State of Rhode Island

Employees' Retirement System

FISCAL YEAR ENDED JUNE 30, 2015

Dennis E. Hoyle, CPA
Auditor General

State of Rhode Island and Providence Plantations
General Assembly
Office of the Auditor General

Office of the Auditor General
State of Rhode Island and Providence Plantations - General Assembly
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January 13, 2016

JOINT COMMITTEE ON LEGISLATIVE SERVICES:

SPEAKER Nicholas A. Mattiello, Chairman

Senator M. Teresa Paiva Weed
Senator Dennis L. Algiere
Representative John J. DeSimone
Representative Brian C. Newberry

We have completed our audit of the financial statements of the Employees' Retirement System of the State of Rhode Island for the fiscal year ended June 30, 2015 in accordance with Section 36-8-19 of the Rhode Island General Laws.

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

Sincerely,

Dennis E. Hoyle, CPA
Auditor General

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

FISCAL YEAR ENDED JUNE 30, 2015

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INDEPENDENT AUDITOR'S REPORT

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

RETIREMENT BOARD OF THE EMPLOYEES' RETIREMENT SYSTEM OF THE
STATE OF RHODE ISLAND:

Report on the Financial Statements

We have audited the accompanying financial statements of the plans which comprise the Employees' Retirement System of the State of Rhode Island (the System) as of June 30, 2015 and for the year then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Joint Committee on Legislative Services, General Assembly
Retirement Board of the Employees' Retirement System

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

Opinions

In our opinion, the financial statements of the plans referred to above present fairly, in all material respects, the financial position of the plans within the System as of June 30, 2015, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described in Note 1, the financial statements of the System present only the pension trust funds of the State of Rhode Island and Providence Plantations (the State) and do not purport to, and do not present fairly the financial position of the State, as of June 30, 2015 and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

As described in Notes 3 and 5 to the financial statements, approximately 27% of the holdings in the pooled investment trust are hedge funds, private equity, real estate, and certain infrastructure investments. Because the fair value of these investments were not all determined based on quoted market prices, the fair values may differ from the values that would have been determined had a ready market for these investments existed.

As described in Note 3, certain investment expenses are customarily reported on a net of fees basis for hedge funds, private equity, and real estate investments and consequently such amounts are not included with other investment expenses as they are not readily separable.

Our opinions are not modified with respect to these matters.

Other Matters - *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9 and other required supplementary information as listed in the table of contents and pages 45 through 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

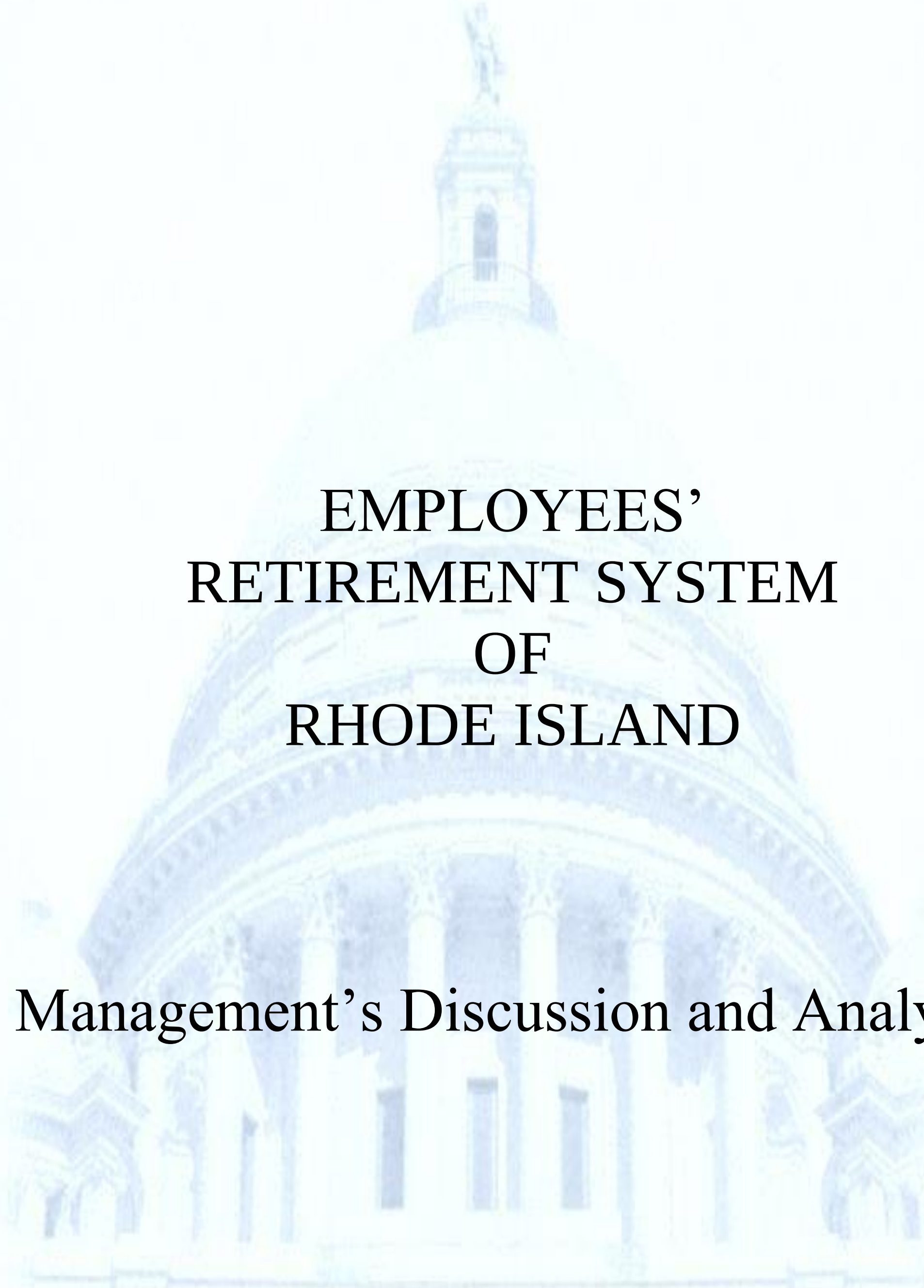
Joint Committee on Legislative Services, General Assembly
Retirement Board of the Employees' Retirement System

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have issued a report dated December 17, 2015 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Dennis E. Hoyle, CPA
Auditor General

December 17, 2015



EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND

Management's Discussion and Analysis

Management's Discussion and Analysis

Management of the Employees' Retirement System of the State of Rhode Island (the System) provides this Management's Discussion and Analysis of their financial performance for the readers of the System's financial statements. This narrative provides an overview of the System's financial activity for the fiscal year ended June 30, 2015. This analysis is to be considered in conjunction with the financial statements to provide an objective analysis of the System's financial activities based on the status of the System and issues currently facing management.

Understanding the Employees' Retirement System Financial Statements

The System administers six defined benefit pension plans for state employees, teachers, teachers' survivors, state police, judges, and employees of participating municipalities. State employees and teachers are combined into one cost-sharing plan while teachers' survivors, state police, judges appointed after December 31, 1989, active judges appointed before January 1, 1990, and municipal employees each have separate plans. The System also administers a defined contribution plan for state employees, teachers, and employees of participating municipalities.

The *Statements of Fiduciary Net Position* provide a snapshot of the financial position of the System at June 30, 2015. The *Statements of Changes in Fiduciary Net Position* summarize the additions and deductions that occurred during the fiscal year. The *Notes to the Financial Statements* provide additional information essential to a full understanding of the financial statements. The *Required Supplementary Information* consists of schedules and related notes, which demonstrate the System's progress in accumulating funds to meet future pension benefits for members of the System.

Financial Highlights for the Fiscal Year Ended June 30, 2015

- The System's fiduciary net position decreased by $92 million from $8.5 billion at June 30, 2014 to $8.4 billion at June 30, 2015.

- Total pension benefits paid to members from the defined benefit plans were $903 million, an increase of $1.2 million or 0.14% compared to the fiscal year ended June 30, 2014. Total distributions paid to members from the defined contribution plan were $2.7 million, which is consistent when compared to the fiscal year ended June 30, 2014.

- Contributions to all defined benefit plans from both employers and employees at June 30, 2015 were $506.0 million, an increase of $33.3 million or 7.0% compared to the fiscal year ended June 30, 2014.

- Total employee and employer contributions into the System's defined contribution plan were $129.6 million at June 30, 2015, an increase of $2.8 million or 2.24% compared to the fiscal year ended June 30, 2014.

- The System's net gain from investing activities was $200 million for the fiscal year ended June 30, 2015.

Management's Discussion and Analysis

Assets, Liabilities and Fiduciary Net Position – All Plans (in millions)

	June 30, 2015	June 30, 2014
Assets:		
Cash and cash equivalents	$ 5.6	$ 2.4
Investments	8,379.0	8,482.9
Contribution and other receivables	56.5	49.0
Total assets	8,441.1	8,534.3
Liabilities:		
Accounts payable	5.4	6.9
Total liabilities	5.4	6.9
Fiduciary Net Position:	$ 8,435.7	$ 8,527.4

Summary of Changes in Fiduciary Net Position – All Plans (in millions)

	Year Ended June 30, 2015	Year Ended June 30, 2014
Additions:		
Contributions	$ 636.6	$ 600.6
Net investment gain	199.7	1,141.9
Total Additions	836.3	1,742.5
Deductions:		
Benefits and distributions	908.7	904.7
Refunds of contributions	10.2	12.5
Administrative expenses	9.1	8.5
Total Deductions	928.0	925.7
Increase in Net Position:	(91.7)	816.8
Fiduciary Net Position:		
Beginning of year	8,527.4	7,710.6
End of year	$ 8,435.7	$ 8,527.4

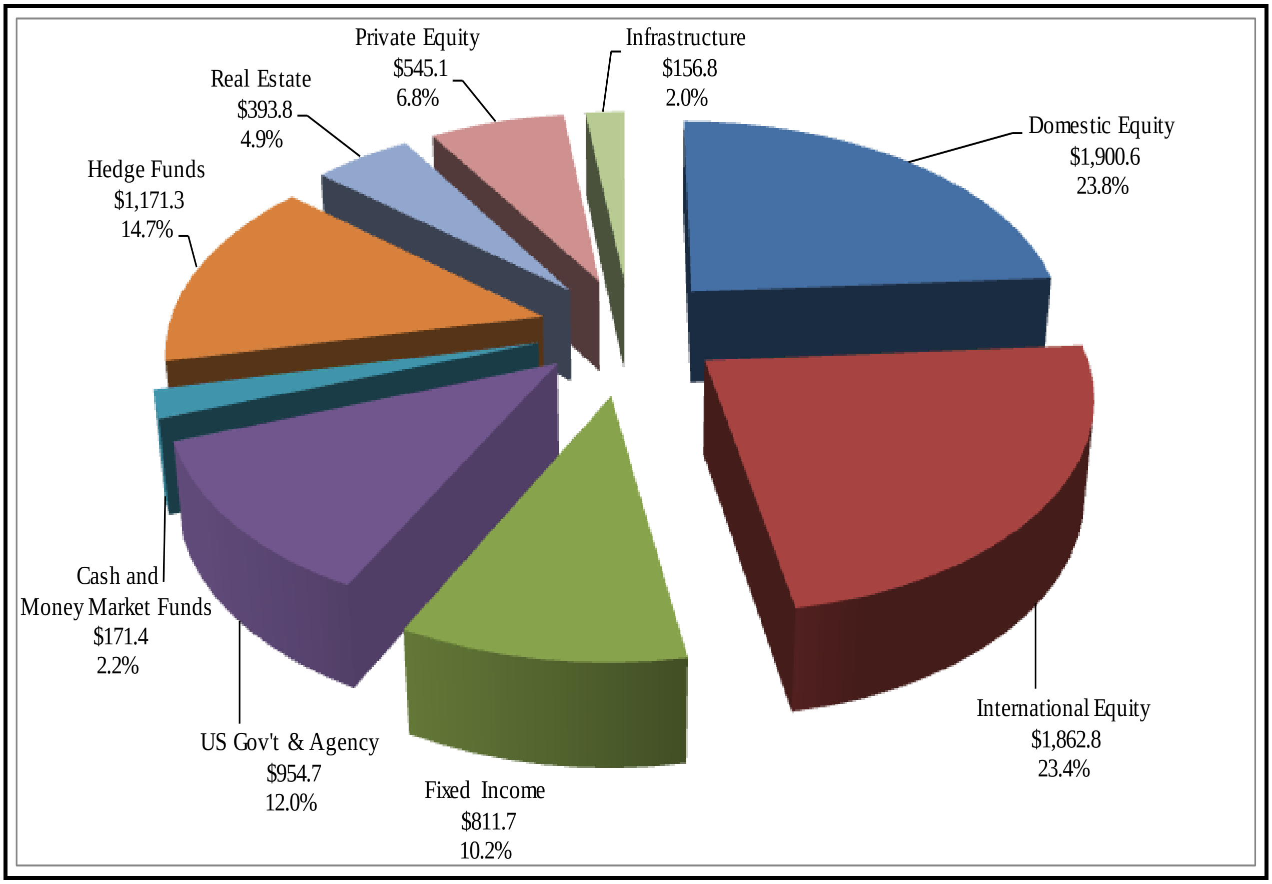
Management's Discussion and Analysis

Investments

The State Investment Commission (SIC) establishes long-term asset allocation policy, selects managers, and monitors investment performance of the plan. An asset allocation study is conducted every two to four years to identify an optimal diversified investment portfolio that maximizes return within an acceptable level of risk. As long-term investors, the SIC stays committed to the strategic asset allocation that has been developed as part of a comprehensive asset allocation study. The asset allocation study incorporates return expectations, risks and correlations associated with each asset class, as well as the unique profile and objectives of the System.

The SIC seeks to achieve the targeted investment return set by the Retirement Board, while minimizing risk and satisfying the plan's need for steady cash flows. As a mature defined benefit plan where distributions exceed contributions, the System has to balance its short-term cash flow requirements with the much longer time horizon of its total obligations. Diversification across asset classes that respond differently to different market environments is a key tool used by the SIC to seek strong long-term returns. The allocation of assets among stocks, bonds, and alternative investments can have a significant impact on risk-adjusted investment performance.

