

**RHODE ISLAND DIVISION OF  
HIGHER EDUCATION  
ASSISTANCE**

**(a Component Unit of the State of Rhode Island)**

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**FINANCIAL STATEMENTS**

**JUNE 30, 2021**

# **RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE**

**(a Component Unit of the State of Rhode Island)**

## **Financial Statements**

**June 30, 2021**

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## INDEPENDENT AUDITORS' REPORT

The Board of Education of  
State of Rhode Island  
Providence, Rhode Island

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Rhode Island Division of Higher Education Assistance (a component unit of the State of Rhode Island) (the "Division"), which comprise the statement of net position as of the year ended June 30, 2021, the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rhode Island Division of Higher Education Assistance as of June 30, 2021, and the respective change in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-8, the schedule of the Division's proportionate share of the net pension liability and net OPEB liability on page 36 and 40, respectively, the schedule of the Division's pension contributions and OPEB contributions on page 37 and 41, respectively, and the notes to the required supplementary information on pages 38-39 and 42-43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2021 on our consideration of the Rhode Island Division of Higher Education Assistance's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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, but not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rhode Island Division of Higher Education Assistance's internal control over financial reporting and compliance.



**Certified Public Accountants  
Braintree, Massachusetts**

September 30, 2021

# **RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE**

**(a Component Unit of the State of Rhode Island)**

## **Management's Discussion and Analysis (Unaudited)**

**June 30, 2021**

The Rhode Island Division of Higher Education Assistance (the "Division") Management's Discussion and Analysis ("MD&A") of the Division's operations and financial results is intended to provide readers with information which will assist them in understanding and evaluating the Division's financial statements as of, and for, the fiscal year ended June 30, 2021. The MD&A consists of an introduction section and a financial highlight. The introduction section outlines the Division's programs and operations, provides information about the presentation of the financial statements, and describes major statutory and regulatory actions which have a material effect on the Division's operations. The financial highlight focuses on significant items disclosed within the Division's financial statements or affecting its financial condition. The MD&A should be read in conjunction with the financial statements, notes to financial statements and other information included in the audit document.

### **Introduction**

The Rhode Island Higher Education Assistance Authority ("RIHEAA") was a public corporation of the State of Rhode Island (the "State") established on July 1, 1977, by an act of the Rhode Island General Assembly, having a distinct legal existence from the State and not constituting a department of State government, which is a governmental agency and public instrumentality of the State. It was created to administer financial assistance programs to expand access to, and choice among, postsecondary education opportunities for Rhode Islanders. Functionally, and for management financial reporting purposes, RIHEAA's activities were organized into three divisions which administered the Scholarship and Grant Program, the Tuition Savings Program, and the Federal Family Education Loan ("FFEL") Program Guaranty Agency, respectively.

On March 30, 2010, the President of the United States signed into law the Health Care and Education Reconciliation Act of 2010 (the "Act"). The Act made sweeping changes in student financial assistance programs, including a provision which eliminated loan originations under the FFEL Program effective July 1, 2010. As a result, all federally guaranteed student loans are now originated under the Federal Direct Loan Program. This Act has effectively ended the growth of the student loan portfolio administered by RIHEAA and placed this division of RIHEAA into a wind-down mode which was anticipated to last from three to five years.

In December 2013, the U.S. Congress passed the Bipartisan Budget Act of 2013 (the "Budget Act"). One of the provisions of the Budget Act was to reduce the Guaranty Agency revenue derived from the rehabilitation of defaulted student loans by approximately 50%, effective July 1, 2014. Revenues from loan rehabilitations constitute a major source of income for most Guaranty Agencies, and this reduction will have major implications on the ability of Guaranty Agencies to operate profitably, especially as portfolio balances decline over time.

**RHODE ISLAND DIVISION OF HIGHER  
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**Management's Discussion and Analysis (Unaudited) - Continued**

**June 30, 2021**

The Rhode Island fiscal year 2016 budget created the Division of Higher Education Assistance (the "Division") replacing RIHEAA and merging it into the Office of the Postsecondary Commissioner ("OPC"). This budget went into effect as of July 1, 2015. The Commissioner now serves as the executive director of the Division, which assumed the rights, assets, powers and obligations of RIHEAA, including its former role as a guarantor participating in FFEL and its current participation in the Rhode Island State Grant Promise Programs.

The transfer of the Guarantee Loan Portfolio to a third party was effective July 1, 2018. It was entered into by, and between, the Educational Credit Management Corporation ("ECMC") and the Division. This transfer was approved by the United States Department of Education ("ED") and the Division notified ED that it would cease participation in the Federal Family Education Loan Program. As per the agreement, ECMC assumed the Division's outstanding liability on those loans previously guaranteed by the Division that were non-defaulted loans held by lenders, and the Division assigned and transferred to ECMC rights in, and to, the portfolio of loans held by the Division for which it had paid claims to lenders. Following the date of transfer of the Guarantee Loan Portfolio, the Division no longer has responsibilities as a Guaranty Agency.

In its current form, the Division is responsible for the administration of certain higher education scholarships and grants funded by transfers from the State of Rhode Island as well as funds derived from other sources. These programs include the Rhode Island State Scholarship/Grant Program and the Tuition Savings Scholarship/Grant Programs. In addition, the Division provides support services for scholarship and grant programs funded by the College Crusade of Rhode Island. These programs include the Rhode Island Promise One State Scholarship Program and the Dual/Concurrent and Enrollment Program. Based on the Division's projections, the Reserve Fund will maintain liquidity until approximately the end of FY 23. There will still be an annual revenue stream from the College Bound Fund Program of approximately \$5.4 million that is received at the Division on a quarterly basis.

In addition, the Division has not realized any issues or added expenses due to COVID-19.

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**Management's Discussion and Analysis (Unaudited) - Continued**

**June 30, 2021**

**Overview of the Financial Statements**

The financial statements present the financial picture of the Division from the economic resource measurement focus using the accrual basis of accounting. These statements include all assets of the Division as well as all liabilities including long-term debt. The Division engages only in business-type activities, that is, activities that are financed in whole or in part by fees charged to external users, and fiduciary activities. As a result, the Division's basic financial statements include: the statement of net position; the statement of revenues, expenses, and changes in net position; the statement of cash flows; and notes to the financial statements.

The Division implemented GASB 68 regarding pension for fiscal year 2015. Certain employees of the Division participate in a cost-sharing, multiple-employer, defined benefits pension plan — the Employees' Retirement System plan — administered by the Employees Retirement System of the State of Rhode Island. Under a cost-sharing plan, pension obligations for employees are pooled and plan assets are available to pay the benefits of the employees of any participating employer providing pension benefits through the plan, regardless of the status of the employers' payment of its pension obligation to the plan.

The Division implemented GASB 75 regarding other postemployment benefit ("OPEB") plans beginning in fiscal year 2018. Certain employees of the Division participate in one of two OPEB plans: the State Employees' Cost-Sharing OPEB Plan ("SEP") and the Board of Education OPEB Cost-Sharing Plan ("BOEP") (collectively referred to as the "Plans"). Under a cost-sharing plan, OPEB obligations for employees of all employers are pooled and plan assets are available to pay the benefits of the employees of any participating employer providing OPEB benefits through the plan regardless of the status of the employers' payment of its OPEB obligation to the plan. The Plans provides health care benefits to plan members. For fiscal year ended 2021, the pension and OPEB adjustments for the Division was a reduction of \$556,435.

