airport Corporation	-	26,220	-	-	-	26,220
<b>Total for All Employers</b>	-	<b>31,165,974</b>	-	-	-	<b>31,165,974</b>

State Employees' and Electing Teachers OPEB System  
State Employees - Schedule of OPEB Amounts by Employer  
June 30, 2017 Measurement Date

Schedule B

Collective Deferred Inflows for Plan as a Whole Unrecognized Current Year Deferred Inflow of Resources							Total Deferred (Inflows) and Outflows of Resources
Participating Employer	Differences Between Expected and Actual Experience	Changes of Assumptions	Net Difference Between Projected and Actual Investment Earnings	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflows of Resources		
State of Rhode Island	\$ 24,170,899	\$ -	\$ 5,681,743	\$ -	\$ 29,852,642	\$ (2,037,433)	
University of Rhode Island	1,524,530	-	358,364	-	1,882,894	(128,506)	
Rhode Island College	528,435	-	124,217	-	652,652	(44,543)	
Community College of Rhode Island	389,101	-	91,464	-	480,565	(32,798)	
Lottery	201,437	-	47,351	-	248,788	(16,980)	
Division of Higher Education Assistance	19,541	-	4,593	-	24,134	(1,647)	
Narragansett Bay Commission	222,390	-	52,276	-	274,666	(18,746)	
Rhode Island Commerce Corporation	3,533	-	830	-	4,363	(297)	
Rhode Island Airport Corporation	22,785	-	5,356	-	28,141	(1,921)	
<b>Total for All Employers</b>	<b>\$ 27,082,651</b>	<b>\$ -</b>	<b>\$ 6,366,194</b>	<b>\$ -</b>	<b>\$ 33,448,845</b>	<b>(2,282,871)</b>	

State Employees' and Electing Teachers OPEB System  
State Employees - Schedule of OPEB Amounts by Employer  
June 30, 2017 Measurement Date

Schedule B

Collective Deferred Outflows for Plan as a Whole Recognition of Existing Deferred Outflows (Inflows) of Resources for Future Years Ending June 30						
Participating Employer	2019	2020	2021	2022	2023	Thereafter
State of Rhode Island	\$ (848,017)	\$ (848,017)	\$ (848,017)	\$ (848,015)	\$ 572,419	\$ 782,214
University of Rhode Island	(53,487)	(53,487)	(53,487)	(53,487)	36,104	49,337
Rhode Island College	(18,540)	(18,540)	(18,540)	(18,540)	12,514	17,101
Community College of Rhode Island	(13,651)	(13,651)	(13,651)	(13,651)	9,215	12,592
Lottery	(7,067)	(7,067)	(7,067)	(7,067)	4,770	6,519
Division of Higher Education Assistance	(686)	(686)	(686)	(686)	463	632
Narragansett Bay Commission	(7,802)	(7,802)	(7,802)	(7,802)	5,267	7,197
Rhode Island Commerce Corporation	(124)	(124)	(124)	(124)	84	114
Rhode Island Airport Corporation	(799)	(799)	(799)	(799)	540	737
<b>Total for All Employers</b>	<b>(950,173)</b>	<b>(950,173)</b>	<b>(950,173)</b>	<b>(950,171)</b>	<b>641,376</b>	<b>876,443</b>

State Employees' and Electing Teachers OPEB System  
 State Employees - Schedule of OPEB Amounts by Employer  
 June 30, 2017 Measurement Date