Pooled Investment Trust – Asset Allocation - June 30, 2015
(in millions)



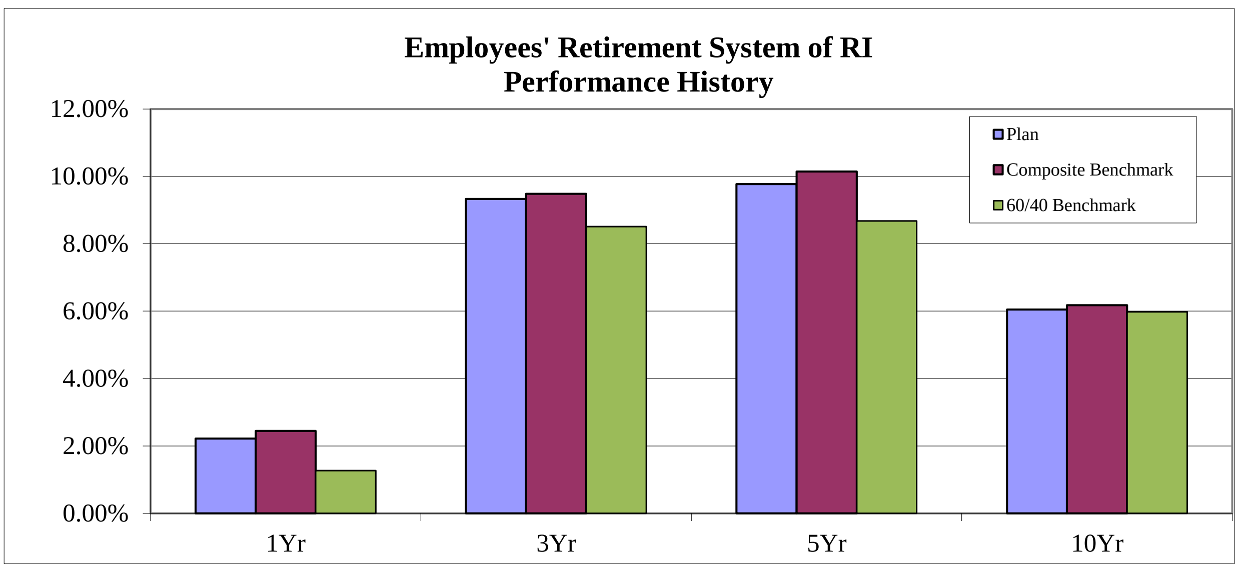
Management's Discussion and Analysis

Having adopted the asset class targets of the most recent allocation study, the State Investment Commission will tactically adjust these targets based on market conditions and opportunities, as well as any timing required for prudent implementation. The SIC engages external investment managers to manage portions of the portfolio, and performance is measured in relation to benchmarks adopted for each asset category. A composite benchmark, based on weighted asset allocations, is used to measure overall manager performance. Asset allocation performance is assessed by comparing returns to a basic allocation of 60% global equities/40% bonds. The SIC assesses assets and managers over suitably long time frames, and on the basis of expected future returns.

For the defined contribution plan, the SIC has selected a menu of investment options, which are made available to participants. The options include, but are not limited to, target-date retirement funds corresponding to an employee's anticipated retirement date. Approximately 92% of defined contribution plan assets are invested in target-date retirement funds.

Investment Performance

The System's one-year time-weighted rate of return was 2.22% which was slightly below the composite benchmark (2.47%) and exceeded the 60/40 basic allocation's 1.27% return. The three-year average was 9.33%, which was 15bps below the 9.48% benchmark return and 82bps better than the 60/40 benchmark's 8.51% return. The five-year average was 9.77%, which lagged the 10.14% benchmark return by 37bps and was 109bps better than the 60/40 at 8.68%.



The composite benchmark is weighted based on asset allocation targets. It is currently comprised: **44.5%** MSCI All Country World Net Index; **15%** Barclays Aggregate; **7%** HFRI Fund of Funds Composite Index; **3%** Bank of America Merrill Lynch 3-month US Treasury Bill; **8.0%** HFRI Equity Hedge (Total) Index; **5.0%** NFI-ODCE Index; **4%** Barclays World Government Inflation-Linked Notes: 1-10 Year Index; **5%** custom loan and high yield index – 30% Bank of America Merrill Lynch 1-3 Year BB-B High Yield, 35% JP Morgan BB/B Leveraged Loan Index and 35% Credit Suisse Institutional Leveraged Loan Index; **7%** Institutional Limited Partners Association All Funds Index; and **1.5%** Alerian Master Limited Partnerships Total Return Index.

The composite benchmark for each of the years shown in the chart reflects the asset allocation targets in place for that fiscal year and the related indices used to measure performance.

The 60% global equity/40% bonds benchmark is 60% MSCI All-Country World and 40% Barclays US Aggregate.

Management's Discussion and Analysis

Additional Investment Performance Reporting

The investment performance discussed in the previous section is the time-weighted return, as reported by the System's investment custodian for the Pooled Investment Trust as a whole. In accordance with implementation of GASB Statement No. 67, investment performance is also measured on a money-weighted return basis for each defined benefit retirement plan. The money-weighted returns for each defined benefit plan are disclosed in the notes to the financial statements and the required supplementary information section. The money-weighted return reflects each individual plan's specific cash inflows and outflows, as well as the overall portfolio returns.

The System's actuarial investment return assumption, for funding purposes, is 7.5% for all plans except the Judicial Retirement Fund Trust which uses a 4.0% investment return assumption. This return expectation is adopted by the Retirement Board on recommendation by the plan's actuary. It is based on a thirty-year horizon. The actuarial value of assets is determined based on a five-year smoothing methodology.

Fiscal 2015 investment returns within the defined contribution plan ranged from -3.98% to 10.75% depending on investment options that plan members chose from the available options.

Net Pension Liability (Asset) of the Plans within the System

Independent actuarial valuations of the System are conducted each year. Due to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 67 – *Financial Reporting for Pension Plan*s in fiscal 2014, the System has presented the accounting measures of the net pension liability (asset) for each of the defined benefit plans. Calculation of the net pension liability (asset) of the plans is performed by the actuary in accordance with GASB requirements. The total pension liability and net pension liability are based on an actuarial valuation performed as of June 30, 2014, rolled-forward using generally accepted actuarial principles from the valuation date to the plan's fiscal year end.

This accounting measure of the net pension liability (asset) of each plan is different from the actuarial valuations performed for funding purposes and the determination of annual contributions to each of the defined benefit plans. One of the principal differences is that the accounting measure of the net pension liability at June 30, 2015 utilizes each plan's fiduciary net position, which reflects the fair value of investments at that date. For funding purposes, the actuarial valuation uses the actuarial value of assets, which reflects a five-year smoothed asset valuation.

The measurement of the net pension liabilities for all defined benefit plans, except for the RIJRFT, utilized the System's investment return assumption of 7.5%. The RIJRFT utilized the Municipal Bond Index rate of 3.80%. The calculation of the net pension liability (asset) was measured as of June 30, 2015.

The Teachers' Survivors Benefit plan was over-funded with a fiduciary net position equal to 146.6% of the plan's total pension liability at June 30, 2015. The fiduciary net position of the ERS plan covering state employees and teachers was equal to 55.0% and 57.6% respectively of the total pension liability measure for each of those employee groups. The fiduciary net position of the State Police and JRBT plans was equal to 95.0% and 94.3% respectively of the total pension liability measure for each of those employee groups. The fiduciary net position of the RIJRFT plan covering a small group of judges was equal to 2.6% of the total pension liability for that plan due to the recent formation of the plan and the State (employer) using a pay-as-you-go approach and not making actuarially determined employer contributions to the plan. The fiduciary net position of the agent MERS plans covering general

Management's Discussion and Analysis

employees and police and fire personnel was equal to 83.1% and 79.3% respectively of the total pension liability measure for those employee groups.

All employers participating in the System's plans contributed 100% of their annual actuarially determined contribution during fiscal 2015, except for the State not providing the employer contribution for the Rhode Island Judicial Retirement Fund Trust.

Future Contribution Rates

The fiscal 2016 employer contribution rates are based upon the actuarial valuations performed for funding purposes at June 30, 2013. The employer contribution rates for fiscal 2016 are 23.64% for State employees, 23.14% for Teachers, 26.80% for Judges, and 17.22% for State Police. For the Rhode Island Judicial Retirement Fund Trust, the actuarially determined employer contribution is $1,120,000 for fiscal 2016.

Contacting the System's Management

This discussion and analysis presentation is designed to provide a general overview of the System's financial activity. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Employees' Retirement System, 50 Service Avenue, Warwick, RI, 02886.

EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND
Statements of Fiduciary Net Position
June 30, 2015

	Defined Benefit Plans						Defined Contribution Plan	Memorandum Total
	ERS	TSB	MERS	SPRBT	JRBT	RIJRFT		
Assets								
Cash and cash equivalents (Note 4)	$ 4,345,985	-	$ 995,982	$ 135,238	$ 117,201	$ 38,229	$ -	$ 5,632,635
Receivables								
Contributions	29,485,281	-	3,851,161	183,487	140,587	6,119	-	33,666,635
Due from State for teachers	17,656,319	-	-	-	-	-	-	17,656,319
Other	901,785	-	94,972	-	-	-	-	996,757
Total receivables	48,043,385	-	3,946,133	183,487	140,587	6,119	-	52,319,711
Prepaid expenses (Note 3)	3,262,136	149,904	700,796	53,659	27,447	129	-	4,194,071
Due from other plans	-	334,842	-	-	-	-	-	334,842
Investments at fair value								
Equity in pooled trust (Note 5)	6,113,252,398	293,352,732	1,387,314,150	114,583,984	59,249,760	441,285	-	7,968,194,309
Defined contribution plan investments (Note 6)	-	-	-	-	-	-	410,776,148	410,776,148
Total investments	6,113,252,398	293,352,732	1,387,314,150	114,583,984	59,249,760	441,285	410,776,148	8,378,970,457
Total Assets	6,168,903,904	293,837,478	1,392,957,061	114,956,368	59,534,995	485,762	410,776,148	8,441,451,716
Liabilities								
Accounts payable	4,612,987	25,826	732,148	50,775	25,122	164	-	5,447,022
Due to other plans	334,842	-	-	-	-	-	-	334,842
Total Liabilities	4,947,829	25,826	732,148	50,775	25,122	164	-	5,781,864
Net position held in trust for pension benefits	$ 6,163,956,075	$ 293,811,652	$ 1,392,224,913	$ 114,905,593	$ 59,509,873	$ 485,598	$ 410,776,148	$ 8,435,669,852

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

EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND

Statements of Changes in Fiduciary Net Position - Fiscal Year Ended June 30, 2015

	Defined Benefit Plans						Defined Contribution Plan	Memorandum Total
	ERS	TSB	MERS	SPRBT	JRBT	RIJRFT		
Additions								
Contributions (Note 8)								
Member contributions	$ 64,948,561	$ 603,388	$ 11,592,465	$ 1,731,585	$ 1,120,609	$ 158,718	$ 101,335,771	$ 181,491,097
Employer contributions	289,837,778	603,388	44,576,294	3,432,359	2,709,397	-	28,222,896	369,382,112
Supplemental employer contributions (Note 8c)	414,450	-	-	-	-	-	-	414,450
State contribution for teachers	84,943,801	-	-	-	-	-	-	84,943,801
Interest on service credits purchased	241,501	-	44,515	3,368	-	-	-	289,384
Service credit transfers (net)	37,511	-		-	-	-	-	37,511
Total contributions	440,423,602	1,206,776	56,213,274	5,167,312	3,830,006	158,718	129,558,667	636,558,355
Investment Income								
Net appreciation in fair value of investments	95,322,160	4,552,159	21,441,071	1,754,283	903,892	6,161	9,917,042	133,896,768
Interest	44,245,185	2,086,190	9,866,979	797,327	410,255	2,640	-	57,408,576
Dividends	10,388,633	489,393	2,316,112	187,107	96,250	613	528,795	14,006,903
Other investment income	6,560,274	308,215	1,458,524	117,638	60,466	390	12,621	8,518,128
	156,516,252	7,435,957	35,082,686	2,856,355	1,470,863	9,804	10,458,458	213,830,375
Less investment expense	(10,966,903)	(484,492)	(2,455,740)	(200,486)	(103,336)	(710)	-	(14,211,667)
Net investment income	145,549,349	6,951,465	32,626,946	2,655,869	1,367,527	9,094	10,458,458	199,618,708
Miscellaneous revenue	56,546	-	15,218	325	-	-	911	73,000
Total Additions	586,029,497	8,158,241	88,855,438	7,823,506	5,197,533	167,812	140,018,036	836,250,063
Deductions								
Retirement benefits	800,245,103	7,750,955	86,995,021	2,496,511	1,800,863	-	-	899,288,453
Death benefits	3,320,919	-	678,865	-	8,000	-	-	4,007,784
Distributions	-	-	-	-	-	-	5,331,383	5,331,383
Refund of contributions	8,618,199	241,427	1,360,545	-	-	-	-	10,220,171
Administrative expense (Note 10)	6,071,486	276,010	1,303,530	99,782	51,039	237	1,298,471	9,100,555
Service credit transfers (net)	-	-	37,511	-	-	-	-	37,511
Total Deductions	818,255,707	8,268,392	90,375,472	2,596,293	1,859,902	237	6,629,854	927,985,857
Net Increase (Decrease)	(232,226,210)	(110,151)	(1,520,034)	5,227,213	3,337,631	167,575	133,388,182	(91,735,794)
Net position held in trust for pension benefits								
Beginning of year	6,396,182,285	293,921,803	1,393,744,947	109,678,380	56,172,242	318,023	277,387,966	8,527,405,646
End of year	$ 6,163,956,075	$ 293,811,652	$ 1,392,224,913	$ 114,905,593	$ 59,509,873	$ 485,598	$ 410,776,148	$ 8,435,669,852

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

1. System Description and Governance

The Employees' Retirement System of the State of Rhode Island (the System) acts as a common investment and administrative agent for pension benefits to be provided through six defined benefit retirement plans and one defined contribution plan as listed below:

Plan Name	***Type of Plan***
Employees' Retirement System (*ERS*)	Cost-sharing multiple-employer defined benefit plan
Teachers' Survivors Benefits *(TSB*)	Cost-sharing multiple-employer defined benefit plan
Municipal Employees' Retirement System (*MERS*)	Agent multiple-employer defined benefit plan
State Police Retirement Benefits Trust (*SPRBT*)	Single-employer defined benefit plan
Judicial Retirement Benefits Trust (*JRBT*)	Single-employer defined benefit plan
RI Judicial Retirement Fund Trust *(RIJRFT)*	Single-employer defined benefit plan
Rhode Island Defined Contribution Plan	Defined contribution plan

Each plan's assets are accounted for separately and may be used only for the payment of benefits to the members of that plan, in accordance with the terms of that plan.

The System's financial statements are included as Pension Trust Funds within the Fiduciary Funds in the Comprehensive Annual Financial Report of the State of Rhode Island and Providence Plantations. The accompanying financial statements are not intended to present the financial position and results of operations of the State.

