

VIRGINIA COMMUNITY COLLEGE SYSTEM

**AUDITED FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2018**

**Prepared by:
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VCCS Financial Report 2017-2018

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VCCS Financial Report 2017-2018

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VIRGINIA COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

The Virginia Community College System (VCCS) was established by the Virginia General Assembly as an institution of higher education in 1965. The System includes the State Board for Community Colleges, a System Office located in Richmond, a Shared Services Center located in Daleville and twenty-three community colleges located on forty campuses throughout the Commonwealth. The VCCS mission is to provide everyone the opportunity to obtain an education and develop the right skills so lives and communities are strengthened.

The following discussion and analysis provides an overview of the financial position and activities of the VCCS for the year ended June 30, 2018. Management has prepared this discussion, which should be read in conjunction with the financial statements and footnotes.

The community college foundations are included in the accompanying financial statements as a discrete component unit in a separate column. The following discussion and analysis does not include the financial condition and activities of the foundations.

Financial Highlights

The significant financial highlights for the VCCS in fiscal year 2018 were:

- Total net position decreased by 17.65% due to the implementation of a new Governmental Accounting Standards Board (GASB) pronouncement that requires the VCCS to record a proportionate share of the overall Optional Post Employment Benefit (OPEB) liability of the Commonwealth. The results of operations for fiscal year 2018 reflected an overall increase in net position of \$22.7 million.
- Total operating revenues remained relatively constant with a slight percentage decrease of only 2.02%. Student tuition and fees, net of scholarship discounts and allowances, represented 69.83% of total operating revenues.
- Effective fall 2017, the State Board for Community Colleges approved a tuition increase of \$4.00 per credit hour for all students. In addition, the State Board approved tuition differential rate increases of \$1.00 per credit hour for Northern Virginia Community College (NVCC) and \$0.50 per credit hour for John Tyler Community College (JTCC.) These tuition rate increases accounted for additional tuition revenues of \$13.2 million in fiscal year 2018.
- From fiscal year 2017 to 2018, student full-time equivalent (FTE) enrollment decreased 3.49% from 105,242 to 101,571 FTEs. This decrease resulted in a decline in tuition and fee collections of approximately \$21.1 million in fiscal year 2018. One FTE represents 30 credit hours of classes taken by a student over an academic year and is calculated on an annual basis by taking the total credit hours taught divided by 30.
- Total state appropriations revenue (non-capital) increased slightly by .07%, while state capital appropriations revenue increased by 17.79% due to increased construction activity at Danville Community College (DCC) and Virginia Western Community College (VWCC).
- Total operating expenses remained relatively flat with slight increase of .10%. Expenses for employee compensation represented 60.65% of the total.

Financial Statements

The three financial statements presented are the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows.

Statement of Net Position

The Statement of Net Position presents assets, deferred outflows of resources, liabilities, deferred inflows of resources and the net position of the VCCS at the end of the fiscal year. Net position is the residual amount equal to assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net position is presented in three categories; Net investment in capital assets, consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of any borrowings that are attributable to the acquisition, construction or improvement of those assets. Restricted net position consists of restricted assets reduced by liabilities related to those assets. Restricted net position is classified as either nonexpendable or expendable. Nonexpendable balances consist of loan funds and permanent endowments (available for investment purposes only). Expendable balances are available for expenditure by the VCCS, but must be used for purposes determined by external entities. Unrestricted net position balances are not subject to externally imposed restrictions and may be internally designated for specific purposes by management of the VCCS.

Effective fiscal year 2018, the Governmental Accounting Standards Board (GASB) issued Statement 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions. GASB 75 established standards of accounting and financial reporting for defined benefit and defined contribution Other Postemployment Benefits (OPEB) that are provided to the employees of state and local governmental employers.

A summarized Statement of Net Position is as follows:

Summary of the Statement of Net Position, as of June 30: <i>(in thousands)</i>				
	2018	2017 *	Increase (Decrease)	
			Amount	Percentage
Assets				
Current assets	\$ 297,739	\$ 293,957	\$ 3,782	1.29%
Capital assets, net	1,359,728	1,365,407	(5,679)	(0.42)%
Other non-current assets	110,100	97,597	12,503	12.81%
Total Assets	1,767,567	1,756,961	10,606	0.60%
Deferred Outflows of Resources	74,902	99,908	(25,006)	(25.03)%
Total Assets and Deferred Outflows of Resources	1,842,469	1,856,869	(14,400)	(0.78)%
Liabilities				
Current liabilities	189,720	196,370	(6,651)	(3.39)%
Non-current liabilities	788,434	701,909	86,525	12.33%
Total Liabilities	978,154	898,279	79,875	8.89%
Deferred Inflows of Resources	95,612	25,097	70,515	280.97%
Total Liabilities and Deferred Inflows of Resources	1,073,766	923,376	150,390	16.29%
Net Position				
Net investment in capital assets	1,252,678	1,253,943	(1,265)	(0.10)%
Restricted-nonexpendable	8	-	8	100.00%
Restricted-expendable	32,762	17,642	15,120	85.70%
Unrestricted	(516,745)	(338,092)	(178,653)	(52.84)%
Total Net Position	\$ 768,703	\$ 933,493	\$(164,790)	(17.65)%

* The 2017 column has not been adjusted to reflect the impact on balances related to implementation of GASB 75. Prior to the implementation of GASB 75, VRS and DHRM did not measure assets and pension benefit obligations separately for individual institutions. Therefore, for the purpose of the MD&A, fiscal year 2017 comparative numbers have not been restated.

Current Assets

Current assets consist of \$247.2 million in cash, cash equivalents, and short-term investments, \$17.9 million in accounts, notes, and interest receivable, \$7.3 million in amounts due from the commonwealth, \$24.1 million in prepaid expenses, and \$1.3 million in inventories. The \$3.8 million increase in current assets was primarily attributable to an increase of \$8.7 million in cash, cash equivalents, and short-term investments, and an increase of \$3.6 million in accounts receivable, offset largely by a decrease of \$7.2 million in prepaid expenses.

The increase in cash and cash equivalents was the operational movement of funds between short-term and long-term holdings. The decrease in prepaid expenses of \$7.2 million was largely due to consulting prepayments and IT contracts prepaid in fiscal year 2017 for projects completed during the current fiscal year.

Current assets cover current liabilities 1.57 times, an indicator of sound liquidity and the ability to weather short-term demands on working capital. Current assets also cover over 3 months of total operating expenses, excluding depreciation. For fiscal year 2018, one month of operating expenses equaled \$94 million.

Capital Assets, Net of Accumulated Depreciation

The overall decrease of \$5.7 million in net capital assets was due to changes across various capital asset categories. The following table compares fiscal year 2018 to fiscal year 2017 capital asset balances by category:

Summary of Capital Assets, net

(in thousands)

	2018	2017	Increase (Decrease)	
			Amount	Percentage
Land	\$ 70,515	\$ 70,139	\$ 376	0.54%
Construction in progress	30,514	37,557	(7,043)	(18.75)%
Land improvements	36,460	37,518	(1,058)	(2.82)%
Infrastructure	40,549	42,312	(1,763)	(4.17)%
Building	1,112,021	1,101,459	10,562	0.96%
Equipment and historical treasures	56,651	60,288	(3,637)	(6.03)%
Intangibles	3,897	5,485	(1,588)	(28.95)%
Library books	9,121	10,649	(1,528)	(14.35)%
TOTAL	\$ 1,359,728	\$ 1,365,407	\$ (5,679)	(0.42)%

Construction in Progress (CIP) decreased due to reclassifying completed projects to applicable depreciable and non-depreciable asset categories at DCC, J. Sargeant Reynolds Community College (JSRCC) and Patrick Henry Community College (PHCC). Depreciable land improvements, infrastructure, equipment, library books and intangibles all decreased from current year depreciation being greater than current year additions. Land and buildings increased due to reclassifying completed projects from CIP to a non-depreciable asset category and the donation of land at both Paul D. Camp Community College (PDCCC) and Thomas Nelson Community College (TNCC).

Other Non-Current Assets

The \$12.5 million increase in other non-current assets was predominately due to the implementation of GASB 75 resulting in a new postemployment benefit asset of \$16.7 million. This increase was offset slightly

by decreases in non-current cash and cash equivalents, restricted cash and other long-term investments of \$3.4 million from the operational movement of funds between short and long-term holdings.

Cash equivalents held with trustees consists of balances in State Non-Arbitrage Program (SNAP) accounts related to pooled bond capital projects. The overall balance decreased by \$4.5 million in fiscal year 2018 as payments continued on various pooled bond projects. The balance in appropriation available consists of General and Central Capital Planning funds for capital projects. The balance consists of funds received for the system-wide Maintenance Reserve Project and the renovation of the Godwin Building on the Annandale Campus of NVCC.

Deferred Outflows of Resources

Deferred outflows of resources category reports consumption of resources applicable to a future reporting period. The balances reported for fiscal years 2017 and 2018 included amounts for certain pension changes and will be recognized as pension expense in future fiscal years. In addition, the balances for both fiscal years included deferred losses on defeasance of debt related to refinancing of certain pooled bond issuances and will also be recognized as expense in future fiscal years.

Current Liabilities

Current liabilities consist of accounts and retainage payable of \$43.4 million, accrued payroll expense of \$51.4 million, unearned revenue of \$54.1 million, long-term obligations (current portion) of \$29.8 million, and deposits totaling \$8.6 million.

Current liabilities decreased by \$6.7 million in fiscal year 2018 primarily due to decreases of \$10.1 million in accounts and retainage payable, increases of 2.5 million in OPEB and small increases in other categories.

Non-Current Liabilities

Beginning in fiscal year 2018, with the implementation of a new GASB Statement 75 (GASB 75), the Commonwealth began providing information on the measurement of assets and benefit obligations for the Commonwealth's Optional Post Employment Benefit plan (OPEB). This liability, along with the VRS pension liability, fluctuates each year based on many factors including rate of return on retirement investments, changes to actuarial assumptions, etc. The impact of this new standard was an additional \$179.6 million non-current pension-related liability for the VCCS.

Non-Current liabilities consist of a net pension obligation of \$487.3 million, the net OPEB obligation of \$179.6 million, capital lease liabilities of \$1.4 million, pooled bonds of \$104.1 million, accrued leave of \$10.6 million, and federal loan program amounts due of \$4 million. The increase of \$89 million in non-current liabilities was primarily due to the recording of the VCCS' proportionate share of the Commonwealth's overall OPEB liability of \$182.1 million, which is a new requirement under GASB 75 for fiscal year 2018. This increase was offset by a reduction the VCCS' proportionate share of the overall VRS pension liability of \$83.5 million, along with other reductions in pooled bond debt, compensated absences and other non-current liabilities.

Deferred Inflows of Resources

The financial statement deferred inflows of resources category is used to report acquisition of resources applicable to a future reporting period. The balance in fiscal year 2018 reflects certain amounts related to pensions and will impact pension expense in future fiscal years.

Net Position

The small decrease in net investment in capital assets is explained by changes in capital assets, net of accumulated depreciation and in capital asset related debt as well as deferred outflow balances.

The decrease of \$179 million in the unrestricted net position category is the result of several factors. The implementation of GASB 75 resulted in a beginning balance reduction of \$204.2 million. This was offset by a \$25.2 million increase in overall operations. The balance in total net position is a residual amount equal to the sum of total assets and deferred outflows of resources less the sum of total liabilities and deferred inflows of resources and is considered one measure of the current financial condition of an organization.

Statement of Revenues, Expenses and Changes in Net Position

The purpose of the Statement of Revenues, Expenses and Changes in Net Position is to present operating and non-operating revenues received by the institution, operating and non-operating expenses incurred and any other revenues, expenses, gains and losses. Changes in net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Position.

A summarized statement of revenues, expenses and changes in net position follows:

Summary of the Statement of Revenues, Expenses and Changes in Net Position

For the year ended June 30:

(in thousands)

	2018	2017 *	Increase (Decrease)	
			Amount	Percentage
Operating revenue	\$ 513,958	\$ 524,553	\$ (10,595)	(2.02)%
Operating expenses	1,190,465	1,189,216	\$ 1,249	0.11%
Operating loss	(676,507)	(664,663)	(11,844)	(1.78)%
Non-operating revenues and expenses	637,387	653,210	(15,823)	(2.42)%
Income (loss) before other revenues, expenses, gains or losses	(39,120)	(11,453)	(27,667)	(241.57)%
Other revenues	61,814	54,323	7,491	13.79%
Increase in net position	22,694	42,870	(20,176)	(47.06)%
Net position, beginning of year as restated	746,009	890,623	(144,614)	(16.24)%
Net position, end of year	\$ 768,703	\$ 933,493	\$ (164,790)	(17.65)%

* The 2017 column has not been adjusted to reflect the impact on balances related to implementation of GASB 75. Prior to the implementation of GASB 75, VRS and DHRM did not measure assets and pension benefit obligations separately for individual institutions. Therefore, for the purpose of the MD&A, fiscal year 2017 comparative numbers have not been restated.

The following table is a more detailed representation and comparison of amounts included in operating, non-operating, and other (capital) revenues during the periods ended June 30, 2018 and 2017:

Summary Statement of Revenues

for the year ended June 30:

(in thousands)

	2018	2017	Increase (Decrease)	
			Amount	Percentage
Operating revenues				
Student tuition and fees, net	\$ 358,874	\$ 367,761	\$ (8,887)	(2.42)%
Grants and contracts	112,720	112,653	67	0.06%
Auxiliary enterprises, net	26,356	26,592	(236)	(0.89)%
Other operating revenue**	16,008	17,547	(1,539)	(8.77)%
Total Operating Revenues	513,958	524,553	(10,595)	(2.02)%
Non-operating activity				
State operating appropriations	438,353	438,036	317	0.07%
Local operating appropriations	2,722	2,442	280	11.47%
Grants and gifts	207,180	205,086	2,094	1.02%
Investment income	1,889	959	930	96.98%
Interest expense	(3,866)	(3,975)	109	2.74%
Other	(8,891)	10,662	(19,553)	(183.39)%
Total net non-operating revenue	637,387	653,210	(15,823)	(2.42)%
Other revenues (capital)				
Capital appropriations-state	47,637	40,441	7,196	17.79%
Capital appropriations-local	8,380	7,695	685	8.90%
Capital gifts and grants	5,797	6,187	(390)	(6.30)%
Total other revenues (capital)	61,814	54,323	7,491	13.79%
Total revenues	\$ 1,213,159	\$ 1,232,086	\$ (18,927)	(1.54)%

