

**RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2022



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**RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
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INDEPENDENT AUDITORS' REPORT

The Board of Education of the State of Rhode Island
Rhode Island Division of Higher Education Assistance
Providence, Rhode Island

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of the Rhode Island Division of Higher Education Assistance (RIDHEA), a component unit of the State of Rhode Island, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Rhode Island Division of Higher Education Assistance's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the RIDHEA, as of June 30, 2022, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the RIDHEA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter – Correction of Error

As discussed in Note 12 to the financial statements, RIDHEA restated beginning net position as of July 1, 2021 to properly remove capital assets transferred to another government. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the RIDHEA's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 RIDHEA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about RIDHEA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

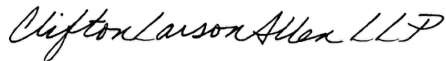
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the RIDHEA's proportionate share of the net pension liability and net OPEB liability, the schedule of RIDHEA's pension contributions and OPEB contributions, and the notes to the required supplementary information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise RIDHEA's basic financial statements. The accompanying state required schedule of net position, schedule of expenses, revenues and changes in net position, schedule of maturities of long-term debt and schedule of changes in long-term debt (together the "State Required Schedules") are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the State Required Schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2022, on our consideration of the RIDHEA'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 solely 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 effectiveness of RIDHEA's 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 RIDHEA's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Cranston, Rhode Island
September 28, 2022

**RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
MANAGEMENTS' DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022
(UNAUDITED)**

The Rhode Island Division of Higher Education Assistance (A Component Unit of the State of Rhode Island) (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, 2022. 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.

The Rhode Island fiscal year 2016 budget created 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.

**RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
MANAGEMENTS' DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2022
(UNAUDITED)**

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 24. There will still be an annual revenue stream from the College Bound Fund Program of approximately \$5.0 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.

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 Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, regarding pension for fiscal year 2015. Certain employees of the Division participate in a cost-sharing, multiemployer, 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.

**RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
MANAGEMENTS' DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2022
(UNAUDITED)**

The Division implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, 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 June 30, 2022, the pension and OPEB adjustments for the Division was a reduction of \$394,199.

FINANCIAL HIGHLIGHTS AND COMPARATIVE ANALYSIS

The tables in each section below reflect financial data.

NET POSITION

	<u>2022</u>	<u>2021*</u>
Current Assets	\$ 12,142,000	\$ 9,627,000
Noncurrent Assets	-	224,000
Total Assets	<u>12,142,000</u>	<u>9,851,000</u>
Deferred Outflows of Resources	<u>225,000</u>	<u>269,000</u>
Total Assets and Deferred Outflows of Resources	<u>12,367,000</u>	<u>10,120,000</u>
Current Liabilities	95,000	13,000
Noncurrent Liabilities	<u>274,000</u>	<u>332,000</u>
Total Liabilities	<u>369,000</u>	<u>345,000</u>
Deferred Inflows of Resources	<u>1,058,000</u>	<u>1,436,000</u>
Total Liabilities and Deferred Inflows of Resources	<u>1,427,000</u>	<u>1,781,000</u>
Net Position:		
Net Investment in Capital Assets	-	224,000
Restricted - Expendable	<u>10,940,000</u>	<u>8,115,000</u>
Total Net Position	<u>\$ 10,940,000</u>	<u>\$ 8,339,000</u>

*Balances were restated, see note 12.

The net position at June 30, 2022 and 2021, consists of \$10.9 million and \$8.3 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 \$222,000 as of June 30, 2022, and net pension liability of approximately \$277,000 as of June 30, 2021.

**RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
MANAGEMENTS' DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2022
(UNAUDITED)**

OPERATING FUND REVENUES, EXPENSES, AND TRANSFERS

	<u>2022</u>	<u>2021*</u>
Operating Expenses	\$ 2,097,000	\$ 11,394,000
Operating Loss	(2,097,000)	(11,394,000)
Nonoperating Revenue	<u>15,000</u>	<u>48,000</u>
Change in Net Position before Transfer	(2,082,000)	(11,346,000)
Transfer in from Primary Government	<u>4,907,000</u>	<u>5,579,000</u>
Change in Net Position	2,825,000	(5,767,000)
Net Position, Beginning of Year, as Restated	<u>8,115,000</u>	<u>14,106,000</u>
Net Position, End of Year	<u><u>\$ 10,940,000</u></u>	<u><u>\$ 8,339,000</u></u>

*Balances were restated, see note 12.