The System is administered by the State of Rhode Island Retirement Board which was authorized, created and established in the Office of the General Treasurer as an independent retirement board to hold and administer, in trust, the funds of the retirement system. The fifteen members of the retirement board are: the general treasurer or his or her designee who shall be a subordinate within the general treasurer's office; the director of administration or his or her designee who shall be a subordinate within the department of administration; a representative of the budget office or his or her designee from within the budget office, who shall be appointed by the director of administration; the president of the league of cities and towns or his or her designee; two (2) active state employee members of the retirement system or officials from state employee unions to be elected by active state employees; two (2) active teacher members of the retirement system or officials from a teachers union to be elected by active teachers; one active municipal employee member of the retirement system or an official from a municipal employees union to be elected by active municipal employees; two (2) retired members of the retirement system to be elected by retired members of the system; and four (4) public members, all of whom shall be competent by training or experience in the field of finance, accounting or pensions; two (2) of the public members shall be appointed by the governor, one of whom shall serve an initial term of three (3) years and one of whom shall serve an initial term of four (4) years and until his or her successor is appointed and qualified; and two (2) of the public members shall be appointed by the general treasurer, one of whom shall serve an initial term of three (3) years and one of whom shall serve an initial term of four (4) years and until his or her successor is appointed and qualified. Thereafter, the term of these four (4) public members shall be for four (4) years or until their successors are appointed and qualified by the Senate.

The System's purpose is to provide retirement benefits to state employees, public school teachers, certain general and public safety municipal employees, state police officers, and judges.

1. System Description and Governance (continued)

A summary of membership by plan as of the June 30, 2014 actuarial valuation follows:

	Retirees and beneficiaries	*Terminated plan members entitled to but not yet receiving benefits*	*Active Vested*	*Active Non-vested*	*Total by Plan*
ERS					
State Employees	11,103	2,898	8,652	2,649	25,302
Teachers	10,838	3,040	11,232	2,034	27,144
TSB	537	3,673	7,139	-	11,349
MERS					
General Employees	4,418	2,662	4,593	1,220	12,893
Public Safety	711	162	1,110	340	2,323
SPRBT	26	25	42	208	301
JRBT	13	-	18	38	69
RIJRFT	0	0	7	-	7
Total by type	27,646	12,460	32,793	6,489	79,388

A summary of participating employees and employers within the defined contribution plan follows:

Employers	158
Participants	32,832

2. Plan Membership and Benefit Provisions

Membership and benefit provisions are outlined in the Rhode Island General Laws and are subject to modification by the General Assembly. Modifications to pension benefit and eligibility provisions have been made in recent years as well as the comprehensive pension reform provisions contained in the Rhode Island Retirement Security Act enacted on November 18, 2011 and effective July 1, 2012. Legal challenges to those pension reforms were recently settled with the final settlement approved by the Court on July 8, 2015. The General Assembly amended the various sections of the General Laws containing those benefit provisions consistent with the terms of the settlement agreement. Those provisions are generally effective beginning July 1, 2015. The benefit provisions for each of the plans as outlined below were those in effect for fiscal 2015. Reference is made in each section to a summary of benefit and contribution provisions that will be in effect for future years.

Accordingly, specific member retirement benefit and eligibility provisions vary depending upon a number of factors including years of service, age, and vesting provisions.

2. Plan Membership and Benefit Provisions (continued)

EMPLOYEES' RETIREMENT SYSTEM (ERS)

The ERS was established and placed under the management of the Retirement Board for the purpose of providing retirement allowances for employees of the State of Rhode Island under the provisions of chapters 8 to 10, inclusive, of Title 36, and public school teachers under the provisions of chapters 15 to 17, inclusive, of Title 16 of the Rhode Island General Laws.

Plan members **-** The plan covers most State employees other than certain personnel at the State colleges and university (principally faculty and administrative personnel). The plan also covers teachers, including superintendents, principals, school nurses, and certain other school officials in the public schools in the cities and towns. Membership in the plan is mandatory for all covered state employees and teachers. Elected officials may become members on an optional basis and legislators may participate if elected to office prior to January 1, 1995.

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

Plan vesting provisions **–** after five years of service**.**

Retirement eligibility and plan benefits **–** are summarized in the following table:

Schedule		Retirement Eligibility	Benefit accrual rates	Maximum benefit
(A)	Completed 10 years of service on or before July, 1, 2005 and eligible to retire as of September 30, 2009	Age 60 with 10 years of service or after 28 years of service at any age	Effective until June 30, 2012: 1.7% for each of first ten years 1.9% for each of next ten years 3.0% for each of next fourteen years 2% for the 35th year Effective July 1, 2012: 1.0% per year	80% of final average (3 consecutive highest years) earnings and 35 years of service
(AB)	Completed 10 years of service on or before July, 1, 2005 but ineligible to retire as of September 30, 2009	Minimum retirement age of 62 and ten years of service with a downward adjustment of the minimum retirement age based on the years of service credit as of September 30, 2009	Effective until June 30, 2012: Same accrual rates as (A) above to September 30, 2009 and then Schedule B rates (below) thereafter Effective July 1, 2012: 1.0% per year	80% of final average (5 consecutive highest years) earnings

2. Plan Membership and Benefit Provisions (continued)

Schedule		Retirement Eligibility	Benefit accrual rates	Maximum benefit
(B)	Less than 10 years of service before July 1, 2005 and eligible to retire as of September 30, 2009	Age 65 with 10 years of service or after 29 years of service and age 59	Effective until June 30, 2012: 1.6% for each of first ten years 1.8% for each of next ten years 2.0% for each of next five years 2.25% for each of next five years 2.5% for each of next seven years 2.25% for the 38th year Effective July 1, 2012: 1.0% per year	75% of final average earnings (3 consecutive highest years) and 38 years of service
(B1)	Less than 10 years of service before July 1, 2005 and ineligible to retire as of September 30, 2009	Age 65 with ten years of service, or age 62 with at least 29 years of service with a downward adjustment of the minimum retirement age based on the years of service credit as of September 30, 2009	Same as Schedule B	75% of final average earnings (5 consecutive highest years) and 38 years of service
(B2)	Less than 5 years of service as of July 1, 2012	Social Security Normal Retirement Age not to exceed age 67 and 5 years of contributory service	1.6% for each of first ten years Effective July 1, 2012: 1.0% per year	75% of final average earnings (5 consecutive highest years) and 38 years of service

State correctional officers may retire at age 50 with 20 years of service. However, if not eligible to retire as of September 30, 2009, the minimum retirement age was modified to 55 with 25 years of service credit for correctional officers and registered nurses at the Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals.

The plan provides for survivor's benefits for service-connected death and certain lump sum death benefits.

2. Plan Membership and Benefit Provisions (continued)

Joint and survivor options are available to members. The Service Retirement Allowance (SRA) Plus option provides for the payment of a larger benefit before the attainment of age sixty-two (62) and a reduced amount thereafter. The reduced amount is equal to the benefit before age sixty-two (62), including cost-of-living increases, minus the member's estimated social security benefit payable at age sixty-two (62).

Vested members that have 10 or more years of contributing service credit on June 30, 2012, may choose to retire at a retirement eligibility date that was calculated as of September 30, 2009, if the member continues to work and make retirement contributions until that date. If the member chooses this option, their retirement benefits will be calculated using the benefit that they have accrued as of June 30, 2012 - members will accumulate no additional defined benefits after this date, but the benefit will be paid without any actuarial reduction.

State employees and public school teachers may retire with a reduced pension benefit if they have 20 years of service credit and they are within five years of their retirement date as prescribed in the Rhode Island Retirement Security Act (RIRSA). The actuarially reduced benefit will be calculated based on how close the member is to their RIRSA eligibility date.

***Cost of Living Adjustments* –** The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT, and JRBT plans reach a funded status of 80%. The COLA provision can be reviewed in a five-year interval. When the collective funding level of the plans exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month. The COLA will be calculated as the five (5) year smoothed investment rate of return less 5.50%, with a 0.00% floor and a 4.00% cap. COLA will be delayed until the later of the Social Security Normal Retirement Age or three years after retirement. The COLA will be applied to the first $25,000 of benefits indexed annually.

Disability retirement provisions - the plan also provides nonservice-connected disability benefits after five years of service and service-connected disability pensions with no minimum service requirement. Effective for applications filed after September 30, 2009, accidental disability will be available at 66 2/3% for members who are permanently and totally disabled as determined by the Retirement Board. If the disability is determined to be partial and the member is able to work in other jobs, the benefit will be limited to 50%. Disability benefits are subject to annual review by the Retirement Board.

Other plan provisions - Service credit purchases, excluding contribution refund paybacks and military service, requested after June 16, 2009 are calculated at full actuarial cost.

Changes in plan benefits and contributions after June 30, 2015 - changes to benefit or contribution provisions due to settlement of the pension litigation and subsequent enactment of those provisions by the General Assembly are summarized in **Note 14 – Subsequent Events**.

TEACHERS' SURVIVORS BENEFIT (TSB)

***Plan members* –** the TSB covers all teachers who do not participate in Social Security. This includes all teachers in 24 school districts.

Plan vesting provisions – Survivors are eligible for benefits if the member has made contributions for at least six months prior to death or retirement.

2. Plan Membership and Benefit Provisions (continued)

Eligibility and plan benefits - the plan provides a survivor benefit to public school teachers in lieu of Social Security since not all school districts participate in the plan. The cost of the benefits provided by the plan are two percent (2%) of the member's annual salary up to but not exceeding an annual salary of $9,600; one-half (1/2) of the cost is contributed by the member by deductions from his or her salary, and the other half (1/2) is contributed and paid by the respective school district by which the member is employed. These contributions are in addition to the contributions required for regular pension benefits.

Spouse, parents, family and children's benefits are payable following the death of a member. A spouse shall be entitled to benefits upon attaining the age of sixty (60) years. Children's benefits are payable to the child, including a stepchild or adopted child of a deceased member if the child is unmarried and under the age of eighteen (18) years or twenty-three (23) years and a full time student, and was dependent upon the member at the time of the member's death. Family benefits are provided if at the time of the member's death the surviving spouse has in his or her care a child of the deceased member entitled to child benefits. Parents benefits are payable to the parent or parents of a deceased member if the member did not leave a widow, widower, or child who could ever qualify for monthly benefits on the member's wages and the parent has reached the age of 60 years, has not remarried, and received support from the member. In January, a yearly cost-of-living adjustment for spouse's benefits is paid and based on the annual social security adjustment.

The TSB plan provides benefits based on the highest salary at the time of retirement of the teacher. Benefits are payable in accordance with the following table:

Highest Annual Salary	Basic Monthly Spouses's Benefit
$17,000 or less	$ 750
$17,001 to $25,000	$ 875
$25,001 to $33,000	$ 1,000
$33,001 to $40,000	$ 1,125
$40,001 and over	$ 1,250

Benefits payable to children and families are equal to the spousal benefit multiplied by the percentage below:

Parent and 1 Child	Parent and 2 or more Children	One Child Alone	Two Children Alone	Three or more Children Alone	Dependent Parent
150%	175%	75%	150%	175%	100%

Cost of Living Adjustments – current eligible members' beneficiaries of the TSB receive the same COLA granted to members of Social Security. This increase was 1.7% as of January 1, 2015.

Changes in plan benefits and contributions after June 30, 2015 - there were no changes to benefit or contribution provisions for the Teachers' Survivors Benefit Plan due to settlement of the pension litigation and subsequent enactment of those provisions by the General Assembly.

2. Plan Membership and Benefit Provisions (continued)

MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM (MERS)

The MERS was established under the Rhode Island General Laws and placed under the management of the Retirement Board to provide retirement allowances to employees of municipalities, housing authorities, water and sewer districts, and municipal police and fire persons that have elected to participate.

Plan members – A summary of participating employers is listed below:

Municipalities, housing authorities, water and sewer districts	68
Municipal police and fire departments	45
Total participating units as of the actuarial valuation at June 30, 2014	113

Plan vesting provisions **–** after five years of service**.**

Retirement eligibility and plan benefits **–** For general employees prior to June 30, 2012 the plan provided retirement benefits equal to 2% of a member's final average salary multiplied by the number of years of total service up to a maximum of 75%. Such benefits are available to members at least age 58 with 10 years of service or after 30 years of service at any age. Benefits accrued at June 30, 2012 are protected under the Rhode Island Retirement Security Act until it is exceeded by the member's full years of service credit, including service after June 30, 2012, multiplied by the average of five consecutive years of compensation. Effective July 1, 2012 the retirement age will mirror the Social Security Normal Retirement Age not to exceed age 67. Members will receive a benefit accrual of 1.0% per year based on the five-year average compensation.

Joint and survivor options are available as well as the Service Retirement Allowance (SRA) Plus option that provides for the payment of a larger benefit before the attainment of age sixty-two (62) and a reduced amount thereafter. The reduced amount is equal to the benefit before age sixty-two (62), including cost-of-living increases, minus the member's estimated social security benefit payable at age sixty-two (62).

Prior to June 30, 2012 police and fire personnel may retire at age 55 if they have 10 years of service or after 25 years of service at any age. An option may be elected to provide a 20 year service pension with a benefit equal to 2.5% for each year of service up to a maximum of 75% for police and fire personnel. Benefits are based on the average of the highest three consecutive years' earnings, exclusive of overtime.

The new retirement age will be 55 years old with 25 years of total service or for members with five years of service but less than 25 years of service the new retirement age will mirror the Social Security Normal Retirement Age not to exceed 67. Police officers or firefighters, that are at least 45 years old, have 10 or more years of contributing service and are eligible to retire prior to age 52 under the law in effect on June 30, 2012, may retire at age 52.

As of June 30, 2012 members will continue to have a frozen benefit accrual of 2.0% per year for a standard 25 year with any age and out plan; 2.5% for a standard 20 year with any age and out plan. Effective July 1, 2012 the optional 20 and 25 year with retirement at any age plans have been eliminated. The benefit accrual for all plans will be 2.0% per year based on the five-year average compensation, exclusive of overtime. Police and fire employees may retire with a reduced pension benefit if they have 20 years of service and are within five years of their retirement eligibility. The actuarially reduced benefit will be calculated based on how close the member is to the eligibility date that is prescribed in the Rhode Island Retirement Security Act.

2. Plan Membership and Benefit Provisions (continued)

The plan also provides survivor's benefits; and certain lump sum death benefits.

***Cost of Living Adjustments* –** An optional cost-of-living provision may be elected for police and fire personnel and general employees. The Cost of Living Adjustment (COLA) has been suspended for any unit whose funding level is less than 80%. The COLA provision can be reviewed in a five-year interval. When the funding level of a plan exceeds 80% funded eligible retirees may receive a COLA annually effective on their date of retirement plus one month.

The COLA will be calculated as the five (5) year smoothed investment rate of return less 5.50%, with a 0.00% floor and a 4.00% cap. For police and fire units, COLA will be delayed until the later of age 55 or three years after retirement. For general employee units, COLA will be delayed until the later of the Social Security Normal Retirement Age or three years after retirement. The COLA will be applied to the first $25,000 of benefits indexed annually.

Disability retirement provisions - The plan also provides nonservice-connected disability benefits after 5 years of service; service-connected disability pensions with no minimum service requirement.

Changes in plan benefits and contributions after June 30, 2015 - changes to benefit or contribution provisions due to settlement of the pension litigation and subsequent enactment of those provisions by the General Assembly are summarized in **Note 14 – Subsequent Events**.

STATE POLICE RETIREMENT BENEFITS TRUST (SPRBT)

The State Police Retirement Benefits Trust was established under Rhode Island General Law Section 42-28-22.1 and was placed under the management of the Retirement Board for the purpose of providing retirement allowances to State Police.