** Includes sales/services of education department and miscellaneous other revenues

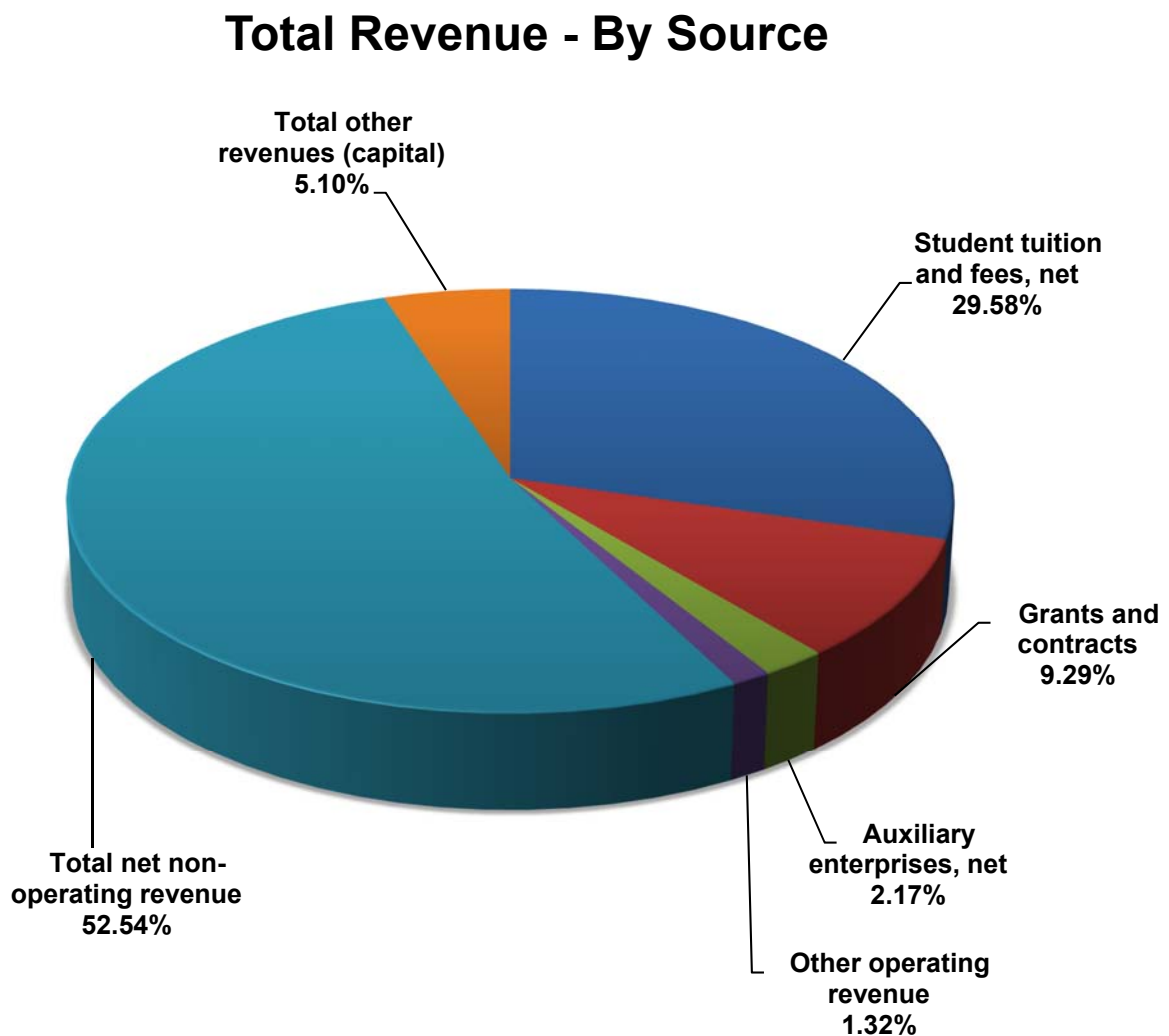
Operating Revenues

Total operating revenues remained relatively constant as compared to the prior year with a slight decrease of 2.02%. Gross student tuition and fee revenues (before scholarship discounts and allowances) declined by \$5.7 million. Increased revenue from higher tuition and fee rates was offset by decreased revenue due to declining enrollment. Net tuition and fees revenue also decreased by 2.42% primarily due to an increase in scholarship discounts and allowances applied against tuition and fees in fiscal year 2018 as compared to fiscal year 2017.

Non-operating and Other Revenues

Total net non-operating revenue (non-operating and other) decreased by \$15.8 million primarily as a result of a special contribution of \$14 million to the Virginia Retirement System paid from the Commonwealth on behalf of State agencies in fiscal year 2017 that did not occur in fiscal year 2018.

A graphic presentation of fiscal year 2018 revenues by source (per the Statement of Revenues, Expenses and Changes in Net Position) is below.



The following table is a detailed breakdown of operating expenses by function and a comparison of changes by category for the periods ended June 30, 2018 and 2017:

**Summary Statement of Expenses by Function
for the year ended June 30:**

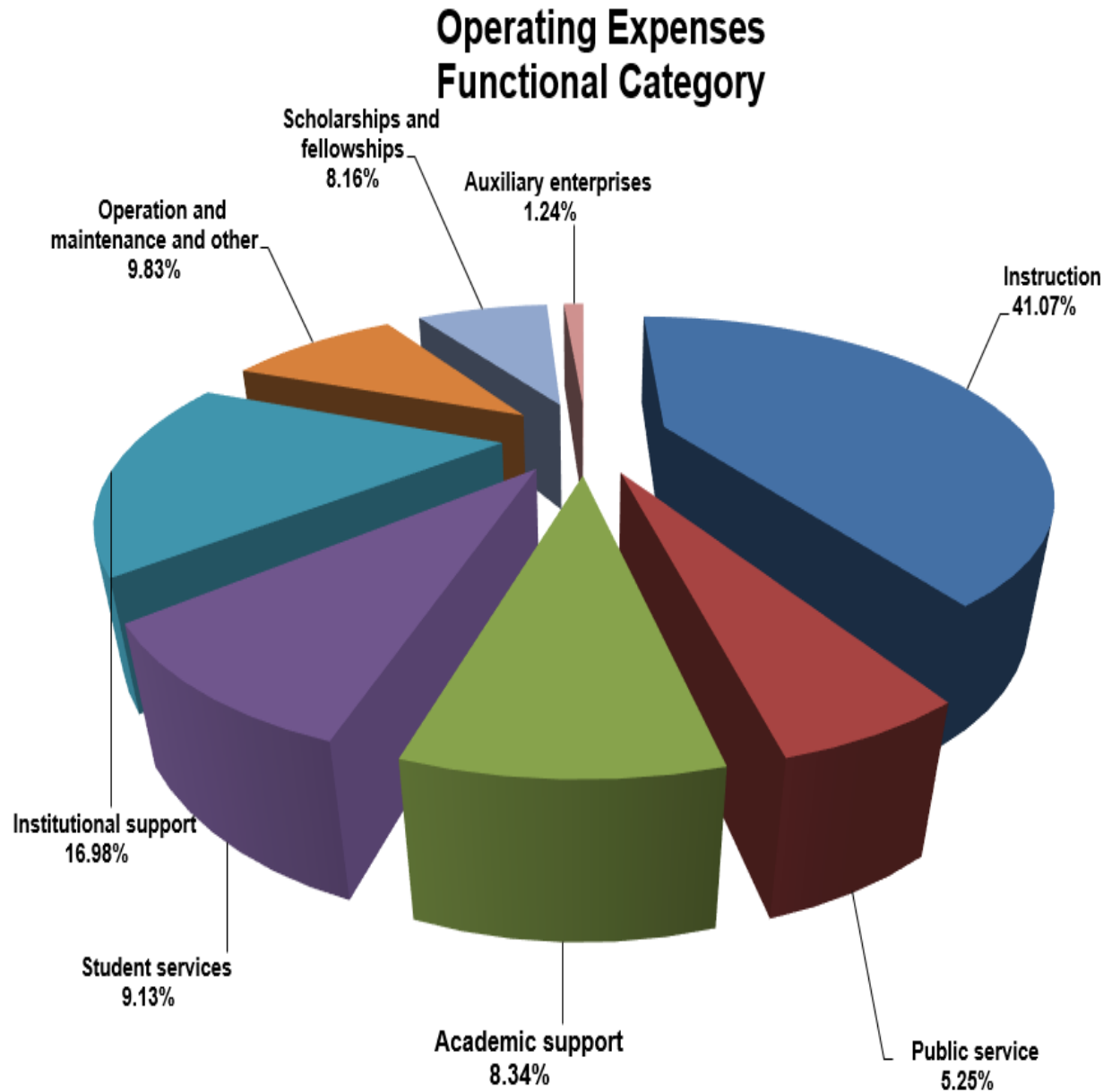
(in thousands)

	2018	2017	Increase (Decrease)	
			Amount	Percentage
Operating expenses:				
Instruction	\$ 488,957	\$ 484,058	\$ 4,899	1.01%
Public service	62,552	64,794	(2,242)	(3.46)%
Academic support	99,274	110,453	(11,179)	(10.12)%
Student services	108,737	107,000	1,737	1.62%
Institutional support	202,098	192,154	9,944	5.18%
Operation and maintenance	116,520	117,013	(493)	(0.42)%
Scholarships and fellowships	97,095	98,388	(1,293)	(1.31)%
Auxiliary enterprises	14,768	15,038	(270)	(1.80)%
Other expenses	464	318	146	45.91%
Total operating expenses	\$ 1,190,465	\$ 1,189,216	\$ 1,249	0.11%

Operating Expenses

Operating expenses totaled approximately \$1.19 billion for fiscal 2018 a slight increase of \$1.3 million. The natural expense category, compensation and benefits, comprised \$722 million of total VCCS operating expenses and remained relatively constant. Scholarship expenses declined slightly by \$1.3 million as a result of decreased enrollment coupled with reduced federal grant funding. The net change across the other natural expense categories (i.e. utilities, depreciation, and supplies, services, and other expenses) was an increase of \$28.5 million (8.38%). The main driver for this increase was the implementation of GASB 75 in fiscal year 2018.

A graphic presentation of fiscal year 2018 operating expenses by function (per the Statement of Revenues, Expenses and Changes in Net Position) is below.



Statement of Cash Flows

The Statement of Cash Flows provides additional information about the financial results of the VCCS by reporting the major sources and uses of cash.

Summary Statement of Cash Flows

for the year ended June 30:

(in thousands)

	For the year ended June 30:			
	2018	2017	\$ Change	% Change
Cash received from operations	\$514,673	\$521,677	(7,004)	(1.34)%
Cash used in operations	1,138,235	1,144,414	(6,179)	(0.54)%
Net cash used in operations	(\$623,562)	(\$622,737)	(825)	(0.13)%
Net cash provided by non-capital financing activities	\$632,513	\$648,645	(16,132)	(2.49)%
Net cash used in capital and related financing activities	(5,569)	(17,460)	11,891	68.10%
Net cash provided by (used in) investing activities	364	(36,504)	36,868	101.00%
Net increase (decrease) in cash and cash equivalents	\$3,746	(\$28,056)	31,802	113.35%
Cash and cash equivalents, beginning of year	\$244,710	\$272,766		
Cash and cash equivalents, end of year	\$248,456	\$244,710		

The primary sources of cash for the VCCS included tuition and fees of \$360.1 million, operating grants and contracts of \$112.4 million, and auxiliary revenues of \$26.4 million. The primary uses of operating cash included employee salaries, wages, fringe benefits and pension benefits of \$733.8 million, operating expenses (payments to suppliers/others and utilities) of \$304.4 million and scholarships of \$99.9 million. Net cash used in operations is significantly greater than the cash received from operations on this statement due to the required presentation of state appropriation and grants/gifts as cash flows from non-capital financing activities. Net cash flows from capital and related financing activities increased \$11.9 million due primarily to an increase of \$14.6 million in state and local capital appropriations offset by a decrease of \$2.9 million in cash disbursements for capital asset purchases. Net cash provided by (used in) investing activities increased \$36.9 million as investment purchases were \$20.1 million lower in fiscal year 2018 and were offset by a comparable amount from the sale of investments. The overall increase in cash and cash equivalents was \$3.7 million at the end of fiscal year 2018.

Economic Outlook

In fiscal year 2018, the Commonwealth predicted a 3.1% increase in general fund revenues and actually collected at a rate that was 6% above fiscal year 2017. In response to revenue shortfalls in previous years, the Commonwealth permanently reduced the VCCS general fund by approximately \$75.5 million between fiscal years 2008 and 2012; however, as of the fiscal year 2019 budget, \$79 million has been added since that time. The fiscal year 2019 general fund budget has increased by \$13.9 million from fiscal year 2018. The net effect for fiscal year 2019 is that VCCS general funds are \$3.5 million above the level attained in fiscal year 2008.

The State Board for Community Colleges has noted its intention to keep VCCS tuition and mandatory fees at less than half the rates of public four year institutions in Virginia. The VCCS' rate in fiscal year 2019 will be 34.6% of the average of the four-year institutions for total tuition and mandatory fees.

Effective with the fall 2018 session, the State Board for Community Colleges approved a tuition increase of \$3.75 per credit hour applicable to all students. Within the VCCS, eight colleges have tuition differential rates ranging from \$1.00 per credit hour to \$29.05 per credit hour. The VCCS estimates that the tuition rate increases will generate approximately \$11 million in additional tuition and deferred revenues in fiscal year 2019, assuming a 2.05% decline in FTEs.

Chapter 2, 2018 Virginia Acts of Assembly, authorized the funding to provide the equipment purchases for two VCCS projects for which construction funding was previously provided.

The VCCS capitalized construction expenses totaling \$38.3 million during fiscal year 2018. These costs primarily included some projects that are still in progress, but also included several projects that were completed during fiscal year 2018. Construction costs for projects completed during fiscal year 2018 totaled \$45 million.

The VCCS entered into contractual commitments for capital projects totaling \$114.3 million prior to June 30, 2018. Expenses processed against these commitments during fiscal year 2018 totaled \$54.5 million, leaving an unpaid commitment balance of \$59.8 million as of June 30, 2018.