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

	<u>2022</u>	<u>2021</u>
Restricted Cash and Cash Equivalents	\$ 10,975,000	\$ 6,586,000
Restricted Cash and Cash Equivalents Provided (Used) by:		
Operating Activities	(2,407,000)	(11,979,000)
Noncapital Financing Activities	6,787,000	5,413,000
Investing Activities	<u>9,000</u>	<u>41,000</u>
Net Decrease in Restricted Cash and Cash Equivalents	<u><u>\$ 4,389,000</u></u>	<u><u>\$ (6,525,000)</u></u>

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 Boulevard, Warwick, Rhode Island 02886.

RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
STATEMENT OF NET POSITION
JUNE 30, 2022

ASSETS

Current Assets:

Restricted Cash and Equivalents	\$ 10,974,531
Investments	421,160
Due from Primary Government	742,257
Prepaid Expenses	4,297
Total Current Assets	<u>12,142,245</u>
Total Assets	<u>12,142,245</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows of Resources Related to Pension	46,089
Deferred Outflows of Resources Related to OPEB	178,977
Total Deferred Outflows of Resources	<u>225,066</u>

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities	85,015
Compensated Absences	9,815
Total Current Liabilities	<u>94,830</u>

Noncurrent Liabilities:

Compensated Absences, Less Current Portion	22,901
Net Pension Liability	222,269
Net OPEB Liability	28,819
Total Noncurrent Liabilities	<u>273,989</u>
Total Liabilities	<u>368,819</u>

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows of Resources Related to Pension	581,610
Deferred Inflows of Resources Related to OPEB	476,793
Total Deferred Inflows of Resources	<u>1,058,403</u>

NET POSITION

Restricted - Expendable	<u>10,940,089</u>
Total Net Position	<u><u>\$ 10,940,089</u></u>

See accompanying Notes to Financial Statements.

**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
YEAR ENDED JUNE 30, 2022**

OPERATING EXPENSES

Student Financial Assistance	\$ 2,212,214
Professional Services	26,124
Salaries and Employee Benefits, Net of Pension and OPEB Adjustment of \$(394,199)	(144,359)
Office and Other	3,339
Total Operating Expenses	<u>2,097,318</u>

OPERATING LOSS

(2,097,318)

NONOPERATING REVENUE

Investment Income	<u>15,816</u>
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CHANGE IN NET POSITION BEFORE TRANSFER

(2,081,502)

TRANSFER

Transfer in from Primary Government	<u>4,906,783</u>
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CHANGE IN NET POSITION

2,825,281

Net Position - Beginning of Year, restated

8,114,808

NET POSITION - END OF YEAR

\$ 10,940,089

See accompanying Notes to Financial Statements.

**RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2022**

CASH FLOWS FROM OPERATING ACTIVITIES

Salaries and Benefits	\$ (165,606)
Supplies, Materials, and Services	(29,463)
Student Financial Assistance	<u>(2,212,214)</u>
Net Cash Used by Operating Activities	(2,407,283)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfer in from Primary Government	6,786,645
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CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of Investments	(6,769)
Investment Income	<u>15,816</u>
Net Cash Provided by Investing Activities	<u>9,047</u>

NET INCREASE IN RESTRICTED CASH AND CASH EQUIVALENTS

4,388,409

Restricted Cash and Cash Equivalents - Beginning of Year

6,586,122

RESTRICTED CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 10,974,531

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:

Operating Loss	\$ (2,097,318)
Changes in Assets and Liabilities:	
Increase (Decrease) Accounts Payable and Accrued Expenses	80,258
Increase (Decrease) Compensated Absences	3,976
Increase (Decrease) in net pension liability	(54,917)
Increase (Decrease) in net OPEB liability	(6,343)
(Increase) Decrease in pension related deferred outflows of resources	9,821
(Increase) Decrease in OPEB related deferred outflows of resources	34,220
Increase (Decrease) in pension related deferred inflows of resources	(287,613)
Increase (Decrease) in OPEB related deferred inflows of resources	<u>(89,367)</u>
Net Cash Used by Operating Activities	<u><u>\$ (2,407,283)</u></u>

See accompanying Notes to Financial Statements.

**RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Rhode Island Division of Higher Education Assistance (A Component Unit of the State of Rhode Island) (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 continue to 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.

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.

**RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Nonoperating 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 the GASB.

Net Position

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

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.

Investments

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

**RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. The Division has no capital assets as of June 30, 2022.

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.