Plan members – the plan covers all State Police and Superintendents hired after July 1, 1987.

***Retirement eligibility and plan benefits* –** Prior to June 30, 2012 the plan generally provides retirement benefits equal to 50% of final salary after 20 years of service, plus 3.0% of final salary times service in excess of 20 years through 25 years to a maximum of 65% of final salary. Such benefits are available to members after 20 years of service regardless of age. The Superintendent of the State Police will receive 50% of his/her final salary and may retire after attainment of age 60 and 10 years of service.

The General laws were amended such that any member of the state police, other than the superintendent, who is hired on or after July 1, 2007 and who has served for twenty-five (25) years shall be entitled to a retirement allowance of 50% of the final salary. In addition, any member may serve up to a maximum of 30 years, and shall be allowed an additional amount equal to 3.0% for each completed year served after 25 years to a maximum retirement allowance not to exceed 65% of the final salary.

Benefits are based on the final base salary earned at retirement including longevity increment, holiday pay, clothing allowance and up to 400 overtime hours.

2. Plan Membership and Benefit Provisions (continued)

Effective July 1, 2012 state police officers are eligible to retire once they have accrued a retirement benefit equal to 50% of their whole salary, with mandatory retirement once they have accrued a retirement benefit equal to 65% of their whole salary. State police officers will earn a 2% accrual rate for each year of contributing service. Benefits will be calculated on the average of the highest five consecutive years of salary, including up to 400 hours of mandatory overtime service. Benefits accrued as of June 30, 2012 will be protected under the Rhode Island Retirement Security Act.

Cost of Living Adjustments – the Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT, and JRBT plans reach a funded status of 80%. The COLA provision can be reviewed in a five-year interval. When the collective funding level of the plans exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month. The COLA will be calculated as the five (5) year smoothed investment rate of return less 5.50%, with a 0.00% floor and a 4.00% cap. COLA will be delayed until the later of age 55 or three years after retirement. The COLA will be applied to the first $25,000 of benefits indexed annually.

Disability retirement provisions - the plan provides nonservice-connected disability benefits after 10 years of service and service-connected disability pensions with no minimum service requirement.

Changes in plan benefits and contributions after June 30, 2015 - changes to benefit or contribution provisions due to settlement of the pension litigation and subsequent enactment of those provisions by the General Assembly are summarized in **Note 14 – Subsequent Events**.

JUDICIAL RETIREMENT BENEFITS TRUST (JRBT)

The Judicial Retirement Benefits Trust was established under Rhode Island General Laws 8-8.2-7; 8-3-16; 8-8-10.1; 28-30-18.1; and was placed under the management of the Retirement Board for the purpose of providing retirement allowances to Justices of the Traffic Tribunal, Supreme, Superior, Family, District and Workers Compensation courts.

Plan members – the plan covers all Judges appointed after December 31, 1989.

Retirement eligibility and plan benefits – are summarized in the following table:

	Retirement benefit
Judges appointed after December 31, 1989 but before July 2, 1997	75% of the final salary at the time of retirement after 20 years of service, or 10 years of service and attainment of age 65. Judges retiring after 20 years of service after age 65 or 15 years of service after age 70 receive full retirement benefits, which is the final salary at time of retirement.
Judges appointed after July 2, 1997 but before January 1, 2009	Same as above except, salary is the average highest three (3) consecutive years of compensation rather than final salary.

2. Plan Membership and Benefit Provisions (continued)

	Retirement benefit
Judges appointed after January 1, 2009 but before July 1, 2009	Judges with 20 years of service after age 65 or judges with 15 years of service after age 70 will receive 90% of the average of the highest three consecutive years of compensation. Judges appointed on or after January 1, 2009 with 10 years of service and age 65 or 20 years of service at any age are entitled to a reduced benefit of 70% of the average highest three consecutive years of compensation. Judges designating a survivor benefit with 20 years of service and age 65 or 15 years of service and age 70 receive a reduced benefit equal to 80% of the average highest three consecutive years of compensation. Judges designating a survivor benefit with 10 years of service after age 65 or 20 years of service at any age receive a reduced benefit equal to 60% of the average highest three consecutive years of compensation.
Judges appointed after July 1, 2009	Judges with 20 years of service after age 65 or with 15 years of service after age 70 will receive 80% of the average of the highest five consecutive years of compensation. Judges with 10 years of service and age 65 or 20 years of service at any age are entitled to a reduced benefit of 65% of the average highest five consecutive years of compensation. Judges designating a survivor benefit with 20 years of service and age 65 or 15 years of service and age 70 receive a reduced benefit equal to 70% of average highest five consecutive years of compensation. Judges designating a survivor benefit with 10 years of service after age 65 or 20 years of service at any age receive a reduced benefit equal to 55% of average highest five consecutive years of compensation.

Certain survivor benefits are also provided to judges who are plan members, which is 50% of the benefit amount payable to the judicial member.

Cost of Living Adjustments **–** the Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT, and JRBT plans reach a funded status of 80%. The COLA provision can be reviewed in a five-year interval. When the collective funding level of the plans exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month. The COLA will be calculated as the five (5) year smoothed investment rate of return less 5.50%, with a 0.00% floor and a 4.00% cap. COLA will be delayed until the later of age 55 or three years after retirement. The COLA will be applied to the first $25,000 of benefits indexed annually.

Changes in plan benefits and contributions after June 30, 2015 **-** changes to benefit or contribution provisions due to settlement of the pension litigation and subsequent enactment of those provisions by the General Assembly are summarized in **Note 14 – Subsequent Events**.

STATE OF RHODE ISLAND JUDICIAL RETIREMENT FUND TRUST (RIJRFT)

Effective July 1, 2012 and pursuant to Rhode Island General Law section 8-3-16, the retirement board established a trust to collect proceeds for the purpose of paying retirement benefits to participating judges or their beneficiaries.

2. Plan Membership and Benefit Provisions (continued)

Plan members – the plan covers seven (7) judges appointed prior to January 1, 1990. These members are active judges (as of June 30, 2012) appointed prior to January 1, 1990 that do not participate in the Judicial Retirement Benefit Trust. Prior to creating the trust, benefits for these members were intended to be funded on a pay-as-you-go basis. To the extent assets in the trust are insufficient to fund member benefits, the State would also fund retirement benefits on a pay-as-you-go basis as it does for sixty-five (65) retired judges and surviving beneficiaries that were not members of either judicial plan. The employee contribution rate is 12% of salary (except for members of the Supreme Court who contribute 8.75%).

Retirement eligibility and plan benefits – The plan generally provides retirement benefits for members who have served as a justice of the supreme court, the superior court, the family court, the district court, or any of them for 20 years and has reached the age of 65 years, or has served 15 years, and reached the age of 70 years may retire from regular service and receive a benefit equal to the annual salary the justice was receiving at the time of their retirement. Members of the traffic tribunal who served as a justice for 20 years, or has served for 10 years and reached age 65 years may retire from regular service and receive a benefit equal to 75% of the annual salary at the time of retirement. However, any traffic tribunal judge who has served 20 years and has reached age 65 years, or has served for 15 years and reached age 70 years may retire from active service and receive a benefit equal to annual salary the justice was receiving at the time of their retirement.

Cost of Living Adjustments **–** The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT, and JRBT plans reach a funded status of 80%. The COLA provision can be reviewed in a five-year interval. When the collective funding level of the plans exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month. The COLA will be calculated as the five (5) year smoothed investment rate of return less 5.50%, with a 0.00% floor and a 4.00% cap. COLA will be delayed until the later of the SSNRA or three years after retirement. The COLA will be applied to the first $25,000 of benefits indexed annually.

Changes in plan benefits and contributions after June 30, 2015 **-** changes to benefit or contribution provisions due to settlement of the pension litigation and subsequent enactment of those provisions by the General Assembly are summarized in **Note 14 – Subsequent Events**.

DEFINED CONTRIBUTION PLAN

The State of Rhode Island Defined Contribution Retirement Plan (the "Plan") is a defined contribution (money purchase) plan that operates under Section 401(a) of the Internal Revenue Code. The Plan was established under Rhode Island General Law section 36-10.3-2 and was placed under the management of the Retirement Board. The Retirement Board is the Plan administrator and Plan trustee. The law authorizes the State Investment Commission to select the appropriate third-party administrator for the Plan and to adopt Plan, trust, and/or custodial documents subject to certain guidelines outlined in the statute. The State Investment Commission is responsible for implementing the investment policy of the Plan and selecting the investment options available to members. TIAA-CREF serves as record keeper for the Plan and Plan assets are held by J.P. Morgan as investment custodian.

Plan members – The plan covers members of the Employees' Retirement System of Rhode Island (ERS), excluding legislators, correction officers and MERS general police and fire employees who participate in Social Security. For covered employees, participation in the defined contribution plan is mandatory. Judges and state police officers are also excluded from the Plan.

2. Plan Membership and Benefit Provisions (continued)

Plan vesting 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. Service credit under ERS or MERS prior to July 1, 2012 is credited to the member for vesting purposes.

Member accounts – Each member's account is credited with the member and employer's contribution and an allocation of the plan's earnings. Allocations are based on a relationship of the member's account balance in each investment fund to the total of all account balances in that fund. The retirement benefit to which a member is entitled is the benefit that can be provided from the member's account.

Forfeitures – Non-vested employer contributions are forfeited upon termination of employment. Such forfeitures can be used by employers to offset future remittances to the plan.

Contributions – The plan's benefits are funded by contributions from the participants and the employer, as specified in Rhode Island General Law 36-10.3-4 and 36-10.3-5. Eligible state employees and teachers and MERS general employees that participate in Social Security contribute 5% of the member's compensation. Employers contribute to these member's individual accounts an amount equal to 1% of the member's compensation.

Teachers and MERS general employees not covered by Social Security must contribute 7% of their compensation; employers contribute to these member's individual accounts an amount equal to 3% of the member's compensation. MERS police and fire employees not covered by Social Security must contribute 3%; employers contribute to these member's individual accounts an amount equal to 3% of the member's compensation.

Investment options – Member and employer contributions may be invested in a variety of investment options broadly diversified with distinct risk and return characteristics. The investment options provide opportunities to diversify across the risk-return spectrum with a range of investment choices within varied asset classes.

The investment programs are managed by TIAA-CREF and have various investment strategies.

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 you attain age 70 ½ or terminate employment, if later. Members have the option to receive benefit payments in the form of a Single Life Annuity, Two Life Annuity, Lump Sum Benefit, or Installments. These payments are subject to any restrictions in the investment vehicles.

Changes in plan contributions after June 30, 2015 **-** changes to contribution provisions due to settlement of the pension litigation and subsequent enactment of those provisions by the General Assembly are summarized in **Note 14 – Subsequent Events**.

3. Summary of Significant Accounting Policies

These financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The Governmental Accounting Standards Board (GASB) is responsible for establishing generally accepted accounting principles for defined benefit and defined contribution plans established and administered by governmental entities.

Basis of Accounting - The financial statements of the System are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred.

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

Investments - Investment transactions are recorded on a trade date basis. Gains or losses on foreign currency exchange contracts are included in income consistent with changes in the underlying exchange rates. Dividend income is recorded on the ex-dividend date.

Method Used to Value Investments - Investments are recorded in the financial statements at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than a forced liquidation sale.

Short-term investments are generally carried at cost or amortized cost, which approximates fair value.

The fair value of fixed income securities and domestic and international equity securities is generally based on published market prices and quotations from national security exchanges and securities pricing services. The fair value of mutual fund investments reflects the published closing net asset value as reported by the fund manager.

Commingled funds include institutional domestic equity index and international equity index funds. The fair value of these commingled funds is based on the reported net asset value (NAV) based upon the fair value of the underlying securities or assets held in the fund. The determination of fair value for other commingled funds, which include hedge, private equity, and real estate funds is described in the succeeding paragraphs.

Futures contracts are valued at the settlement price established each day by the board of trade or exchange on which they are traded.

The System also trades in foreign exchange contracts to manage exposure to foreign currency risks. Such contracts are used to purchase and sell foreign currency at a guaranteed future price. The change in the estimated fair value of these contracts, which reflects current foreign exchange rates, is included in the determination of the fair value of the System's investments.

Other investments that are not traded on a national security exchange (primarily private equity, real estate, and infrastructure investments) are generally valued based on audited December 31 net asset values adjusted for (1) cash flows for the period January 1 to June 30 (which principally include additional investments and partnership distributions), and (2) significant changes in fair value as determined or estimated by the general partners as of June 30. The general partners estimate the fair value of the underlying investments held by the partnership periodically. Publicly traded investments held by the partnerships are valued based on quoted market prices. If not publicly traded, the fair

3. Summary of Significant Accounting Policies (continued)

value is determined by the general partner. Financial Accounting Standards Board ASC Topic 820, *Fair Value Measurements and Disclosures,* requires private equity and real estate limited partnership general partners to value non-publicly traded assets at current fair value, taking into consideration the financial performance of the issuer, cash flow analysis, recent sales prices, market comparable transactions, a new round of financing, a change in economic conditions, and other pertinent information. ERSRI management considers the fair values reported by the general partners at June 30 in addition to the audited net asset values at December 31 adjusted for cash flows for the period January 1 to June 30 in determining the fair value of private equity and real estate investments on the financial statements of ERSRI.

Private equity, real estate, and infrastructure investments represented 6.8%, 4.9%, and 2.0% respectively of the total reported fair value of all ERSRI investments at June 30, 2015. Of the underlying holdings within private equity investments, approximately 19% were valued based on quoted market prices. Approximately 66% of the infrastructure investments are publicly traded. The remaining underlying assets were valued generally following the objectives outlined above. Because these fair values were not determined based on quoted market prices, the fair values may differ from the values that would have been determined had a ready market for these investments existed.

Hedge funds are valued based on information provided by the fund manager and as verified by their respective third-party administrators. Of the underlying holdings within the hedge funds approximately 71.1% were valued based on Tier 1 inputs (unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted investments) and 22.0% as Tier 2 inputs (other significant inputs, either directly or indirectly, at the measurement date such as a) quoted prices for similar assets or liabilities in active markets; b) quoted prices for identical or similar assets and liabilities in markets that are not active; c) observable inputs, other than quoted prices, for assets and liabilities; or d) inputs that are derived from or corroborated by observable market data by correlation or other means). The remaining underlying holdings within the hedge funds approximating 6.9% were valued based on Tier 3 inputs (unobservable inputs which are developed based on the best information available in the circumstances, which might include the fund's own data).

Contributions - Plan member contributions for the defined benefit plans are recognized in the period in which the wages, subject to required contributions, are earned for the performance of duties for covered employment. Employer contributions to each defined benefit plan are recognized when due and the employer has made a formal commitment to provide the contributions.

Plan member and employer contributions for the defined contribution plan are contributed to the member's individual account in the plan as a defined percentage of the member's compensation paid during the plan year ending June 30.