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**Management's Discussion and Analysis (Unaudited) - Continued**

**June 30, 2021**

**Financial Highlights and Comparative Analysis**

The tables in each section below reflect financial data.

Net Position

	2021	2020
Current assets	\$ 9,627,000	\$ 15,979,000
Noncurrent assets	224,000	228,000
Total assets	<u>\$ 9,851,000</u>	<u>\$ 16,207,000</u>
Deferred outflows of resources	269,000	318,000
Total assets and deferred outflows of resources	<u>\$ 10,120,000</u>	<u>\$ 16,525,000</u>
Current liabilities	13,000	9,000
Noncurrent liabilities	332,000	477,000
Total liabilities	<u>\$ 345,000</u>	<u>\$ 486,000</u>
Deferred inflows of resources	1,436,000	1,933,000
Total liabilities and deferred inflows of resources	<u>\$ 1,781,000</u>	<u>\$ 2,419,000</u>
Net position:		
Net investment in capital assets	\$ 224,000	\$ 228,000
Restricted - expendable	8,115,000	13,878,000
Total net position	<u>\$ 8,339,000</u>	<u>\$ 14,106,000</u>

The net position at June 30, 2021 and 2020 consists of \$8 million and \$14 million, respectively, which is restricted by federal and state statute for the uses of the Division's operations and for student financial assistance purposes.

The largest component of total liabilities is the net pension liability of approximately \$277,000, as of June 30, 2021 and net pension liability of approximately \$385,000, as of June 30, 2020.



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**Management's Discussion and Analysis (Unaudited) - Continued**

**June 30, 2021**

Operating Fund Revenues, Expenses and Transfers

	2021	2020
Operating revenues	\$ -	\$ 51,000
Operating expenses	11,394,000	11,096,000
Operating loss	(11,394,000)	(11,045,000)
Non-operating revenue	48,000	285,000
Change in net position	(11,346,000)	(10,760,000)
Transfer in from primary government	5,579,000	5,724,000
Change in Net Position	(5,767,000)	(5,036,000)
Net Position, Beginning of Year	14,106,000	19,142,000
Net Position, End of Year	\$ 8,339,000	\$ 14,106,000

The transfer in from the primary government represents the funding for scholarships. The amount of the transfer is comprised of a fixed and variable component paid by the third party that manages the State of Rhode Island's college tuition savings plan to the Rhode Island Office of the General Treasurer. The variable component is a percentage of the portfolio's out-of-state accounts.

Cash Flows

	2021	2020
Restricted Cash Equivalents	\$ 6,586,000	\$ 13,112,000
Provided by (used in):		
Operating activities	\$ (11,979,000)	\$ (11,987,000)
Noncapital financing activities	5,413,000	3,741,000
Investing activities	41,000	275,000
Net Decrease	\$ (6,525,000)	\$ (7,971,000)

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**Management's Discussion and Analysis (Unaudited) - Continued**

**June 30, 2021**

**Requests for Information**

This financial report is designed to provide a general overview of the Division's finances for any interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer, Office of Postsecondary Commissioner, Division of Higher Education Assistance, 560 Jefferson Blvd. Warwick, RI 02886.

**RHODE ISLAND DIVISION OF HIGHER EDUCATION  
ASSISTANCE**

**(a Component Unit of the State of Rhode Island)**

**Statement of Net Position**

**June 30, 2021**

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**Statement of Net Position**

**June 30, 2021**

**Assets and Deferred Outflow of Resources**

**Current Assets:**

Restricted cash and equivalents	\$ 6,586,122
Investments	414,392
Due from Primary Government	2,622,119
Prepaid expenses	<u>4,297</u>

**Total Current Assets** 9,626,930

**Noncurrent Assets:**

Capital assets, net	<u>224,277</u>
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**Total Assets** 9,851,207

**Deferred Outflows of Resources:**

Deferred outflows of resources related to pension	55,910
Deferred outflows of resources related to OPEB	<u>213,197</u>

**Total Deferred Outflows of Resources** 269,107

*The accompanying notes are an integral part of these financial statements.*

## Liabilities, Deferred Inflows of Resources and Net Position

### **Current Liabilities:**

Accounts payable and accrued liabilities	\$ 4,760
Compensated absences	<u>8,622</u>

**Total Current Liabilities** 13,382

### **Noncurrent Liabilities:**

Compensated absences, less current portion	20,116
Net pension liability	277,186
Net OPEB liability	<u>35,162</u>

**Total Noncurrent Liabilities** 332,464

**Total Liabilities** 345,846

### **Deferred Inflows of Resources:**

Deferred inflows of resources related to pension	869,223
Deferred inflows of resources related to OPEB	<u>566,160</u>

**Total Deferred Inflows of Resources** 1,435,383

### **Net Position:**

Net investment in capital assets	224,277
Restricted - expendable	<u>8,114,808</u>

**Total Net Position** \$ 8,339,085

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

(a Component Unit of the State of Rhode Island)

## Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2021

<b>Operating Expenses:</b>	
Student financial assistance	\$ 11,721,052
Depreciation and amortization	3,692
Professional services	26,001
Salaries and employee benefits, net of pension and OPEB adjustment of (\$556,435)	(360,993)
Office and other	<u>4,352</u>
<b>Total Operating Expenses</b>	<u><b>11,394,104</b></u>
<b>Operating Loss</b>	<u><b>(11,394,104)</b></u>
<b>Non-Operating Revenue:</b>	
Investment income	<u>48,190</u>
<b>Changes in Net Position Before Transfer</b>	<u><b>(11,345,914)</b></u>
<b>Transfer:</b>	
Transfer in from primary government	<u>5,578,600</u>
<b>Changes in Net Position</b>	<u><b>(5,767,314)</b></u>
Net Position, Beginning of Year	<u>14,106,399</u>
<b>Net Position, End of Year</b>	<u><u><b>\$ 8,339,085</b></u></u>

*The accompanying notes are an integral part of these financial statements.*

**RHODE ISLAND DIVISION OF HIGHER  
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**Statement of Cash Flows**

**For the Year Ended June 30, 2021**

**Cash Flows from Operating Activities:**

Payments for:

Salaries and benefits	\$ (227,886)
Supplies, materials, and services	(30,353)
Student financial assistance	<u>(11,721,052)</u>

Net Cash Applied to Operating Activities (11,979,291)

**Cash Flows from Noncapital Financing Activity:**

Transfer in from primary government 5,412,624

**Cash Flows from Investing Activities:**

Purchases of investments	(7,145)
Investment income	<u>48,190</u>

Net Cash Provided by Investing Activities 41,045

**Net Decrease in Restricted Cash and Equivalents (6,525,622)**

**Restricted Cash and Equivalents, Beginning of Year 13,111,744**

**Restricted Cash and Equivalents, End of Year \$ 6,586,122**

**RHODE ISLAND DIVISION OF HIGHER  
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**Statement of Cash Flows - Continued**

**For the Year Ended June 30, 2021**

**Reconciliation of Operating Loss to Net Cash Applied in Operating Activities:**

Operating loss	\$ (11,394,104)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	3,692
Net pension activity	(535,368)
Net OPEB activity	(57,625)
Changes in Assets and Liabilities:	
Accounts payable and accrued expenses	4,760
Compensated absences	<u>(646)</u>
 Net Cash Applied to Operating Activities	 <u>\$ (11,979,291)</u>

*The accompanying notes are an integral part of these financial statements.*



# **RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE**

**(a Component Unit of the State of Rhode Island)**

## **Notes to the Financial Statements**

**June 30, 2021**

Note 1 - **Summary of Significant Accounting Policies**

*Organization*

The Rhode Island Division of Higher Education Assistance (the “Division”) is a division within the Rhode Island Office of the Postsecondary Commissioner (“RIOPC”) established on July 1, 2015 by an Act of the Rhode Island General Assembly. The Division is a distinct legal entity from the State of Rhode Island (the “State”) and not a department of State government but is a governmental agency and public instrumentality of the State. It is a component unit of the State for financial reporting purposes and, as such, the financial statements of the Division will be included in the State’s Annual Comprehensive Financial Report (“ACFR”).