***CONSOLIDATED
FINANCIAL
STATEMENTS***

Virginia Community College System
Consolidated
Statement of Net Position
As of June 30, 2018

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	VCCS	Component Units Foundations
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	239,776,247	15,013,298
Appropriation available		
Short term investments (Note 2)	7,419,927	7,518,612
Accounts receivable, net (Note 3)	15,905,697	314,446
Pledges receivable (Note 3)		6,051,267
Due from commonwealth (Note 4)	7,295,283	
Interest receivable	402,098	327,584
Prepaid expenses	24,076,258	46,375
Inventories	1,319,902	5,762
Notes receivable, net (Note 3)	1,543,708	203,001
Total Current Assets	<u>297,739,120</u>	<u>29,480,345</u>
Noncurrent Assets		
Restricted cash and cash equivalents (Note 2)	2,507,603	
Cash equivalents with trustees (Note 2)	6,156,948	
Endowment cash and cash equivalents (Note 2)	36,166	6,122,866
Appropriation available	802,353	
Endowment investments (Note 2)		169,984,174
Other long-term investments (Note 2)	74,981,670	84,086,174
Accounts receivable, net (Note 3)		340,652
Investments in real estate (Note 2)		2,187,433
Pledges receivable (Note 3)		7,565,535
Due from commonwealth (Note 4)	7,384,134	
Notes receivable, net (Note 3)	1,572,315	684,858
Post employment benefit assets	16,659,000	
Non-depreciable capital assets, net (Note 5)	101,177,105	6,397,172
Depreciable capital assets, net (Note 5)	1,258,550,880	17,418,220
Total Noncurrent Assets	<u>1,469,828,174</u>	<u>294,787,084</u>
Total Assets	<u>1,767,567,294</u>	<u>324,267,429</u>
Deferred Outflows of Resources (Note 8)	74,901,921	
Total Assets and Deferred Outflows of Resources	<u>1,842,469,215</u>	<u>324,267,429</u>
Liabilities		
Current Liabilities		
Accounts and retainage payable (Note 6)	43,425,492	2,337,155
Accrued payroll expense	51,358,000	169,400
Unearned revenue	54,094,555	168,157
Long-term liabilities-current portion (Note 9)	29,810,821	627,866
Securities lending obligation	20,515	
Post employment benefit obligations (Note 9)	2,459,732	
Deposits	8,551,342	2,081,098
Total Current Liabilities	<u>189,720,457</u>	<u>5,383,676</u>
Noncurrent Liabilities		
Unearned revenue	65,300	
Long-term liabilities (Note 9)	118,170,602	7,156,369
Due to federal government (Note 9)	3,306,681	
Pension and post employment benefit obligations (Note 9)	666,891,074	
Total Noncurrent Liabilities	<u>788,433,657</u>	<u>7,156,369</u>
Total Liabilities	<u>978,154,114</u>	<u>12,540,045</u>
Deferred Inflows of Resources (Notes 17 & 18)	95,612,341	
Total Liabilities and Deferred Inflows of Resources	<u>1,073,766,455</u>	<u>12,540,045</u>

Virginia Community College System
Consolidated
Statement of Net Position
As of June 30, 2018

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	<u>VCCS</u>	<u>Component Units Foundations</u>
Net Position		
Net investment in capital assets	1,252,677,979	16,782,160
Restricted for:		
Nonexpendable	7,990	97,992,672
Expendable	32,762,248	115,713,113
Unrestricted	(516,745,457)	81,239,439
Total Net Position	<u>768,702,760</u>	<u>311,727,384</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Consolidated
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2018

		Component Units
	VCCS	Foundations
Revenues		
Operating Revenue		
Tuition and fees (net of scholarship allowance of \$171,765,022)	358,874,194	
Federal grants and contracts	94,329,681	
State and local grants	5,143,660	799,016
Nongovernmental grants	13,246,937	4,221,437
Sales/services of education department	107,909	
Auxiliary enterprises (net of scholarship allowance of \$1,556,997)	26,356,106	
Gifts and contributions		23,221,047
Endowment income		17,516,846
Other operating revenues	15,900,172	5,976,719
Total Operating Revenue	<u>513,958,659</u>	<u>51,735,065</u>
Expenses		
Operating Expenses		
Instruction	488,956,589	1,436,975
Public service	62,551,655	1,179,887
Academic support	99,273,746	7,459,423
Student services	108,737,537	345,736
Institutional support	202,097,723	9,739,743
Operation and maintenance	116,519,630	1,016,046
Scholarships and fellowships	97,095,977	10,696,386
Auxiliary enterprises	14,768,491	
Fundraising		2,770,276
Other expenses	463,680	664,362
Total Operating Expenses (Note 12)	<u>1,190,465,028</u>	<u>35,308,834</u>
Operating Income (Loss)	<u>(676,506,369)</u>	<u>16,426,231</u>
Nonoperating Revenues(Expenses)		
State appropriations (Note 13)	438,352,593	
Local appropriations	2,722,043	
Grants and gifts	207,180,019	
Investment income	1,888,527	6,702,442
Interest on capital asset related debt	(3,866,443)	
Other nonoperating revenue (expense)	(8,890,763)	
Net Nonoperating Revenue	<u>637,385,976</u>	<u>6,702,442</u>
Income before other revenues, expenses gains (losses)	<u>(39,120,393)</u>	<u>23,128,673</u>
Capital appropriations-state (Note 20)	47,636,363	
Capital appropriations-local	8,380,315	
Capital gifts, grants and contracts	5,797,357	111,747
Additions to permanent and term endowments		12,402,417
Increase (Decrease) in Net Position	<u>22,693,642</u>	<u>35,642,837</u>
Net Position		
Net Position beginning of year, as restated (Note 1-R)	<u>746,009,118</u>	<u>276,084,547</u>
Net Position end of year	<u><u>768,702,760</u></u>	<u><u>311,727,384</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Virginia Community College System
Consolidated
Statement of Cash Flows
For the Year Ended June 30, 2018

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Cash flows from operating activities:

Tuition and fees	360,082,970
Grants and contracts	112,394,671
Payments to suppliers and others	(286,690,812)
Payments for employee wages	(549,804,643)
Payments for employee fringes and pension benefits	(184,007,695)
Payment for scholarships	(99,869,049)
Payments for utilities	(17,740,608)
Sales and services of education department	107,909
Auxiliary	26,387,909
Loans issued to students	(122,530)
Loans collected from students	629,418
Other	15,070,248
Net cash used by operating activities	<u>(623,562,212)</u>

Cash flows from non-capital financing activities:

State appropriations	438,352,593
Local appropriations	2,722,043
Grants and gifts	200,524,560
Agency receipts	12,615,687
Agency disbursements	(12,193,038)
PLUS, Stafford and Direct Lending loan receipts	116,710,468
PLUS, Stafford and Direct Lending loan disbursements	(117,093,449)
Borrowings	4,000,000
Loan repayments	(4,658,051)
Other non-operating revenue(expense)	(8,467,147)
Net cash provided (used) by non-capital financing activities	<u>632,513,666</u>

Cash flows from capital and related financing activities:

Capital appropriations-state	50,187,690
Capital appropriations-local	8,380,315
Capital grants and gifts	5,214,469
Purchase capital assets	(56,679,770)
Proceeds from sale of capital assets	239,412
Proceeds from bond issue	-
Debt interest payments	(5,276,509)
Debt principal payments	(7,635,014)
Net cash provided (used) by capital financing activities	<u>(5,569,407)</u>

Cash flows from investing activities:

Purchases of investments	(40,746,576)
Sale of investments	38,641,368
Investment income	2,469,261
Net cash provided (used) by investing activities	<u>364,053</u>

Net increase (decrease) in cash and cash equivalents

3,746,100

Cash and cash equivalents, beginning of year

244,710,349

Cash and cash equivalents, End of Year

248,456,449

Virginia Community College System
Consolidated
Statement of Cash Flows
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Reconciliation of operating income (loss) to net cash used in operating activities:

Operating income (loss)	(676,506,369)
Adjustment to reconcile operating income (loss) to net cash used in operating activities:	
Depreciation expense	59,326,431
Changes in assets, deferred outflows, liabilities and deferred inflows:	
Appropriation available and accounts receivable, net	5,133,561
Prepaid expenses and other	7,311,094
Post employment benefits asset	(2,604,000)
Accrued compensation and leave	(1,191,913)
Accounts payable and other	(9,210,818)
Unearned revenue	2,475,180
Deposits pending distribution	(539,200)
Pension liability	(83,467,000)
Post employment benefits liability	(19,483,124)
Deferred inflows of resources related to pensions and post employment benefits	70,515,341
Deferred outflows of resources related to pensions and post employment benefits	24,678,605
Net cash used in operating activities	<u>(623,562,212)</u>

Reconciliation of cash and cash equivalents:

Cash and cash equivalents per Statement of Net Position	248,476,964
Less: Securities Lending Cash Equivalents	<u>20,515</u>
Cash and cash equivalents end of year	<u>248,456,449</u>

Noncash transactions

Donated fixed assets	582,888
Debt principal and interest payments made by Treasury	739,723
Amortization of bond premium	1,151,130
Capitalized bond interest costs	129,231
Amortization of deferral on debt defeasance	(327,797)

The accompanying Notes to the Financial Statements are an integral part of this statement.

***NOTES TO THE
FINANCIAL
STATEMENTS***

VIRGINIA COMMUNITY COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

As of June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Community College System (VCCS) was established as an institution of higher education in 1965. The System includes the State Board for Community Colleges, a System Office located in Richmond, a newly formed Shared Service Center and twenty-three community colleges located on forty campuses throughout the Commonwealth.

The Shared Service Center (SSC) was established to process administrative transactions. Located in Daleville, Virginia, the SSC supports the VCCS mission by providing customer service and administrative services to the 23 community colleges and System Office. These services include administrative functions in the areas of human resources, fiscal services, payroll, and procurement. The costs associated with the SSC were allocated to the 23 community colleges and System Office beginning in fiscal year 2018.

The State Board for Community Colleges is the governing body and is charged with the responsibility to establish, control, and administer a statewide system of publicly supported comprehensive community colleges. The System therefore functions as a statewide institution of higher learning.

The accompanying financial statements include all of the individual community colleges and the System Office under the control of the State Board for Community Colleges.

The System is a discrete component unit of the Commonwealth of Virginia and is included in the general-purpose financial statements of the Commonwealth. A separate report is prepared for the Commonwealth of Virginia that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority.

B. Community College Foundations

The community college foundations are legally separate, tax-exempt organizations formed to promote the achievements and further the aims and purposes of the colleges. The foundations accomplish their purposes through fundraising and funds management efforts that benefit the colleges and their programs. Although the colleges do not control the timing or amount of receipts from the foundations, the majority of resources or income thereon that the foundations hold and invest is restricted to the activities of the colleges by the donors. Because these restricted resources held by the foundations can only be used by, or for the benefit of the colleges, the foundations are considered discrete component units.

During the year ended June 30, 2018, the foundations distributed \$12,305,113 to the colleges for both restricted and unrestricted purposes. Complete financial statements for the foundations can be obtained by writing the VCCS Office of Fiscal Services, 300 Arboretum Place, Suite 200, Richmond, VA 23236.

C. Financial Statement Descriptions

The three financial statements presented are the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows.

The Statement of Net Position presents the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the VCCS at the end of the fiscal year and also provides the amount of net position and the availability for expenditure. The Statement of Revenues, Expenses, and Changes in Net Position presents operating and non-operating revenues received by the institution, operating and non-operating expenses incurred and any other revenues, expenses, gains and losses. The Statement of Cash Flows provides additional information about the financial results of the VCCS by reporting the major sources and uses of cash.

D. Basis of Accounting

For financial reporting purposes, the VCCS is considered a special purpose government engaged in only business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods and services. Accordingly, the financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. All material internal transactions have been eliminated.

Revenues and expenses of the summer academic term occur within two fiscal years, because the term extends from May through August and the fiscal year ends on June 30. Expenses and an equal amount of revenue have been reported in the current period for the portion of the summer academic term from May 16 through June 30, 2018.

The community college foundations are private, nonprofit organizations that report under FASB standards. As such, certain revenue recognition criteria and presentation features are different from GASB.

The financial statements for the community college foundations are for the year ending June 30, 2018 except for Dabney S. Lancaster, Eastern Shore, Germanna, Lord Fairfax, Mountain Empire, New River, Piedmont, Tidewater (Educational and Real Estate Foundations), Virginia Western, and Wytheville (Educational and Scholarship Foundations) which are as of December 31, 2017.

E. Prepaid Assets

Prepaid assets for rent, insurance, and similar items are recognized when purchased and expensed when used.

F. Inventories

Inventories are stated at cost (primarily first-in, first-out method) and consist mainly of goods purchased for resale and expendable supplies.

G. Cash Equivalents and Investments

Cash equivalents maintained by the VCCS are investments with original maturities of less than three months. Investments in money market accounts and in Commonwealth sponsored investment pools are reported at amortized cost. All other investments are reported at fair market value, in accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended

by GASB Statement 72, *Fair Value Measurement and Application*. GASB Statement 72 provides guidance for determining fair value measurements using the level of fair value hierarchy and valuation techniques.

H. Capital Assets

Plant assets consisting of land, buildings, infrastructure, equipment, library books, intangible assets, and construction in progress are stated at appraised historical cost or actual cost where determinable. Improvements to buildings, infrastructure and land that significantly increase the usefulness, efficiency or life of the asset are capitalized. Routine maintenance and repairs are charged to operations when incurred. Interest expense relating to construction is capitalized. Donated assets are recorded at acquisition value at the date of donation. The fixed asset values presented in these financial statements are extracted from the financial data maintained by the System's Administrative Information System (AIS). Expenses for equipment are capitalized when the unit acquisition cost is \$5,000 or greater and the estimated useful life is one year or more. Occupancy permits are used to determine when to reclassify buildings from construction-in-progress. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 20 to 25 years for infrastructure and land improvements, 3 to 25 years for equipment, 10 years for library books, and 5 to 10 years for intangible assets - computer software.

I. Accrued Compensated Absences

The amount of leave earned but not taken by all classified employees, administrative/professional faculty, teaching faculty, and presidents is recorded as a liability on the balance sheet. The amount reflects, as of June 30, all unused annual leave, compensatory leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave pay out policy. Also included in the liability is the System's share of the FICA taxes on leave balances for which employees will be compensated.

J. Unearned Revenues

Unearned revenue represents revenues collected but not earned as of June 30. This consists primarily of revenue for student tuition and certain auxiliary activities accrued in advance of the semester, and advance payments on grants and contracts.

K. Deposits

Deposits represent funds held by the VCCS on behalf of others as a result of agency relationships with various groups and organizations.

L. Pensions

The Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' System (VaLORS) Retirement Plan are single employer pension plans that are treated like cost-sharing plans. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the VRS State Employee Retirement Plan and the VaLORS Retirement Plan; and the additions to/deductions from the VRS State Employee Retirement Plan's and the VaLORS Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions)

are recognized when due and payable in accordance with the benefit terms. Investments held by VRS are reported at fair value.

M. Post-Employment Benefits

Plans administered by the VRS

State Employee Health Insurance Credit Program

The Virginia Retirement System (VRS) State Employee Health Insurance Credit Program is a single employer plan that is presented as a multiple-employer, cost-sharing plan. The State Employee Health Insurance Credit Program was established pursuant to §51.1-1400 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The State Employee Health Insurance Credit Program is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired state employees.

Group Life Insurance Program

The Virginia Retirement System (VRS) Group Life Insurance Program is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The Group Life Insurance Program was established pursuant to §51.1-500 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The Group Life Insurance Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers.

Line of Duty Act Program

The Virginia Retirement System (VRS) Line of Duty Act Program (LODA) is a multiple-employer, cost-sharing plan. The Line of Duty Act Program was established pursuant to §9.1-400 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The Line of Duty Act Program provides death and health insurance benefits to eligible state employees and local government employees, including volunteers, who die or become disabled as a result of the performance of their duties as a public safety officer. In addition, health insurance benefits are provided to eligible survivors and family members.

Virginia Sickness and Disability Program

The Virginia Retirement System (VRS) Disability Insurance Program (Virginia Sickness and Disability Program) is a single employer plan that is presented as a multiple-employer, cost-sharing plan. The Disability Insurance Program was established pursuant to §51.1-1100 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The Disability Insurance Program is a managed care program that provides sick, family and personal leave and short-term and long-term disability benefits for State Police Officers, state employees, and VaLORS employees.

For purposes of measuring the net OPEB liability (asset), deferred outflows of resources and deferred inflows of resources related to OPEB plans, and OPEB expense, information about the fiduciary net position of the Virginia Retirement System's (VRS) administered OPEB Plans and the additions to/deductions from the OPEB Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan administered by the Department of Human Resource Management

Pre-Medicare Retiree Healthcare

The Commonwealth provides a healthcare plan established by Title 2.2, Chapter 28 of the *Code of Virginia* for retirees who are not yet eligible to participate in Medicare. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes. For purposes of measuring the net OPEB liability (asset), deferred outflows of resources and deferred inflows of resources related to OPEB plans, and OPEB expense, information about the fiduciary net position of the Department of Human Resource Management administered OPEB Plans and the additions to/deductions from the OPEB Plan's net fiduciary position have been determined on the same basis as they were reported by DHRM. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms.