Benefits - Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Investment expenses – Certain investment management expenses are presented separately as a component of net investment income and include investment consultants, custodial fees, direct investment expenses allocated by managers, and allocated Office of the General Treasurer expenses associated with oversight of the portfolio. In some instances (hedge funds, private equity, real estate investments, and cash investments), investment related costs are not readily separable from investment income and consequently investment income is recorded net of related expenses.

Net investment income within the defined contribution plan is reported on a net-of-fees basis.

3. Summary of Significant Accounting Policies (continued)

Property and Equipment – These assets represent the Line of Business System and computer equipment recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives, ten and five years respectively. Property and equipment is allocated to each plan based on its proportionate share of net assets. The System's capitalization threshold is $5,000.

Prepaid Assets – These assets represent the amounts paid to a vendor pursuant to a contract to design, transition, and implement new line-of-business, general ledger accounting system, and payroll administration systems. The amounts paid before the system becomes operational have been accounted for as prepaid items and will be amortized ratably over the remaining contract period once system operations commence.

Memorandum Total Columns - Total columns on the financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns are not comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies. These estimates are subject to a certain amount of uncertainty in the near term, which could result in changes in the values reported for those assets in the statements of fiduciary net position. Because of the inherent uncertainty in the valuation of privately held securities, the fair value may differ from the values that would have been used if a ready market for such securities existed, and the difference can be material. Estimates also affect the reported amounts of income/additions and expenses/deductions during the reporting period. Actual results could differ from these estimates.

New Accounting Standards – The System will implement Statement No. 72 of the Governmental Accounting Standards Board – *Fair Value Measurement and Application.*

4. Cash Deposits and Cash Equivalents

At June 30, 2015, the carrying amounts of the plans' cash deposits are listed below:

Cash Deposits:	ERS/TSB	MERS	SPRBT	JRBT	RIJRFT	Total
Book balance	$ 4,345,985	$ 995,982	$ 135,238	$ 117,201	$ 38,229	$ 5,632,635
Bank balance	$ 4,479,768	$ 1,026,372	$ 135,238	$ 117,201	$ 38,229	$ 5,796,808

The bank and book balances represent the plans' deposits in short-term trust accounts, which include demand deposit accounts and interest-bearing, collateralized bank deposit accounts. The bank balance, $5,661,599 and the remainder representing interest-bearing collateralized bank deposits totaling $135,209 are either federally insured or collateralized (102%) with U.S. Treasury, agencies, and federal home loan bank letters of credit held by a third party custodian.

In accordance with Rhode Island General Law Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the System's deposits were required to be collateralized at June 30, 2015 (excluding the collateralized interest-bearing deposits). However, the State

4. Cash Deposits and Cash Equivalents

Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the deposit amounts that are not insured by federal depository insurance.

The General Treasurer makes certain short-term investments on a daily basis. Rhode Island General Law Section 35-10-11 (b)(3) requires that all investments shall be made in securities as would be acquired by prudent persons of discretion and intelligence who are seeking a reasonable income and the preservation of capital.

5. Investments – Pooled Investment Trust

(a). General

On July 1, 1992, the State Investment Commission pooled the assets of the ERS with the assets of the MERS for investment purposes only, and assigned units to the plans based on their respective share of market value. On September 29, 1994 and November 1, 1995, the assets of the SPRBT and the JRBT, respectively, were added to the pool for investment purposes only. In January 2014, the assets of the RIJRFT plan were added to the pooled investment trust for investment purposes. The assets of the TSB plan had previously been pooled with the assets of the ERS plan.

The custodian bank holds assets of the System in a Pooled Trust and each plan holds units in the trust. The number of units held by each plan is a function of each plans' respective contributions to, or withdrawals from, the trust.

Investment policy - The State Investment Commission (SIC) oversees all investments made by the State of Rhode Island, including those made for the System's Pooled Investment Trust. The SIC has established an asset allocation policy which may be amended by the SIC Board by a majority vote of its members. The SIC's asset allocation policy seeks to achieve the assumed rate of return adopted by the System over the long-term while reducing risk through the prudent diversification of the portfolio across various asset classes.

The following was the SIC's adopted asset allocation policy targets as of June 30, 2015:

Type of Investment	Policy Targets for Fiscal Year 2015
Global Equity	38.0%
Equity Hedge Funds	8.0%
Private Equity	7.0%
Core Fixed Income	15.0%
Absolute Return Hedge Funds	7.0%
Infrastructure	3.0%
Real Estate	8.0%
Other Real Return Assets	11.0%
Cash, Overlay and Money Market	3.0%
Total	100.0%

5. Pooled Investment Trust (continued)

(a). General

Consistent with a target asset allocation model adopted by the State Investment Commission (SIC), the System directs its separate-account investment managers to maintain, within the mandate specified by the SIC, diversified portfolios by sector, credit rating and issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds.

Specific manager performance objectives are outlined and generally stated in relation to a benchmark or relevant index. These guidelines also include prohibited investments, limitations on maximum exposure to a single industry or single issuer, a minimum number of holdings within the manager's portfolio and, for fixed income managers, minimum credit quality ratings and duration/maturity targets.

Investment expense is allocated to each plan based on the plan's units in the Pooled Trust at the end of each month.

The following table presents the fair value of investments by type that are held within the Pooled Trust for the defined benefit plans at June 30, 2015:

Pooled Investment Trust Investment Type	**Fair Value**
Cash and Cash Equivalents	$ 44,684,538
Foreign Currencies	2,603,988
Money Market Mutual Funds	207,044,545
US Government Securities	334,503,514
US Government Inflation Linked Bonds	291,732,314
US Government Agency Securities	328,489,295
Collateralized Mortgage Obligations	33,140,942
Corporate Bonds	469,246,280
International Government Bonds	3,407,315
Term Loans	305,941,690
Domestic Equity Securities	831,620
International Equity Securities	243,430
Commingled Funds - Domestic Equity	1,899,731,458
Commingled Funds - International Equity	1,862,563,557
Private Equity	545,080,030
Real Estate	393,750,191
Hedge Funds	1,171,344,348
Infrastructure Investments	156,766,315
Derivative Investments	620,255
Investments at Fair Value	**$ 8,051,725,625**
Receivable for investments sold	**58,933,942**
Payable for investments purchased	**(142,465,258)**
Total	**$ 7,968,194,309**

6. Pooled Investment Trust (continued)

(b). Rate of Return

For the year ended June 30, 2015, the annual money-weighted returns on investments within each of the plans, net of investment expense, are shown in the following table. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

	ERS	TSB	MERS	SPRBT	JRBT	RIJRFT
Money-weighted rate of return – year ended June 30, 2015	2.06%	2.25%	2.22%	2.28%	2.27%	2.28%

(c). Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt security's sensitivity to fair value changes arising from changes in the level of interest rates. It is the weighted average maturity of a bond's cash flows. The System manages its exposure to interest rate risk by comparing each fixed income manager portfolio's effective duration against a predetermined benchmark index based on that manager's mandate. The fixed income indices currently used by the System are:

- Barclays US Aggregate Index
- Barclays World Government Inflation-Linked Notes: 1-10 Year Index
- Custom loan and high yield index – 30% Bank of America Merrill Lynch 1-3 Year BB-B High Yield, 35% JP Morgan BB/B Leveraged Loan Index and 35% Credit Suisse Institutional Leveraged Loan Index

At June 30, 2015, no fixed income manager was outside of the policy guidelines.

The following table shows the System's fixed income investments by type, fair value and the effective duration at June 30, 2015:

Investment Type:	Fair Value (in thousands)	Effective Duration
US Government Securities	$ 626,236	5.26
US Government Agency Securities	328,489	3.60
Collateralized Mortgage Obligations	33,141	1.45
Corporate Bonds	469,246	6.16
International Government Bonds	3,407	6.83
Term Loans	305,492	1.01
Total Fixed Income	$ 1,766,012	4.39

5. Pooled Investment Trust (continued)

(c). Interest Rate Risk

The System had investments at June 30, 2015 totaling $5,406,191 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer.

OSIP operates in a manner consistent with SEC Rule 2a-7 like pool and thus, reports all investments at amortized cost rather than fair value. The OSIP is not rated and the weighted average maturity of investments held in the pool, by policy, is not to exceed 60 days. OSIP issues a publicly available financial report that can be obtained by writing to the Office of the General Treasurer, Finance Department, 50 Service Avenue - 2nd Floor, Warwick, RI 02886.

The System also invested $201,638,354 in a short-term money market mutual fund that held investments with a weighted average maturity of 54 days at June 30, 2015.

The System invests in various mortgage-backed securities, such as collateralized mortgage obligations (CMO), interest-only and principal-only strips. They are reported in U.S. Government Agency Securities and Collateralized Mortgage Obligations in the table above. CMO's are bonds that are collateralized by whole loan mortgages, mortgage pass-through securities or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes or tranches in accordance with the CMO's established payment order. Some CMO tranches have more stable cash flows relative to changes in interest rates while others are significantly sensitive to interest rate fluctuations.

The System may invest in interest-only and principal-only strips in part to hedge against a rise in interest rates. Interest-only strips are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to pre-payments by mortgagees, which may result from a decline in interest rates. Principal-only strips receive principal cash flows from the underlying mortgages. In periods of rising interest rates, homeowners tend to make fewer mortgage prepayments.

5. Pooled Investment Trust (continued)

(d). Credit Risk

The System manages exposure to credit risk generally by instructing fixed income managers to adhere to an overall target weighted average credit quality for their portfolios and by establishing limits on the percentage of the portfolios that are invested in non-investment grade securities. The System's exposure to credit risk as of June 30, 2015 is as follows:

Rating	US Government Agency Obligations	Collateralized Mortgage Obligations	Corporate Bonds	International Government Bonds	Term Loans
Aaa	$ 328,489,295	$ 16,268,305	$ 17,400,546		
Aa		3,279,296	16,945,576		
A		10,932,500	99,090,778	513,000	
Baa		2,660,841	222,339,607	2,894,315	9,567,728
Ba			56,257,551		85,759,335
B			38,943,127		143,168,714
Caa			16,969,941		18,157,076
Ca			80,500		
C					
D					373,250
Not Rated			1,218,654		48,915,587
Fair Value	**$ 328,489,295**	**$ 33,140,942**	**$ 469,246,280**	**$ 3,407,315**	**$ 305,941,690**

(e). Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investments in a single issuer. There is no single issuer exposure within the System's pooled investment trust that comprises 5% of the overall portfolio.

(f). Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2015, all securities were registered in the name of the System (or in the nominee name of its custodial agent) and were held in the possession of the System's custodial bank, Bank of New York Mellon.

(g). Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. Portfolios are diversified to limit foreign currency and security risk. The System may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. The System's exposure to foreign currency risk at June 30, 2015, was as follows:

5. Pooled Investment Trust (continued)

(g). Foreign Currency Risk

Currency	Commingled Funds	Currency	Equities	Private Equity	Derivatives	Total
Australian Dollar	$ 87,764,192	$ 143,245	$ -		$ 34,746	$ 87,942,183
Brazilian Real	29,483,708					29,483,708
Canadian Dollar	129,020,247	51,543	164,973	16,797,855	30,393	146,065,011
Chilean Peso	5,170,388					5,170,388
Colombian Peso	2,439,693					2,439,693
Czech Republic Koruna	793,269					793,269
Danish Krone	21,414,322					21,414,322
Egyptian Pound	1,020,597					1,020,597
Euro Currency	386,939,139	1,978,429	51	67,846,327	(73,172)	456,690,774
Great Britain Pound	261,964,664	308,172	78,399		105,484	262,456,719
Hong Kong Dollar	148,994,932	12				148,994,944
Hungarian Forint	994,821					994,821
Indian Rupee	32,381,432					32,381,432
Indonesia Rupiah	11,052,393					11,052,393
Israeli Shekel	7,798,678					7,798,678
Japanese Yen	297,980,596	87,908			111,879	298,180,383
Malaysian Ringgit	13,621,819					13,621,819
Mexican Peso	19,446,523					19,446,523
New Zealand Dollar	1,689,698					1,689,698
Norwegian Krone	8,277,383					8,277,383
Peruvian Nouveau Sol	215					215
Philippine Peso	5,804,408					5,804,408
Polish Zloty	6,355,888					6,355,888
Qatari Real	4,053,727					4,053,727
Russian Ruble	3,459,080					3,459,080
Singapore Dollar	19,000,052		7			19,000,059
Swedish Krona	38,011,129	34,679			11,300	38,057,108
Swiss Franc	115,768,832					115,768,832
South African Rand	34,018,610					34,018,610
South Korean Won	61,710,831					61,710,831
Taiwan Dollar	53,598,090					53,598,090
Thailand Baht	9,534,175					9,534,175
Turkish Lira	6,373,326					6,373,326
United Arab Emirates Dirham	2,719,943					2,719,943
Total	$ 1,828,656,796	$ 2,603,988	$ 243,430	$ 84,644,182	$ 220,630	$ 1,916,369,026
United States	33,906,762					
Grand Total	$ 1,862,563,557					

In addition to the foreign currency exposure highlighted in the foregoing table, certain hedge and private equity fund investments may have foreign currency exposure.

(h). Derivatives and Other Similar Investments

Certain of the System's investment managers are allowed to invest in derivative type transactions consistent with the terms and limitations governing their investment objective and related contract specifications. Derivatives and other similar investments are financial contracts whose value depends on one or more underlying assets, reference rates, or financial indices.

5. Pooled Investment Trust (continued)

(h). Derivatives and Other Similar Investments

The System's derivative investments include forward foreign currency transactions, futures contracts, options, rights, and warrants. The System enters into these transactions to enhance performance, rebalance the portfolio consistent with overall asset allocation targets, gain or reduce exposure to a specific market, or mitigate specific risks.

Forward foreign currency contracts – The System enters into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. A currency forward is a contractual agreement to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. If not offset by a corresponding position with the opposite currency exposure, these contracts involve risk in excess of the amount reflected in the System's Statements of Fiduciary Net Position. The face or contract amount in U.S. dollars reflects the total exposure the System has in currency contracts. The U.S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation service. Losses may arise due to changes in the value of the foreign currency or if the counterparty does not perform under the contract.

Futures contracts – The System uses futures to manage its exposure to the domestic and international equity, money market, and bond markets and the fluctuations in interest rates and currency values. Futures are also used to obtain target market exposures in a cost effective manner and to narrow the gap between the System's actual cash exposures and the target policy exposures. Using futures contracts in this fashion is designed to reduce (or hedge) the risk of the actual plan portfolio deviating from the policy portfolio more efficiently than by using cash securities. The program is only used to manage intended exposures and asset allocation rebalancing.

Buying futures tends to increase the System's exposure to the underlying instrument. Selling futures tends to decrease the System's exposure to the underlying instrument, or hedge other System investments. Losses may arise due to movements in the underlying or reference markets.

Through commingled funds, the System also indirectly holds derivative type instruments, primarily equity index futures.