The Division was created for the dual purpose of guaranteeing loans to students in eligible institutions and administering other programs of postsecondary student financial assistance assigned by law to the Division.

On March 30, 2010, the President of the United States signed into law H.R. 4872 – The Health Care and Education Reconciliation Act of 2010, which terminated new loan originations in the Federal Family Education Loan Program (“FFELP”) on June 30, 2010. Effective July 1, 2010, all new Stafford, PLUS or consolidated loans are originated under the U.S. Department of Education Direct Loan Program.

Prior to July 1, 2018, the Division had the responsibility of providing collection assistance to lenders for delinquent FFELP loans, paying lender claims for FFELP loans in default, and performing certain collection activities on FFELP loans after purchase by the Division.

Prior to July 1, 2018, The Division consisted of two funds: The Federal Fund and the Operating Fund. The Federal Fund financed FFELP insurance activities and the Operating Fund provided substantially all FFELP operational costs as well as State scholarships, financial aid awareness, and related outreach activities.

On July 1, 2018, the Division assigned the entire Federal Family Education Loan Program portfolio to the U.S. Department of Education (“ED”). The assignment of the portfolio required the Division to return the fiduciary funds balance of approximately \$12.2 million to the Federal Government.

As a component unit of the State of Rhode Island, The Division’s management is in frequent contact with the State regarding the future of the Division. Although the long-term future of the Division is unknown, management believes the Division will assist postsecondary students with scholarship funding in the near term.

The Division’s assets and earnings are restricted in use for student financial aid activities.

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**Notes to the Financial Statements - Continued**

**June 30, 2021**

In Spring 2020, the World Health Organization (WHO) declared the global outbreak of the novel corona virus COVID-19 as a pandemic. The Division transitioned into a remote work environment since the WHO declaration. This did not have a material impact on operations.

*Basis of Presentation*

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (“GASB”). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

Non-operating revenue consists of investment income. The transfer in from primary government represents the funding for scholarships and the amount is based on the performance of the State-controlled tuition savings program.

The Division has determined that it operates as a Business-Type Activity, as defined by GASB.

*Net Position*

Resources are classified for accounting purposes into the following two net position categories:

**Net investment in capital assets:** Capital assets, net of accumulated depreciation, accounts payable, accrued expenses, and of outstanding principal balances of debt attributable to the acquisition, construction, repair, or improvement of those assets.

**Restricted – expendable:** Net position whose use is subject to externally imposed conditions that can be fulfilled by the specific actions of the Division or by the passage of time.

The Division has adopted a policy of generally utilizing restricted-expendable funds, when available, prior to unrestricted funds.

*Restricted Cash and Equivalents*

Restricted cash and equivalents consist entirely of highly liquid debt instruments with an original maturity date of three months or less.

**RHODE ISLAND DIVISION OF HIGHER  
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**Notes to the Financial Statements - Continued**

**June 30, 2021**

Investments

Investments in marketable securities are stated at fair value. Dividends, interest, and net gains or losses on investments of endowments and similar funds are reported in the statement of revenues, expenses and changes in net position.

Capital Assets

Real estate assets, including improvements, are generally stated at cost. Furnishings and equipment are stated at cost as of date of acquisition or, in the case of gifts, at fair value as of date of donation. In accordance with the Division's capitalization policy, all land is capitalized, regardless of value. The Division's capitalization threshold is a unit cost of at least \$2,500. Capital assets, with the exception of land and construction in progress, are depreciated on a straight-line basis over their estimated useful lives, which range from 10 to 50 years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Compensated Absences

Certain employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation and sick days allowable in accordance with the applicable union contract or in the case of non-union personnel, according to State or Division policy. Amounts of vested and accumulated vacation and sick leave are reported as accrued compensation and benefits. Amounts are determined based upon the compensation rates in effect as of the balance sheet date.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension and pension expense, information about the fiduciary net position of the Employees' Retirement System plan ("ERS"), and the additions to/deductions from ERS' fiduciary net position, have been determined on the same basis as they are reported by ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**RHODE ISLAND DIVISION OF HIGHER  
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**Notes to the Financial Statements - Continued**

**June 30, 2021**

*Postemployment Benefits Other Than Pensions (OPEB)*

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the State Employees' Cost-Sharing OPEB Plan ("SEP") and the Board of Education OPEB Cost-Sharing Plan ("BOEP") (collectively referred to as the "Plans"), and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, the Plans recognize benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

*Health Insurance*

The State offers one State-paid health plan to each of its participating agencies. The premiums for these plans are divided among the agencies based upon their number of eligible employees. All employees share in healthcare costs. Employee copays range from 15% to 25% of healthcare premiums. The employee contributions are automatically deducted through the payroll system on a bi-weekly basis. Amounts paid by the Division for the 2021 health premiums amounted to approximately \$23,700. Employee contributions for 2021 were approximately \$5,000.

*Assessed Fringe Benefit Administrative Fund*

In July 2000, the State established the Assessed Fringe Benefit Administrative Fund. This fund is used to make all payments relating to workers' compensation charges, unemployment payments, and payments to employees for unused vacation and sick leave at the time of retirement or termination from State service. The State funds this account by assessing a charge based on bi-weekly payrolls of all State agencies. The fringe benefit assessment rate was 3.95%. The assessed fringe benefit cost for the year ended June 30, 2021 was approximately \$6,500.

*Tax Status*

The Division is a component unit of the State of Rhode Island and is therefore generally exempt from income taxes under Section 115 of the Internal Revenue Code.

# **RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE**

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## **Notes to the Financial Statements - Continued**

**June 30, 2021**

### *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 about future events. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Management evaluates the estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made as facts and circumstances require. As future events and their effects cannot be determined with certainty, actual results may differ from the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of estimating depreciation and determining the net pension liability and net OPEB liability.

### *New Governmental Accounting Pronouncements*

GASB Statement 92 – *Omnibus 2020* is effective for reporting periods beginning after June 15, 2021. The objective of this statement is to improve comparability in financial reporting for leases, pensions, OPEB and asset retirement obligations.

GASB Statement 96 – *Subscription-Based Information Technology Arrangements (SBITA)* is effective for reporting periods beginning after June 15, 2022. The objective of this Statement is to provide accounting and financial reporting guidance for transactions in which a governmental entity contracts with another party for the right to use their software. A right to use asset and a corresponding liability would be recognized for SBITAs.