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.

**RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows of Resources

Consumption of net position by the Agency that is applicable to a future fiscal year is reported as a deferred outflow of resources on the Statement of Net Position. As of June 30, 2022, the Agency had deferred outflows of resources related to pensions of \$46,089. As of June 30, 2022, the Agency had deferred outflows of resources related to OPEB of \$178,977.

Deferred Inflows of Resources –

Acquisition of net position by the Agency that is applicable to a future fiscal year is reported as a deferred inflow of resources on the Statement of Net Position. As of June 30, 2022, the Agency had deferred inflows related to pensions of \$581,610. As of June 30, 2022, the Agency had deferred inflows related to OPEB of \$476,793.

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 biweekly basis. Amounts paid by the Division for the 2022 health premiums amounted to approximately \$19,752. Employee contributions for 2022 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 biweekly payrolls of all State agencies. The fringe benefit assessment rate was 3.95%. The assessed fringe benefit cost for the year ended June 30, 2022, was approximately \$5,888.

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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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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 fair value of investments, compensated absences, and determining the net pension liability and net OPEB liability.

NOTE 2 RESTRICTED CASH AND CASH 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, 2022, the carrying amounts of the Division's cash deposits were \$10,974,531 and the bank balances were \$10,791,593. Deposits are exposed to custodial credit risk if they are not covered by depository insurance, and the deposits are:

- Uncollateralized;
- Collateralized with securities held by the pledging financial institution; or
- 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, \$3,109,561 was covered by federal depository insurance as of June 30, 2022. The remaining amount of \$7,682,032 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, 2022.

Investments

As of June 30, 2022, 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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NOTE 2 RESTRICTED CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

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, 2022, 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, 2022.

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.

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NOTE 3 LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2022, is as follows:

	Balance - Beginning of Year	Increase	Decrease	Balance - End of Year	Due Within One Year
Compensated Absences	\$ 28,738	\$ 3,978	\$ -	\$ 32,716	\$ 9,815
Net Pension Liability	277,186	-	54,917	222,269	-
Net OPEB Liability	35,162	-	6,343	28,819	-
Total	<u>\$ 341,086</u>	<u>\$ 3,978</u>	<u>\$ 61,260</u>	<u>\$ 283,804</u>	<u>\$ 9,815</u>

NOTE 4 PENSION

Plan Description

Certain employees of the Division participate in a cost-sharing, multiemployer, 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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NOTE 4 PENSION (CONTINUED)

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 five years of service as of July 1, 2012. Members are vested after five 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 year 2022, 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 28.01% of annual covered payroll for the fiscal year ended June 30, 2022. The Division contributed \$38,070, \$41,444, and \$34,306 for the fiscal years ended June 30, 2022, 2021, and 2020, respectively, equal to 100% of the required contributions for each year.

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NOTE 4 PENSION (CONTINUED)

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

At June 30, 2022, the Division reported a liability of \$222,269 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, 2021, 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, 2020, rolled forward to June 30, 2021 measurement date. The Division's proportion of the net pension liability was based on its share of contributions to the ERS for fiscal year 2021 relative to the total contributions of all participating employers for that fiscal year. At June 30, 2021 and 2020, the Division's proportion was 0.01%.

For the year ended June 30, 2022, the Division recognized pension expense credit of \$310,580. At June 30, 2022, 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	\$ 1,539
Changes of Assumptions	1,024
Changes in Proportion and Differences between Employer Contribution and Proportionate Share of Contributions	5,456
Contributions Made Subsequent to Measurement Date	38,070
Total	<u>\$ 46,089</u>

Deferred Inflows of Resources Related to Pension:

Difference between Expected and Actual Experience	\$ 167
Changes of Assumptions	4,250
Net Difference between Projected and Actual Pension Plan Investment Earnings	40,437
Changes in Proportion and Differences between Employer Contribution and Proportionate Share of Contributions	536,756
Total	<u>\$ 581,610</u>

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NOTES TO FINANCIAL STATEMENTS
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NOTE 4 PENSION (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

Contributions of \$38,070 are reported as deferred outflows of resources related to pensions resulting from the Division's contributions in fiscal year 2022 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:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ (271,743)
2024	(235,291)
2025	(52,779)
2026	(13,968)
2027	190
Total	<u>\$ (573,591)</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.