The System invests in mortgage-backed securities, which are included in the categories described as collateralized mortgage obligations and U.S. Government Agency Securities in Note 5. These securities are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgagees, which are likely in declining interest rate environments, thereby reducing the value of these securities.

Additional information regarding interest rate risks for these investments is included in Note 5(b) *Interest Rate Risk*.

The System may sell a security in anticipation of a decline in the fair value of that security or to lessen the portfolio allocation of an asset class. Short sales may increase the risk of loss to the System when the price of a security underlying the short sale increases and the System is obligated to deliver the security in order to cover the position.

5. Pooled Investment Trust (continued)

(h). Derivatives and Other Similar Investments

The following summarize the System's exposure to specific derivative investments at June 30, 2015.

Investment Derivative Instruments	Change in fair value included in investment income	Fair Value at June 30, 2015	Notional Amount
Fixed income futures - long	$ (21,068)	$ 5,388	$ 3,284,063
Fixed income futures - short	(12,510)	(43,985)	6,796,320
Equity index futures - long	629,998	1,111,893	(57,427,882)
Equity index futures - short	679,823	(217,410)	11,311,093
Credit default swaps	(5,365)	80,367	1,287,000
Interest rate swaps	(772,264)	(315,998)	4,093,400
Total	$ 498,612	$ 620,255	
Foreign currency forward contracts:			
Pending Payable (liability)		$ (262,416)	
Pending Receivable (asset)		140,718	
		$ (121,698)	

The System is exposed to counterparty risk on foreign currency contracts that are in asset positions. The aggregate fair value of derivative instruments in asset positions at June 30, 2015 was $140,718. This represents the maximum loss that would be recognized if all counterparties failed to perform as contracted. Risk is mitigated by using a continuous linked settlement process.

Credit Default Swaps can be used in the portfolio by the credit manager to either obtain exposure to the high yield market efficiently (i.e. by selling protection) at a similar or better price than what can be obtained in cash bonds, or to hedge the credit risk of the portfolio (i.e. buy protection). The actual swap entered into sold protection on an index to effectively and quickly gain long exposure to the high yield markets giving this new manager time to invest in individual cash bonds in line with the mandate.

Interest rate swaps can be used to manage interest rate risk and increase returns in the fixed income or term loan portion of the portfolio.

The System executes (through its investment managers) derivative instruments with various counterparties. The credit ratings of these counterparties were Baa2 (Moody's) or better, one counterparty was not rated by Moody's but is rated A+ by Fitch.

6. Other Investments – Defined Contribution Plan

The State Investment Commission selected various investment options for defined contribution plan participants with the overall objective of offering low-cost, strategic, and long-term oriented investment products. Plan participants can choose one or more of the various options and can change options at any time. Plan participants who do not elect a specific option default to a target date retirement fund consistent with their anticipated Social Security retirement eligibility date.

Investment Type	Fair Value	% of Total	Duration (years)	Weighted Average Maturity (days)
Annuities				
TIAA Stable Value	$ 4,979,869	1.21%		
TIAA Real Estate - variable annuity	2,332,015	0.57%		
Total	**$ 7,311,883**	**1.78%**		
Money Market				
Vanguard Prime Money Market Fund	**$ 497,977**	**0.12%**		43
Fixed Income Funds				
Pimco Real Return Institutional Class	3,113,937	0.76%	4.84	
Vanguard Total Bond Market Index Admiral	2,606,144	0.63%	5.70	
Total	**$ 5,720,080**	**1.39%**		
Target Retirement Funds				
Vanguard Target Retirement 2010 Trust II	7,288,573	1.77%		
Vanguard Target Retirement 2015 Trust II	30,134,321	7.34%		
Vanguard Target Retirement 2020 Trust II	56,629,964	13.79%		
Vanguard Target Retirement 2025 Trust II	60,888,552	14.82%		
Vanguard Target Retirement 2030 Trust II	60,933,140	14.83%		
Vanguard Target Retirement 2035 Trust II	57,088,309	13.90%		
Vanguard Target Retirement 2040 Trust II	44,884,055	10.93%		
Vanguard Target Retirement 2045 Trust II	32,938,873	8.02%		
Vanguard Target Retirement 2050 Trust II	17,734,720	4.32%		
Vanguard Target Retirement 2055 Trust II	4,517,969	1.10%		
Vanguard Target Retirement 2060 Trust II	430,493	0.10%		
Vanguard Target Retirement Income Trust II	2,228,385	0.54%		
Total	**$ 375,697,354**	**91.46%**		
Equity Mutual Funds				
TIAA-CREF International Equity Index Fund Institutional	2,235,033	0.54%		
TIAA-CREF Social Ch Equity Institutional	360,266	0.09%		
Vanguard Institutional Index Fund	9,289,276	2.26%		
Vanguard Emerging Markets Stock Index Fund Admiral	1,852,749	0.45%		
Vanguard Mid-Cap Index Fund Admiral	4,180,233	1.02%		
Vanguard Small Cap Index Fund Admiral	3,631,297	0.88%		
Total	**$ 21,548,854**	**5.25%**		
Total	**$ 410,776,149**	**100.00%**		

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2015, all assets and securities were registered in the name of TIAA-CREF as the Defined Contribution Plan's record keeper for the benefit of plan members and were held in the possession of TIAA-CREF's custodian, J.P. Morgan Bank.

6. Other Investments – Defined Contribution Plan (continued)

The majority of the defined contribution plan investment options are mutual funds that invest in diversified portfolios of securities including equity and fixed-income investments. For investment options that are solely fixed income, weighted-average maturity or duration have been disclosed as a measure of interest rate risk.

Fixed income mutual funds and variable annuity accounts are subject to interest rate, inflation and credit risks. Target-date retirement mutual funds share the risks associated with the types of securities held by each of the underlying funds in which they invest including equity and fixed income funds. Mutual funds may have exposure to foreign currency risk through investment in non-US denominated securities.

7. Property and Equipment

Property and equipment consist of the line of business system (LOB) and computer equipment at historical cost. During fiscal year-ended June 30, 2013 the System fully depreciated its LOB and computer equipment. The systems have reached their economic life for reporting purposes, but will remain in service until they are replaced by a new system in fiscal year 2016. Under the new system development and operations contract, the vendor will supply and operate the system for the contract period. Consequently, no capital asset related to the new system will be recognized or depreciated. Instead, contract payments will be expensed ratably over the contract period commencing when the system becomes fully operational.

8. Contributions

Contribution requirements for plan members and employers are established pursuant to Rhode Island General Laws. Employers are required to contribute at an actuarially determined rate for the defined benefit plans. Employer contributions for the defined contribution plan are prescribed by statute. Plan member contributions for the defined benefit and defined contribution plans are fixed by statute. Member and employer contribution rates are subject to amendment by the General Assembly.

(a). Funding Policy

The funding policies, as set forth in Rhode Island General Law, Section 36-10-2 and 45-21-42 provide for actuarially determined periodic contributions to the plans. The actuarial valuation uses the Entry Age Normal actuarial cost method. Under this method, the employer contribution rate is the sum of (i) the employer normal cost rate, and (ii) a rate that will amortize the unfunded actuarial liability. The valuation is prepared on the projected benefit basis, under which the present value, at the assumed rate of return (currently 7.5 percent for all plans except the RIJRFT which utilizes a 4.0% assumed rate of return), of each participant's expected benefit payable at retirement or death is determined, based on age, service, gender and compensation.

The employer contributions required to support the benefits of the Plan are determined following a level funding approach, and consist of a normal contribution and an accrued liability contribution. The normal contribution is determined using the "entry age normal" method. Under this method, a calculation is made to determine the rate of contribution which, if applied to the compensation of each individual member during the entire period of anticipated covered service, would be required to meet the cost of all benefits payable on his behalf. This method is commonly referred to as the Individual Entry Age Actuarial Cost Method.

8. Contributions (continued)

(a). Funding Policy

The unfunded actuarial accrued liability (UAAL) is amortized as a level percent of payroll over a closed period. For underfunded plans, the period is 25 years as measured from June 30, 2010, or 21 years as of the current valuation date for any existing UAAL. Beginning with the June 30, 2014 actuarial valuation, new experience gains and losses for underfunded plans are amortized over individual closed periods of 20 years using the process of "laddering". Overfunded plans will have an amortization rate calculated using a single base amortized over an open period of 20 years.

(b). Contribution rates

Employer contribution rates for fiscal 2015 for all defined benefit plans were developed based on actuarial valuations performed as of June 30, 2012. Employee contribution rates are statutorily determined.

Rhode Island Judicial Retirement Fund Trust plan is not currently advance funded. Employees make contributions to the plan; however, there are no employer contributions. This plan is for a closed group of individuals and the amortization payment has been calculated based on level-dollar amortization over 16-years from June 30, 2012.

The table below displays the contribution rates for the year ended June 30, 2015:

Plan	Employee	Employer
ERS		
State Employees	3.75%	23.33%
Teachers		
LEA funded	3.75%	13.41% (*12.79% for towns not participating in the 1990 early retirement incentive*)
State funded		9.19% (*8.77% for towns not participating in the 1990 early retirement incentive*)
TSB	1% of the member's annual salary up to but not exceeding $9,600	1% of the member's annual salary up to but not exceeding $9,600
MERS		
General Employees	1.00% (additional 1% with a cost-of-living adjustment)	68 Municipalities, housing authorities, water and sewer districts contributed various actuarially determined rates.
Public Safety	7.00% (additional 1% with a cost-of-living adjustment)	45 Municipal police and fire departments contributed various actuarially determined rates.
SPRBT	8.75%	17.24%
JRBT	12.00% (8.75% supreme court judges)	28.32%
RIJRFT	12.00% (8.75% supreme court judges)	$1,623,061 (note 1)
Defined Contribution Plan	Eligible state employees, teachers, and MERS general employees participating in social security – 5%	1%
	Teachers and MERS general employees not covered by social security – 7%	3%
	MERS police and fire employees not covered by social security – 3%	3%
Note 1 - The State of Rhode Island is not currently funding this plan on an advance funding basis – an employer contribution has been actuarially determined; however, no employer contributions have been made to the plan.		

8. Contributions (continued)

(c). Supplemental Contributions

The General Laws (Section 36-10-2(a) 1 and 2) also require, in addition to the contributions provided for by the funding policy, for each fiscal year in which the actuarially determined state contribution rate for state employees and teachers is lower than that for the prior fiscal year, the governor shall include an appropriation to that system equivalent to twenty percent (20%) of the rate reduction to be applied to the actuarial accrued liability. The amounts to be appropriated shall be included in the annual appropriation bill and shall be paid by the general treasurer into the retirement system. The retirement system's actuary shall not adjust the computation of the annual required contribution for the year in which supplemental contributions are received; such contributions once made may be treated as reducing the actuarial liability remaining for amortization in the next following actuarial valuation to be performed. For fiscal 2015, there were no monies contributed to the System in accordance with this provision of the General Laws.

The Retirement Security Act provides for additional contributions to the System based on 5.5% of the value of contracts where the services performed by the contractor were previously performed by state employees. A supplemental contribution of $414,450 was paid to the System pursuant to Section 42-149-3.1 of the General Laws.

9. Net Pension Liability (Asset) of the Participating Employers

The components of the net pension liability of the employers participating in the various plans of the System at June 30, 2015 were as follows:

Plan	Total pension liability	Plan fiduciary net position	Employers' net pension liability (asset)	Plan fiduciary net position as a % of the total pension liability
ERS				
State employees	$ 4,417,358,768	2,430,930,476	$ 1,986,428,292	55.0%
Teachers	6,486,028,286	3,733,025,598	2,753,002,688	57.6%
TSB	200,456,053	293,811,653	(93,355,600)	146.6%
State Police	120,907,073	114,905,593	6,001,480	95.0%
JRBT	63,085,295	59,509,873	3,575,422	94.3%
RIJRFT	18,811,808	485,597	18,326,211	2.6%
MERS				
General employees	1,125,296,558	935,510,739	189,785,819	83.1%
Police and fire	576,066,967	456,714,171	119,352,796	79.3%

a. Actuarial assumptions

The total pension liability was determined by actuarial valuations performed as of June 30, 2014 and rolled forward to June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement.

The actuarial assumptions used in the June 30, 2014 valuations and the calculation of the total pension liability at June 30, 2015 were consistent with the results of an actuarial experience study performed as of June 30, 2013.

9. Net Pension Liability (Asset) of the Participating Employers (continued)

a. Actuarial assumptions

Summary of Actuarial Assumptions Used in the June 30, 2015 Valuations
to determine the Net Pension Liability – (June 30, 2014 valuation with a June 30, 2015 measurement date)

	ERS		MERS	SPRBT	JRBT	RIJRFT	TSB
	State Employees	*Teachers*					
Actuarial Cost Method	Entry Age Normal - the Individual Entry Age Actuarial Cost methodology is used.						
Amortization Method	Level Percent of Payroll – Closed					Level Dollar	Level Dollar
Amortization Period for gains and losses	20 years						
Actuarial Assumptions							
Investment Rate of Return	7.50%	7.50%	7.50%	7.50%	7.50%	3.80%	7.50%
Projected Salary Increases	3.50% to 6.50%	3.50% to 13.5%	_General Employees_ 3.50% to 7.50% _Police & Fire Employees_ 4.00% to 14.00%	3.75% to 11.75%	3.50%	3.50%	3.50% to 13.50%
Mortality	• Male Employees, MERS General and MERS P&F: 115% of RP-2000 Combined Healthy for Males with White Collar adjustments, projected with Scale AA from 2000. • Female Employees, MERS General and MERS P&F: 95% of RP-2000 Combined Healthy for Females with White Collar adjustments, projected with Scale AA from 2000.						Mortality the same as for teachers
		Male and female teachers: 97% and 92%, respectively of rates in a GRS table based on male and female teacher experience, projected with Scale AA from 2000.					
Inflation	2.75%						

Cost of Living Adjustments: COLA is equal to the average five-year fund asset performance (percent) greater than 5.5% up to a maximum of 4% - the COLA is to be applied to the first $25,000 of benefits, indexed over time. COLA is delayed until the latter of Social Security eligibility age or 3 years after retirement except for State Police and MERS Police and Fire for which the COLA is delayed until the later of age 55 or 3 years after retirement.

For the MERS plan, a 2% COLA is assumed after January 1, 2014. For all other plans, a COLA of 2% is assumed only every five years until the plans achieve an 80% collective funded status in accordance with the law.

For the TSB plan, a 2.75% COLA is assumed.

9. Net Pension Liability (Asset) of the Participating Employers (continued)

a. Actuarial assumptions

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 23 sources. The June 30, 2015 expected arithmetic returns over the long-term (20 years) by asset class are summarized in the following table:

Type of Investment	Long-term expected real rate of return
Global Equity:	
U.S. Equity	6.93%
International Developed	7.32%
International Emerging Markets	9.52%
Equity Hedge Funds	3.98%
Private Equity	9.99%
Core Fixed Income	2.18%
Absolute Return Hedge Funds	3.98%
Infrastructure	5.70%
Real Estate	4.85%
Other Real Return Assets:	
Master Limited Partnerships	4.51%
Credit	4.51%
Inflation Linked Bonds	1.24%
Cash, Overlay and Money Market	0.78%

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.

b. Discount rate

The discount rate used to measure the total pension liability of the plans was 7.5 percent for all but the RIJRFT plan. 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.