GASB Statement 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457, Deferred Compensation Plans* is effective for reporting periods beginning after June 15, 2021. The objective of this Statement is to provide financial reporting consistency in which the potential component unit does not have a governing board and the primary government performs the duties that a governing board would perform. In the absences of a governing board of the potential component unit, the situation should be treated as the same as the primary government appointing a majority of the potential component unit's governing board.

Management has not completed its review of the requirements of these standards and their applicability.

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**Notes to the Financial Statements - Continued**

**June 30, 2021**

*Reclassification*

Certain amounts in the 2020 financial statements have been reclassified to conform to the 2021 financial statement presentation.

Note 2 - **Restricted Cash and Equivalents and Investments**

The Division does not have a policy for custodial credit risk associated with deposits except for which is provided by Chapter 35-10.1 of the Rhode Island General Laws dealing with Public Finance, which states that any depository institutions holding public deposits shall insure or pledge eligible collateral equal to one hundred percent (100%) of any time deposit with maturities greater than sixty days. If any depository institution does not meet its minimum capital standards as prescribed by its federal regulator, it shall insure or pledge eligible collateral equal to one hundred percent (100%) of all public deposits.

At June 30, 2021, the carrying amounts of the Division's cash deposits were \$6,586,122 and the bank balances were \$6,548,314. Deposits are exposed to custodial credit risk if they are not covered by depository insurance, and the deposits are:

- a) Uncollateralized;
- b) Collateralized with securities held by the pledging financial institution; or
- c) Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

Of the bank balances, \$3,283,939 was covered by federal depository insurance as of June 30, 2021. The remaining amount of \$3,264,375 was uninsured but collateralized with securities held by the pledging bank's trust department or an agent not held in the Division's name as of June 30, 2021.

*Investments*

As of June 30, 2021, the Division's investments are contained in the Rhode Island CollegeBound Saver Plan fund. The Division does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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**June 30, 2021**

*Credit Risk*

The Division has no investment policy that would further restrict its investment choices beyond the limitations in Chapter 10 of Title 35 of the Rhode Island General Laws. As of June 30, 2021, the Division's investments were unrated.

*Custodial Credit Risk*

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Division will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Division's current approved board investment policy includes only low-risk securities.

*Fair Value Hierarchy*

The fair value hierarchy categorizes inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs are quoted market prices for identical assets or liabilities in active markets that a government can access at the measurement date. Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, directly or indirectly. Level 3 inputs are unobservable inputs. The highest priority is assigned to Level 1 inputs and the lowest to Level 3 inputs. If the fair value is measured using inputs from more than one level of the hierarchy, the measurement is considered to be based on the lowest priority input level that is significant to the entire measurement. Valuation techniques used should maximize the use of the observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for the assets. There have been no changes in the methodologies used at June 30, 2021.

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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## Notes to the Financial Statements - Continued

**June 30, 2021**

*Rhode Island CollegeBound Saver Plan:* All investments are with the Invesco Stable Value Portfolio Fund (the “Fund”). The Fund is offered through the Rhode Island CollegeBound Saver Plan and is valued at the daily closing net asset value price as reported by the Fund multiplied by the number of shares held. The Fund does not have any redemption restrictions or limitations. The Fund is not actively traded. The Fund invests 100% of its assets in investment contracts issued by insurance companies and banks, which are in turn backed by a diversified portfolio of high-quality bonds, including government securities, corporate bonds, mortgage-backed and asset-backed securities, and cash equivalents. Interest rate futures, options, and swaps may be used to manage yield curve or duration or other risk positions and must abide by the duration, credit quality, and other constraints in the portfolio’s investment guidelines. Each contract contains general obligations of the issuing company to pay account owner distributions at contract value, even if the market value of the assets in the portfolio is less than the contract value of those assets. The contract value is generally equal to the portfolio’s invested capital plus a rate of return related to the investment performance of the assets. The Fund is classified as Level 2 due to the underlying investments of its portfolio.

Note 3 - **Capital Assets, Net**

Capital assets consist of the following at June 30, 2021:

	Estimated lives (in years)	Beginning balance	Increases	Decreases	Ending balance
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Capital assets not depreciated:					
Land	-	\$ 194,096	\$ -	\$ -	\$ 194,096
Capital assets depreciated:					
Land improvements	15-25	135,740	-	-	135,740
Building and improvements	10-50	<u>2,291,087</u>	<u>-</u>	<u>-</u>	<u>2,291,087</u>
Total capital assets depreciated or amortized		<u>2,426,827</u>	<u>-</u>	<u>-</u>	<u>2,426,827</u>
Less accumulated depreciation:					
Land improvements		101,995	3,564	-	105,559
Building and improvements		<u>2,290,959</u>	<u>128</u>	<u>-</u>	<u>2,291,087</u>
Total accumulated depreciation		<u>2,392,954</u>	<u>3,692</u>	<u>-</u>	<u>2,396,646</u>
Total capital assets depreciated, net		<u>33,873</u>	<u>(3,692)</u>	<u>-</u>	<u>30,181</u>
Total capital assets, net		<u>\$ 227,969</u>	<u>\$ (3,692)</u>	<u>\$ -</u>	<u>\$ 224,277</u>



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**June 30, 2021**

Note 4 - **Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2021 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Compensated absences	\$ 29,384	\$ -	\$ (646)	\$ 28,738	\$ 8,622
Net pension liability	385,165	-	(107,979)	277,186	-
Net OPEB liability	<u>71,156</u>	<u>-</u>	<u>(35,994)</u>	<u>35,162</u>	<u>-</u>
	<u>\$ 485,705</u>	<u>\$ -</u>	<u>\$ (144,619)</u>	<u>\$ 341,086</u>	<u>\$ 8,622</u>

Note 5 - **Pension**

*Plan Description*

Certain employees of the Division participate in a cost-sharing, multiple-employer, defined benefit plan, the Employees' Retirement System Plan (the "ERS"), administered by the Employees' Retirement System of the State of Rhode Island (the "System"). Under a cost-sharing plan, pension obligations for employees of all employers are pooled and plan assets are available to pay the benefits of the employees of any participating employer providing pension benefits through the plan, regardless of the status of the employers' payment of its pension obligation to the plan. The plan provides retirement and disability benefits and death benefits to plan members and beneficiaries.

The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained at <http://www.ersri.org>.

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**Notes to the Financial Statements - Continued**

**June 30, 2021**

*Benefit Provisions*

The level of benefits provided to participants is established by Chapter 36-10 of the General Laws, which is subject to amendment by the General Assembly. Member benefit provisions vary based on service credits accumulated at dates specified in various amendments to the General Laws outlining minimum retirement age, benefit accrual rates and maximum benefit provisions. In general, members accumulate service credits for each year of service subject to maximum benefit accruals of 80% or 75%. For those hired after June 30, 2012, the benefit accrual rate is 1% per year with a maximum benefit accrual of 40%. Members eligible to retire at September 30, 2009 may retire with 10 years of service at age 60 or after 28 years of service at any age. The retirement eligibility age increases proportionately for other members reflecting years of service and other factors until it aligns with the Social Security Normal Retirement Age, which applies to any member with less than 5 years of service as of July 1, 2012. Members are vested after 5 years of service.

The plan provides for survivors' benefits for service-connected death and certain lump-sum death benefits. Joint and survivor benefit provision options are available to members.

Cost-of-living adjustments are provided but are currently suspended until the collective plans covering state employees and teachers reach a funded status of 80%. Until the plans reach an 80% funded status, interim cost of living adjustments are provided at four-year intervals.

