

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

Fiscal Year Ended June 30, 2011



2011

Office of the Auditor General – General Assembly – State of Rhode Island

Dennis E. Hoyle, CPA
Acting Auditor General



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STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS
GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

December 28, 2011

- ◆ INTEGRITY
- ◆ RELIABILITY
- ◆ INDEPENDENCE
- ◆ ACCOUNTABILITY

JOINT COMMITTEE ON LEGISLATIVE SERVICES:

SPEAKER Gordon D. Fox, Chairman

Senator M. Teresa Paiva Weed
Senator Dennis L. Algieri
Representative Nicholas A. Mattiello
Representative Brian C. Newberry

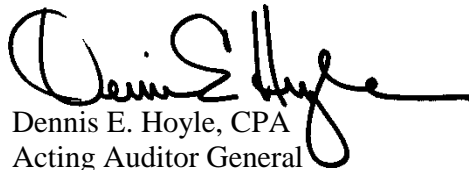
We have completed our audit of the financial statements of the Rhode Island State Employees' and Electing Teachers OPEB System (System) for the fiscal year ended June 30, 2011. This is the first audit of the financial statements of the System since the creation of the trust on July 1, 2010.

The System provides retiree healthcare benefits to state employees, electing teachers, and certain employees of the Board of Governors for Higher 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, 2011.

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

Sincerely,



Dennis E. Hoyle, CPA
Acting Auditor General

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

FISCAL YEAR ENDED JUNE 30, 2011

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STATE OF RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

- ◆ INTEGRITY
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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:

We have audited the accompanying basic financial statements of the plans which comprise the Rhode Island State Employees' and Electing Teachers OPEB System (the System) as of June 30, 2011 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the System's management. 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 of America. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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, 2011, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the plans within the System as of June 30, 2011, and the changes in fiduciary net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

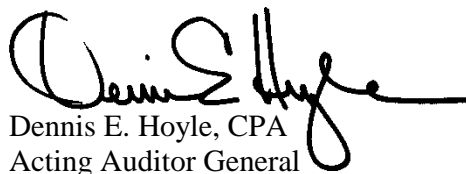
Joint Committee on Legislative Services
Board of the Rhode Island State Employees' and Electing Teachers OPEB System

As discussed in Note 4 to the financial statements, the funded status of the plans within the System is based on the most recent actuarial valuations performed as of June 30, 2009 which was prior to the creation of the trust and when employers began contributing on an actuarially determined basis.

As discussed in Note 8 to the financial statements, the General Assembly enacted comprehensive pension reform measures affecting the majority of System members. The pension reform measures include extending the age upon which many employees will be eligible to retire which, consequently, may impact future actuarial valuations of the plans within the System.

In accordance with *Government Auditing Standards*, we will issue our report dated December 22, 2011 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 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* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis beginning on page 3, the Schedules of Funding Progress and the Schedules of Employer Contributions on pages 21 and 22, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Dennis E. Hoyle, CPA
Acting Auditor General

December 22, 2011

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, 2011. 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, 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 postemployment benefits plans for the following groups:

- **State employees** - covers state employees and certain employees of the Narragansett Bay Commission, RI Airport Corporation, and RI Economic Development 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 Governors for Higher Education (BOG)** - certain employees of the University and Colleges, primarily faculty.

The plans within the System generally provide healthcare coverage to pre-Medicare eligible retirees and Medicare supplement coverage for members who are Medicare eligible.

Understanding the System's Financial Statements

The Statements of Fiduciary Net Assets provide a snapshot of the financial position of the System at June 30, 2011. The Statements of Changes in Fiduciary Net Assets 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, 2011

- The System began accumulating assets for the future payment of postemployment benefits in 2011. Fiduciary net assets increased by \$15 million in fiscal 2011, the first year of operation of the System's trust.
- Total postemployment health care benefits paid were \$59.7 million.
- Contributions to all plans from members, employers and other sources for fiscal year 2011 totaled \$72.6 million.
- The System experienced a net gain from investing activities of \$264 thousand for the fiscal year ended June 30, 2011. The System began investing assets consistent with the asset allocation and investment policy adopted by the State Investment Commission near the close of the fiscal year.

