

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, 2019 Measurement Date

For Fiscal 2020 Employer Reporting



Dennis E. Hoyle, CPA, Auditor General

Office of the Auditor General

General Assembly

State of Rhode Island



Office of the Auditor General

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

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September 30, 2020

JOINT COMMITTEE ON LEGISLATIVE SERVICES:

SPEAKER Nicholas A. Mattiello, Chairman

Senator Dominick J. Ruggerio
Senator Dennis L. Algieri
Representative K. Joseph Shekarchi
Representative Blake A. Filippi

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, 2019.

These Schedules will be used by employers participating in the State Employees' OPEB Cost-Sharing Plan to meet their fiscal 2020 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, 2019 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, 2019 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, 2019 – the information included herein is intended for use in Fiscal 2020 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:

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, 2019, and the related notes. We have also audited the total for all entities of the columns titled 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, 2019, 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

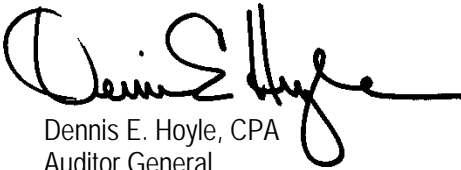
In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations for State employees and ending net OPEB liability, total deferred outflows of resources, total deferred inflows of resources, and total OPEB expense for the total of all participating State employee entities for the State Employees' Cost-Sharing Plan as of and for the year ended June 30, 2019, 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, 2019, and our report thereon, dated September 30, 2020 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 30, 2020

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

State, proprietary fund, or component unit	Fiscal 2019 employer contribution	
	Amount	%
State of Rhode Island	\$ 39,301,894	89.61199326%
University of Rhode Island	2,313,183	5.27427336%
Rhode Island College	811,891	1.85118797%
Community College of Rhode Island	619,438	1.41237583%
Lottery	400,960	0.91422568%
Division of Higher Education Assistance	7,109	0.01620836%
Narragansett Bay Commission	362,589	0.82673680%
Rhode Island Commerce Corporation	5,854	0.01334682%
Rhode Island Airport Corporation	34,934	0.07965192%
	\$ 43,857,850	100.00000000%

See notes to schedules.

State Employees' and Electing Teachers OPEB System
State Employees - Schedule of OPEB Amounts by Employer
June 30, 2019 Measurement Date

Schedule B

<i>Participating Employer</i>	FY 2019 Contributions	Proportionate Share	Net OPEB Liability Beginning of Year	OPEB Expense			Ending Net OPEB Liability
				Proportionate Share of OPEB Plan Expense	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total OPEB Expense	
State of Rhode Island	\$ 39,301,894	89.61199326%	\$ 455,474,747	\$ 12,228,778	\$ 255,926	\$ 12,484,704	\$ 391,135,384
University of Rhode Island	2,313,183	5.27427336%	27,863,116	719,746	(249,773)	469,973	23,020,969
Rhode Island College	811,891	1.85118797%	9,644,702	252,620	(70,560)	182,060	8,080,002
Community College of Rhode Island	619,438	1.41237583%	7,090,193	192,738	(17,595)	175,143	6,164,690
Lottery	400,960	0.91422568%	3,876,354	124,759	119,144	243,903	3,990,381
Division of Higher Education Assistance	7,109	0.01620836%	708,615	2,212	(38,111)	(35,899)	70,746
Narragansett Bay Commission	362,589	0.82673680%	4,169,461	112,820	3,862	116,682	3,608,513
Rhode Island Commerce Corporation	5,854	0.01334682%	68,885	1,821	217	2,038	58,256
Rhode Island Airport Corporation	34,934	0.07965192%	433,851	10,870	(3,110)	7,760	347,662
	\$ 43,857,850	100.00000000%	\$ 509,329,924	\$ 13,646,364	\$ -	\$ 13,646,364	\$ 436,476,603

See notes to schedules.