The plan also provides nonservice-connected disability benefits after five years of service, and service-connected disability benefits with no minimum service requirement.

*Contributions*

The funding policy, as set forth in the General Laws, Section 36-10-2, provides for actuarially determined periodic contributions to the plan. For fiscal 2021, Division employees, with less than 20 years of service as of July 1, 2012, were required to contribute 3.75% of their annual covered salary. Employees with more than 20 years of service as of July 1, 2012 were required to contribute 11% of their annual covered salary. The Division is required to contribute at an actuarially determined rate; the rate was 27.54% of annual covered payroll for the fiscal year ended June 30, 2021. The Division contributed \$41,444, \$34,306, and \$32,103 for the fiscal years ended June 30, 2021, 2020 and 2019, respectively, equal to 100% of the required contributions for each year.

# RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE

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## Notes to the Financial Statements - Continued

**June 30, 2021**

*Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources*

At June 30, 2021, the Division reported a liability of \$277,186 for its proportionate share of the net pension liability related to its participation in ERS. The net pension liability was measured as of June 30, 2020, the measurement date, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 rolled forward to June 30, 2020. The Division's proportion of the net pension liability was based on its share of contributions to the ERS for fiscal year 2020 relative to the total contributions of all participating employers for that fiscal year. At June 30, 2020, the Division's proportion was 0.01%.

For the year ended June 30, 2021, the Division recognized pension income of \$503,910. At June 30, 2021, the Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Deferred Outflows of Resources related to Pension**

Difference between expected and actual experience	\$	2,383
Changes of assumptions		6,541
Net difference between projected and actual pension plan investment earnings		5,542
Contributions made subsequent to measurement date		<u>41,444</u>
		<u>\$ 55,910</u>

**Deferred Inflows of Resources related to Pension**

Difference between expected and actual experience	\$	191
Changes of assumptions		5,453
Changes in proportion and differences between employer contributions and proportionate share of contributions		<u>863,579</u>
		<u>\$ 869,223</u>

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**Notes to the Financial Statements - Continued**

**June 30, 2021**

Contributions of \$41,444 are reported as deferred outflows of resources related to pensions resulting from the Division's contributions in fiscal year 2021 subsequent to the measurement date and will be recognized as a reduction of the net pension liability determined in the subsequent period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as a reduction in pension expense as follows:

Year Ended <u>June 30,</u>	
2022	\$ (322,372)
2023	(261,424)
2024	(224,952)
2025	(42,423)
2026	<u>(3,586)</u>
	<u>\$ (854,757)</u>

Actuarial Assumptions

The total pension liability was determined 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
Amortization method	Level percent of payroll - closed
Inflation	2.50%
Salary increases	3.25% to 6.25%
Investment rate of return	7.00%

Mortality rates were variants of the PUB (10) Tables for Healthy and Disabled Retirees, projected with Scale Ultimate MP16.

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**Notes to the Financial Statements - Continued**

**June 30, 2021**

The actuarial assumptions used in the June 30, 2019 valuations rolled forward to June 30, 2020 and the calculation of the total pension liability at June 30, 2020 were consistent with the results of an actuarial experience study performed as of June 30, 2019.

The long-term expected rate of return best-estimate on pension 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 pension plan investment expense and inflation) for each major asset class, based on a collective summary of capital market expectations from 39 sources. 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.

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## Notes to the Financial Statements - Continued

**June 30, 2021**

The June 30, 2021 expected arithmetic returns over the long-term (20 years) by asset class are summarized in the following table:

Asset Class	Long-Term Target Asset Allocation	Long-Term Expected Real Rate of Return
<b>GROWTH</b>		
<b>Global Equity</b>		
U.S. Equity	23.00%	6.31%
International Developed Equity	12.10%	6.71%
Emerging Markets Equity	4.90%	8.69%
<i>Sub-total</i>	<b>40.00%</b>	
<b>Private Growth</b>		
Private Equity	11.25%	9.71%
Non-Core RE	2.25%	5.66%
Opportunistic Private Credit	1.50%	9.71%
<i>Sub-total</i>	<b>15.00%</b>	
<b>Income</b>		
High Yield Infrastructure	1.00%	3.88%
REITS	1.00%	5.66%
Equity Options	2.00%	6.04%
EMD (50/50 Blend)	2.00%	2.28%
Liquid Credit	2.80%	3.88%
Private Credit	3.20%	3.88%
<i>Sub-total</i>	<b>12.00%</b>	
<b>STABILITY</b>		
<b>Crisis Protection Class</b>		
Treasury Duration	5.00%	0.10%
Systematic Trend	5.00%	3.84%
<i>Sub-total</i>	<b>10.00%</b>	
<b>Inflation Protection</b>		
Core Real Estate	3.60%	5.66%
Private Infrastructure	2.40%	6.06%
TIPS	2.00%	0.74%
<i>Sub-total</i>	<b>8.00%</b>	
<b>Volatility Protection</b>		
IG Corp Credit	3.25%	1.54%
Securitized Credit	3.25%	1.54%
Absolute Return	6.50%	3.84%
Cash	2.00%	0.10%
<i>Sub-total</i>	<b>15.00%</b>	
<b>Total</b>	<b>100.00%</b>	

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**Notes to the Financial Statements - Continued**

**June 30, 2021**

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.

Discount Rate

The discount rate used to measure the total pension liability was 7.0 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 pension 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 pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability calculated using the discount rate of 7.0% as well as what the net pension 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.

1.00% Decrease	Current Discount Rate	1.00% Increase
6.00%	7.00%	8.00%
\$ 330,618	\$ 277,186	\$ 212,705

Pension Plan Fiduciary Net Position

As noted earlier, the ERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained at <http://www.ersri.org>. The report contains detailed information about the pension plan's fiduciary net position.

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**Notes to the Financial Statements - Continued**

**June 30, 2021**

Note 6 - **Other Post-Employment Benefits**

*Plan Description*

Certain employees of the Division participate in one of two OPEB plans: the State Employees' OPEB Cost-Sharing Plan ("SEP") and the Board of Education Cost-Sharing OPEB Plan ("BOEP"). The plans are cost-sharing, multiple-employer, defined benefit OPEB plans included within the Rhode Island State Employees' and Electing Teachers OPEB System (the "OPEB System").

Under a cost-sharing plan, OPEB obligations for employees of all employers are pooled and plan assets are available to pay the benefits of the employees of any participating employer providing OPEB benefits through the plan, regardless of the status of the employers' payment of its OPEB obligation to the plan. The Plans provide health care benefits to plan members.

The OPEB System is administered by the OPEB Board and was authorized, created, and established under Chapter 36-12.1 of the RI General Laws. The OPEB 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.

The OPEB System issues a separate publicly available financial report that includes financial statements and required supplementary information for the plans. The reports may be obtained at <http://www.oag.ri.gov/reports.html>.

*Membership and Benefit Provisions*

The plans within the OPEB System generally provide healthcare coverage to pre-Medicare eligible retirees and health reimbursement account contributions or Medicare supplement coverage for members who are Medicare eligible. Members may purchase coverage for spouses and dependents. Dental and vision coverage may be purchased by these groups with no state subsidy.

Members of the OPEB 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 OPEB System, and they may be amended in the future by action of the General Assembly.