<i>Assets, Liabilities and Fiduciary Net Assets – June 30, 2011</i>	
Assets:	
Cash and Cash equivalents	\$ 2,478,006
Investments at fair value	22,408,320
Receivables and other assets	<u>1,395,959</u>
Total assets	<u>26,282,285</u>
Liabilities:	
Accounts payable and incurred but not reported claims	4,955,763
Deferred revenue	6,065,768
Other liabilities	<u>323,758</u>
Total liabilities	<u>11,345,289</u>
Net assets	<u><u>\$ 14,936,996</u></u>

<i>Changes in Fiduciary Net Assets – Fiscal 2011</i>	
Additions:	
Contributions:	
Employer	\$ 53,043,625
Member	19,555,802
Other income	1,875,263
Net investment income	<u>263,737</u>
Total additions	74,738,427
Deductions:	
Benefits	59,662,503
Administrative Expense	<u>138,928</u>
Total deductions	<u>59,801,431</u>
Increase in net assets	<u><u>\$ 14,936,996</u></u>

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Management's Discussion and Analysis

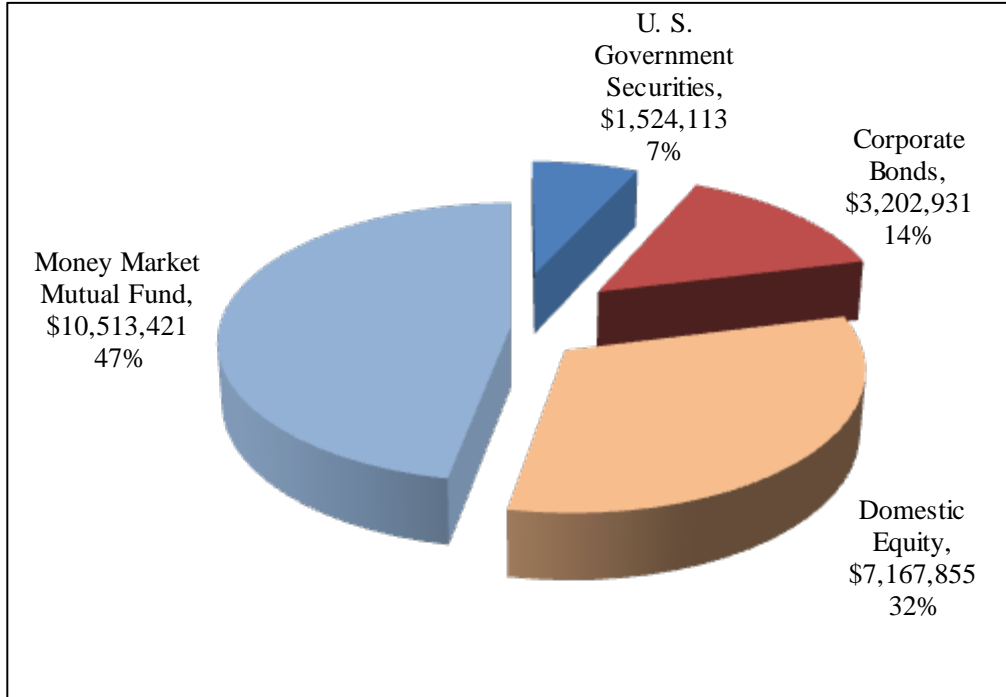
Investments

In May 2011, the State Investment Commission (SIC) established a long-term asset allocation policy for the System. The SIC will monitor investment performance of the System and conduct 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 were in place at June 30, 2011:

Fiscal 2011 – Asset Allocation Targets	
Domestic Equity	35%
Fixed Income	65%

Asset Allocation - Actual - Fair Value at June 30, 2011



The System's actuarial investment return assumption is 5.0%. The allocation of assets among stocks and fixed income securities in the future may have a significant impact on investment performance.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Management's Discussion and Analysis

Funded Status

Independent actuarial valuations will be conducted of the System 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 21. The next actuarial valuation of the plans within the System will be performed as of June 30, 2011.