Schedule B

Participating Employer	Discount Rate Sensitivity			Health Care Trend Rate Sensitivity		
	Ending Net OPEB Liability			Ending Net OPEB Liability		
	1% Lower 4.00%	5.00%	1% Higher 6.00%	1% Lower	Baseline	1% Higher
State of Rhode Island	\$ 540,955,807	\$ 463,596,595	\$ 399,183,870	\$ 390,149,000	\$ 463,596,595	\$ 554,873,923
University of Rhode Island	34,119,682	29,240,408	25,177,707	24,607,851	29,240,408	34,997,539
Rhode Island College	11,826,625	10,135,363	8,727,142	8,529,617	10,135,363	12,130,910
Community College of Rhode Island	8,708,269	7,462,946	6,426,034	6,280,592	7,462,946	8,932,322
Lottery	4,508,248	3,863,547	3,326,741	3,251,445	3,863,547	4,624,239
Division of Higher Education Assistance	437,331	374,790	322,716	315,412	374,790	448,583
Narragansett Bay Commission	4,977,179	4,265,419	3,672,776	3,589,649	4,265,419	5,105,236
Rhode Island Commerce Corporation	79,069	67,762	58,347	57,026	67,762	81,103
Rhode Island Airport Corporation	509,933	437,010	376,291	367,774	437,010	523,053
<b>Total for All Employers</b>	<b>\$ 606,122,143</b>	<b>\$ 519,443,840</b>	<b>\$ 447,271,624</b>	<b>\$ 437,148,366</b>	<b>\$ 519,443,840</b>	<b>\$ 621,716,908</b>

# State Employees' OPEB Cost-Sharing Plan

## NOTES TO THE SCHEDULES OF EMPLOYER ALLOCATIONS AND OPEB AMOUNTS BY EMPLOYER *June 30, 2017 Measurement Date*

### 1. Plan Description and Governance

The State Employees' and Electing Teachers OPEB System of Rhode Island (the System) acts as a common investment and administrative agent for OPEB benefits to be provided through various defined benefit OPEB plans. The System is administered by the trustees of the System which was authorized, created and established as an independent OPEB board to hold and administer, in trust, the funds of the OPEB system.

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 State Employees' Plan (the Plan) was established and placed under the management of the System for the purpose of providing OPEB benefits for employees of the State of Rhode Island under the provisions of chapters of the Rhode Island General Laws.

The Plan covers most State employees other than certain personnel at the State colleges and university (principally faculty and administrative personnel). Membership in the plan is mandatory for all covered state employees.

Certain employees of the Rhode Island Airport Corporation (hired before July 1, 1993), the Rhode Island Commerce Corporation (active contributing members and employees of the Department of Economic Development before October 31, 1995 who elected to continue membership) and, the Narragansett Bay Water Quality District Commission (members of a collective bargaining unit) are also covered and have the same benefits as State employees.

### 2. Schedules of Employer Allocations

The Schedules of Employer Allocations reflect employer contributions recognized for the fiscal year ended June 30, 2017 consistent with contributions reflected within the Plan's financial statements.

The percentages included in the Schedule of Employer Allocations have been rounded to 8 decimal places.

### 3. Schedules of OPEB Amounts by Employer

The Schedules of OPEB Amounts by Employer were prepared by the Plan's actuary using amounts from (1) the Plan's fiscal 2017 financial statements, (2) Required Supplementary Information Schedules prepared in accordance with the requirements of GASB Statement No. 74, and (3) certain data from the actuarial valuation of the Plan performed at June 30, 2017. These schedules utilize the proportionate employer contribution schedules detailed in the Schedule of Employer Allocations to apportion each employer's amounts for the cost-sharing plan.

The Schedules of OPEB Amounts by Employer include the sensitivity of the net OPEB liability to changes in the discount rate as well as the sensitivity of the net OPEB obligation to changes in the healthcare cost trend rate. The following presents the net OPEB liability of the employers calculated using the discount rate of 5.0 percent, as well as what the employers' net OPEB liability 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. Additionally, the following presents the net OPEB liability of the employers calculated using the baseline health care trend rate, as well as what the employers' net OPEB liability would be if it were calculated using a healthcare trend rate that is 1-percentage-point lower or 1-percentage-point higher than the baseline rate.

## State Employees' OPEB Cost-Sharing Plan

### NOTES TO THE SCHEDULES OF EMPLOYER ALLOCATIONS AND OPEB AMOUNTS BY EMPLOYER June 30, 2017 Measurement Date

#### 3. Schedules of OPEB Amounts by Employer (continued)

##### Net OPEB Liability – Sensitivity Analyses

###### Discount Rate Sensitivity

	1.00% Decrease 4.00%	Current Discount Rate 5.00%	1.00% Increase 6.00%
State Employees' Plan	\$ 606,122,143	\$ 519,443,840	\$ 447,271,624

###### Health Care Trend Rate Sensitivity

	1.00% Lower	Baseline	1.00% Higher
State Employees' Plan	\$ 437,148,366	\$ 519,443,840	\$ 621,716,908

#### 4. Relationship to the Plan Financial Statements

The components associated with OPEB expense and deferred outflows and inflows of resources have been determined based on the net increase in fiduciary net position as reflected for the State Employees Plan in the System's financial statements and consistent with the requirements of GASB Statements No. 74 and 75.