The actuarial assumptions used in the June 30, 2020, valuations rolled forward to June 30, 2021, and the calculation of the total pension liability at June 30, 2021, 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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NOTE 4 PENSION (CONTINUED)

Actuarial Assumptions (Continued)

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 Expected Arithmetic Real Rate of Return	Long-Term Target Asset Allocation
Growth:		
Global Equity:		
U.S. Equity	5.83 %	23.20 %
International Developed Equity	6.35	11.80
Emerging Markets Equity	8.04	5.00
Subtotal		17.03
Private Growth:		
Private Equity	9.47	11.25
Non-Core Real Estate	5.32	2.25
Opportunistic Private Credit	9.47	1.50
Subtotal		15.00
Income:		
High Yield Infrastructure	3.19	1.00
REITs	5.32	1.00
Equity Options	5.59	2.00
EMD (50/50 Blend)	1.96	2.00
Liquid Credit	3.19	2.80
Private Credit	3.19	3.20
Subtotal		12.00
Stability:		
Crisis Protection Class:		
Treasury Duration	(0.32)	5.00
Systematic Trend	3.39	5.00
Subtotal		10.00
Inflation Protection:		
Core Real Estate	5.32	3.60
Private Infrastructure	5.81	2.40
TIPs	0.30	2.00
Subtotal		8.00
Volatility Protection:		
IG Corp Credit	1.14	3.25
Securitized Credit	1.14	3.25
Absolute Return	3.39	6.50
Cash	(0.32)	2.00
Subtotal		15.00
Total		100.00 %

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NOTE 4 PENSION (CONTINUED)

Actuarial Assumptions (Continued)

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%. 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% lower or 1% higher than the current rate.

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Net Pension Liability	<u>\$ 275,593</u>	<u>\$ 222,269</u>	<u>\$ 154,214</u>

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.

NOTE 5 OTHER POSTEMPLOYMENT 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, multiemployer, defined benefit OPEB plans included within the Rhode Island State Employees' and Electing Teachers OPEB System (the OPEB System).

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NOTE 5 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Plan Description (Continued)

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 Rhode Island General Laws (RIGL). 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 RIGL 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.

Contributions

State Employees' OPEB Cost-Sharing Plan

The funding policy, as set forth in the RIGL 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 5.28% of annual covered payroll for the fiscal year ended June 30, 2022. The Division contributed \$8,149, \$5,097, and \$4,911 for the fiscal years ended June 30, 2022, 2021, and 2020, 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.

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NOTE 5 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Contributions (Continued)

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 3.50% of covered payroll for the fiscal year ended June 30, 2022. The Division had no contributions to the plan for the fiscal years ended June 30, 2022 and 2021, 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, 2022, the Division reported a liability of \$28,819 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, 2021, 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, 2020, for the Plans rolled forward to the June 30, 2021, measurement date.

The Division's proportion of the net OPEB liability was based on its share of contributions to the Plans for fiscal year 2021 relative to the total contributions of all participating employers for that fiscal year. At June 30, 2021, the Division's proportion was 0.01% and 0.00% for SEP and BOEP, respectively.

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NOTE 5 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

For the year ended June 30, 2022, the Division recognized OPEB expense credit of \$41,416 and \$11,924 related to its participation in SEP and BOEP, respectively. At June 30, 2022, the Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>SEP</u>	<u>BOEP</u>	<u>Total</u>
Deferred Outflows of Resources:			
Changes of Assumptions	\$ 1,439	\$ -	\$ 1,439
Changes in Proportion and Differences between Employer Contribution and Proportionate Share of Contributions	169,389	-	169,389
Contributions Made Subsequent to Measurement Date	8,149	-	8,149
Total	<u>\$ 178,977</u>	<u>\$ -</u>	<u>\$ 178,977</u>
Deferred Inflows of Resources:			
Difference between Expected and Actual Experience	\$ 10,849	\$ -	\$ 10,849
Changes of Assumptions	5,662	-	5,662
Net Difference between Projected and Actual Pension Plan Investment Earnings	6,775	-	6,775
Changes in Proportion and Differences between Employer Contribution and Proportionate Share of Contributions	402,836	50,671	453,507
Total	<u>\$ 426,122</u>	<u>\$ 50,671</u>	<u>\$ 476,793</u>

Contributions of \$8,149 to SEP are reported as deferred outflows of resources related to OPEB expense resulting from the Division's contributions in fiscal year 2022 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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NOTE 5 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