Next Year's Contribution Rates and Economic Outlook

The fiscal 2012 employer contribution rates are all based upon actuarial valuations performed at June 30, 2009. The employer contribution rates (expressed as a percent of covered payroll) for fiscal year 2012 will be 6.86% for State employees, 7.19% for Judges, 33.18% for State Police, 46.35% for Legislators and 2.69% for members of the Board of Governor's plan. The State's contribution for retired teachers is not expressed as a percent of payroll and is budgeted to be \$2,321,057 for fiscal year 2012.

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.

On November 18, 2011, the State enacted comprehensive pension reform legislation which, among other provisions generally extended the date upon which many employees may be able to retire. Consequently, these pension reform measures may impact future actuarial valuations of the OPEB plans covering those retiree groups.

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**

Rhode Island State Employees' and Electing Teachers OPEB System
Statements of Fiduciary Net Assets
June 30, 2011

	<u>State Employees</u>	<u>Teachers</u>	<u>Judicial</u>	<u>State Police</u>	<u>Legislators</u>	<u>Board of Governors</u>	<u>Memorandum Total</u>
Assets							
Cash and cash equivalents	\$ 1,082,404	\$ 453,286	\$ 143,887	\$ 386,970	\$ 151,050	\$ 260,409	\$ 2,478,006
Advance held by claims processing agent	1,171,000	-	-	-	-	-	1,171,000
Receivables							
Due from other funds	60,858	2,222	-	9	28,318	64,000	155,407
Other	69,552	-	-	-	-	-	69,552
Total receivables	<u>130,410</u>	<u>2,222</u>	<u>-</u>	<u>9</u>	<u>28,318</u>	<u>64,000</u>	<u>224,959</u>
Investments at fair value - equity in pooled trust	<u>13,564,135</u>	<u>2,254,732</u>	<u>770,811</u>	<u>1,368,523</u>	<u>1,345,372</u>	<u>3,104,747</u>	<u>22,408,320</u>
Total assets	<u>15,947,949</u>	<u>2,710,240</u>	<u>914,698</u>	<u>1,755,502</u>	<u>1,524,740</u>	<u>3,429,156</u>	<u>26,282,285</u>
Liabilities							
Accounts payable	967,772	171,805	11,099	33,673	5,796	25,618	1,215,763
Incurred but not reported claims	2,940,000	414,000	38,000	191,000	35,000	122,000	3,740,000
Due to other funds	94,549	13,796	5,688	10,059	9,751	21,564	155,407
Deferred revenue (note 5)	4,148,276	956,083	-	-	-	961,409	6,065,768
Other	143,351	25,000	-	-	-	-	168,351
Total liabilities	<u>8,293,948</u>	<u>1,580,684</u>	<u>54,787</u>	<u>234,732</u>	<u>50,547</u>	<u>1,130,591</u>	<u>11,345,289</u>
Net assets held in trust for other postemployment benefits	<u>\$ 7,654,001</u>	<u>\$ 1,129,556</u>	<u>\$ 859,911</u>	<u>\$ 1,520,770</u>	<u>\$ 1,474,193</u>	<u>\$2,298,565</u>	<u>\$ 14,936,996</u>

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

Rhode Island State Employees' and Electing Teachers OPEB System
Statements of Changes in Fiduciary Net Assets
Fiscal Year Ended June 30, 2011