N. Classification of Revenues and Expenses

The VCCS has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues include activities that have the characteristics of exchange transactions, such as tuition and fees, sales and services of auxiliary enterprises, most federal, state and local grants and contracts, and interest on student loans.

Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, state appropriations and investment income.

Nonoperating expenses include interest on debt related to the purchase of capital assets and losses on disposal of capital equipment. All other expenses are classified as operating expenses.

O. Scholarship Discounts and Allowances

Student tuition and fees revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the VCCS, and the amount that is paid by students and/or third parties making payments on the student's behalf. Certain governmental grants and other federal, state or nongovernmental programs are recorded as either operating or nonoperating revenues in the financial statements. To the extent that such revenues are used to satisfy tuition and fees and other student charges, the VCCS has recorded a scholarship discount and allowance.

P. Deferred Inflows and Outflows of Resources

Deferred outflows of resources are defined as the consumption of net assets applicable to a future reporting period. The deferred outflows of resources have a positive effect on net position similar to assets.

Deferred inflows of resources are defined as the acquisition of net assets applicable to a future reporting period. The deferred inflows of resources have a negative effect on net position similar to liabilities.

Q. Net Position

Net position balances are classified as follows:

Net investment in capital assets: Consists of capital assets, net of accumulated depreciation reduced by outstanding debt attributable to the acquisition, construction or improvement of those assets.

Restricted-nonexpendable: Restricted nonexpendable balances consist of endowment funds in which donors have stipulated, as a condition of the gifts that the principal is to remain inviolate in perpetuity.

Restricted-expendable: Restricted expendable balances include resources in which the VCCS is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted: Unrestricted balances represent resources that may be used at the discretion of the governing board for any lawful purpose.

When an expense is incurred that can be paid from either restricted or unrestricted resources, it is the policy of the VCCS to first apply the expense towards restricted resources and then towards unrestricted resources.

R. Restatements

Statement of Revenue, Expenses, and Changes in Net Position:

Net Position as of June 30, 2017 – previously reported	\$933,493,048
Change in accounting principle (GASB 75 implementation) **	(187,483,930)
Net Position as of July 1, 2017 – as restated	<u>\$746,009,118</u>

Community College Foundations

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

Net Position as of June 30, 2017 - previously reported	\$276,190,711
Community Colleges of Virginia Educational Foundation - understated	
Institutional Support expenses	(106,164)
Net Position as of July 1, 2017 - as restated	<u>\$276,084,547</u>

**GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans

2. **CASH AND INVESTMENTS**

Cash and Cash Equivalents

Cash equivalents maintained by the VCCS are investments with original maturities of less than three months.

Pursuant to Section 2.2-1800, et seq., *Code of Virginia*, all state funds of the VCCS are maintained by the Treasurer of Virginia who is responsible for the collection, disbursement, custody, and investment of state funds.

Deposits

Local cash deposits with banks and savings institutions not with the Treasurer of Virginia are covered by federal depository insurance or collateralized in accordance with the Virginia Security of Public Deposits Act, Section 2.2-4400 et seq., *Code of Virginia*. Deposits covered by the Virginia Security of Public Deposits Act totaled \$49,939,762 at June 30, 2018.

Investments

Certain deposits and investments are held by the VCCS. Such investments are reported separately from cash and cash equivalents. Investments represent securities with original maturities of more than three months and for which management intends to hold the securities to maturity.

Investments in money market accounts, non-negotiable certificates of deposit, the Virginia State Non-Arbitrage Program (SNAP) and the Local Government Investment Pool (LGIP) are reported at amortized cost. SNAP offers a professionally-managed money market mutual fund, which provides a temporary pooled investment vehicle for proceeds pending expenditure, and with record keeping, depository and arbitrage rebate calculations. This program complies with all standards of GASB Statement 79. SNAP investments are reported using the net asset value (NAV) per share, which is calculated on an amortized cost basis that provides an NAV that approximates fair value. All other investments are reported at fair market value, in accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended by GASB Statement 72, *Fair Value Measurement and Application*. GASB Statement 72 provides guidance for determining fair value measurements using the level of fair value hierarchy and valuation techniques.

Investments of the member colleges of the VCCS are limited to those allowed under Chapter 45, Investments of Public Funds Act, Sections 2.2-4500, 2.2-4501, 2.2-4509 and 2.2-4510 of the *Code of Virginia*. Commonwealth of Virginia law limits investments in stocks, bonds, notes, and other evidences of indebtedness of the Commonwealth and those unconditionally guaranteed as to the payment of principal and interest by the Commonwealth. Investments in United States agencies all carry the explicit guarantee of the United States government. Additionally, Virginia's community colleges may participate in the Local Government Investment Pool as authorized by Chapter 46 of the *Code of Virginia* and managed by the Commonwealth of Virginia Treasury Board. Authorized investments in the Local Government Investment Pool are limited to those set forth for local officials in Chapter 45, Sections 2.2-4500 of the *Code of Virginia*. The LGIP is managed in accordance with the requirements of GASB Statement 79 and investments are reported at amortized cost.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. VCCS has no investments exposed to custodial credit risk for 2018.

Interest Rate Risk

Disclosure of the maturities of investments is required when the fair market value is adversely affected by changes in interest rates. Investments subject to interest rate risk are outlined in the accompanying chart.

Credit Risk

Disclosure of the credit quality rating is required for investments exposed to the risk that an issuer or other counterparty will not fulfill its obligations. Investments subject to credit rate risk are outlined in the accompanying chart.

Concentration of Credit Risk

Disclosure of any one issuer is required when it represents 5 percent or more of total investments. VCCS does not have such concentration of credit risk for 2018.

Foreign Currency Risk

Disclosure is required for investments exposed to changes in exchange rates that will adversely affect the fair value of an investment or a deposit. VCCS has no investments or deposits subject to Foreign Currency Risk for 2018.

<u>Cash Equivalents</u>	<u>Value</u>	<u>Credit Rating</u>
Local Govt. Investment Pool	\$34,248,047	AAA
Non-Negotiable Cert. of Deposit	2,045,228	Not Rated
Repurchase Agreements	8,623,845	Not Rated
Mutual and Money Market Funds	7,266,216	Not Rated
State Non-arbitrage Program	6,156,948	AAAm
Total	<u>\$58,340,284</u>	

<u>Investment Type</u>	<u>Less than 1 year</u>	<u>1 - 5 Years</u>	<u>6 -10 Years</u>	<u>6/30/2018</u>	<u>S&P Credit Rating</u>
Agency Mortgage Backed Securities	-	\$8,680,070	\$134,577	\$8,814,647	AA+
Corporate Bonds	-	-	19,648	19,648	AAA
Corporate Bonds	\$200,517	1,205,301	-	1,405,818	AA+
Corporate Bonds	-	1,396,355	19,270	1,415,625	AA
Corporate Bonds	-	7,084,170	18,991	7,103,161	AA-
Corporate Bonds	-	571,041	-	571,041	A+
Corporate Bonds	-	2,850,271	-	2,850,271	A
Corporate Bonds	-	4,156,334	-	4,156,334	A-
Corporate Bonds	-	1,894,083	-	1,894,083	A-1
Corporate Bonds	-	1,000,639	-	1,000,639	BBB+
Corporate Bonds	-	1,621,353	-	1,621,353	BBB
Negotiable CDs	-	31,028,963	-	31,028,963	Not Rated
Municipal Securities	-	74,887	-	74,887	Not Rated
Municipal Securities	-	49,449	-	49,449	AAA
Municipal Securities	-	-	4,810	4,810	AA+
Municipal Securities	-	74,188	-	74,188	AA
Municipal Securities	-	49,819	-	49,819	AA-
Mutual Funds	1,147,125	996,732	-	2,143,857	Not Rated

U.S. Treasury and Agency Securities	589,619	11,736,203	314,516	12,640,338	Not Rated
Non-Negotiable CDs	5,482,666	-	-	5,482,666	Not Rated
Total	<u>\$7,419,927</u>	<u>\$74,469,858</u>	<u>\$511,812</u>	<u>\$82,401,597</u>	

Fair Value Measurement

The following disclosures are made in accordance with GASB Statement 72 Fair Value Measurement and Application. This standard sets forth the framework for measuring fair value and provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of fair value hierarchy under GASB 72 are described as follows:

Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

Fair Value Measurement Using:

	Quoted Prices In Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Other Unobservable Inputs Level 3
Agency Mortgage Backed Securities	\$ -	\$ 8,814,647	-
Corporate Bonds	-	22,037,973	-
Negotiable Certificates of Deposit	-	31,028,963	-
Municipal Securities	-	253,153	-
Mutual and Money Market Funds	7,266,216	2,143,857	-
U.S. Treasury and Agency Securities	12,640,338	-	-
Repurchase Agreements	-	8,623,845	-
Total Investments measured at Fair Value	<u>\$19,906,554</u>	<u>\$72,902,438</u>	<u>-</u>

Community College Foundations

The Foundations had the following cash, cash equivalents and investments as of June 30, 2018:

Cash and cash equivalents \$ 21,136,164

Investments:

Mutual funds and money markets	\$115,161,142
Stocks	92,875,334
Corporate bonds	25,334,255
UVA investment fund	9,182,518
U.S. government securities & bonds	7,052,427
Investment in real estate	2,588,668
Mortgage-backed securities	2,471,436
Certificates of deposits	2,128,423

Exchange traded funds	2,035,203
Municipal bonds	1,847,273
Split interest agreements	1,090,603
Partnership investments	796,544
Assets held for resale	416,220
Alternative investments	407,575
Cash surrender value of life insurance	388,772
Total investments	<u>\$263,776,393</u>

Some VCCS foundations had balances in bank and savings institutions that exceeded federally-insured limits. However, the foundations do not believe this poses any significant credit risk.

3. RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

The following receivables included an allowance for doubtful accounts at June 30, 2018:

Gross accounts receivable:	
Tuition and fees	\$ 10,685,583
Auxiliary enterprises	533,522
Federal, state, local and nongovernmental grants, gifts, contracts	2,838,138
Other activities	3,081,050
Total gross accounts receivable	<u>\$17,138,293</u>
Less: Allowance for doubtful accounts	<u>(1,232,596)</u>
Net accounts receivable	<u>\$15,905,697</u>
 Gross Loans and notes receivable	 \$ 3,347,145
Less: Allowance for doubtful accounts	<u>(231,122)</u>
Net loans and notes receivable	<u>\$ 3,116,023</u>

Receivables not expected to be collected within one year are \$1,572,315 in accounts, notes, and loans receivable.

Community College Foundations

The foundations have the following receivables as of June 30, 2018:

Gross accounts receivable	\$655,098
Less: Allowance for doubtful accounts	-
Net accounts receivable	<u>\$655,098</u>
 Pledges receivable:	
Due in one year	\$6,307,329
Due in 1-5 years	7,361,495
Due in more than 5 years	734,895
Less: Allowance for doubtful accounts	(307,944)
Present value discount	(478,973)
Net pledges receivable	<u>\$13,616,802</u>
 Gross loans and notes receivable	 \$887,859
Less: Allowance for doubtful accounts	-
Net loans and notes receivable	<u>\$887,859</u>

Receivables not expected to be collected within one year are \$1,025,510 in accounts, notes, and loans receivable and \$7,565,535 in pledges receivable.

4. COMMONWEALTH EQUIPMENT AND CAPITAL PROJECT REIMBURSEMENT PROGRAMS

The Commonwealth has established several programs to provide state-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional equipment and facilities. During fiscal year 2018, funding has been provided to the VCCS from three programs: general obligation bonds 9(b) and two programs (21st Century and Equipment Trust Fund) managed by the Virginia College Building Authority (VCBA). The VCBA issues bonds and uses the proceeds to reimburse the VCCS and other institutions of higher education for expenses incurred in the acquisition of equipment and facilities.

The line items, Due from Commonwealth, Current and Noncurrent, on the Statement of Net Position, for the year ended June 30, 2018, represents the following pending reimbursements from the following programs:

Due from Commonwealth, Current

VCBA Equipment Trust Fund program	\$4,559,030
General Obligation Bonds 9(b)	51,465
VCBA 21 st Century program	2,652,533
General Fund	32,255
Total Due from Commonwealth, Current	<u>\$7,295,283</u>

Due from Commonwealth, Noncurrent

VCBA 21 st Century program	<u>\$7,384,134</u>
Total Due from Commonwealth, Noncurrent	<u>\$7,384,134</u>

5. CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2018 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Nondepreciable capital assets:				
Land / Land Improvements	\$70,139,019	\$379,307	\$ (2,896)	\$70,515,430
Inexhaustible Works of Art	148,174	-	-	148,174
Construction in Progress	37,557,419	37,931,749	(44,975,667)	30,513,501
Total capital assets not being depreciated	<u>\$107,844,612</u>	<u>\$38,311,056</u>	<u>\$(44,978,563)</u>	<u>\$101,177,105</u>
Depreciable capital assets:				
Buildings	\$1,477,140,508	\$43,391,031	\$(316,920)	\$1,520,214,619
Infrastructure	76,470,157	1,610,042	(24,573)	78,055,626
Equipment	213,946,664	12,752,319	(11,077,836)	215,621,147
Land Improvements	94,090,484	2,270,146	-	96,360,630
Library Books	47,823,778	1,081,204	(1,902,986)	47,001,996

Intangible	47,038,623	12,650	(420,489)	46,630,784
Total other capital assets	\$1,956,510,214	\$61,117,392	\$(13,742,804)	\$2,003,884,802
Less accumulated depreciation for:				
Buildings	\$(375,681,722)	\$(32,826,165)	\$314,508	\$(408,193,379)
Infrastructure	(34,158,277)	(3,348,665)	-	(37,506,942)
Equipment	(153,806,363)	(15,743,945)	10,432,479	(159,117,829)
Land Improvements	(56,572,568)	(3,327,963)	-	(59,900,531)
Library Books	(37,174,841)	(2,609,506)	1,902,986	(37,881,361)
Intangible	(41,553,788)	(1,488,657)	308,565	(42,733,880)
Total accumulated depreciation	\$(698,947,559)	\$(59,344,901)	\$12,958,538	\$(745,333,922)
Other capital assets, net	\$1,257,562,655	\$1,772,491	\$(784,266)	\$1,258,550,880
Total capital assets, net	\$1,365,407,267	\$40,083,547	\$(45,762,829)	\$1,359,727,985

Community College Foundations

The foundations had the following capital assets as of June 30, 2018:

Non-depreciable capital assets:	
Land	\$5,720,700
Construction in Process	552,845
Works of art	123,627
Total nondepreciable capital assets	\$ 6,397,172
Depreciable capital assets:	
Buildings	\$20,829,526
Equipment	2,220,254
Site improvement	75,337
Total depreciable capital assets	\$23,125,117
Less: Accumulated depreciation	(5,706,897)
Depreciable capital assets, net	\$17,418,220
Total capital assets, net	\$23,815,392

6. ACCOUNTS AND RETAINAGE PAYABLE

Accounts and retainage payable consisted of the following as of June 30, 2018:

	VCCS	Foundations
Vendors payable	\$41,411,462	\$2,337,155
Students payable	477,185	-
Retainage payable	1,522,324	-
Taxes payable	14,521	-
Total	\$43,425,492	\$2,337,155

7. COMMITMENTS

At June 30, 2018, the VCCS had future contractual commitments totaling \$59,776,169. The System held \$1,522,324 as retainage payable on construction and architectural/engineering contracts for work performed. The retainage payable will be remitted to the various contractors upon satisfactory completion of the construction projects.