For the RIJRFT plan, the State has not opted to make actuarially determined employer contributions and based on those assumptions, the pension plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. Consequently, for the RIJRFT plan, the municipal bond index rate, based on the 20-year Bond Buyer GO Index, (3.80% and 4.29% at June 30, 2015 and June 30, 2014, respectively) was applied to all periods of projected benefit payments to determine the total pension liability.

9. Net Pension Liability (Asset) of the Participating Employers (continued)

c. Sensitivity of the net pension liability (asset) to changes in the discount rate

The following presents the net pension liability (asset) of the employers calculated using the discount rate of 7.5 percent (for all plans except the RIJRFT), as well as what the employers' net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate. The RIJRFT plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members and consequently the municipal bond index rate of 3.80% at June 30, 2015 was used in the determination of the net pension liability for that plan with a similar +1/-1% sensitivity analysis.

	1.00% Decrease (6.50%)	Current Discount Rate (7.5%)	1.00% Increase (8.50%)
ERS - State employees	$ 2,462,737,913	$ 1,986,428,292	$ 1,596,501,024
ERS - Teachers	$ 3,452,243,237	$ 2,753,002,688	$ 2,180,575,331
TSB	$ (72,497,767)	$ (93,355,600)	$ (110,424,853)
SPRBT	$ 18,345,353	$ 6,001,480	$ (4,098,269)
JRBT	$ 10,075,163	$ 3,575,422	$ (1,743,119)
MERS - General Employees	$ 309,221,655	$ 189,785,819	$ 92,025,528
MERS - Police and Fire	$ 179,343,731	$ 119,352,796	$ 70,258,445

	1.00% Decrease (2.80%)	Municipal Bond Index Discount Rate (3.80%)	1.00% Increase (4.80%)
RIJRFT	$ 20,196,834	$ 18,326,211	$ 16,796,025

10. Administrative Expenses

Pursuant to General Law section 36-8-10.1, administrative costs of the System are financed through investment earnings up to a maximum of 0.175% of the average total investments before lending activities as reported in the annual report of the Auditor General for the next preceding five (5) fiscal years. Such amounts are transferred to a restricted receipt account within the State's general fund. Any unencumbered funds on June 30 of any fiscal year are credited to the plans in the same proportion as their contributions to the restricted receipt account.

Administrative expenses of the System, financed as described in the preceding paragraph, include $1,010,657 of expenses within the Office of General Treasurer related to oversight of the System's investment portfolio. Consistent with generally accepted accounting principles, these expenses have been included with investment expenses on the accompanying financial statements.

For fiscal year 2015, the administrative costs of the defined contribution plan were financed solely by participant fees. Fees paid to TIAA-CREF via participant fees for fiscal year ended June 30, 2015 were $1,298,471. From these participant fees, $259,580 was transferred to the State of Rhode Island to fund the fiscal 2015 operating expenses of the Office of the General Treasurer related to the administration of the defined contribution plan.

11. Commitments

The State Investment Commission has committed to fund certain private equity, real estate, and infrastructure investment managers at a predetermined subscription amount. Outstanding unfunded investment commitments at June 30, 2015 totaled $563 million. These commitments will be funded through cash available within the pooled investment trust generated through investment income and/or liquidation of other investments.

The system's investments in hedge funds are generally subject to "lock-up" provisions that limit (subject to certain exceptions) the ability to withdraw amounts previously invested for a period of one to three years after the initial investment. At June 30, 2015, investments totaling approximately $223 million are subject to these withdrawal limitation provisions. The remainder of hedge fund assets are available for redemption either on a month end or quarter end basis, and are subject to notice periods which vary by fund and range from 2 days to 90 days.

The System is committed under a ten-year development and operating agreement to design, transition, and implement new line-of-business, general ledger accounting system, and payroll administration systems. The contract requires monthly payments through fiscal 2022. Total payments over the contract period are estimated at $22 million.

12. Postemployment Healthcare Plan

Plan Description - The System contributes to the State Employees' defined benefit post-employment health care plan, a cost sharing multiple employer plan administered though the Rhode Island State Employees' and Electing Teachers OPEB System (OPEB System). The State of Rhode Island OPEB Board (Board) was authorized, created and established under Chapter 36-12.1 of the RI General Laws. The Board was established to independently hold and administer, in trust, the funds of the OPEB system. The plan provides medical benefits to certain retired employees of participating employers included in the System.

Pursuant to legislation enacted by the General Assembly, a trust was established to accumulate assets and pay benefits and other costs associated with the OPEB system.

The OPEB system issues a stand-alone, publicly available financial report that includes the financial statements and required supplementary information. A copy of the report can be obtained from the Office of Accounts and Control, One Capitol Hill, Providence, RI 02903.

Funding Policy - *RIGL* Sections 36-12.1, 36-12-2.2, and 36-12-4 govern the provisions of the OPEB system. The contribution requirements of plan members, the State, and other participating employers are established and may be amended by the General Assembly. Active employees make no contribution to the OPEB plan. Employees who retired after October 1, 2008 must contribute 20% of the annual estimated benefit cost (working rate) or annual premium for Medicare supplemental coverage. Employees retiring before October 1, 2008 have varying co-pay percentages ranging from 0% to 50% based on age and years of service at retirement. Further information about the contributions of plan members can be found in the financial report of the OPEB system.

12. Postemployment Healthcare Plan (continued)

All participating employers are required by law to fund the actuarially determined annual required contribution (ARC), which for fiscal year 2015 was 6.75% of covered payroll. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The System's contribution to the plan for the years ended June 30, 2015, 2014 and 2013 were $205,392 $238,280, and $204,957 respectively, which represents 100% of the annual required contributions.

13. Contingencies

Various legal challenges to enacted pension reforms initiated in recent years were settled in 2015. To carry out the settlement, the Rhode Island General Assembly passed legislation amending the Rhode Island Retirement Security Act ("RIRSA"), which was enacted into law on June 30, 2015 and which became generally effective July 1, 2015 ("New RIRSA"). On July 8, 2015, the Court entered final judgment. Four *pro se* appeals have been filed with respect to the final judgment. In addition, 65 public safety employees and 70 retirees have, through counsel, filed appeals. The appeals in the case do not affect the implementation of New RIRSA.

Several other legal challenges to RIRSA, which were not encompassed by the settlement, were dismissed without prejudice on the grounds that because RIRSA was amended by New RIRSA, the plaintiffs' claims were moot.

A lawsuit commenced by the Rhode Island Trooper's Association challenging the constitutionality of the RIRSA (prior to the amendments) remains outstanding. The benefits at issue are those to be paid from the State Police Retirement Benefits Trust.

Finally, on October 28, 2015, a retired state employee filed a charge of discrimination in the Rhode Island Commission for Human Rights alleging, *inter alia*, that she was discriminated against on the basis of her age through the enactment of the RIRSA. The State has responded and requested that the charge be dismissed because, *inter alia*, it is barred by the doctrine of *res judicata*.

The State intends to vigorously defend these matters and cannot presently estimate any potential loss, if any.

Central Coventry Fire District - The Central Coventry Fire District (CCFD), a participating employer in the MERS agent employer pension plan, was under the control of a State appointed receiver. The System is an interested party and creditor of CCFD and had filed proof of claim for contributions owed to the System. The System had represented to the Superior Court that, in the event of CCFD's withdrawal from MERS in connection with a potential closure and liquidation of the CCFD, the district would be responsible for having total funds on deposit equal to the actuarial value of retirement and disability allowances in force, the vested rights of employees who have not yet retired and an amount equal to the accumulated contributions of those employees who have not acquired vested rights. CCFD does not have such an amount on deposit which is estimated at approximately $5.6 million.

The Superior Court has returned, at the State's request, control of the CCFD to a local governing board. Employee contributions are current; employer contributions receivable as of June 30, 2015 totaled $444,324 and remain outstanding.

14. Subsequent event

Subsequent to June 30, 2015, litigation challenging the various pension reform measures enacted in previous years by the General Assembly (2009, 2010, and 2011) was settled. The final settlement approved by the Court on July 8, 2015 also included enactment of the pension settlement provisions by the General Assembly. These amended benefit provisions, which have been included in the determination of the total pension liability at the June 30, 2015 measurement date, 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 municipal general employees will contribute 8.25% (9.25% for units with a COLA provision) and participate solely in the defined benefit plan going forward – 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 RIRSA date is earlier or are eligible under a transition rule.

- MERS public safety employees may retire at age 50 with 25 years of service, or any age with 27 years of service. MERS public safety employees will contribute 9.00% (10.00% for units with a COLA provision)

- Employees with more than 10 but less than 20 years of service at July 1, 2012 will receive an increased employer contribution to the defined contribution plan. Also, members who earn less than $35,000 per year will not be required to pay the administrative fees to the defined contribution plan.

- Members who retired from a COLA eligible plan before 7/1/2012 will received a one-time cost of living adjustment of 2% of the first $25,000 paid as soon as administratively possible.

- Retirees as of June 30, 2015 will receive two $500 stipends; the interim cost of living increases will occur at 4 year rather than 5 year intervals.

- 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 (5yr Return - 7.5%, with a max of 4%) and 50% calculated using previous year's CPI-U (max of 3%) for a total max COLA of 3.5%. This COLA is calculated on the first $25,855, effective 01/01/16, and indexed as of that date as well. (The indexing formula is run annually regardless of funding level each year.)

- Minor adjustments were made to the actuarial reduction for employees choosing to retire early.

- The amortization period for the local portion of the UAAL for teachers within ERS was reset to 25 years from June 30, 2014.

- For underfunded MERS units, employers have the option to reset the amortization period to 25 years from June 30, 2014.

EMPLOYEES' RETIREMENT SYSTEM OF RHODE ISLAND

Required Supplementary Information

Schedules of Changes in the Participating Employers' Net Pension Liability (Asset)

Schedules of Investment Returns

Schedules of Employer and Other Nonemployee Entity Contributions

Notes to Required Supplementary Information

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Changes in the Participating Employers' Net Pension Liability

Employees' Retirement System Plan

	2015		2014	
	State Employees	**Teachers**	**State Employees**	**Teachers**
Total Pension Liability				
Service Cost	$ 58,003,597	$ 73,780,964	$ 56,795,525	$ 73,917,744
Interest	312,489,666	457,901,918	309,695,399	454,525,784
Benefit Changes	102,727,033	148,006,628		
Differences between expected and actual experience	(28,729,479)	(20,696,669)		
Changes of assumptions	-	-	(23,761,746)	(98,423,775)
Benefit payments	(329,318,255)	(482,865,966)	(330,357,881)	(483,854,062)
Net change in Total Pension Liability	115,172,562	176,126,875	12,371,297	(53,834,309)
Total pension liability - beginning	4,302,186,206	6,309,901,411	4,289,814,909	6,363,735,720
Total pension liability - ending	$ 4,417,358,768	$ 6,486,028,286	$ 4,302,186,206	$ 6,309,901,411
Plan Fiduciary Net Position				
Employer contributions	$ 155,901,921	$ 217,902,736	$ 151,660,705	$ 197,869,704
Employee contributions	28,477,668	36,470,893	28,105,658	36,306,239
Net investment income	57,417,358	88,131,991	340,085,721	522,960,223
Benefit payments	(329,318,255)	(482,865,966)	(330,357,881)	(483,854,062)
Transfers of member contributions			303,014	(290,471)
Administrative expenses	(2,394,922)	(3,676,564)	(2,234,676)	(3,436,330)
Transfers to affiliated systems	(107,668)	145,179		
Other	673,125	1,016,295	182,841	129,791
Net change in fiduciary net position	$ (89,350,773)	$ (142,875,436)	$ 187,745,382	$ 269,685,094
Plan Fiduciary net position - beginning	$ 2,520,281,249	$ 3,875,901,034	$ 2,332,535,867	$ 3,606,215,939
Plan Fiduciary net position - ending	$ 2,430,930,476	$ 3,733,025,598	$ 2,520,281,249	$ 3,875,901,033
Net Pension Liability	$ 1,986,428,292	$ 2,753,002,688	$ 1,781,904,957	$ 2,434,000,378
Plan Fiduciary Net Position as a percentage of the total pension liability	55.0%	57.6%	58.6%	61.4%
Covered Employee payroll	$ 669,787,489	$ 966,985,115	$ 653,573,357	$ 951,322,312
Net pension liability as a percentage of covered employee payroll	296.6%	284.7%	272.6%	255.9%

See notes to required supplementary information.

Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Changes in the Participating Employers' Net Pension Liability (Asset)

Teachers' Survivors Benefit Plan

	2015	2014
Total Pension Liability		
Service Cost	$ 2,134,663	$ 2,193,930
Interest	12,500,416	11,958,890
Benefit Changes	-	-
Differences between expected and actual experience	24,212,282	-
Changes of assumptions	-	-
Benefit payments	(7,992,381)	(7,622,990)
Net change in Total Pension Liability	30,854,980	6,529,830
Total pension liability - beginning	169,601,073	163,071,243
Total pension liability - ending	$ 200,456,053	$ 169,601,073
Plan Fiduciary Net Position		
Employer contributions	$ 603,388	$ 609,168
Employee contributions	603,388	609,168
Net investment income	6,951,465	39,657,338
Benefit payments	(7,992,381)	(7,622,990)
Administrative expenses	(276,010)	(260,585)
Net change in fiduciary net position	$ (110,150)	$ 32,992,099
Plan Fiduciary net position - beginning	$ 293,921,803	$ 260,929,704
Plan Fiduciary net position - ending	$ 293,811,653	$ 293,921,803
Net Pension Liability (Asset)	$ (93,355,600)	$ (124,320,730)
Plan Fiduciary Net Position as a percentage of the total pension liability (asset)	146.6%	173.3%
Covered Employee payroll	$ 561,753,409	$ 563,134,080
Net pension liability (asset) as a percentage of covered employee payroll	-16.6%	-22.1%

See notes to required supplementary information.

Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Changes in the Participating Employers' Net Pension Liability

State Police Plan

	2015	2014
Total Pension Liability		
Service Cost	$ 4,198,214	$ 5,121,964
Interest	8,540,146	7,767,937
Benefit Changes	1,169,580	-
Differences between expected and actual experience	(3,522,114)	-
Changes of assumptions	-	(364,277)
Benefit payments	(2,496,511)	(1,767,304)
Net change in Total Pension Liability	7,889,315	10,758,320
Total pension liability - beginning	113,017,758	102,259,438
Total pension liability - ending	$ 120,907,073	$ 113,017,758
Plan Fiduciary Net Position		
Employer contributions	$ 3,432,359	$ 3,330,889
Employee contributions	1,731,585	2,033,664
Net investment income	2,655,869	14,124,238
Benefit payments	(2,496,511)	(1,767,304)
Administrative expenses	(99,782)	(83,318)
Other	3,694	5,421
Net change in fiduciary net position	$ 5,227,214	$ 17,643,590
Plan Fiduciary net position - beginning	109,678,379	92,034,791
Plan Fiduciary net position - ending	$ 114,905,593	$ 109,678,381
Net Pension Liability	$ 6,001,480	$ 3,339,377
Plan Fiduciary Net Position as a percentage of the total pension liability	95.0%	97.0%
Covered Employee payroll	$ 19,700,678	$ 23,051,144
Net pension liability as a percentage of covered employee payroll	30.5%	14.5%

See notes to required supplementary information.

Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Changes in the Participating Employers' Net Pension Liability (Asset)

Judicial Retirement Benefits Trust Plan

	2015	2014
Total Pension Liability		
Service Cost	$ 3,024,124	$ 3,001,985
Interest	4,540,604	4,133,613
Benefit Changes	252,965	-
Differences between expected and actual experience	(2,857,295)	-
Changes of assumptions	-	(671,723)
Benefit payments	(1,808,864)	(1,631,368)
Net change in Total Pension Liability	3,151,534	4,832,507
Total pension liability - beginning	59,933,761	55,101,254
Total pension liability - ending	$ 63,085,295	$ 59,933,761
Plan Fiduciary Net Position		
Employer contributions	$ 2,709,397	$ 2,543,510
Employee contributions	1,120,609	1,092,790
Net investment income	1,367,527	7,220,592
Benefit payments	(1,808,864)	(1,631,368)
Administrative expenses	(51,039)	(42,538)
Net change in fiduciary net position	$ 3,337,630	$ 9,182,986
Plan Fiduciary net position - beginning	$ 56,172,243	$ 46,989,257
Plan Fiduciary net position - ending	$ 59,509,873	$ 56,172,243
Net Pension Liability	$ 3,575,422	$ 3,761,518
Plan Fiduciary Net Position as a percentage of the total pension liability	94.3%	93.7%
Covered Employee payroll	$ 9,570,014	$ 9,314,258
Net pension liability as a percentage of covered employee payroll	37.4%	40.4%

See notes to required supplementary information.

Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Changes in the Participating Employers' Net Pension Liability

Rhode Island Judicial Retirement Fund Trust Plan

	2015	2014
Total Pension Liability		
Service Cost	$ 416,208	$ 497,532
Interest	673,131	709,876
Benefit Changes	-	-
Differences between expected and actual experience	(642,370)	1,617,560
Changes of assumptions	858,970	(1,159,812)
Benefit payments	-	-
Net change in Total Pension Liability	1,305,939	1,665,156
Total pension liability - beginning	17,505,869	15,840,713
Total pension liability - ending	$ 18,811,808	$ 17,505,869
Plan Fiduciary Net Position		
Employer contributions	$ -	$ -
Employee contributions	158,718	153,145
Net investment income	9,094	12,045
Benefit payments	-	-
Administrative expenses	(239)	(77)
Net change in fiduciary net position	$ 167,573	$ 165,113
Plan Fiduciary net position - beginning	318,024	152,910
Plan Fiduciary net position - ending	$ 485,597	$ 318,023
Net Pension Liability	$ 18,326,211	$ 17,187,846
Plan Fiduciary Net Position as a percentage of the total pension liability	2.6%	1.8%
Covered Employee payroll	$ 1,320,875	$ 1,276,208
Net pension liability as a percentage of covered employee payroll	1387.4%	1346.8%

See notes to required supplementary information.

Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Changes in the Participating Employers' Net Pension Liability (Asset)

Municipal Employees' Retirement System Plan

	2015		2014	
	General employees	Police & Fire	General employees	Police & Fire
Total Pension Liability				
Service Cost	$ 20,454,038	$ 15,802,260	$ 20,534,252	$ 15,425,188
Interest	79,553,219	39,209,010	77,208,696	36,969,722
Benefit Changes	18,678,454	20,243,581	-	-
Differences between expected and actual experience	(10,829,976)	(2,598,079)	-	-
Changes of assumptions			893,569	(4,665,819)
Benefit payments	(66,083,440)	(22,950,990)	(66,801,709)	(22,501,480)
Net change in Total Pension Liability	41,772,295	49,705,782	31,834,808	25,227,611
Total pension liability - beginning	1,083,524,263	526,361,185	1,051,689,455	501,133,574
Total pension liability - ending	$ 1,125,296,558	$ 576,066,967	$ 1,083,524,263	$ 526,361,185
Plan Fiduciary Net Position				
Employer contributions	$ 28,763,340	$ 15,588,547	$ 26,704,092	$ 11,193,028
Employee contributions	4,368,524	7,223,947	4,333,503	6,979,451
Net investment income	21,923,799	10,703,150	126,156,827	59,474,454
Benefit payments	(66,083,440)	(22,950,990)	(66,801,709)	(22,501,480)
Transfers of member contributions	-	-	(85,962)	73,422
Administrative expenses	(878,056)	(425,478)	(789,990)	(372,429)
Transfers to affiliated systems	(48,286)	10,774	-	-
Other	262,213	21,917	62,117	23,960
Net change in fiduciary net position	$ (11,691,906)	$ 10,171,867	$ 89,578,878	$ 54,870,406
Plan Fiduciary net position - beginning	947,202,645	446,542,304	857,623,766	391,671,897
Plan Fiduciary net position - ending	$ 935,510,739	$ 456,714,171	$ 947,202,644	$ 446,542,303
Net Pension Liability (Asset)	$ 189,785,819	$ 119,352,796	$ 136,321,619	$ 79,818,882
Plan Fiduciary Net Position as a percentage of the total pension liability	83.1%	79.3%	87.4%	84.8%
Covered Employee payroll	$ 228,189,238	$ 91,293,039	$ 223,124,242	$ 88,783,926
Net pension liability (asset) as a percentage of covered employee payroll	83.2%	130.7%	61.1%	89.9%

See notes to required supplementary information.

Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

Schedules of Investment Returns

Annual Money-Weighted Rate of Return, Net of Investment Expense

	ERS	**TSB**	**MERS**	**SPRBT**	**JRBT**	**RIJRFT**
Fiscal Year Ended June 30, 2015	2.06%	2.25%	2.22%	2.28%	2.27%	2.28%
Fiscal Year Ended June 30, 2014	15.32%	15.25%	15.12%	14.99%	14.99%	5.61%

See notes to required supplementary information.

Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Employer and Other Nonemployer Entity Contributions

Employees' Retirement System Plan

Plan	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution		Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
State employees						
2015	$ 155,901,921	$ 155,901,921		-	$ 669,787,489	23.33%
2014	$ 151,077,142	$ 151,077,142		-	$ 653,573,357	23.12%
Teachers						
2015	217,902,736	217,902,736	*	-	966,985,115	22.60%
2014	197,869,704	197,869,704		-	951,322,312	20.80%

See notes to required supplementary information.

** includes contributions totaling $84,943,801 by the State of Rhode Island as the nonemployer contributing entity.*

Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Employer and Other Nonemployer Entity Contributions

Teachers' Survivors Benefit Plan

Plan	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2015	-	603,388	(603,388)	561,753,409	0.11%
2014	-	609,618	(609,618)	563,134,080	0.11%

See notes to required supplementary information.

Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Employer and Other Nonemployer Entity Contributions

State Police Plan

Plan	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2015	3,432,359	3,432,359	-	19,700,678	17.24%
2014	3,330,889	3,330,889	-	23,051,144	14.45%

See notes to required supplementary information.

Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Employer and Other Nonemployer Entity Contributions

Judicial Retirement Benefits Trust Plan

Plan	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2015	2,709,397	2,709,397	-	9,570,014	28.32%
2014	2,543,510	2,543,510	-	9,314,258	27.31%

See notes to required supplementary information.

Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Employer and Other Nonemployer Entity Contributions

Rhode Island Judicial Retirement Fund Trust Plan

Plan	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2015	1,623,061	-	1,623,061	1,320,875	0.00%
2014	1,695,434	-	1,695,434	1,276,208	0.00%

See notes to required supplementary information.

Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF RHODE ISLAND

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Employer and Other Nonemployer Entity Contributions

Municipal Employees' Retirement System Plan

Plan	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
General Employees					
2015	$ 28,763,340	$ 28,763,340	-	$ 228,189,238	12.61%
2014	26,704,094	26,704,094		223,124,242	11.76%
Police & Fire					
2015	$ 15,588,547	$ 15,588,547	-	$ 91,293,039	17.08%
2014	11,193,028	11,193,028	-	88,783,926	12.89%

See notes to required supplementary information.

Schedule is intended to show information for 10 years - additional years will be displayed as they become available.

The schedules are intended to present ten years of data. Additional years of data will be presented as they become available.

1. Actuarial methods and assumptions used to calculate the net pension liability (asset) of the participating employers.

The actuarial methods and assumptions used to calculate the net pension liability (asset) of the participating employers are described in Note 9 to the financial statements.

There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability (asset) of the plans as of the June 30, 2015 measurement date compared to the June 30, 2014 measurement date except for the changes in assumptions for the RIJRFT plan due to use of the municipal bond index rate of 3.8% instead of the plan's assumed investment rate of return of 4.0%.

Benefit changes are reflected in the calculation of the net pension liability at the June 30, 2015 measurement date. The following is a summary of those benefit changes that resulted from the settlement of the pension litigation and the subsequent enactment of those settlement provisions by the General Assembly.

- Employees with more than 20 years of service at July 1, 2012 will increase their employee contribution rates to 11% for state employees and municipal general employees will contribute 8.25% (9.25% for units with a COLA provision) and participate solely in the defined benefit plan going forward – 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 RIRSA date is earlier or are eligible under a transition rule.

- MERS public safety employees may retire at age 50 with 25 years of service, or any age with 27 years of service. MERS public safety employees will contribute 9.00% (10.00% for units with a COLA provision)

- Employees with more than 10 but less than 20 years of service at July 1, 2012 will receive an increased employer contribution to the defined contribution plan. Also, members who earn less than $35,000 per year will not be required to pay the administrative fees to the defined contribution plan.

- Members who retired from a COLA eligible plan before July 1, 2012 will received a one-time cost of living adjustment of 2% of the first $25,000 paid as soon as administratively possible.

- Retirees as of June 30, 2015 will receive two $500 stipends; the interim cost of living increases will occur at 4 year rather than 5 year intervals.

- 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 (5yr Return - 7.5%, with a max of 4%) and 50% calculated using previous year's CPI-U (max of 3%) for a total max COLA of 3.5%. This COLA is calculated on the first $25,855, effective 01/01/16, and indexed as of that date as well. (The indexing formula is run annually regardless of funding level each year.)

- Minor adjustments were made to the actuarial reduction for employees choosing to retire early.

2. Actuarially determined contributions for Fiscal 2015

Actuarially determined contributions are calculated as of June 30, three years prior to the fiscal year in which the contributions are reported. The contribution rates for fiscal 2015 were determined as part of the actuarial valuations at the dates indicated in the table developed for the ERS, MERS, State Police, and Judicial Retirement Benefits Trust plans based on valuations performed as of June 30, 2012.

Contributions for teachers within the ERS plan include $84,943,801 of nonemployee entity contributions made by the State of Rhode.

Contributions for the TSB plan are outlined in the General Laws of Rhode Island. The actuarially determined contribution was $-0- based on the plans funded status as determined by an actuarial valuation performed as of June 30, 2011.

Summary of Actuarial Methods and Assumptions Used to determine Fiscal 2015 contribution rates

	ERS		**MERS**	**SPRBT**	**JRBT**	**RIJRFT**	**TSB**
	State Employees	***Teachers***					
Valuation Date	June 30, 2012						June 30, 2011
Actuarial Cost Method	Entry Age Normal - the Individual Entry Age Actuarial Cost methodology is used.						
Amortization Method	Level Percent of Payroll – Closed					Level Dollar	
Equivalent Single Remaining Amortization Period	23 years					16 years	
Asset Valuation Method	5 Year Smoothed Market						Market value
Actuarial Assumptions							
Investment Rate of Return	7.50%	7.50%	7.50%	7.50%	7.50%	4.00%	7.5%
Projected Salary Increases	4.00% to 7.00%	4.00% to 12.75%	*General Employees* 4.00% to 8.00% *Police & Fire Employees* 4.25% to 14.25%	4.00% to 12.00%	4.00%	4.00%	
Mortality	• Male Employees, MERS General and MERS P&F: 115% of RP-2000 Combined Healthy for Males with White Collar adjustments, projected with Scale AA from 2000. • Female Employees, MERS General and MERS P&F: 95% of RP-2000 Combined Healthy for Females with White Collar adjustments, projected with Scale AA from 2000.						Mortality the same as for teachers
		Male and female teachers: 97% and 92%, respectively of rates in a GRS table based on male and female teacher experience, projected with Scale AA from 2000.					
Inflation	2.75%						

2. Actuarially determined contributions for Fiscal 2015 (continued)

Cost of Living Adjustments

COLA is equal to the average five-year fund asset performance (percent) greater than 5.5% up to a maximum of 4% - the COLA is to be applied to the first $25,000 of benefits, indexed over time. COLA is delayed until the later of Social Security eligibility age or 3 years after retirement except for State Police and MERS Police and Fire for which the COLA is delayed until the later of age 55 or 3 years after retirement.

For the MERS plan, a 2% COLA is assumed after January 1, 2014. For all other plans, a COLA of 2% is assumed only every five years until the plans achieve an 80% collective funded status in accordance with the law.

For the TSB plan, a 2.75% COLA is assumed – the actual COLA in any year is based on the COLA provided for federal Social Security recipients.

Supplemental contributions

For fiscal 2015, certain supplemental contributions required by the General Laws were made to the ERS plan. These amounts are not included in the annual required contribution amounts or the percentage contributed in the schedule. These supplemental contributions are more fully explained in Note 8 (c) to the financial statements.

3. Covered employee payroll

Covered employee payroll, as included in required supplementary information schedules, includes projected annualized payroll amounts for employees beginning employment during the fiscal year. Consequently, the covered employee payroll amounts included in the required supplementary information schedules may differ from the actual fiscal year payroll base to which the actually determined contribution rate was applied. Additionally, the contribution amount as a percentage of covered payroll may differ from the Board approved contribution rate expressed as a percentage of payroll.

4. Schedules of Investment Returns

The annual money-weighted returns on investments within each of the plans, net of investment expense, are shown in the required supplementary information schedule. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The schedules are intended to present ten years of data. Additional years of data will be presented as they become available.

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INDEPENDENT AUDITOR'S 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*

Joint Committee on Legislative Services, General Assembly
State of Rhode Island and Providence Plantations:

Retirement Board of the Employees' Retirement System of the State of 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 plans within the Employees' Retirement System of Rhode Island (System) as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated December 17, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the 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 the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

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

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

Joint Committee on Legislative Services, General Assembly
Retirement Board of the Employees' Retirement System of the State of Rhode Island:

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

Dennis E. Hoyle, CPA
Auditor General

December 17, 2015