Additions	State Employees	Teachers	Judicial	State Police	Legislators	Board of Governors	Memorandum Total
Contributions							
Member contributions (note 4)	\$ 11,158,620	\$ 5,664,465	\$ 456,040	\$ 247,293	\$ 514,799	\$ 1,514,585	\$ 19,555,802
Employer contributions (note 4)	41,120,217	2,332,778	985,580	4,215,878	1,519,559	2,869,613	53,043,625
Total contributions	<u>52,278,837</u>	<u>7,997,243</u>	<u>1,441,620</u>	<u>4,463,171</u>	<u>2,034,358</u>	<u>4,384,198</u>	<u>72,599,427</u>
Other income (note 6)	<u>1,682,209</u>	<u>105,066</u>	<u>5,081</u>	<u>27,584</u>	<u>5,565</u>	<u>49,758</u>	<u>1,875,263</u>
Investment income							
Net appreciation in fair value of investments	121,426	25,916	7,251	11,132	11,441	29,939	207,105
Interest	14,202	2,601	1,007	2,658	1,500	2,088	24,056
Dividends	20,443	4,363	1,221	1,874	1,926	5,041	34,868
	<u>156,071</u>	<u>32,880</u>	<u>9,479</u>	<u>15,664</u>	<u>14,867</u>	<u>37,068</u>	<u>266,029</u>
Less investment expense	(1,345)	(287)	(80)	(123)	(126)	(331)	(2,292)
Net investment income	<u>154,726</u>	<u>32,593</u>	<u>9,399</u>	<u>15,541</u>	<u>14,741</u>	<u>36,737</u>	<u>263,737</u>
Total Additions	<u>54,115,772</u>	<u>8,134,902</u>	<u>1,456,100</u>	<u>4,506,296</u>	<u>2,054,664</u>	<u>4,470,693</u>	<u>74,738,427</u>
Deductions							
Benefits	46,383,701	6,991,550	590,501	2,975,467	570,720	2,150,564	59,662,503
Administrative expense (note 7)	78,070	13,796	5,688	10,059	9,751	21,564	138,928
Total Deductions	<u>46,461,771</u>	<u>7,005,346</u>	<u>596,189</u>	<u>2,985,526</u>	<u>580,471</u>	<u>2,172,128</u>	<u>59,801,431</u>
Net increase	7,654,001	1,129,556	859,911	1,520,770	1,474,193	2,298,565	14,936,996
Net assets held in trust for other postemployment benefits							
Beginning of year	-	-	-	-	-	-	-
End of year	<u>\$ 7,654,001</u>	<u>\$ 1,129,556</u>	<u>\$ 859,911</u>	<u>\$ 1,520,770</u>	<u>\$ 1,474,193</u>	<u>\$ 2,298,565</u>	<u>\$ 14,936,996</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, 2011**

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 postemployment 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 Economic Development 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 Governors for Higher Education (BOG)	Certain employees of the Board of Governors for Higher 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 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.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Notes to Financial Statements Fiscal Year Ended June 30, 2011

1. Plan Descriptions (continued)

(b) Membership and Benefit Provisions

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 Governors for Higher Education receive benefits under another plan known as the Rhode Island Board of Governors for Higher Education Health Care Insurance Retirement Program (the "BOG Plan").

The plans within the System generally provide healthcare coverage to pre-Medicare eligible retirees and 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 Governors 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 2011 contributions are as follows:

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

**Notes to Financial Statements
Fiscal Year Ended June 30, 2011**

1. Plan Descriptions (continued)

(b.) Membership and Benefit Provisions

Age at Retirement	Years of Service	Amount of Cost Paid by Retiree
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 enroll in a Medicare Supplemental plan. There are two choices for State sponsored plans: a State self-insured plan with no pharmacy benefit or a fully-insured Medicare HMO plan which includes Medicare Part D for pharmacy coverage. For eligible retirees ages 65 or older, the State pays 80% of the cost of the Medicare supplement products as described above.

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

Retired judges (including spouses and dependents) may purchase the active health care benefits at the active rate for their lifetime or the Medicare supplement plans at the full rate.

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.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

**Notes to Financial Statements
Fiscal Year Ended June 30, 2011**

1. Plan Descriptions (continued)

(b.) Membership and Benefit Provisions

Legislators

Retired and former legislators (and spouses and dependents) may purchase the active health care benefits at the active rate for their lifetime or the Medicare supplement plans at the full rate.

Board of Governors

The BOG Plan offers two types of retiree health care benefits. The Plan offers a self-insured health care plan for pre-65 and post-65 retirees or a fully insured Medicare HMO plan for post-65 retirees. The Tier I, non-Medicare eligible plans, 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 not based on years of service and ends at age 65. In addition, the Board pays a portion of the cost of postretirement health care for the retiree based on age and years of service. This subsidy is a lifetime benefit.

To be eligible for coverage, the retiree 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 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 BOG plan contribute .9% of their salary. The contribution of employees covered under the BOG plan can be changed by the Board of Governors.