8. DEFERRED OUTFLOWS OF RESOURCES

The composition of deferred outflows of resources on June 30, 2018, is summarized as follows:

Deferred Loss on Debt Defeasance	\$ 3,040,629
Pension	58,283,969
Post Employment Benefit	13,577,323
Total Deferred Outflows of Resources	<u>\$74,901,921</u>

9. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2018 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Debt:					
Capital leases	\$3,336,752	-	\$938,994	\$2,397,758	\$992,412
Notes payable:					
Installment purchases	2,532,153	-	191,020	2,341,133	346,506
Pooled bonds	118,584,629	-	7,656,130	110,928,499	6,805,000
Other notes payable	4,400,000	4,000,000	4,400,000	4,000,000	4,000,000
Total bonds, notes and capital leases	<u>\$128,853,534</u>	<u>\$4,000,000</u>	<u>\$13,186,144</u>	<u>\$119,667,390</u>	<u>\$12,143,918</u>
Other liabilities:					
Compensated absences	29,033,666	23,251,641	23,971,274	28,314,033	17,666,903
Pension Obligations	570,762,000	-	83,467,000	487,295,000	-
Postemployment Benefits	-	182,055,806	-	182,055,806	2,459,732
Federal loan program contributions	3,530,113	-	223,432	3,306,681	-
Total other liabilities	<u>\$603,325,779</u>	<u>\$205,307,447</u>	<u>\$107,661,706</u>	<u>\$700,971,520</u>	<u>\$20,126,635</u>
Total long-term liabilities	<u>\$732,179,313</u>	<u>\$209,307,447</u>	<u>\$120,847,850</u>	<u>\$820,638,910</u>	<u>\$32,270,553</u>

Defeasance of Debt

In prior fiscal years, a portion of the VCBA Pooled Bonds, of which the VCCS has a share, has been defeased. Details relating to the current and prior years' defeasances are reported in the

Comprehensive Annual Financial Report of the Commonwealth. As of June 30, 2018 \$24,515,000 of VCCS defeased bonds is outstanding.

10. NOTES PAYABLE

Notes payable represent agreements with the Virginia College Building Authority (VCBA) to finance the following projects:

Parking garage for the Medical Education campus of Northern Virginia Community College - The balance is to be repaid in annual installments ranging from \$340,000 to \$530,000 with coupon rates ranging from 3% to 5% payable semiannually. The final installment of \$530,000 is due September 1, 2021. The outstanding balance at June 30, 2018 is \$2,145,496.

Parking deck for the Annandale Campus of Northern Virginia Community College - The balance is to be repaid in annual installments ranging from \$355,000 to \$400,000 with a coupon rate of 5% payable semiannually. The final installment of \$360,000 is due September 1, 2023. The outstanding balance at June 30, 2018 is \$2,474,224.

Parking garage for J. Sargeant Reynolds Community College - The balance is to be repaid in annual installments ranging from \$200,000 to \$325,000 with coupon rates ranging from 3% to 5% payable semiannually. The final installment of \$325,000 is due September 1, 2022. The outstanding balance at June 30, 2018 is \$1,543,607.

Student Center for Tidewater Community College Norfolk Campus - The balance is to be repaid in annual installments ranging from \$580,000 to \$1,095,000 with coupon rates ranging from 3% to 5% payable semiannually. The final installment of \$1,095,000 is due September 1, 2028. The outstanding balance at June 30, 2018 is \$10,831,790.

Workforce Training and Technology Center for J. Sargeant Reynolds Community College - The balance is to be repaid in annual installments ranging from \$30,000 to \$75,000 with an average coupon rate of 4.914% payable semiannually. The final installment of \$70,000 is due September 1, 2029. The outstanding balance at June 30, 2018 is \$762,393.

Student Center for Tidewater Community College Virginia Beach Campus – The balance is to be repaid in annual installments ranging from \$285,000 to \$1,035,000 with coupon rates ranging from 3% to 5% payable semiannually. The final installment of \$585,000 is due September 1, 2030. The outstanding balance at June 30, 2018 is \$17,726,033.

Student Center for Tidewater Community College Chesapeake Campus - The balance is to be repaid in annual installments ranging from \$345,000 to \$725,000 with coupon rates ranging from 3% to 5% payable semiannually. The final installment of \$415,000 is due September 1, 2030. The outstanding balance at June 30, 2018 is \$12,444,392.

Academic Building for Tidewater Community College Chesapeake Campus - The balance is to be repaid in annual installments ranging from \$170,000 to \$325,000 with an average coupon rate of 4.969% payable semiannually. The final installment of \$325,000 is due September 1, 2024. The outstanding balance at June 30, 2018 is \$2,246,310.

Student Center for Blue Ridge Community College Weyers Cave Campus - The balance is to be repaid in annual installments ranging from \$335,000 to \$660,000 with a coupon rate of 3.12% payable semiannually. The final installment of \$660,000 is due September 1, 2030. The outstanding balance at June 30, 2018 is \$7,325,729.

Student Center for Tidewater Community College Portsmouth Campus - The balance is to be repaid in annual installments ranging from \$520,000 to \$1,065,000 with a coupon rate of 3.12% payable semiannually. The final installment of \$1,065,000 is due September 1, 2030. The outstanding balance at June 30, 2018 is \$11,845,204.

Student Center for Virginia Western Community College - The balance is to be repaid in annual installments ranging from \$200,000 to \$465,000 with an average coupon rate of 4.23% payable semiannually. The final installment of \$465,000 is due September 1, 2031. The outstanding balance at June 30, 2018 is \$5,367,951.

Parking garage for Germanna Community College - The balance is to be repaid in annual installments ranging from \$175,000 to \$405,000 with an average coupon rate of 4.23% payable semiannually. The final installment of \$405,000 is due September 1, 2031. The outstanding balance at June 30, 2018 is \$4,668,953.

Parking garage for John Tyler Community College Midlothian Campus - The balance is to be repaid in annual installments ranging from \$210,000 to \$440,000 with an average coupon rate of 3.6% payable semiannually. The final installment of \$440,000 is due September 1, 2032. The outstanding balance at June 30, 2018 is \$5,780,608.

Parking garage for Tidewater Community College Chesapeake Campus - The balance is to be repaid in annual installments ranging from \$740,000 to \$1,620,000 with an average coupon rate of 3.6% payable semiannually. The final installment of \$1,620,000 is due September 1, 2032. The outstanding balance at June 30, 2018 is \$21,308,931.

Parking garage for Blue Ridge Community College Weyers Cave Campus - The balance is to be repaid in annual installments ranging from \$135,000 to \$325,000 with coupon rates ranging from 4% to 5% payable semiannually. The final installment of \$325,000 is due September 1, 2034. The outstanding balance at June 30, 2018 is \$4,456,878.

The Virginia Community College System's general revenues, not otherwise obligated, secure these notes.

Other notes payable of \$4,000,000 represents advances received from the Commonwealth of Virginia in anticipation of federal grant funding.

Scheduled maturities of notes payable are as follows:

Year Ending June 30	Principal	Interest	Total Payments
2019	\$6,805,000	\$4,364,023	\$11,169,023
2020	7,095,000	4,037,885	11,132,885
2021	7,390,000	3,703,672	11,093,672
2022	7,690,000	3,345,425	11,035,425
2023	7,450,000	2,985,338	10,435,338
2024-2028	37,380,000	10,044,358	47,424,358
2029-2033	26,770,000	2,212,863	28,982,863
2034-2038	635,000	32,125	667,125
Sub Totals	\$101,215,000	\$30,725,689	\$131,940,689
Plus Bond Premium	9,713,499	-	9,713,499
Totals	<u>\$110,928,499</u>	<u>\$30,725,689</u>	<u>\$141,654,188</u>

11. LEASE COMMITMENTS AND INSTALLMENT PURCHASES

The System is committed under various capital lease, operating lease, and installment purchase agreements. The cost of assets capitalized under capital lease and installment purchase agreements total \$32,021,622 and \$4,267,506, respectively. Rent expense under operating lease agreements amounted to \$12,192,339 for the year. A summary of future obligations under lease agreements as of June 30, 2018 follows:

Year Ending June 30	Capital Lease Obligations	Installment Purchase Obligations	Operating Lease Obligations
2019	\$1,107,208	\$406,983	\$ 6,985,010
2020	1,109,179	406,980	10,106,672
2021	369,209	406,982	8,207,501
2022	-	406,980	7,593,977
2023	-	353,478	6,806,867
2024-2028	-	605,874	11,630,245
2029-2033	-	-	-
Total obligation and gross minimum lease payments	\$2,585,596	\$2,587,277	\$51,330,272
Less: Interest	(187,838)	(246,144)	-
Present value of minimum lease payments	<u>\$2,397,758</u>	<u>\$2,341,133</u>	<u>\$51,330,272</u>

Capital leases represent the remaining obligation for two capital lease agreements. Tidewater Community College entered into an agreement in 1997 to purchase several buildings on the Norfolk Campus. The gross amount of the buildings related to this lease agreement is \$27,838,922. Thomas Nelson Community College entered into an agreement in 2002 for the Peninsula Workforce Development Center. The gross amount of the Peninsula Workforce Development Center is broken down as follows: \$3,502,251 for Building, \$492,904 for Land Improvements, and \$187,545 for Infrastructure.

12. OPERATING EXPENSES BY NATURAL AND FUNCTIONAL CLASSIFICATIONS

VCCS operating expenses for the year ended June 30, 2018 were as follows:

Natural Classification						
Functional Classification	Salaries & Benefits	Utilities	Scholarships	Depreciation	Supplies Services & Other	Total
Instruction	\$ 378,209,379	\$ 109,372	\$ 587,377	\$ 41,470,688	\$ 68,579,773	\$ 488,956,589
Public Service	14,842,579	16,615	289,220	252,070	47,151,171	62,551,655
Academic Support	72,049,916	126,098	68,560	5,956,119	21,073,053	99,273,746
Student Services	90,763,514	3,622	668,943	2,592,251	14,709,207	108,737,537
Institutional Support	117,755,928	46,310	1,303,085	6,082,980	76,909,420	202,097,723
Operation & Maintenance	42,705,059	16,838,210	94,756	2,851,224	54,030,381	116,519,630
Scholarships and Fellowships	75,899		96,547,723		472,355	97,095,977
Auxiliary Enterprises	5,556,006	508,494	1,000	121,099	8,581,892	14,768,491
Other Expenses					463,680	463,680
Total Expenses	\$ 721,958,280	\$ 17,648,721	\$ 99,560,664	\$ 59,326,431	\$ 291,970,932	\$ 1,190,465,028

13. STATE APPROPRIATIONS

All Commonwealth unrestricted revenues must be appropriated by the Legislature and are provided on an annual basis. Unspent balances of these appropriations at the close of the fiscal year revert to the Commonwealth's General Fund. These reverted funds are eligible for re-appropriation in fiscal year 2017-18 provided that the VCCS meets financial and administrative standards outlined in the *Code of Virginia*.

During the year ended June 30, 2018, the Virginia Community College System received the following general fund appropriations in accordance with Chapter 1, 2018 Virginia Acts of Assembly.

Appropriated – Chapter 1 – approved June 7, 2018	\$381,224,580
Additions:	
Net central accounts distribution	13,117,194
Other:	
Transfer from SCHEV – VIVA	40,233
Carryover fiscal year 2017 year-end balances	18,323,010
Equipment Trust Fund lease payment	(633,657)
Capital fee transfers	(3,301,665)
Philpott manufacturing	(1,093,862)
Reversion	(21,822,855)
Adjusted Unrestricted Appropriations	<u>\$385,852,978</u>

Other restricted appropriations were \$52,499,615 for a total of \$438,352,593.

14. EQUIPMENT TRUST FUND

The System participates in the Higher Education Equipment Trust Fund (HEETF) of the Virginia College Building Authority (VCBA). The HEETF provides funds to public colleges and universities for equipment acquisitions using proceeds from revenue bonds issued for this purpose.

15. DONOR-RESTRICTED ENDOWMENTS

VCCS has two donor-restricted endowments. The net appreciation on investments of donor-restricted endowments that is available for expenditure by the governing board did not change for the year ended June 30, 2018. These amounts are reported as restricted expendable net position. Total-return policy is followed for authorizing and spending investment income.

16. CONTINGENCIES ON GRANTS

The VCCS receives assistance from non-state grantor agencies in the form of grants. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant agreements. Substantially all grants are subject to financial and compliance audits by the grantors. All disallowances as a result of these audits become a liability of the VCCS. As of June 30, 2018, the VCCS estimates that no material liabilities will result from such audits.

17. RETIREMENT PLANS

Virginia Retirement System – General Information about the Pension Plans

Plan Description

All full-time, salaried permanent employees of state agencies are automatically covered by the VRS State Employee Retirement Plan or the VaLORS Retirement Plan upon employment. These plans are administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. The State Retirement Plan and VaLORS Retirement Plan are single employer plans treated as cost-sharing employer plans for financial reporting purposes. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees in the VRS State Employee Retirement Plan – Plan 1, Plan 2, and, Hybrid and two different benefit structures for covered employees in the VaLORS Retirement Plan – Plan 1 and Plan 2. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

Retirement Plan Provisions By Plan Structure		
Plan 1	Plan 2	Hybrid
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

Retirement Plan Provisions By Plan Structure

Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: State employees* Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. *Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: Members of the Virginia Law Officers' Retirement System (VaLORS). Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
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Retirement Plan Provisions By Plan Structure

Retirement Contributions State employees, excluding state elected officials and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	Retirement Contributions State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.	Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	Creditable Service Same as Plan 1.	Creditable Service Defined Benefit Component: Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. Defined Contribution Component: Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Retirement Plan Provisions By Plan Structure

Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	Vesting Same as Plan 1.	Vesting Defined Benefit Component: Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. Defined Contributions Component: Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. After two years, a member is 50% vested and may withdraw 50% of employer contributions. After three years, a member is 75% vested and may withdraw 75% of employer contributions. After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
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Retirement Plan Provisions By Plan Structure

Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	Calculating the Benefit See definition under Plan 1.	Calculating the Benefit Defined Benefit Component: See definition under Plan 1 Defined Contribution Component: The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	Average Final Compensation A member's average final compensation is the average of the 60 consecutive months of highest compensation as a covered employee.	Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. VaLORS: The retirement multiplier for VaLORS employees is 1.70% or 2.00%.	Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. VaLORS: The retirement multiplier for VaLORS employees is 2.00%.	Service Retirement Multiplier Defined Benefit Component: VRS: The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. VaLORS: Not applicable. Defined Contribution Component: Not applicable.