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

<u>Year Ending June 30,</u>	<u>SEP</u>	<u>BOEP</u>	<u>Total</u>
2023	\$ (45,295)	\$ (11,924)	\$ (57,219)
2024	(45,151)	(11,924)	(57,075)
2025	(44,977)	(11,924)	(56,901)
2026	(76,501)	(11,104)	(87,605)
2027	(41,486)	(3,770)	(45,256)
Thereafter	(1,884)	(25)	(1,909)
Total	<u>\$ (255,294)</u>	<u>\$ (50,671)</u>	<u>\$ (305,965)</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
Amortization Method	Level Percent of Payroll - Closed
Inflation	2.75%
Salary Increases	3.25% to 6.25%
Investment Rate of Return	5.00%
Health Care Cost Trend Rate	7.50% in Fiscal Year 2021 Decreasing Annually to 3.50% in Fiscal Year 2033 and Later

Mortality rates for male plan members were based on the PUB-10 Median Table for General Healthy Retiree Males, loaded by 115% with Scale Ultimate MP16. Mortality rates for female plan members were based on the PUB-10 Median Table for General Healthy Retiree Females, loaded by 111%, projected with Scale Ultimate MP16.

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NOTE 5 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial Assumptions (Continued)

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

Asset Class	Long-Term Expected Arithmetic Real Rate of Return	Long-Term Target Asset Allocation
Domestic Equity	5.72 %	65.00 %
Fixed Income	1.73	35.00
Total		<u>100.00 %</u>

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% as well as what the net OPEB liabilities would be if they were calculated using a discount rate that is 1% lower or 1% higher than the current rate.

	1.00% Decrease (4.00%)	Current Discount Rate (5.00%)	1.00% Increase (6.00%)
SEP	\$ 38,373	\$ 28,819	\$ 20,837
BOEP	-	-	-

**RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 5 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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 7.50% and gradually decreasing to an ultimate rate of 3.50%, as well as what the Division's net OPEB liabilities would be if they were calculated using a trend rate that is 1% or 1% higher than the current rate.

	1.00% Decrease	Baseline	1.00% Increase
SEP	\$ 18,206	\$ 28,819	\$ 42,117
BOEP	-	-	-

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 6 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 5, 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.

**RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 6 OTHER RETIREMENT PLAN (CONTINUED)

**State of Rhode Island Employees Retirement System Defined Contribution
(Continued)**

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:

Years of Service as of July 1, 2012	Employer Contribution Rate
15 to 20 Years	1.50 %
10 to 15 Years	1.25
0 to 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 one employee 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>.

**RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 7 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Salaries and employee benefits is net of pension and OPEB adjustment of \$394,199. This adjustment was caused by the decreased participation in the pension and OPEB plans, and amortization of deferred outflows related to pension and OPEB.

NOTE 8 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 2022's May and June monthly transfer that was not received until fiscal year 2023.

NOTE 9 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 10 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.

NOTE 11 RESTATEMENT

During the year ended June 30, 2022, the Division became aware of capital assets that were sold in fiscal year 2016 that were still accounted for as owned by the Division. As a result, at July 1, 2021, capital assets and the net investment in capital assets as a component of net position, as previously reported was restated and decreased by \$224,277. The impact of the financial statements is as follows:

	2021 Previously Reported	Adjustment	2021 as Restated
Statement of Net Position			
Capital Assets	\$ 224,277	\$ (224,277)	\$ -
Statement of Revenues, Expenses, and Changes in Net Position			
Net Position at Beginning of Year	8,339,085	(224,277)	8,114,808

The above adjustment increased the current year change in net position \$3,563 and increased prior year change in net position \$3,692.

**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
EMPLOYEES' RETIREMENT SYSTEM
LAST SEVEN FISCAL YEARS*
(UNAUDITED)**

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2027</u>	<u>2016</u>
Measurement Date	June 30, 2021	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 %	0.01 %	0.02 %	0.07 %	0.07 %	0.09 %	0.15 %
Division's Proportion of the Net Pension Liability	\$ 222,269	\$ 277,186	\$ 385,165	\$ 1,495,213	\$ 1,647,676	\$ 1,966,284	\$ 2,953,800
Division's Covered Payroll (at Measurement Date)	\$ 150,487	\$ 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	147.7 %	213.2 %	315.3 %	322.8 %	325.3 %	315.3 %	223.1 %
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	63.2 %	52.6 %	52.8 %	52.5 %	51.8 %	51.9 %	55.0 %

Note:

The amounts presented for each fiscal year were determined as of June 30 measurement date prior to the fiscal year-end.