A summary of membership by plan and the number of participating employers as of the June 30, 2009 actuarial valuation follows:

Group	Members		Total	Participating Employers
	Active	Retired		
State employees	11,023	9,661	20,684	4
Teachers	n/a	1,808	1,808	n/a
Judicial	60	62	122	1
State police officers	226	379	605	1
Legislators	113	114	227	1
BOG employees	1,977	494	2,471	4

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Notes to Financial Statements Fiscal Year Ended June 30, 2011

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 postemployment benefit plans established by governmental entities. In accordance with GASB Statement No. 20, in the absence of specific guidance from a GASB pronouncement, pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989 have been followed.

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 payroll. 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.

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 cash held in a financial institution. Cash equivalents are highly liquid investments with a maturity of three months or less at the time of purchase.

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 assets. Estimates also affect the reported amounts of income/additions and expenses/deductions during the reporting period. Actual results could differ from these estimates.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

**Notes to Financial Statements
Fiscal Year Ended June 30, 2011**

2. Summary of Significant Accounting Policies (continued)

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, 2011, the carrying amounts of the plans’ cash deposits are listed below:

	<u>State Employees</u>	<u>Teachers</u>	<u>Judicial</u>	<u>State Police</u>	<u>Legislators</u>	<u>BOG</u>	<u>Total</u>
Cash Deposits:							
Book Balance	\$ 1,082,404	\$ 453,286	\$ 143,887	\$ 386,970	\$ 151,050	\$ 260,409	\$ 2,478,006
Bank Balance	\$ 1,082,404	\$ 453,286	\$ 143,887	\$ 386,970	\$ 151,050	\$ 260,409	\$ 2,478,006

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, 2011, the System’s cash deposits were either federally insured or collateralized.

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.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Notes to Financial Statements Fiscal Year Ended June 30, 2011

3. Cash Deposits and Investments (continued)

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 in the pooled trust at June 30, 2011:

<u>Investment Type</u>	<u>Fair Value</u>
US Government Securities	\$ 1,524,113
Corporate Bonds	3,202,931
Money Market Mutual Fund	13,727,300
Commingled Funds - Domestic Equity	7,167,855
	<u>\$ 25,622,199</u>
Net investment receivable (payable)	<u>(3,213,879)</u>
Total Investments at fair value	<u>\$ 22,408,320</u>

Consistent with an 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, 2011:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
US Government Securities	\$ 1,524,113	5.43
Corporate Bonds	3,202,931	5.92
Total Fixed Income	<u>\$ 4,727,044</u>	5.76

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Notes to Financial Statements Fiscal Year Ended June 30, 2011

3. Cash Deposits and Investments (continued)

The System's investment in State Street Institutional Liquid Reserves, a money market mutual fund, held investments with an average maturity of 33 days at June 30, 2011.

Credit Risk

The System manages exposure to credit risk generally by adhering to an overall target weighted average credit quality for the portfolio. At June 30, 2011 all debt securities were U.S. Government Obligations and corporate bonds.

The System's exposure to credit risk on corporate bonds as of June 30, 2011 is as follows:

<u>Rating (1)</u>	<u>US Government Obligations</u>	<u>Corporate Bonds</u>
Aaa	\$ 1,524,113	
Aa		\$ 371,518
A		990,912
Baa		1,743,251
Ba		97,250
Fair Value	<u>\$ 1,524,113</u>	<u>\$ 3,202,931</u>

(1) Moody's Investor Service

The System's investment in a short-term money market mutual fund (State Street Institutional Liquid Reserves) 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, 2011 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, State Street Bank and Trust Co.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

**Notes to Financial Statements
Fiscal Year Ended June 30, 2011**

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.

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, 2011, the State and other participating employers paid \$53,043,625 into the plans.

The table below displays the funded status of each plan at June 30, 2009, 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	\$ 0	\$ 673,640	\$ 673,640	0.0%	\$ 574,569	117.2%
Teachers	0	13,529	13,529	0.0%	n/a	n/a
Judicial	0	8,665	8,665	0.0%	9,395	92.2%
State Police	0	67,079	67,079	0.0%	16,725	401.1%
Legislators	0	11,752	11,752	0.0%	1,612	729.0%
BOG	0	47,704	47,704	0.0%	112,884	42.3%

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, shows 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, 2011

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

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plans by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 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 of not to exceed thirty years.

The Annual Required Contributions for fiscal year 2011 were determined based on the June 30, 2007 valuations for all plans except for the Board of Governors plan which was based on the June 30, 2009 valuation.