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## Notes to the Financial Statements - Continued

June 30, 2021

### Contributions

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

The funding policy, as set forth in the RI General Laws and which may be amended at any time, provides for actuarially determined periodic contributions to the plan. The Division is required to contribute at an actuarially determined rate; the rate was 5.49% of annual covered payroll for the fiscal year ended June 30, 2021. The Division contributed \$5,097, \$4,911, and \$7,109 for the fiscal years ended June 30, 2021, 2020, and 2019, respectively, equal to 100% of the required contributions for each year.

Active employees do not make contributions to the plan. Retired member contributions consist of the required retiree share of coverage based on the time of retirement and years of service.

#### Board of Education OPEB Cost-Sharing Plan

The funding policy, as set forth in the General Laws and which may be amended at any time, provides for actuarially determined periodic contributions to the plans. The Division is required to contribute at an actuarially determined rate; the rate was 3.23% of covered payroll for the fiscal year ended June 30, 2021. The Division contributed \$0, \$0 and \$62 for the fiscal years ended June 30, 2021, 2020 and 2019, respectively, equal to 100% of the required contributions for each year. The Division had no contributions to the plan for the fiscal years ended June 30, 2021 and 2020, since no employees participated in the plan.

Active employees contribute 0.9% of payroll to the OPEB plan. Retired employees have varying co-pay percentages ranging from 0% to 50% based on age and years of service at retirement.

#### OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2021, the Division reported a liability of \$35,162 and \$0 for its proportionate share of the net OPEB liability related to its participation in the SEP and BOEP, respectively. The net OPEB liability was measured as of June 30, 2020, the measurement date, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019 for the Plans rolled forward to the June 30, 2020 measurement date.

The Division's proportion of the net OPEB liability was based on its share of contributions to the Plans for fiscal year 2020 relative to the total contributions of all participating employers for that fiscal year. At June 30, 2020, the Division's proportion was 0.01% and 0.00% for SEP and BOEP, respectively.

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## Notes to the Financial Statements - Continued

**June 30, 2021**

For the year ended June 30, 2021, the Division recognized OPEB income of \$40,601 and \$11,924 related to its participation in SEP and BOEP, respectively. At June 30, 2021, the Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	SEP	BOEP	Total
<b><u>Deferred Outflows of Resources</u></b>			
Changes of assumptions	\$ 1,606	\$ -	\$ 1,606
Changes in proportion and differences between employer contributions and proportionate share of contributions	206,494	-	206,494
Contributions subsequent to measurement date	5,097	-	5,097
Total	\$ 213,197	\$ -	\$ 213,197
<b><u>Deferred Inflows of Resources</u></b>			
Difference between expected and actual experience	\$ 7,151	\$ -	\$ 7,151
Changes of assumptions	2,127	-	2,127
Net difference between projected and actual investment earnings	1,501	-	1,501
Changes in proportion and differences between employer contributions and proportionate share of contributions	492,785	62,596	555,381
Total	\$ 503,564	\$ 62,596	\$ 566,160

Contributions of \$5,097 to SEP are reported as deferred outflows of resources related to OPEB expense resulting from the Division's contributions in fiscal year 2021 subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability in the subsequent period.

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**June 30, 2021**

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<b>Year Ended</b>			
<b>June 30:</b>	<b>SEP</b>	<b>BOEP</b>	<b>Total</b>
2022	\$ (44,156)	\$ (11,924)	\$ (56,080)
2023	(44,001)	(11,924)	(55,925)
2024	(43,888)	(11,924)	(55,812)
2025	(43,751)	(11,924)	(55,675)
2026	(75,318)	(11,104)	(86,422)
Thereafter	<u>(44,350)</u>	<u>(3,796)</u>	<u>(48,146)</u>
	<u>\$ (295,464)</u>	<u>\$ (62,596)</u>	<u>\$ (358,060)</u>

Actuarial Assumptions

The total OPEB liability was determined using the following significant actuarial assumptions:

Actuarial cost method	Entry age normal - the individual entry age actuarial cost methodology is used
Amortization method	Level percent of payroll - closed
Inflation	2.50%
Salary increases	3.00% to 6.00%
Investment rate of return	5.00%
Health care cost trend rate	8.25% in fiscal year 2020 decreasing annually to 3.5% in fiscal year 2033 and later

Mortality rates for male plan members were based on the RP-2014 Combined Healthy for Males with Blue Collar adjustments, projected with the MP-2016 ultimate rates. Mortality rates for female plan members were based on the RP-2014 Combined Healthy for Females, projected with the MP-2016 ultimate rates.

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**Notes to the Financial Statements - Continued**

**June 30, 2021**

The long-term expected rate of return best-estimate on the Plans' 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 39 nationally recognized investment consulting firms. The June 30, 2020 expected arithmetic returns over the long-term (20 years) by asset class are summarized in the following tables:

<b>Asset Class</b>	<b>Long-Term Target Asset Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic Equity	65.00%	6.31%
Fixed Income	35.00%	1.57%
	100.00%	

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.

Discount Rate

The discount rate used to measure the total OPEB liability was 5.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members, if any, 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 plans' 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 the plans' investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liabilities calculated using the discount rate of 5 percent as well as what the net OPEB liabilities would be if they were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

	<b>1% Decrease (4.0% Discount Rate)</b>	<b>(5.0% Discount Rate)</b>	<b>1% Increase (6.0% Discount Rate)</b>
<b>SEP</b>	\$ 43,421	\$ 35,162	\$ 28,321
<b>BOEP</b>	\$ -	\$ -	\$ -

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**Notes to the Financial Statements - Continued**

**June 30, 2021**

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following table presents the net OPEB liabilities calculated using the healthcare cost trend rate of 8.25 percent and gradually decreasing to an ultimate rate of 3.5 percent, as well as what the Division's net OPEB liabilities would be if they were calculated using a trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate.

	<b>1% Lower</b>	<b>Baseline</b>	<b>1% Higher</b>
<b>SEP</b>	\$ 26,749	\$ 35,162	\$ 45,720
<b>BOEP</b>	\$ -	\$ -	\$ -

OPEB Plan Fiduciary Net Position

The OPEB System issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The reports may be obtained at <http://www.oag.ri.gov/reports.html>. The reports contain detailed information about the Plans' fiduciary net position.

Note 7 - **Other Retirement Plan**

State of Rhode Island Employees Retirement System Defined Contribution

Plan Description

Certain employees participating in the defined-benefit plan (those with less than 20 years of service as of July 1, 2012), as described in Note 7, also participate in a defined contribution plan of the Employees' Retirement System as authorized by General Law Chapter 36-10.3. The defined contribution plan was established under IRS section 401(a) and is administered by TIAA-CREF. The Retirement Board is the plan administrator and plan trustee. The employees may choose among various investment options available to plan participants. The State Investment Commission is responsible for implementing the investment policy of the plan and selecting the investment options available to members.

Plan Contributions

Certain employees (those with less than 20 years of service as of July 1, 2012) contribute 5% of their annual covered salary and employers contribute at the following percentages of annual covered salary for these employees based on their years of service as of July 1, 2012:

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**Notes to the Financial Statements - Continued**

**June 30, 2021**

<u>Years of Service As of July 1, 2012</u>	<u>Employer Contribution Rate</u>
15 - 20 Years	1.50%
10 - 15 Years	1.25%
0 - 10 Years	1.00%

Employee contributions are immediately vested while employer contributions are vested after three years of contributory service. Contributions required under the plan by both the employee and employer are established by the General Laws of the State of Rhode Island, which are subject to amendment by the General Assembly.