*This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying Note to Pension Required Supplementary Information.

**RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
SCHEDULE OF THE DIVISION'S PENSION CONTRIBUTIONS
EMPLOYEES' RETIREMENT SYSTEM
LAST SEVEN FISCAL YEARS*
(UNAUDITED)**

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Statutorily Required Contribution	\$ 38,070	\$ 41,444	\$ 34,306	\$ 32,103	\$ 115,212	\$ 128,356	\$ 147,431
Contributions in Relation to the Statutorily Required Contribution	<u>(38,070)</u>	<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>	<u>\$ -</u>
Division's Covered Payroll	\$ 135,916	\$ 150,487	\$ 129,996	\$ 122,158	\$ 463,257	\$ 506,535	\$ 623,651
Contribution as a Percentage of Covered Payroll	28.01 %	27.54 %	26.39 %	26.28 %	24.87 %	25.34 %	23.64 %

Note:

Employers participating in the State's Employee's Retirement System are required by Rhode Island General Laws, Section 36-10-2, to contribute an actually determined contribution rate each year.

*This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying Note to Pension Required Supplementary Information.

**RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
NOTES TO PENSION REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2022
(UNAUDITED)**

FACTORS AFFECTING TRENDS FOR AMOUNTS RELATED TO THE NET PENSION LIABILITY

Measurement Date – June 30, 2021

There were no changes in actuarial methods or assumptions in the calculation of the net pension liability as of the June 30, 2021, measurement date compared to the June 30, 2020, measurement date.

Measurement Date – June 30, 2020

As part of the 2020 Actuarial Experience Study for the six-year period ended 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, and
- 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 EDUCATION ASSISTANCE
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
NOTES TO PENSION REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2022
(UNAUDITED)**

**FACTORS AFFECTING TRENDS FOR AMOUNTS RELATED TO THE NET PENSION LIABILITY
(CONTINUED)**

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 Rhode Island 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 EDUCATION ASSISTANCE
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
SCHEDULE OF THE DIVISION'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
OTHER POSTEMPLOYMENT BENEFITS PLANS
LAST FIVE FISCAL YEARS*
(UNAUDITED)**

	2022	2021	2020	2019	2018
State Employees' OPEB Cost-Sharing Plan:					
Measurement Date	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
Division's Proportionate Share of the Net OPEB Liability	0.01 %	0.01 %	0.02 %	0.14 %	0.07 %
Division's Proportion of the Net OPEB Liability	\$ 28,819	\$ 35,162	\$ 70,746	\$ 708,615	\$ 374,790
Division's Covered Payroll	\$ 92,842	\$ 73,850	\$ 118,880	\$ 983,311	\$ 516,453
Division's Proportionate Share of the Net OPEB Liability as a Percentage of Its Covered Payroll	31.04 %	47.61 %	59.51 %	72.06 %	72.57 %
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	60.52 %	42.51 %	33.57 %	26.25 %	22.40 %
Board of Education's OPEB Cost-Sharing Plan:					
Measurement Date	June 30, 2021	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)%	0.00 %	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 %	0.00 %	28.83 %	40.15 %	41.84 %
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	91.42 %	57.32 %	51.60 %	38.59 %	32.10 %

Note:

The amounts presented for each fiscal year were determined as of June 30 measurement date prior to the fiscal year-end.

*This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying Notes to OPEB Required Supplementary Information.

**RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
SCHEDULE OF THE DIVISION'S OPEB CONTRIBUTIONS
OTHER POSTEMPLOYMENT BENEFITS PLANS
LAST FIVE FISCAL YEARS*
(UNAUDITED)**

	2022	2021	2020	2019	2018
State Employees' OPEB Cost-Sharing Plan:					
Statutorily Required Contribution	\$ 8,149	\$ 5,097	\$ 4,911	\$ 7,109	\$ 58,802
Contributions in Relation to the Statutorily Required Contribution	<u>(8,149)</u>	<u>(5,097)</u>	<u>(4,911)</u>	<u>(7,109)</u>	<u>(58,802)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Division's Covered Payroll	\$ 152,889	\$ 92,842	\$ 73,850	\$ 118,880	\$ 983,311
Contribution as a Percentage of Covered Payroll	5.33 %	5.49 %	6.65 %	5.98 %	5.98 %
Board of Education OPEB Cost-Sharing Plan:					
Statutorily Required Contribution	\$ -	\$ -	\$ -	\$ 62	\$ 8,383
Contributions in Relation to the Statutorily Required Contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>(62)</u>	<u>(8,383)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Division's Covered Payroll	\$ -	\$ -	\$ -	\$ 1,422	\$ 192,271
Contribution as a Percentage of Covered Payroll	3.50 %	3.23 %	4.08 %	4.36 %	4.36 %

Note:

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

*This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying Notes to OPEB Required Supplementary Information.

**RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
NOTES TO OPEB REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2022
(UNAUDITED)**

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, 2021

There were no changes in actuarial methods or assumptions in the calculation of the OPEB liability as of the June 30, 2021, measurement date

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, and
- Aging factors and health and inflation trends.

**RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
NOTES TO OPEB REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2022
(UNAUDITED)**

NOTE 1 FACTORS AFFECTING TRENDS FOR AMOUNTS RELATED TO THE NET OPEB LIABILITY (CONTINUED)

Measurement Date – June 30, 2017 (Continued)

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 2022 were determined based on the June 30, 2020, valuation of the Plans.

**RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
SCHEDULE OF NET POSITION
YEAR ENDED JUNE 30, 2022
(UNAUDITED)**

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ -
Receivables (Net)	-
Restricted Assets:	
Cash and cash equivalents	10,974,531
Investments	421,160
Other assets	-
Due from Primary Government	742,257
Due from Other Governments	-
Other Assets	4,297
Total Current Assets	<u>12,142,245</u>
Noncurrent Assets:	
Receivables (Net)	-
Restricted Assets:	
Investments	-
Other Assets	-
Capital Assets - Nondepreciable	-
Capital Assets - Depreciable (Net)	-
Other Assets, Net of Amortization	-
Total Noncurrent Assets	<u>-</u>
Total Assets	<u>12,142,245</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred Pension Amounts	46,089
Deferred OPEB Amounts	178,977
Total Deferred Outflows of Resources	<u>225,066</u>

LIABILITIES

Current Liabilities:	
Accounts Payable	85,015
Other Current Liabilities	-
Current Portion of Long-Term Debt	9,815
Total Current Liabilities	<u>94,830</u>
Noncurrent Liabilities:	
Net Pension Liability	222,269
Net OPEB Obligation	28,819
Notes Payable	-
Compensated Absences	22,901
Bonds Payable	-
Other Liabilities	-
Total Noncurrent Liabilities	<u>273,989</u>
Total Liabilities	<u>368,819</u>

DEFERRED INFLOWS OF RESOURCES

Deferred Pension Amounts	581,610
Deferred OPEB Amounts	476,793
Total Deferred Inflows of Resources	<u>1,058,403</u>

NET POSITION

Net Investment in Capital Assets	-
Restricted for:	
Debt	-
Other	10,940,089
Unrestricted	-
Total Net Position	<u>\$ 10,940,089</u>

**RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
SCHEDULE OF EXPENSES, REVENUES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2022
(UNAUDITED)**

EXPENSES	\$ 2,097,318
PROGRAM REVENUES	
Charges for Services	-
Operating Grants and Contributions	-
Total Program Revenues	<u>-</u>
NET (EXPENSES) REVENUES	(2,097,318)
GENERAL REVENUE	
Interest and Investment Earnings	15,816
Total General Revenue	<u>15,816</u>
TRANSFER FROM PRIMARY GOVERNMENT	<u>4,906,783</u>
CHANGE IN NET POSITION	2,825,281
Net Position - Beginning of Year, as Restated	<u>8,114,808</u>
NET POSITION - END OF YEAR	<u><u>\$ 10,940,089</u></u>

RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
SCHEDULE OF MATURITIES OF LONG-TERM DEBT
YEAR ENDED JUNE 30, 2022
(UNAUDITED)

<u>Fiscal Year Ending June 30,</u>	Bonds Payable (In Thousands)	
	<u>Principle</u>	<u>Interest</u>
2023	\$ -	\$ -
2024	-	-
2025	-	-
2026	-	-
2027-2031	-	-
2032-2036	-	-
2037-2041	-	-
2042-2046	-	-
2047-2051	-	-
2052-2056	-	-
2057-2061	-	-
	<hr/>	<hr/>
Total	<u>\$ -</u>	<u>\$ -</u>

RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
SCHEDULE OF CHANGES IN LONG-TERM DEBT
YEAR ENDED JUNE 30, 2022
(UNAUDITED)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Bonds Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Unamortized Premium/Discount	-	-	-	-	-	-
Bonds Payable	-	-	-	-	-	-
Notes Payable	-	-	-	-	-	-
Loans Payable	-	-	-	-	-	-
Obligations Under Capital Leases	-	-	-	-	-	-
Net OPEB Obligation	35,162	-	6,343	28,819	-	28,819
Net Pension Liability	277,186	-	54,917	222,269	-	222,269
Due to Primary Government	-	-	-	-	-	-
Due to Component Units	-	-	-	-	-	-
Due to Other Governments and Agencies	-	-	-	-	-	-
Unearned Revenue	-	-	-	-	-	-
Compensated Absences	28,740	3,976	-	32,716	9,815	22,901
Reported as Other Liabilities:						
Arbitrage Rebate	-	-	-	-	-	-
Pollution Remediation	-	-	-	-	-	-
Escrow Deposits	-	-	-	-	-	-
Fees	-	-	-	-	-	-
Other Liabilities	-	-	-	-	-	-
Total	\$ 341,088	\$ 3,976	\$ 61,260	\$ 283,804	\$ 9,815	\$ 273,989

**RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
NOTES TO THE SCHEDULES
(UNAUDITED)**

NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Net Position, Schedule of Expenses, Revenues and Changes in Net Position, Schedule of Maturities of Long-Term Debt, and Schedule of Changes in Long-Term Debt have been prepared in a manner prescribed by the State of Rhode Island Office of Accounts and Control.

NOTE 2 RECLASSIFICATION TO CONFORM WITH CURRENT PRESENTATION

Certain amounts in these financial schedules have been reclassified from the Rhode Island Division of Higher Education Assistance's audited basic financial statements to conform with this requested presentation.



**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 the State of Rhode Island
Rhode Island Division of Higher Education Assistance
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 the business-type activities of Rhode Island Division of Higher Education Assistance (RIDHEA), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the RIDHEA's basic financial statements, and have issued our report thereon dated September 28, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered RIDHEA'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RIDHEA's internal control. Accordingly, we do not express an opinion on the effectiveness of RIDHEA's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2022-001 to be a material weakness.

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. We consider the deficiency described in the schedule of findings and responses as item 2022-002 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether RIDHEA'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*.

Rhode Island Division of Higher Education Assistance's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the RIDHEA's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. RIDHEA's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Cranston, Rhode Island
September 28, 2022

**RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2022**

Financial Statement Findings

2022-001

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Repeat Finding: No

Condition: Rhode Island Division of Higher Education Assistance (RIDHEA) did not have controls in place to provide reasonable assurance that the financial statements include only assets that are owned by RIDHEA.

Criteria or specific requirement: Internal controls should be in place to provide reasonable assurance that financial statements are prepared in accordance with U.S. GAAP.

Effect: Prior year's financial statements contained an overstatement of capital assets of approximately \$224,000. Current year beginning net position has been restated as a result of this error correction.

Cause: RIDHEA did not have formal internal controls to ensure assets transferred or sold were removed from the general ledger.

Recommendation: RIDHEA should evaluate their processes and controls surrounding capital assets to determine if additional controls can be implemented to provide reasonable assurance that the financial statements contain complete and accurate amounts for capital assets.

Views of reasonable officials and planned corrective actions: Management agrees with the finding and has restated net position to remove the capital assets.

2022-002

Type of Finding: Significant Deficiency in Internal Control over Financial Reporting

Repeat Finding: No

Condition: RIDHEA did not have controls in place to ensure cash from a closed bank account was properly transferred to another bank account of the agency.

Criteria or specific requirement: Internal controls should be in place to provide reasonable assurance that cash transfers are properly made between bank accounts.

Effect: RIDHEA closed a bank account and a check was issued by the financial institution. This check was misplaced and not cashed by RIDHEA. RIDHEA did not ensure that the funds from the closed bank account were properly deposited into another account.

Cause: RIDHEA did not have formal internal controls to ensure bank transfers were made and received.

**RHODE ISLAND DIVISION OF HIGHER EDUCATION ASSISTANCE
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2022**

Financial Statement Findings (Continued)

Recommendation: RIDHEA should evaluate their processes and controls surrounding cash to determine if additional controls can be implemented to provide reasonable assurance that cash transfers are appropriately tracked and accounted for.

Views of reasonable officials and planned corrective actions: Management agrees with the finding and has instituted controls to close the reporting gap as of September 2022.