The June 30, 2007 actuarial valuation was developed using the individual entry age actuarial method and the Unfunded Actuarial Accrued Liability (UAAL) was amortized by a level (principal and interest combined) percent of payroll contribution for each component unit employer. The UAAL was determined using the actuarial value of assets and actuarial accrued liability calculated as of the valuation date. The UAAL for all plans, except teachers, is being amortized over the remainder of a closed 30-year (or shorter) period from June 30, 2006. The remaining amortization period at June 30, 2007 is 29 years. The UAAL for teachers is being amortized as a level dollar amount over an 8-year period from June 30, 2007.

For the June 30, 2007 valuation the actuarial assumptions include a 3.566% discount rate, a health care cost trend assumption of 10% progressively declining to 4.5% after 7 years, and salary growth assumption rates ranging between 4.5% and 13.25%. 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 recently enacted through legislation.

The most recent actuarial valuations of the plans within the System were performed as of June 30, 2009.

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. In addition, the wage inflation assumption was changed to 0% for two years before reverting to 4.5% to reflect the current economic environment.

The following table summarizes the actuarial methods and assumptions used in the most recent actuarial valuation.

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

**Notes to Financial Statements
Fiscal Year Ended June 30, 2011**

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

Summary of Actuarial Methods and Assumptions as of June 30, 2009 valuation						
	Plan					
	State Employees	Teachers	Judicial	State Police	Legislators	Board of Governors
Valuation Date	June 30, 2009	June 30, 2009	June 30, 2009	June 30, 2009	June 30, 2009	June 30, 2009
Plan Type	Cost sharing multiple employer	Single Employer (1)	Single Employer	Single Employer	Single Employer	Cost sharing multiple employer
Actuarial Cost Method	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age
Amortization Method	Level Percent of Payroll – Closed	Level Dollar	Level Percent of Payroll – Closed	Level Percent of Payroll – Closed	Level Percent of Payroll – Closed	Level Percent of Payroll – Closed
Equivalent Single Remaining Amortization Period	27 years	6 years	27 years	27 years	27 years	27 years
Asset Valuation Method	Market	Market	Market	Market	Market	Market
Actuarial Assumptions						
Investment Rate of Return	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Projected Salary Increases	4.50% to 9.0%	4.50% to 13.25%	4.50%	4.50% to 12.5%	4.50% to 9.00%	4.50% to 9.00%
Valuation Health Care Cost Trend Rate	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019
Note 1 – The Teachers plan accounts for the Tier I subsidy funded by the State for Teachers electing to participate and retiring before October 1, 2008.						

5. Deferred Revenue

Prior to the establishment of the OPEB trust funds on July 1, 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 2011 and were recorded as deferred revenue for the funds/plans listed below.

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

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Notes to Financial Statements Fiscal Year Ended June 30, 2011

5. Deferred Revenue (continued)

These amounts will be recognized in subsequent fiscal years to satisfy the annual required contributions to those respective plans.

6. Other Income

The Early Retiree Reinsurance Program (ERRP) was established by the federal Affordable Care Act which became effective June 1, 2010. ERRP reimburses employers for medical claims for retirees age 55 and older who are not eligible for Medicare, and their spouses, surviving spouses, and dependents. Reimbursements are available for 80 percent of medical claim costs for health benefits between \$15,000 and \$90,000. During fiscal 2011, \$619,393 was recorded in the OPEB Trust Funds for reimbursements relating to ERRP.

Other Income also includes amounts (\$892,145) 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.

Drug rebates received from drug manufacturers relating to claims paid for retirees totaling \$363,725 are also included as other income.

7. Administrative Expenses

Pursuant to General Law section 36-12.1-15, for fiscal years 2011 through 2014, the State Controller is authorized to disburse from the OPEB trust funds the actual costs of administering the funds. In fiscal years 2015, and thereafter, a restricted receipts account within the General Fund shall 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. Beginning in fiscal 2015, a transfer shall be made from the OPEB trust funds equal to 25 basis points of the average total investments before lending activities as reported in the annual report of the auditor general for the next preceding five fiscal years or \$200,000, whichever is greater. Any non-encumbered funds on June 30 of any fiscal year shall be credited to the OPEB System.