#### 5. Summary of Significant Accounting Policies

**Basis of Accounting** – The underlying information to prepare the allocation schedules is based on the System's financial statements as of and for the year ended June 30, 2017. 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. Employer Plan member contributions are recognized in the period in which the wages, subject to required contributions, are earned for the performance of duties for covered employment. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions.

## State Employees' OPEB Cost-Sharing Plan

### NOTES TO THE SCHEDULES OF EMPLOYER ALLOCATIONS AND OPEB AMOUNTS BY EMPLOYER June 30, 2017 Measurement Date

#### 6. Net OPEB Liability

The components of the net OPEB liability of the employers participating in the State Employees' OPEB Plan at June 30, 2017 were as follows:

Fiscal Year Ended June 30, 2017	State Employee Plan
Total OPEB Liability	\$ 669,199,523
Plan Fiduciary Net Position	149,755,683
Employers' Net OPEB Liability	\$ 519,443,840
Plan Fiduciary Net Position as a percentage of the total OPEB Liability	22.38%

#### 7. Actuarial methods and assumptions

The total OPEB liability was determined by actuarial valuations performed as of June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement.

Actuarial Cost Method - Entry Age Normal - the Individual Entry Age Actuarial Cost methodology is used.

Amortization Method - Level Percent of Payroll – Closed

State Employees - Equivalent Single Remaining Amortization Period - 19 years at June 30, 2017

Investment Rate of Return - 5.00%

Projected Salary Increases – state employees - 3.00% to 6.00%

Mortality – state employees:

Male Employees: RP-2014 Combined Healthy for Males with Blue Collar adjustment, projected with MP 2016 ultimate rates.

Female Employees: RP-2014 Combined Healthy for Females, projected with MP 2016 ultimate rates.

Inflation - 2.75%

Rates of separation from service range from 16% in the first year of employment to 0% after 25 years.

State employee rates of retirement are based on pension eligibility.

The health care trend rates used in the valuation ranged from 9.00% in fiscal 2018 and then decreasing annually to 3.5% in fiscal year 2031 and later.

## State Employees' OPEB Cost-Sharing Plan

### NOTES TO THE SCHEDULES OF EMPLOYER ALLOCATIONS AND OPEB AMOUNTS BY EMPLOYER

*June 30, 2017 Measurement Date*

#### **7. Actuarial methods and assumptions (continued)**

The long-term expected rate of return best-estimate on OPEB plan investments was determined by the actuary using a building-block method. The actuary started by calculating best-estimate future expected real rates of return (expected returns net of OPEB plan investment expense and inflation) for each major asset class, based on a collective summary of capital market expectations from 8 nationally recognized investment consulting firms. These return assumptions are then weighted by the target asset allocation percentage, factoring in correlation effects, to develop the overall long-term expected rate of return best-estimate on an arithmetic basis.

#### **8. Discount rate**

The discount rate used to measure the total OPEB liability of the State Employees' OPEB Plan was 5.0 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the OPEB plan's fiduciary 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

#### **9. Deferred Outflows and Inflows of Resources**

Consistent with the requirements of GASB Statement No. 75, differences between expected and actual experience and changes in assumptions are recognized in OPEB expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with OPEB benefits through the OPEB plan (active employees and inactive employees) determined as of the beginning of the measurement period.

Differences between projected and actual earnings on OPEB plan investments are to be recognized in OPEB expense using a systematic and rational method over a closed five-year period. Projected earnings of the plan reflect the plan's investment return assumption or discount rate of 5.0%.

The average of the expected remaining service lives for purposes of recognizing the applicable deferred inflows/outflows of resources established in fiscal 2017 is 7.3665 years.