Retirement Plan Provisions By Plan Structure

Normal Retirement Age VRS: Age 65. VaLORS: Age 60.	Normal Retirement Age VRS: Normal Social Security retirement age. VaLORS: Same as Plan 1.	Normal Retirement Age Defined Benefit Component: VRS: Same as Plan 2. VaLORS: Not applicable. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. VaLORS: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. VaLORS: Same as Plan 1.	Earliest Unreduced Retirement Eligibility Defined Benefit Component: VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. VaLORS: Not applicable. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. VaLORS: 50 with at least five years of creditable service.	Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service. VaLORS: Same as Plan 1.	Earliest Reduced Retirement Eligibility Defined Benefit Component: VRS: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. VaLORS: Not applicable. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Retirement Plan Provisions By Plan Structure

Cost-of-Living Adjustment (COLA) in Retirement	Cost-of-Living Adjustment (COLA) in Retirement	Cost-of-Living Adjustment (COLA) in Retirement
The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date. Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 2%), for a maximum COLA of 3%. Eligibility: Same as Plan 1 Exceptions to COLA Effective Dates: Same as Plan 1	Defined Benefit Component: Same as Plan 2. Defined Contribution Component: Not applicable. Eligibility: Same as Plan 1 and Plan 2. Exceptions to COLA Effective Dates: Same as Plan 1 and Plan 2.

Retirement Plan Provisions By Plan Structure

Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	Disability Coverage State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.	Purchase of Prior Service Same as Plan 1.	Purchase of Prior Service Defined Benefit Component: Same as Plan 1, with the following exceptions: Hybrid Retirement Plan members are ineligible for ported service. Defined Contribution Component: Not applicable.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, the 5.00% member contribution was paid by the employer. Beginning July 1, 2012, state employees were required to pay the 5.00% member contribution and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each state agency's contractually required contribution rate for the year ended June 30, 2018 was 13.49% of covered employee compensation for employees in the VRS State Employee Retirement Plan. For employees in the VaLORS Retirement Plan, the contribution rate was 21.05% of covered employee compensation. These rates were based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The contribution rate for the VRS State Employee Retirement Plan also reflects the transfer in June 2016 of \$162,406,273 as an accelerated payback of the deferred contribution in the 2010-2012 biennium. The contribution rate for the VaLORS Retirement Plan also reflects the transfer in June 2016 of \$16,491,559 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the VCCS to the VRS State Employee Retirement Plan were \$42.3 million and \$43.3 million for the years ended June 30, 2018 and June 30, 2017, respectively. Contributions from the VCCS to the VaLORS Retirement Plan were \$1.1 million and \$1.1 million for the years ended June 30, 2018 and June 30, 2017, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the VCCS reported a liability of \$477.1 million for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability and a liability of \$10.2 million for its proportionate share of the VaLORS Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2017 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. At June 30, 2017, The VCCS' proportion of the Net Pension Liability was based on the VCCS' actuarially determined employer contributions to the pension plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the VCCS' proportion of the VRS State Employee Retirement Plan was 8.19% as compared to 8.48% at June 30, 2016. At June 30, 2017, the VCCS' proportion of the VaLORS Retirement Plan was 1.55% as compared to 1.50% at June 30, 2016.

For the year ended June 30, 2018, the VCCS recognized pension expense of \$30.0 million for the VRS State Employee Retirement Plan and \$1.5 million for the VaLORS Retirement Plan. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2018, the VCCS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

VRS State Employee Retirement Plan (\$ Thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,013	\$ 14,439
Change in assumptions	4,632	-
Net difference between projected and actual earnings on pension plan investments	-	20,384
Changes in proportion and differences between Employer contributions and proportionate share of contributions	8,294	21,895
Employer contributions subsequent to the measurement date	42,307	-
Total	\$ 56,246	\$ 56,718

VRS VaLORS Retirement Plan (\$ Thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 28	\$ 24
Change in assumptions	-	663
Net difference between projected and actual earnings on pension plan investments	-	282
Changes in proportion and differences between Employer contributions and proportionate share of contributions	889	156
Employer contributions subsequent to the measurement date	1,121	-
Total	\$ 2,038	\$ 1,125

\$43.4 million reported as deferred outflows of resources related to pensions resulting from the VCCS' contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2019. Other amounts reported as

deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30 (\$ thousands)	<u>VRS Retirement Plan</u>	<u>VaLORS Retirement Plan</u>
2019	\$(23,234)	\$31
2020	(2,201)	(44)
2021	(3,640)	(3)
2022	(13,704)	(192)

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including Inflation	3.5 percent – 5.35 percent
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Life Mortality Table Projected with Scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 25%

The total pension liability for the VaLORS Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including Inflation	3.5 percent – 4.75 percent
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 1 year.

Post-Disablement:

RP-2014 Disability Life Mortality Table Projected with Scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages

Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2017, NPL amounts for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan are as follows (amounts expressed in thousands):

	Employee Retirement Plan	State VaLORS Retirement Plan
Total Pension Liability	\$ 23,617,412	\$ 2,002,184
Plan Fiduciary Net Position	<u>17,789,888</u>	<u>1,345,887</u>
Employers' Net Pension Liability (Asset)	<u>\$ 5,827,524</u>	<u>\$ 656,297</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.33%	67.22%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	<u>100.00%</u>		<u>4.80%</u>
	Inflation		<u>2.50%</u>
* Expected arithmetic nominal return			<u>7.30%</u>

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the VCCS for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. 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 active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the State VCCS' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the VCCS' proportionate share of the VRS State Employee Retirement Plan net pension liability using the discount rate of 7.00%, as well as what the VCCS' proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate (amounts expressed in thousands):

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
VCCS' proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	\$704,745	\$477,103	\$285,931

The following presents the VCCS' proportionate share of the VaLORS Retirement Plan net pension liability using the discount rate of 7.00%, as well as what the VCCS' proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate (amounts expressed in thousands):

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
VCCS' proportionate share of the VaLORS Retirement Plan Net Pension Liability	\$14,219	\$10,192	\$6,861

Pension Plan Fiduciary Net Position

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position or the VaLORS Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

The VCCS recognized \$51,358,000 as Accrued Payroll Expenses as of June 30, 2018 which represents hours worked before June 30 but paid after July 1. The portion payable to the VRS for pension contributions is estimated at \$1.8 million.

Optional Retirement Plans

All qualified salaried employees of the VCCS are required to participate in a retirement benefit plan administered by the Virginia Retirement System (VRS) or in an Optional Retirement Plan (ORP). Classified employees are eligible to participate in the VRS only, while faculty rank employees are eligible to participate in either the VRS or the ORP.

Faculty rank employees can participate in a defined contribution plan administered by two providers other than the VRS. The two different providers are TIAA/CREF Insurance Companies and Fidelity Investments Tax-Exempt Services Company. This is a fixed-contribution plan where the retirement benefits received are based on the employer's (10.4%) contributions, plus interest and dividends for those employees who became a member prior to July 1, 2010. For those employees who became a member on or after July 1, 2010, the employer's contributions are 8.5% and the employee's contributions are 5%.

Individual contracts issued under the ORP plan provide for full and immediate vesting of the VCCS contributions. Total pension costs under this plan were \$5,978,642 and \$6,105,943 for years ended June 30, 2018 and 2017, respectively. Contributions to the ORP plan were calculated using the base salary amount of \$61,205,629 and \$62,317,329 for fiscal years 2018 and 2017. The VCCS total payroll for fiscal years 2018 and 2017 was \$547,250,954 and \$556,169,856 respectively.

Payables to the Optional Retirement Plan

The VCCS recognized \$51,358,000 as Accrued Payroll Expenses as of June 30, 2018 which represents hours worked before June 30 but paid after July 1 or after. The portion payable for contributions to the optional retirement plans is estimated at \$483 thousand.

Deferred Compensation Plan

Employees of the VCCS are employees of the Commonwealth of Virginia. State employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to \$20 per pay period. The dollar amount match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were approximately \$1,778,804 for fiscal year 2018.

18. POST-EMPLOYMENT BENEFITS

Plans administered by VRS

General Information about the State Employee Health Insurance Credit Program

Plan Description

All full-time, salaried permanent employees of state agencies are automatically covered by the VRS State Employee Health Insurance Credit Program. This plan is administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

General Information about the Group Life Insurance Program

Plan Description

All full-time, salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This plan is administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

General Information about the VRS Disability Insurance Program

Plan Description

All full-time and part-time permanent salaried state employees who are covered under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers' Retirement System (VaLORS) hired on or after January 1, 1999 are automatically covered by the Disability Insurance Program (VSDP) upon employment. The Disability Insurance Program also covers state employees hired before January 1, 1999 who elected to transfer to VSDP rather than retain their eligibility to be considered for disability retirement. This plan is administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

General Information about the Line of Duty Act Program

Plan Description

All paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers' Retirement System (VaLORS) are automatically covered by the Line of Duty Act Program (LODA). As required by statute, the Virginia Retirement System (the System) is responsible for managing the assets of the program. Participating employers made contributions to the program beginning in FY 2012. The employer contributions are determined by the System's actuary using anticipated program costs and the number of covered individuals associated with all participating employers. The specific information for the VRS administered OPEB programs, including eligibility, coverage and benefits is set out in the table below:

STATE EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM (HIC) PLAN PROVISIONS	GROUP LIFE INSURANCE PROGRAM (GLI) PLAN PROVISIONS	LINE OF DUTY ACT PROGRAM (LODA) PLAN PROVISIONS	DISABILITY INSURANCE PROGRAM (VSDP) PLAN PROVISIONS
Eligible Employees The State Employee Retiree Health Insurance Credit Program was established January 1, 1990 for retired state employees covered under VRS, SPORS, VaLORS and JRS who retire with at least 15 years of service credit. Eligible employees are enrolled automatically upon employment. They include: • Full-time and part-time permanent salaried state employees covered under VRS, SPORS, VaLORS and JRS.	Eligible Employees The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement: • City of Richmond • City of Portsmouth • City of Roanoke • City of Norfolk • Roanoke City Schools Board Basic group life insurance coverage is automatic upon employment. Coverage end for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.	Eligible Employees The eligible employees of the Line of Duty Act Program (LODA) are paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers' Retirement System (VaLORS).	Eligible Employees The Virginia Sickness and Disability Program (VSDP), also known as the Disability Insurance Trust Fund was established January 1, 1999 to provide short-term and long-term disability benefits for non-work-related and work-related disabilities. Eligible employees are enrolled automatically upon employment. They include: • Full-time and part-time permanent salaried state employees covered under VRS, SPORS and VaLORS (members new to VaLORS following its creation on October 1, 1999, have been enrolled since the inception of VSDP). • State employees hired before January 1, 1999, who elected to transfer to VSDP rather than retain their eligibility to be considered for VRS disability retirement. • Public college and university faculty members who elect the VRS defined benefit plan. They may participate in VSDP or their institution's disability program, if offered. If the institution does not offer the program or the faculty member does not make an election, he or she is enrolled in VSDP.

STATE EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM (HIC) PLAN PROVISIONS	GROUP LIFE INSURANCE PROGRAM (GLI) PLAN PROVISIONS	LINE OF DUTY ACT PROGRAM (LODA) PLAN PROVISIONS	DISABILITY INSURANCE PROGRAM (VSDP) PLAN PROVISIONS
Benefit Amounts The State Employee Retiree Health Insurance Credit Program provides the following benefits for eligible employees: • <u>At Retirement</u> – For State employees who retire, the monthly benefit is \$4.00 per year of service per month with no cap on the benefit amount. • <u>Disability Retirement</u> – For State employees, other than state police officers, who retire on disability or go on long-term disability under the Virginia Sickness and Disability Program (VSDP), the monthly benefit is \$120.00 or \$4.00 per year of service, whichever is higher. For State police officers employees with a non-work-related disability who retire on disability or go on long-term disability under the Virginia Sickness and Disability Program (VSDP) the monthly benefit is \$120.00 or \$4.00 per year of service, whichever is higher. For State police officers employees with a work-related disability, there is no benefit provided under the State Employee Retiree Health Insurance Credit Program if the premiums are being paid under the Virginia Line of Duty Act. However, they may receive the credit for premiums paid for other qualified health plans.	Benefit Amounts The benefits payable under the Group Life Insurance Program have several components. • <u>Natural Death Benefit</u> – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. • <u>Accidental Death Benefit</u> – The accidental death benefit is double the natural death benefit. • <u>Other Benefit Provisions</u> – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include: - o Accidental dismemberment benefit - o Safety belt benefit - o Repatriation benefit - o Felonious assault benefit - o Accelerated death benefit option Reduction in benefit Amounts The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.	Benefit Amounts The Line of Duty Act Program (LODA) provides death and health insurance benefits for eligible individuals: • <u>Death</u> – The Line of Duty Act program death benefit is a one-time payment made to the beneficiary or beneficiaries of a covered individual. Amounts vary as follows: - o \$100,000 when a death occurs as the direct or proximate result of performing duty as of January 1, 2006, or after. - o \$25,000 when the cause of death is attributed to one of the applicable presumptions and occurred earlier than five years after the retirement date. - o An additional \$20,000 benefit is payable when certain members of the National Guard and U.S. military reserves are killed in action in any armed conflict on or after October 7, 2001. • Health Insurance – The Line of Duty Act program provides health insurance benefits. - o Prior to July 1, 2017, these benefits were managed through the various employer plans and maintained the benefits that existed prior to the employee's death or disability. These premiums were reimbursed to the employer by the LODA program. - o Beginning July 1, 2017, the health insurance benefits are managed through the Virginia Department of Human Resource Management (DHRM). The health benefits are modeled after the State Employee Health Benefits Program plans and provide consistent, premium-free continued health plan coverage for LODA-eligible disabled individuals, survivors and family members. Individuals receiving the health insurance benefits must continue to meet eligibility requirements as defined by the Line of Duty Act.	Benefit Amounts The Virginia Sickness and Disability Program (VSDP) provides the following benefits for eligible employees: • <u>Leave</u> – Sick, family and personal leave. Eligible leave benefits are paid by the employer. • <u>Short-Term Disability</u> – The program provides a short-term disability benefit beginning after a seven-calendar-day waiting period from the first day of disability. The benefit provides income replacement beginning at 100% of the employee's pre-disability income, reducing to 80% and then 60% based on the period of the disability and the length of service of the employee. Short-term disability benefits are paid by the employer. • <u>Long-Term Disability</u> – The program provides a long-term disability benefit beginning after 125 workdays of short-term disability and continuing until the employee reaches his or her normal retirement age. The benefit provides income replacement of 60% of the employee's pre-disability income. If an employee becomes disabled within five years of his or her normal retirement age, the employee will receive up to five years of VSDP benefits, provided he or she remains medically eligible. Long-term disability benefits are paid for by the Virginia Disability Insurance Program (VSDP) OPEB Plan. • <u>Income Replacement Adjustment</u> – The program provides for an income replacement adjustment to 80% for catastrophic conditions. • <u>VSDP Long-Term Care Plan</u> – The program also includes a self-funded long-term care plan that assists with the cost of covered long-term care services.