Administrative expenses recorded within the OPEB System consist primarily of direct charges to establish the trust and legal fees. Other costs related to administering the postemployment benefit program such as enrollment of retirees, payment of claims, accounting, and investment monitoring have not been allocated to the System.

8. Subsequent Events

On November 18, 2011, the State enacted comprehensive pension reform legislation which, among other provisions, generally extended the date upon which many employees may be able to retire. Consequently, these pension reform measures may impact future actuarial valuations of the OPEB plans covering those retiree groups.

Rhode Island State Employees' and Electing Teachers OPEB System

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						
6/30/2009	\$ 0	\$ 673,640,000	\$ 673,640,000	0.0%	\$ 574,569,000	117.2%
6/30/2007	0	679,538,000	679,538,000	0.0%	626,145,000	108.5%
Teachers						
6/30/2009	\$ 0	\$ 13,529,000	\$ 13,529,000	0.0%	n/a	n/a
6/30/2007	0	10,243,000	10,243,000	0.0%	n/a	n/a
Judicial						
6/30/2009	\$ 0	\$ 8,665,000	\$ 8,665,000	0.0%	\$ 9,395,000	92.2%
6/30/2007	0	14,024,000	14,024,000	0.0%	9,888,000	141.8%
State Police						
6/30/2009	\$ 0	\$ 67,079,000	\$ 67,079,000	0.0%	\$ 16,725,000	401.1%
6/30/2007	0	54,620,000	54,620,000	0.0%	15,977,000	341.9%
Legislators						
6/30/2009	\$ 0	\$ 11,752,000	\$ 11,752,000	0.0%	\$ 1,612,000	729.0%
6/30/2007	0	29,764,000	29,764,000	0.0%	1,592,000	1,869.6%
Board of Governors						
6/30/2009	\$ 0	\$ 47,704,000	\$ 47,704,000	0.0%	\$ 112,884,000	42.3%
6/30/2007	0	57,881,000	57,881,000	0.0%	110,092,000	52.6%

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
2011	\$ 41,120,217	100%

Teachers

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2011	\$ 2,332,778	100%

Judicial

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2011	\$ 985,580	100%

State Police

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2011	\$ 4,215,878	100%

Legislators

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2011	\$ 1,519,559	100%

Board of Governors

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2011	\$ 2,869,613	100%

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

**Notes to Required Supplementary Information
Fiscal Year Ended June 30, 2011**

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, June 30, 2009, follows.

Summary of Actuarial Methods and Assumptions as of June 30, 2009 valuation						
	Plan					
	State Employees	Teachers	Judicial	State Police	Legislators	Board of Governors
Valuation Date	June 30, 2009	June 30, 2009	June 30, 2009	June 30, 2009	June 30, 2009	June 30, 2009
Plan Type	Cost sharing multiple employer	Single Employer (1)	Single Employer	Single Employer	Single Employer	Cost sharing multiple employer
Actuarial Cost Method	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age
Amortization Method	Level Percent of Payroll – Closed	Level Dollar	Level Percent of Payroll – Closed	Level Percent of Payroll – Closed	Level Percent of Payroll – Closed	Level Percent of Payroll – Closed
Equivalent Single Remaining Amortization Period	27 years	6 years	27 years	27 years	27 years	27 years
Asset Valuation Method	Market	Market	Market	Market	Market	Market
Actuarial Assumptions						
Investment Rate of Return	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Projected Salary Increases	4.50% to 9.0%	4.50% to 13.25%	4.50%	4.50% to 12.5%	4.50% to 9.00%	4.50% to 9.00%
Valuation Health Care Cost Trend Rate	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019	9% in 2010, grading to 4.5% in 2019
Note 1 – The Teachers plan accounts for the Tier I subsidy funded by the State for Teachers electing to participate and retiring before October 1, 2008.						

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB SYSTEM

Notes to Required Supplementary Information Fiscal Year Ended June 30, 2011

2. Schedules of Funding Progress

Changes affecting the June 30, 2009 Actuarial Valuation:

With the creation of the trust effective July 1, 2010, the State Employees and Board of Governors 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. In addition, the wage inflation assumption was changed to 0% for two years before reverting to 4.5% to reflect the current economic environment.