The Division had no employees participating in the plan.

Plan Vesting and Contribution Forfeiture Provisions

The total amount contributed by the member, including associated investment gains and losses, shall immediately vest in the member's account and is non-forfeitable. The total amount contributed by the employer, including associated investment gains and losses, vests with the member and is non-forfeitable upon completion of three (3) years of contributory service. Non-vested employer contributions are forfeited upon termination of employment. Such forfeitures can be used by employers to offset future remittances to the plan.

Retirement Benefits

Benefits may be paid to a member after severance from employment, death, plan termination, or upon a deemed severance from employment for participants performing qualified military service. At a minimum, retirement benefits must begin no later than April 1 of the calendar year following the year in which the member attains age 70½ or terminates employment, if later.

The System issues a publicly available financial report that includes financial statements and required supplementary information for plans administered by the system. The report may be obtained at <https://www.ersri.gov>.

Note 8 - Statement of Revenues, Expenses and Changes in Net Position

Salaries and employee benefits is net of pension and OPEB adjustment of \$556,435. This adjustment was caused by the decreased participation in the pension and OPEB plans, and amortization of deferred outflows related to pension and OPEB.

**RHODE ISLAND DIVISION OF HIGHER  
EDUCATION ASSISTANCE**  
(a Component Unit of the State of Rhode Island)

**Notes to the Financial Statements - Continued**

**June 30, 2021**

Note 9 - **Related Party**

The Division receives a quarterly transfer of funds from the State of Rhode Island for scholarships. Due from primary government represents fiscal year's 2021 last quarter transfer that was not received until fiscal year 2022.

Note 10 - **Risk Management**

The Division is exposed to various risks of loss related to torts, errors and omissions, property casualty and liability, and workers' compensation claims for which the Division carries commercial insurance or participates in State programs and coverage. Management believes the Division has sufficient net position for potential claims, if any, that are subject to deductibles or are in excess of stated coverage maximums. The Division is not aware of any potential material claims. Claims settled in the past three years have not exceeded the Division's coverage, and there have been no significant reductions in insurance coverage.

Note 11 - **Uncertainty**

The COVID-19 crisis has created volatility in the financial markets and a significant decrease in the overall economy. The full adverse impact and duration of COVID-19 on the Division's finances and operations cannot be determined.

**REQUIRED SUPPLEMENTARY  
INFORMATION**



**RHODE ISLAND DIVISION OF HIGHER  
EDUCATION ASSISTANCE**  
(a Component Unit of the State of Rhode Island)

**Schedule of the Division's Proportionate Share of the Net Pension Liability (Unaudited)**

**Employees Retirement System**

Year ended	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016
Measurement date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Division's proportionate share of the net pension liability	0.01%	0.02%	0.07%	0.07%	0.09%	0.15%
Division's proportion of the net pension liability	\$ 277,186	\$ 385,165	\$ 1,495,213	\$ 1,647,676	\$ 1,966,284	\$ 2,953,800
Division's covered payroll (at measurement date)	\$ 129,996	\$ 122,158	\$ 463,257	\$ 506,535	\$ 623,651	\$ 1,323,817
Division's proportionate share of the net pension liability as a percentage of its covered payroll	213.2%	315.3%	322.8%	325.3%	315.3%	223.1%
Plan fiduciary net position as a percentage of the total pension liability	52.6%	52.8%	52.5%	51.8%	51.9%	55.0%

Notes:

- 1.) The amounts presented for each fiscal year were determined as of June 30 measurement date prior to the fiscal year-end.
- 2.) This schedule is intended to show information for 10 years - additional years will be displayed as they become available.

*See accompanying notes to the required supplemental information.*

**RHODE ISLAND DIVISION OF HIGHER  
EDUCATION ASSISTANCE**  
(a Component Unit of the State of Rhode Island)

**Schedule of Division's Pension Contributions (Unaudited)**

**Employees' Retirement System**

**For the Years Ended June 30,**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Statutorily required contribution	\$ 41,444	\$ 34,306	\$ 32,103	\$ 115,212	\$ 128,356	\$ 147,431
Contributions in relation to the statutorily required contribution	<u>(41,444)</u>	<u>(34,306)</u>	<u>(32,103)</u>	<u>(115,212)</u>	<u>(128,356)</u>	<u>(147,431)</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Division's covered payroll	<u>\$ 150,487</u>	<u>\$ 129,996</u>	<u>\$ 122,158</u>	<u>\$ 463,257</u>	<u>\$ 506,535</u>	<u>\$ 623,651</u>
Contribution as a percentage of covered payroll	27.54%	26.39%	26.28%	24.87%	25.34%	23.64%

- Notes:
- 1.) Employers participating in the State's Employee's Retirement System are required by RI General Laws, Section 36-10-2, to contribute an actually determined contribution rate each year.
  - 2.) This schedule is intended to show information for 10 years - additional years will be displayed as they become available.

*See accompanying notes to the required supplemental information.*

**RHODE ISLAND DIVISION OF HIGHER  
EDUCATION ASSISTANCE**  
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**Notes to the Pension Required Supplementary Information (Unaudited)**

**Pension Schedules**

Note 1 - **Factors Affecting Trends for Amounts Related to the Net Pension Liability**

*Measurement Date - June 30, 2020*

As part of the 2020 Actuarial Experience Study for the six-year period ending June 30, 2019 as approved by the System Board on May 22, 2020, certain assumptions were modified and reflected in the determination of net pension liability (asset) at the June 30, 2020 measurement date. The following summarizes the more significant changes in assumptions:

- Updated the underlying mortality tables from the RP-2014 set of tables to the public sector-based PUB (10) tables.
- Increased slightly the probabilities of turnover.
- Decreased slightly the probabilities of retirement.
- Modified slightly the probabilities of disability, including adding material incidence of disability for members in the age ranges that historically have been eligible to retire but under prospective provisions are not.

*Measurement Date - June 30, 2019*

There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability as of the June 30, 2019 measurement date compared to the June 30, 2018 measurement date. Benefits were also unchanged between these measurement dates.

*Measurement Date - June 30, 2018*

There were no changes in benefits reflected in the calculation of the net pension liability as of the June 30, 2018 measurement date compared to the June 30, 2017 measurement date. Benefits were also unchanged between these measurement dates.

*Measurement Date - June 30, 2017*

There were no changes in actuarial methods or assumptions or benefits reflected in the calculation of the net pension liability as of the June 30, 2017 measurement date compared to the June 30, 2016 measurement date. Benefits were also unchanged between these measurement dates.

*Measurement Date - June 30, 2016*

There were no changes in actuarial methods or assumptions or benefits reflected in the calculation of the net pension liability as of the June 30, 2016 measurement date compared to the June 30, 2015 measurement date. Benefits were also unchanged between these measurement dates.

**RHODE ISLAND DIVISION OF HIGHER  
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**Notes to the Pension Required Supplementary Information (Unaudited) - Continued**

**Pension Schedules**

Measurement Date - June 30, 2015

There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability as of the June 30, 2015 measurement date compared to the June 30, 2014 measurement date.