STATE EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM (HIC) PLAN PROVISIONS	GROUP LIFE INSURANCE PROGRAM (GLI) PLAN PROVISIONS	LINE OF DUTY ACT PROGRAM (LODA) PLAN PROVISIONS	DISABILITY INSURANCE PROGRAM (VSDP) PLAN PROVISIONS
Plan Notes The monthly Health Insurance Credit benefit cannot exceed the individual premium amount. Employees who retire after being on long-term disability under VSDP must have at least 15 years of service credit to qualify for the health insurance credit as a retiree.			Plan Notes - Employees hired or rehired on or after July 1, 2009, must satisfy eligibility periods before becoming eligible for non-work-related short-term disability benefits and certain income-replacement levels. - A state employee who is approved for VSDP benefits on or after the date that is five years prior to his or her normal retirement date is eligible for up to five years of VSDP benefits. - Employees on work-related short-term disability receiving only a workers' compensation payment may be eligible to purchase service credit for this period if retirement contributions are not being withheld from the workers' compensation payment. The rate will be based on 5.00% of the employee's compensation.
	Minimum Benefit Amount and Cost-of-Living Adjustment (COLA) For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently \$8,111.		Cost-of-Living Adjustment (COLA) - During periods an employee receives long-term disability benefits, the LTD benefit may be increased annually by an amount recommended by the actuary and approved by the Board. - Plan 1 employees vested as of 1/1/2013 – 100% of the VRS Plan 1 COLA (The first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%). - Plan 1 employee non-vested as of 1/1/2013, Plan 2 and Hybrid Plan employees – 100% of the VRS Plan 2 and Hybrid COLA (The first 2% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 2%) up to a maximum COLA of 3%). - For participating full-time employees taking service retirement, the creditable compensation may be increased annually by an amount recommended by the

STATE EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM (HIC) PLAN PROVISIONS	GROUP LIFE INSURANCE PROGRAM (GLI) PLAN PROVISIONS	LINE OF DUTY ACT PROGRAM (LODA) PLAN PROVISIONS	DISABILITY INSURANCE PROGRAM (VSDP) PLAN PROVISIONS
			actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement. - o 100% of the increase in the pay over the previous plan year for continuing VSDP members in the State, SPORS and VaLORS Plans, with a maximum COLA of 4.00% • For participating full-time employees receiving supplemental (work-related) disability benefits, the creditable compensation may be increased annually by an amount recommended by the actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement - o 100% of the increase in the pay over the previous plan year for continuing VSDP members in the State, SPORS and VaLORS Plans, with a maximum COLA of 4.00%.

Contributions

The contribution requirement for active employees in the VRS State Employee Health Insurance Credit Program is governed by §51.1-1400(D) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each state agency's contractually required employer contribution rate for the year ended June 30, 2018 was 1.18% of covered employee compensation for employees in the VRS State Employee Health Insurance Credit Program. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the VCCS to the VRS State Employee Health Insurance Credit Program were \$4.6 million and \$4.6 million for the years ended June 30, 2018 and June 30, 2017, respectively.

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution; however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any

unfunded accrued liability. Contributions to the Group Life Insurance Program from the VCCS were \$2.0 million and \$2.0 million for the years ended June 30, 2018 and June 30, 2017, respectively.

The contribution requirements for the Line of Duty Act Program (LODA) are governed by §9.1-400.1 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer's contractually required employer contribution rate for the Line of Duty Act Program (LODA) for the year ended June 30, 2018 was \$567.37 per covered full-time-equivalent employee. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and represents the pay-as-you-go funding rate and not the full actuarial cost of the benefits under the program. The actuarially determined pay-as-you-go rate was expected to finance the costs and related expenses of benefits payable during the year. Contributions to the Line of Duty Act Program (LODA) from the VCCS were \$37 thousand and \$39 thousand for the years ended June 30, 2018 and June 30, 2017, respectively.

The contribution requirements for the Disability Insurance Program (VSDP) are governed by §51.1-1140 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer's contractually required employer contribution rate for the Disability Insurance Program (VSDP) for the year ended June 30, 2018 was 0.66% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits payable during the year, with an adjustment to amortize the accrued OPEB assets. Contributions to the Disability Insurance Program (VSDP) from the VCCS were \$2.0 million and \$2.1 million for the years ended June 30, 2018 and June 30, 2017, respectively.

State Employee Health Insurance Credit Program OPEB Liabilities, State Employee Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to State Employee Health Insurance Credit Program OPEB

HIC

At June 30, 2018, the VCCS reported a liability of \$55.6 million for its proportionate share of the VRS State Employee Health Insurance Credit Program Net OPEB Liability. The Net VRS State Employee Health Insurance Credit Program OPEB Liability was measured as of June 30, 2017 and the total VRS State Employee Health Insurance Credit Program OPEB liability used to calculate the Net VRS State Employee Health Insurance Credit Program OPEB Liability was determined by an actuarial valuation as of that date. The VCCS' proportion of the Net VRS State Employee Health Insurance Credit Program OPEB Liability was based on the VCCS' actuarially determined employer contributions to the VRS State Employee Health Insurance Credit Program OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the VCCS' proportion of the VRS State Employee Health Insurance Credit Program was 6.10% as compared to 6.41% at June 30, 2016.

For the year ended June 30, 2018, the VCCS recognized VRS State Employee Health Insurance Credit Program OPEB expense of \$4.4 million. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017 a portion of the VRS State Employee Health Insurance Credit Program Net OPEB expense was related to deferred amounts from changes in proportion.

Group Life Insurance Program OPEB Liabilities, Group Life Insurance Program Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Group Life Insurance Program OPEB

GLI

At June 30, 2018, the entities reported a liability of \$32.2 million for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The VCCS' proportion of the Net GLI OPEB Liability was based on the VCCS' actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating employer's proportion was 2.14% as compared to 2.25% at June 30, 2016.

For the year ended June 30, 2018, the VCCS recognized GLI OPEB expense of \$90 thousand. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

Line of Duty Act Program OPEB Liabilities, Line of Duty Act Program Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Line of Duty Act Program OPEB**LODA**

At June 30, 2018, the VCCS reported a liability of \$1.5 million for its proportionate share of the Net LODA OPEB Liability. The Net LODA OPEB Liability was measured as of June 30, 2017 and the total LODA OPEB liability used to calculate the Net LODA OPEB Liability was determined by an actuarial valuation as of that date. The VCCS' proportion of the Net LODA OPEB Liability was based on the VCCS' actuarially determined pay-as-you-go employer contributions to the LODA OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined pay-as-you-go employer contributions for all participating employers. At June 30, 2017, the VCCS' proportion was 0.55% as compared 0.52% at June 30, 2016.

For the year ended June 30, 2018, the VCCS recognized LODA OPEB expense of \$135 thousand. Since there was a change in proportionate share between measurement dates, a portion of the LODA OPEB expense was related to deferred amounts from changes in proportion.

Virginia Disability Insurance Program OPEB Liabilities, Virginia Disability Insurance Program Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Virginia Disability Insurance Program OPEB**VSDP**

At June 30, 2018, the VCCS reported an (asset) of (\$16.7) million for its proportionate share of the Net VSDP OPEB Liability (Asset). The Net VSDP OPEB Liability (Asset) was measured as of June 30, 2017 and the total VSDP OPEB liability used to calculate the Net VSDP OPEB Liability (Asset) was determined by an actuarial valuation as of that date. The VCCS' proportion of the Net VSDP OPEB Liability (Asset) was based on the VCCS' actuarially determined employer contributions to the VSDP OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the VCCS' proportion was 8.11% as compared to 8.41% at June 30, 2016.

For the year ended June 30, 2018, the VCCS recognized VSDP OPEB expense of \$1.5 million. Since there was a change in proportionate share between measurement dates, a portion of the VSDP OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the VCCS reported deferred outflows of resources and deferred inflows of resources related to the VRS OPEB plans from the following sources:

VRS Health Insurance Credit Program (\$ Thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 134
Net difference between projected and actual earnings on State HIC OPEB plan investments	-	-
Change in assumptions	-	627
Changes in proportionate share	299	2,645
Employer contributions subsequent to the measurement date	4,577	-
Total	<u>\$ 4,876</u>	<u>\$ 3,406</u>

VRS Group Life Insurance Program (\$ Thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 719
Net difference between projected and actual earnings on State GLI OPEB plan investments	-	1215
Change in assumptions	-	1,663
Changes in proportionate share	202	1,746
Employer contributions subsequent to the measurement date	2,011	-
Total	<u>\$ 2,213</u>	<u>\$ 5,343</u>

VRS Line of Duty Act Program (\$ Thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1
Net difference between projected and actual earnings on State LODA OPEB plan investments	-	-
Change in assumptions	-	149
Changes in proportionate share	102	20
Employer contributions subsequent to the measurement date	37	-
Total	<u>\$ 139</u>	<u>\$ 170</u>

VRS Virginia Sickness and Disability Plan (\$ Thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual earnings on State VSDP OPEB plan investments	-	1,306
Change in assumptions	-	1,251
Changes in proportionate share	546	103
Employer contributions subsequent to the measurement date	2,015	-
Total	<u>\$ 2,561</u>	<u>\$ 2,660</u>

\$4.6 million reported as deferred outflows of resources related to the State Employee HIC OPEB resulting from the VCCS' contributions subsequent to the measurement date will be recognized as a reduction of the Net State Employee HIC OPEB Liability in the Fiscal Year ending June 30, 2019

\$2.0 million reported as deferred outflows of resources related to the GLI OPEB resulting from the VCCS' contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the Fiscal Year ending June 30, 2019.

\$37 thousand reported as deferred outflows of resources related to the LODA OPEB resulting from the VCCS' contributions subsequent to the measurement date will be recognized as a reduction of the Net LODA OPEB Liability in the Fiscal Year ending June 30, 2019.

\$2.0 million reported as deferred outflows of resources related to the VSDP OPEB resulting from the VCCS' contributions subsequent to the measurement date will be recognized as an adjustment of the Net VSDP OPEB Liability (Asset) in the Fiscal Year ending June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the VRS administered OPEB programs will be recognized in OPEB expense in future reporting periods as follows:

Year Ended June 30 (\$ Thousands)	<u>HIC</u>	<u>GLI</u>	<u>LODA</u>	<u>VSDP</u>
2019	(602)	(1,032)	(13)	(448)
2020	(603)	(1,020)	(10)	(439)
2021	(603)	(1,020)	(10)	(439)
2022	(603)	(1,011)	(10)	(437)
2023	(570)	(722)	(6)	(111)
Thereafter	(126)	(336)	(19)	(238)

Actuarial Assumptions

The total State Employee HIC OPEB liability for the VRS State Employee Health Insurance Credit Program was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including inflation – General state employees	3.5 percent – 5.35 percent
SPORS employees	3.5 percent – 4.75 percent
VaLORS employees	3.5 percent – 4.75 percent
JRS employees	4.5 percent
Investment rate of return	7.0 percent, net of plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-

term expected rate of return on investments was assumed to be 7.0% to simplify preparation of the OPEB liabilities.

Mortality rates – General State Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Mortality rates – SPORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

Mortality rates – VaLORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

Mortality rates – JRS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% compounding increase from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including inflation – General state employees	3.5 percent – 5.35 percent
Teachers	3.5 percent – 5.95 percent
SPORS employees	3.5 percent – 4.75 percent
VaLORS employees	3.5 percent – 4.75 percent
JRS employees	4.5 percent
Locality – General employees	3.5 percent – 5.35 percent
Locality – Hazardous Duty employees	3.5 percent – 4.75 percent
Investment rate of return	7.0 Percent, net of pension plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of the OPEB liabilities.

Mortality rates – General State Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Mortality rates – Teachers

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Health Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with Scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

Mortality rates – SPORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

Mortality rates – VaLORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service

Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

Mortality rates – JRS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% compounding increase from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

Mortality rates – Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75

Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Mortality rates – Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75.
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14 to 15%

Mortality rates – Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Mortality rates – Non-Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Actuarial Assumptions

The total LODA OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.50 percent
Salary increases, including Inflation –	
General state employees	3.50 percent – 5.35 percent
SPORS employees	3.50 percent – 4.75 percent
VaLORS employees	3.50 percent – 4.75 percent
Locality employees	3.50 percent – 4.75 percent
Medical cost trend rates assumption –	
Under age 65	7.75 percent – 5.00 percent
Ages 65 and older	5.75 percent – 5.00 percent

Investment rate of return

3.56 Percent, net of OPEB plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 3.56%. However, since the difference was minimal, a more conservative 3.56% investment return assumption has been used. Since LODA is funded on a current-disbursement basis, the assumed annual rate of return of 3.56% was used since it approximates the risk-free rate of return.

Mortality rates – General State Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Mortality rates – SPORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

Mortality rates – VaLORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

Mortality rates – Largest Ten Locality Employers With Public Safety Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each year age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Mortality rates – Non- Largest Ten Locality Employers With Public Safety Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60 to 45%

Changes to the LODA Program Associated with HB 1345 (2016) and HB 2243 (2017)

The following changes were made to the LODA Program as a result of legislation in 2016 and 2017, but were specifically not considered in the June 30, 2016 actuarial valuation results which were rolled forward to the measurement date of June 30, 2017. There was no current actuarial

experience on which to base the adjustments and the combined impact of the changes was not considered to be material to the final results. These changes will be factored into future actuarial valuations to the LODA Program.

- The discontinuance of spouse health care coverage, if a covered spouse divorces a disabled employee or a covered surviving spouse remarries.
- The potential for VRS's periodic review of the disability status of a disabled employee.
- For those beneficiaries who become eligible for health care benefits as the result of a disability occurring after June 30, 2017, the suspension of health care benefits in years when VRS certifies current income exceeds salary at the time of the disability, indexed for inflation.
- The extension of health care benefits for dependent children to age 26.
- The expansion of the definition of presumption of death or disability to include infectious diseases.

Actuarial Assumptions

The total VSDP OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including Inflation –	
General state employees	3.5 percent – 5.35 percent
SPORS employees	3.5 percent – 4.75 percent
VaLORS employees	3.5 percent – 4.75 percent
Investment rate of return	7.0 Percent, net of OPEB plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of OPEB liabilities.

Mortality rates – General State Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Mortality rates – SPORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

Mortality rates – VaLORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

Net OPEB Liability (Asset)

The net OPEB liability (asset) represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, Net OPEB liability (asset) amounts for VRS administered programs are as follows (amounts expressed in thousands):

	HIC	GLI	LODA	VSDP
Total OPEB Liability	\$990,028	\$2,942,426	\$266,252	\$237,013
Plan Fiduciary Net Position	<u>79,516</u>	<u>1,437,586</u>	<u>3,461</u>	<u>442,334</u>
Employers' Net OPEB Liability (Asset)	<u>\$910,512</u>	<u>\$1,504,840</u>	<u>\$262,791</u>	<u>(\$205,321)</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	8.03%	48.86%	1.30%	186.63%

The total OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net OPEB liability (asset) is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return for the HIC, GLI, & VSDP programs

The long-term expected rate of return on the System's investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of System's investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
	Inflation		2.50%
	* Expected arithmetic nominal return		7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Long-Term Expected Rate of Return

The long-term expected rate of return on LODA OPEB Program's investments was set at 3.56% for this valuation. Since LODA is funded on a current-disbursement basis, it is not able to use the VRS Pooled Investments 7.00% assumption. Instead, the assumed annual rate of return of 3.56% was used since it approximates the risk-free rate of return. This Single Equivalent Interest Rate (SEIR) is the applicable municipal bond index rate based on the Bond Buyer General Obligation 20-year Municipal Bond Index published monthly by the Board of Governors of the Federal Reserve System as of the measurement date of June 30, 2017.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the VCCS for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

The discount rate used to measure the total State Employee HIC OPEB was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by the VCCS for the VRS State Employee Health Insurance Credit Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those

assumptions, the State Employee HIC OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total State Employee HIC OPEB liability.

The discount rate used to measure the total LODA OPEB liability was 3.56%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by participating employers to the LODA OPEB Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly.

The discount rate used to measure the total VSDP OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by participating employers to the VSDP OPEB Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the VSDP OPEB Program's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total VSDP OPEB liability.