State Employees' and Electing Teachers OPEB System
State Employees - Schedule of OPEB Amounts by Employer
June 30, 2019 Measurement Date

Collective Deferred Outflows for Plan as a Whole Unrecognized Current Year Deferred Outflow of Resources					
<i>Participating Employer</i>	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 Outflows of Resources
State of Rhode Island	\$ -	\$ 19,154,886	\$ -	\$ 1,506,820	\$ 20,661,706
University of Rhode Island	-	1,127,395	-	-	1,127,395
Rhode Island College	-	395,698	-	-	395,698
Community College of Rhode Island	-	301,900	-	91,085	392,985
Lottery	-	195,419	-	752,356	947,775
Division of Higher Education Assistance	-	3,465	-	254,137	257,602
Narragansett Bay Commission	-	176,718	-	36,411	213,129
Rhode Island Commerce Corporation	-	2,853	-	1,819	4,672
Rhode Island Airport Corporation	-	17,026	-	3,985	21,011
	\$ -	\$ 21,375,360	\$ -	\$ 2,646,613	\$ 24,021,973

See notes to schedules.

State Employees' and Electing Teachers OPEB System
 State Employees - Schedule of OPEB Amounts by Employer
 June 30, 2019 Measurement Date

Schedule B

Collective Deferred Inflows for Plan as a Whole Unrecognized Current Year Deferred Inflow of Resources						
<i>Participating Employer</i>	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	Total Deferred (Inflows) and Outflows of Resources
State of Rhode Island	\$ 49,412,472	\$ 3,435,048	\$ 12,449,164	\$ -	\$ 65,296,684	\$ (44,634,978)
University of Rhode Island	2,908,259	202,176	732,718	1,482,043	5,325,196	(4,197,801)
Rhode Island College	1,020,754	70,961	257,173	408,735	1,757,623	(1,361,925)
Community College of Rhode Island	778,791	54,140	196,211	169,446	1,198,588	(805,603)
Lottery	504,108	35,045	127,007	-	666,160	281,615
Division of Higher Education Assistance	8,937	621	2,252	551,184	562,994	(305,392)
Narragansett Bay Commission	455,867	31,691	114,853	9,617	612,028	(398,899)
Rhode Island Commerce Corporation	7,360	512	1,854	797	10,523	(5,851)
Rhode Island Airport Corporation	43,920	3,053	11,065	24,791	82,829	(61,818)
	\$ 55,140,468	\$ 3,833,247	\$ 13,892,297	\$ 2,646,613	\$ 75,512,625	(51,490,652)

See notes to schedules.

State Employees' and Electing Teachers OPEB System
State Employees - Schedule of OPEB Amounts by Employer
June 30, 2019 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						
<i>Participating Employer</i>	2021	2022	2023	2024	2025	Thereafter
State of Rhode Island	\$ (8,956,292)	\$ (8,956,290)	\$ (7,530,072)	\$ (6,490,042)	\$ (5,234,984)	\$ (7,467,300)
University of Rhode Island	(791,974)	(791,974)	(708,032)	(646,819)	(572,950)	(686,051)
Rhode Island College	(260,864)	(260,864)	(231,402)	(209,917)	(183,990)	(214,886)
Community College of Rhode Island	(162,789)	(162,789)	(140,310)	(123,918)	(104,137)	(111,659)
Lottery	25,161	25,161	39,711	50,321	63,125	78,136
Division of Higher Education Assistance	(39,777)	(39,777)	(39,519)	(39,331)	(39,104)	(107,884)
Narragansett Bay Commission	(81,128)	(81,127)	(67,970)	(58,375)	(46,796)	(63,503)
Rhode Island Commerce Corporation	(1,155)	(1,155)	(943)	(788)	(601)	(1,209)
Rhode Island Airport Corporation	(11,298)	(11,298)	(10,031)	(9,106)	(7,991)	(12,095)
	\$ (10,280,117)	\$ (10,280,115)	\$ (8,688,567)	\$ (7,527,974)	\$ (6,127,428)	\$ (8,586,451)

See notes to schedules.