Benefit changes, which resulted from the settlement of the pension litigation and the subsequent enactment of those settlement provisions by the General Assembly, are reflected in the calculation of the net pension liability at the June 30, 2015 measurement date.

Significant benefit changes are summarized below:

- Employees with more than 20 years of service at July 1, 2012 will increase their employee contribution rates to 11% for state employees and participate solely in the defined benefit plan effective July 1, 2015 – service credit accruals will increase from 1% to 2% per year.
- Members are eligible to retire upon the attainment of: age 65 with 30 years of service, 64 with 31 years of service, 63 with 32 years of service or 62 with 33 years of service. Members may retire earlier if their RI Retirement Security Act date is earlier or are eligible under a transition rule.
- The COLA formula was adjusted to 50% of the COLA is calculated by taking the previous 5-year average investment return, less the discount rate (5 year return – 7.5%, with a max of 4%) and 50% calculated using the previous year's CPI-U (max of 3%) for a total max COLA of 3.5%. The COLA is calculated on the first \$25,855, effective, 01/01/2016, and indexed as of that date as well.
- Other changes included providing interim cost of living increases at four rather than five year intervals, providing a one-time cost of living adjustment of 2% (applied to first \$25,000), two \$500 stipends, and minor adjustments.

**RHODE ISLAND DIVISION OF HIGHER  
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**Schedule of the Division's Proportionate Share of the Net OPEB Liability (Unaudited)**

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

Year ended	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Measurement date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
Division's proportionate share of the net OPEB liability	0.01%	0.02%	0.14%	0.07%
Division's proportion of the net OPEB liability	\$ 35,162	\$ 70,746	\$ 708,615	\$ 374,790
Division's covered payroll	\$ 73,850	\$ 118,880	\$ 983,311	\$ 516,453
Division's proportionate share of the net OPEB liability as a percentage of its covered payroll	47.61%	59.51%	72.06%	72.57%
Plan fiduciary net position as a percentage of the total OPEB liability	42.51%	33.57%	26.25%	22.40%

**Board of Education's OPEB Cost-Sharing Plan**

Year ended	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Measurement date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
Division's proportionate share of the net OPEB liability	0.00%	0.00%	0.15%	0.17%
Division's proportion of the net OPEB liability	\$ -	\$ 410	\$ 77,191	\$ 86,786
Division's covered payroll	\$ -	\$ 1,422	\$ 192,271	\$ 207,414
Division's proportionate share of the net OPEB liability as a percentage of its covered payroll	0.00%	28.83%	40.15%	41.84%
Plan fiduciary net position as a percentage of the total OPEB liability	57.32%	51.60%	38.59%	32.10%

- Notes:
- 1.) The amounts presented for each fiscal year were determined as of June 30 measurement date prior to the fiscal year-end.
  - 2.) This schedule is intended to show information for 10 years - additional years will be displayed as they become available.

*See accompanying notes to the required supplementary information.*

**RHODE ISLAND DIVISION OF HIGHER  
EDUCATION ASSISTANCE**  
(a Component Unit of the State of Rhode Island)

**Schedule of Division's OPEB Contributions (Unaudited)**

**For the Years Ended June 30,**

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required contribution	\$ 5,097	\$ 4,911	\$ 7,109	\$ 58,802
Contributions in relation to the statutorily required contribution	<u>(5,097)</u>	<u>(4,911)</u>	<u>(7,109)</u>	<u>(58,802)</u>
Contribution deficiency (excess)	-	-	-	-
Division's covered payroll	<u>\$ 92,842</u>	<u>\$ 73,850</u>	<u>\$ 118,880</u>	<u>\$ 983,311</u>
Contribution as a percentage of covered payroll	5.49%	6.65%	5.98%	5.98%

**Board of Education OPEB Cost-Sharing Plan**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required contribution	\$ -	\$ -	\$ 62	\$ 8,383
Contributions in relation to the statutorily required contribution	-	-	<u>(62)</u>	<u>(8,383)</u>
Contribution deficiency (excess)	-	-	-	-
Division's covered payroll	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,422</u>	<u>\$ 192,271</u>
Contribution as a percentage of covered payroll	3.23%	4.08%	4.36%	4.36%

Notes:

1.) Employers participating in the State Employees' Retirement System are required by RI General Laws, Section 36-10-2, to contribute an actuarially determined contribution rate each year.

2.) This schedule is intended to show information for 10 years - additional years will be displayed as they become available.

See accompanying notes to the required supplementary information.

**RHODE ISLAND DIVISION OF HIGHER  
EDUCATION ASSISTANCE**  
(a Component Unit of the State of Rhode Island)

**Notes to the OPEB Required Supplementary Information (Unaudited)**

**OPEB Schedules**

Note 1 - **Factors Affecting Trends for Amounts Related to the Net OPEB Liability**

The actuarial methods and assumptions used to calculate the net OPEB liability are described in Note 6 to the financial statements. The following information is presented about factors that significantly affect trends in the amounts reported between years.

*Measurement Date - June 30, 2020*

The “Cadillac tax”, which was a tax provision from the federal Affordable Care Act (ACA), was repealed in December 2019. As a result, liability amounts previously included for the “Cadillac tax” within the development of the total OPEB liability has been removed as of the June 30, 2020 measurement date.

*Measurement Date - June 30, 2019*

The June 30, 2018 actuarial valuation rolled forward to the June 30, 2019 measurement date reflected a change in Excise Tax load on pre-65 liabilities from 11.0% to 9.5%.

*Measurement Date - June 30, 2018*

There were no changes in actuarial methods and assumptions reflected in the calculation of the net OPEB liability as of the June 30, 2018 measurement date compared to the June 30, 2017 measurement date.

*Measurement Date - June 30, 2017*

Certain actuarial assumptions for the State Employees' OPEB Cost-Sharing Plan (SEP) and the Board of Education Cost-Sharing OPEB Plan (BOEP) (collectively referred to as the Plans) were updated to match the assumptions used for State Employees in the pension valuation for the Employees' Retirement System of Rhode Island (ERSRI) and the results of an actuarial experience investigation performed for ERSRI at June 30, 2016. Changes were made to the following assumptions:

- Merit and longevity portion of the salary increase assumption
- Rates of separation from active membership
- Rates of retirement
- Rates of disability
- The rate of wage inflation
- The mortality assumption
- The trend assumption
- Aging factors and health and inflation trends

**RHODE ISLAND DIVISION OF HIGHER  
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**Notes to the OPEB Required Supplementary Information (Unaudited) - Continued**

**OPEB Schedules**

The excise tax load on pre-65 liabilities was changed from 13.8% to 11.0%. The Patient Protection and Affordable Care Act includes an excise tax on high cost health plans beginning in 2022. The excise tax is 40% of costs above a threshold. The actual actuarial assumptions used in the most recent valuations assume that the Plans will be subject to the excise tax in 2022.

Note 2 - **Actuarially Determined Contributions**

The annual required contributions for fiscal year 2021 were determined based on the June 30, 2019 valuation of the Plans.



**Independent Auditors' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***



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

The Board of Education of  
State of Rhode Island  
Providence, Rhode Island

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Rhode Island Division of Higher Education Assistance (the Division), which comprise the statement of net position as of the year ended June 30, 2021, the related statement of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements, and we have issued our report thereon dated September 30, 2021.

### **Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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



**Certified Public Accountants  
Braintree, Massachusetts**

September 30, 2021