State Employees' and Electing Teachers OPEB System
 State Employees - Schedule of OPEB Amounts by Employer
 June 30, 2019 Measurement Date

Schedule B

Discount Rate Sensitivity

Health Care Trend Rate Sensitivity

Participating Employer

	Ending Net OPEB Liability		
	1% Lower 4.00%	5.00%	1% Higher 6.00%
State of Rhode Island	\$ 441,718,159	\$ 391,135,384	\$ 303,724,627
University of Rhode Island	25,998,109	23,020,969	17,876,254
Rhode Island College	9,124,932	8,080,002	6,274,287
Community College of Rhode Island	6,961,926	6,164,690	4,787,008
Lottery	4,506,429	3,990,381	3,098,613
Division of Higher Education Assistance	79,895	70,746	54,935
Narragansett Bay Commission	4,075,176	3,608,513	2,802,084
Rhode Island Commerce Corporation	65,790	58,256	45,237
Rhode Island Airport Corporation	392,623	347,662	269,967
	\$ 492,923,039	\$ 436,476,603	\$ 338,933,012

	Ending Net OPEB Liability		
	1% Lower	Baseline	1% Higher
State of Rhode Island	\$ 286,386,125	\$ 391,135,384	\$ 466,578,908
University of Rhode Island	16,855,766	23,020,969	27,461,332
Rhode Island College	5,916,112	8,080,002	9,638,501
Community College of Rhode Island	4,513,736	6,164,690	7,353,756
Lottery	2,921,724	3,990,381	4,760,059
Division of Higher Education Assistance	51,799	70,746	84,391
Narragansett Bay Commission	2,642,123	3,608,513	4,304,535
Rhode Island Commerce Corporation	42,654	58,256	69,492
Rhode Island Airport Corporation	254,555	347,662	414,720
	\$ 319,584,594	\$ 436,476,603	\$ 520,665,694

See notes to schedules.

State Employees' OPEB Cost-Sharing Plan

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

June 30, 2019 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, 2019 consistent with contributions reflected within the Plan's financial statements. These employer contribution amounts are the basis for allocating the OPEB amounts to each employer.

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 2019 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, 2018 rolled-forward to June 30, 2019. 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 allocation of OPEB expense also includes any changes in proportion between years which are reflected as deferred outflows/inflows and recognized over the remaining service lives of the members.

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, 2019 Measurement Date

3. Schedules of OPEB Amounts by Employer (continued)

Net OPEB Liability – Sensitivity Analyses

Discount Rate Sensitivity

	Current Discount		
	1.00% Decrease	Rate	1.00% Increase
	4.00%	5.00%	6.00%
State Employees' Plan	\$ 492,923,039	\$ 436,476,603	\$ 338,933,012

Healthcare Rate Sensitivity

	1.00% Lower	Baseline	1.00% Higher
	4.00%	5.00%	6.00%
State Employees' Plan	\$ 319,584,594	\$ 436,476,603	\$ 520,665,694

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, 2019. 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, 2019 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, 2019 were as follows:

Fiscal Year Ended June 30, 2019	<u><i>State Employees Plan</i></u>
Total OPEB Liability	\$ 656,998,095
Plan Fiduciary Net Position	220,521,492
Employers' Net OPEB Liability	<u>\$ 436,476,603</u>
Plan Fiduciary Net Position as a percentage of the total OPEB liability	
	33.57%

7. Actuarial methods and assumptions

The total OPEB liability was determined by actuarial valuations performed as of June 30, 2018 and rolled-forward to June 30, 2019 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 - 18 years at June 30, 2018

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 - 2.5%

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 8.25% in fiscal 2019 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, 2019 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 34 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%.

Changes in proportion between the June 30, 2018 and June 30, 2019 measurement dates are also recognized in OPEB expense using the expected remaining service lives of plan members.

The average of the expected remaining service lives for purposes of recognizing the applicable deferred inflows/outflows of resources established in fiscal 2019 is 7.4275 years.