Sensitivity of the VCCS' Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the VCCS' proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, as well as what the VCCS' proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
VCCS' proportionate share of the Group Life Insurance Program Net OPEB Liability	\$41,741	\$32,268	\$24,598

The following presents the VCCS' proportionate share of the VRS State Employee Health Insurance Credit Program net HIC OPEB liability using the discount rate of 7.00%, as well as what the VCCS' proportionate share of the net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
VCCS' proportionate share of the VRS State Employee HIC OPEB Plan Net OPEB Liability	\$61,462	\$55,585	\$50,533

The following presents the VCCS' proportionate share of the net LODA OPEB liability using the discount rate of 3.56%, as well as what the VCCS' proportionate share of the net LODA OPEB

liability would be if it were calculated using a discount rate that is one percentage point lower (2.56%) or one percentage point higher (4.56%) than the current rate:

	1.00% Decrease (2.56%)	Current Discount Rate (3.56%)	1.00% Increase (4.56%)
VCCS' proportionate share of the total LODA Net OPEB Liability	\$1,644	\$1,449	\$1,285

Because the Line of Duty Act Program (LODA) contains a provisions for the payment of health insurance premiums, the liabilities are also impacted by the health care trend rates. The following presents the VCCS' proportionate share of the net LODA OPEB liability using health care trend rate of 7.75% decreasing to 5.00%, as well as what the VCCS' proportionate share of the net LODA OPEB liability would be if it were calculated using a health care trend rate that is one percentage point lower (6.75% decreasing to 4.00%) or one percentage point higher (8.75% decreasing to 6.00%) than the current rate:

	1.00% Decrease (6.75% decreasing to 4.00%)	Health Care Trend Rates (7.75% decreasing to 5.00%)	1.00% Increase (8.75% decreasing to 6.00%)
VCCS' proportionate share of the total LODA Net OPEB Liability	\$1,232	\$1,449	\$1,722

The following presents the VCCS' proportionate share of the net VSDP OPEB liability (asset) using the discount rate of 7.00%, as well as what the VCCS' proportionate share of the net VSDP OPEB liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
VCCS' proportionate share of the total VSDP Net OPEB Liability (Asset)	(\$15,850)	(\$16,659)	(\$18,047)

VRS OPEB Program Fiduciary Net Position

Detailed information about the VRS OPEB Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the VRS Group Life Insurance OPEB Plan

The VCCS recognized \$51,358,000 as Accrued Payroll Expenses as of June 30, 2018 which represents hours worked before June 30 but paid after July 1. The portion payable for contributions to the Group Life Insurance Plan is estimated at \$100 thousand.

Payables to the State Employee Health Insurance Credit Program OPEB Plan

The VCCS recognized \$51,358,000 as Accrued Payroll Expenses as of June 30, 2018 which represents hours worked before June 30 but paid after July 1. The portion payable for contributions to the Health Insurance Credit Program is estimated at \$172 thousand.

Payables to the Disability Insurance Program (VSDP) OPEB Plan

The VCCS recognized \$51,358,000 as Accrued Payroll Expenses as of June 30, 2018 which represents hours worked before June 30 but paid after July 1. The portion payable for contributions to the Disability Insurance Plan is estimated at \$80 thousand.

Plans administered by the DHRM

Pre-Medicare Retiree Healthcare

The Commonwealth provides a healthcare plan established by Title 2.2, Chapter 28 of the *Code of Virginia* for retirees who are not yet eligible to participate in Medicare. For a retiree to participate in the Plan, the participant must be eligible for a monthly annuity from the VRS or a periodic benefit from one of the qualified Optional Retirement Plan (ORP) vendors, and:

- be receiving (not deferring) the annuity or periodic benefit immediately upon retirement;
- have his or her last employer before retirement be the state;
- be eligible for coverage as an active employee in the State Health Benefits Program until his or her retirement date (not including Extended Coverage); and,
- have submitted within 31 days of his or her retirement date an Enrollment Form to his or her Benefits Administrator to enroll.

The employer does not pay a portion of the retirees' healthcare premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, this generally results in a higher rate for active employees. Therefore, the employer effectively subsidizes the costs of the participating retirees' healthcare through payment of the employer's portion of the premiums for active employees.

This fund is reported as part of the Commonwealth's Healthcare Internal Service Fund. Benefit payments are recognized when due and payable in accordance with the benefit terms. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes, and is administered by the Department of Human Resource Management. There were approximately 5,600 retirees and 91,000 active employees in the program in fiscal year 2017. There are no inactive employees entitled to future benefits who are not currently receiving benefits. There are no assets accumulated in a trust to pay benefits.

Pre-Medicare Retiree Healthcare OPEB Liabilities, OPEB Expense, and Deferred Outflow of Resources and Deferred Inflows of Resources

At June 30, 2018, the VCCS reported a liability of \$92.8 million for its proportionate share of the collective total Pre-Medicare Retiree Healthcare OPEB liability of \$1.3 billion. The Pre-Medicare Retiree Healthcare OPEB liability was measured as of June 30, 2017 and was determined by an actuarial valuation as of June 30, 2017. The VCCS' proportion of the Pre-Medicare Retiree Healthcare OPEB liability was based on each employer's healthcare premium contributions as a percentage of the total employer's healthcare premium contributions for all participating employers. At June 30, 2017, the VCCS' proportion was 7.14% as compared to 7.25% at June 30, 2016. For the year ended June 30, 2018, the VCCS recognized Pre-Medicare Retiree Healthcare OPEB expense of \$7.1 million.

At June 30, 2018, the VCCS reported deferred outflows or resources and deferred inflows of resources related to Pre-Medicare Retiree Healthcare from the following sources:

Pre-Medicare Retiree Healthcare (\$ Thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 3,731
Change in assumptions	-	19,664
Changes in proportionate share	1,328	2,795
Amounts associated with transactions subsequent to the measurement date	2,460	-
Total	\$ 3,788	\$ 26,190

\$2.5 million reported as deferred outflows of resources related to the Pre-Medicare Retiree Healthcare OPEB resulting from amounts associated with transactions subsequent to the measurement date will be recognized as a reduction of the total OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pre-Medicare Retiree Healthcare OPEB will be recognized in the Pre-Medicare Retiree Healthcare OPEB expense as follows:

**Year End June 30
(\$ thousands):**

2019	(\$4,579)
2020	(\$4,579)
2021	(\$4,579)
2022	(\$4,579)
2023	(\$4,579)
Total Thereafter	(\$1,969)

Actuarial Assumptions and Methods

The total Pre-Medicare Retiree Healthcare OPEB liability was based on an actuarial valuation with a valuation date of June 30, 2017. The Department of Human Resource Management selected the economic, demographic and healthcare claim cost assumptions. The actuary provided guidance with respect to these assumptions. Initial healthcare costs trend rates used were 8.62 percent for medical and pharmacy and 4.0 percent for dental. The ultimate trend rates used were 5.0 percent for medical and pharmacy and 4.0 percent for dental.

Valuation Date	Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported.
Measurement Date	June 30, 2017 (one year prior to the end of the fiscal year)
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar, Closed

Effective Amortization Period	6.43 years
Discount Rate	3.58%
Projected Salary Increases	4.0%
Medical Trend Under 65	Medical & Rx: 8.62% to 5.00% Dental: 4.00% Before reflecting Excise tax
Year of Ultimate Trend	2025
Mortality	Mortality rates vary by participant status
Pre-Retirement:	RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020; males setback 1 year, 85% of rates; females setback 1 year
Post-Retirement	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females setback 1 year with 1.5% increase compounded from ages 70 to 85
Post-Disablement:	RP-2014 Disabled Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates

The discount rate was based on the Bond Buyers GO 20 Municipal Bond Index as of the measurement date which is June 30, 2017.

Changes of Assumptions

The following assumptions were updated since the July 1, 2016 valuation based on the results of a Virginia Retirement System actuarial experience study performed for the period of July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Mortality rates -updated to a more current mortality table – RP-2014 projected to 2020
- Retirement rates - lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal rates - adjusted rates to better fit experience at each year age and service through 9 years of service

The discount rate was increased from 2.85% to 3.58% based on the Bond Buyers GO 20 Municipal Bond Index. Spousal coverage was reduced from 70% to 50% based on a blend of recent spousal coverage election rates and the prior year assumption. Based on the 2017 census, new retirees since 1/1/2015 have chosen to cover their spouses approximately 20% of the time. However, active employees cover their spouses at a rate close to 53%.

Sensitivity of the VCCS' Proportionate Share of the OPEB Liability to Changes in the Discount Rate

The following presents the VCCS' proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using the discount rate of 3.58%, as well as what the VCCS' proportionate share of the Pre- Medicare Retiree Healthcare OPEB liability would be if it were calculated

using a discount rate that is one percentage point lower (2.58%) or one percentage point higher (4.58%) than the current rate:

(in \$ thousands)	1% Decrease (2.58%)	Current Rate (3.58%)	1% Increase (4.58%)
OPEB Liability	\$99,360	\$92,754	\$86,424

Sensitivity of the VCCS' Proportionate Share of the OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the VCCS' proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using healthcare cost trend rate of 8.62% decreasing to 5%, as well as what the VCCS' proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (7.62% decreasing to 4.00%) or one percentage point higher (9.62% decreasing to 6.00%) than the current rate:

(in \$ thousands)	1% Decrease (7.62% decreasing to 4.00%)	Trend Rate (8.62% decreasing to 5.00%)	1% Increase (9.62% decreasing to 6.00%)
OPEB Liability	\$82,527	\$92,754	\$104,742

19. RISK MANAGEMENT

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The System participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plan are administered by the Department of Human Resource Management, and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, faithful performance of duty bonds, automobile, and air and watercraft plans. The System pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

A Faithful Performance Duty Bond administered by the Commonwealth of Virginia's Department of Treasury, Division of Risk Management, covers the employees of the VCCS. The Faithful Performance Duty Bond provides coverage with liability limits of \$500,000 for each occurrence.

20. CAPITAL APPROPRIATIONS-STATE

Capital appropriations-state is comprised of the following:

General Fund appropriation revenue	\$ -
General Fund Reversion	(447,181)
Virginia College Building Authority appropriation revenue	46,965,073
General Obligation Bond appropriation revenue	378,745
Tidewater Community College capital lease agreement	739,726
Total	<u>\$47,636,363</u>

21. COMPONENT UNIT FINANCIAL INFORMATION

Below is a summary of the foundations.

VCCS has five major component units—Mountain Empire Community College Foundation, Northern Virginia Community College Educational Foundation, Patrick Henry Community College Foundation, Southwest Virginia Community College Educational Foundation and Virginia Western Community College Educational Foundation. Additionally, the System has twenty-two non-major component units—Blue Ridge Community College Educational Foundation, Central Virginia Community College Educational Foundation, Dabney S. Lancaster Community College Educational Foundation, Danville Community College Educational Foundation, Eastern Shore Community College Foundation, Germanna Community College Educational Foundation, J. Sargeant Reynolds Community College Educational and Real Estate Foundations, John Tyler Community College Foundation, John Tyler Community College Real Estate Foundation, Lord Fairfax Community College Educational Foundation, New River Community College Educational Foundation, Paul D. Camp Community College Foundation, Piedmont Community College Educational Foundation, Rappahannock Community College Educational Foundation, Southside Virginia Community College Foundation, Thomas Nelson Community College Educational Foundation, Tidewater Community College Educational Foundation, Tidewater Community College Real Estate Foundation, Virginia Highlands Community College Educational Foundation, Wytheville Community College Educational Foundation, Wytheville Community College Scholarship Foundation, and the Virginia Foundation for Community College Education. These organizations are separately incorporated entities and other auditors examine the related financial statements.

Virginia Community College System Foundations
Statement of Net Position
As of June 30, 2018

	Southwest Virginia Community College Educational Foundation	Mountain Empire Community College Educational Foundation	Northern Virginia Community College Educational Foundation	Patrick Henry Community College Educational Foundation	Virginia Western Community College Educational Foundation	Combined Non- Major Component Units	Total Component Units
ASSETS							
Total current assets	\$ 848,094	\$ 643,181	\$ 7,580,329	\$ 1,398,657	\$ 899,336	\$ 18,110,748	\$ 29,480,345
Noncurrent assets:							
Other noncurrent assets	21,959,367	25,501,383	16,294,482	17,330,388	18,528,659	171,357,413	270,971,692
Capital assets, net	3,862,429	-	-	1,397,303	25,933	18,529,727	23,815,392
Total noncurrent assets	25,821,796	25,501,383	16,294,482	18,727,691	18,554,592	189,887,140	294,787,084
Total assets	26,669,890	26,144,564	23,874,811	20,126,348	19,453,928	207,997,888	324,267,429
LIABILITIES							
Total current liabilities	27,518	190,168	1,541,162	762,178	190,236	2,672,414	5,383,676
Noncurrent liabilities:							
Long-term liabilities	-	-	-	-	-	7,156,369	7,156,369
Other noncurrent liabilities	-	-	-	-	-	-	-
Total noncurrent liabilities	-	-	-	-	-	7,156,369	7,156,369
Total liabilities	27,518	190,168	1,541,162	762,178	190,236	9,828,783	12,540,045
NET POSITION							
Net investment in capital assets	3,862,429	-	-	1,397,303	25,933	11,496,495	16,782,160
Restricted for:							
Nonexpendable	-	9,338,042	5,219,821	7,220,945	5,260,000	70,953,864	97,992,672
Expendable	6,366,973	11,723,114	6,285,625	2,798,904	12,823,859	75,714,638	115,713,113
Unrestricted	16,412,970	4,893,240	10,828,203	7,947,018	1,153,900	40,004,108	81,239,439
Total Net Position	\$ 26,642,372	\$ 25,954,396	\$ 22,333,649	\$ 19,364,170	\$ 19,263,692	\$ 198,169,105	\$ 311,727,384

Virginia Community College System Foundations
Statement of Revenues, Expenses, and Changes in Net Position
As of June 30, 2018

	Southwest Virginia Community College Educational Foundation	Mountain Empire Community College Educational Foundation	Northern Virginia Community College Educational Foundation	Patrick Henry Community College Educational Foundation	Virginia Western Community College Educational Foundation	Combined Non- Major Component Units	Total Component Units
Total operating revenues	\$ 884,907	\$ 2,827,048	\$ 2,198,723	\$ 1,762,489	\$ 5,548,922	\$ 38,512,976	\$ 51,735,065
Total operating expenses	1,106,780	771,059	1,966,288	1,943,312	2,600,782	26,920,613	35,308,834
Operating income (loss)	(221,873)	2,055,989	232,435	(180,823)	2,948,140	11,592,363	16,426,231
Nonoperating revenues (expenses):							
Investment Income	1,792,925	12	684,389	1,430	596,486	3,627,200	6,702,442
Other nonoperating revenues (expenses)	-	-	-	-	-	-	-
Net nonoperating revenue	1,792,925	12	684,389	1,430	596,486	3,627,200	6,702,442
Income before other revenues, expenses gains and losses	1,571,052	2,056,001	916,824	(179,393)	3,544,626	15,219,563	23,128,673
Capital gifts, grants and contracts	3,528	-	-	-	-	108,219	111,747
Additions to permanent and term endowments	-	405,312	1,055,929	83,774	538,025	10,319,377	12,402,417
Increase (decrease) in net position	1,574,580	2,461,313	1,972,753	(95,619)	4,082,651	25,647,159	35,642,837
Net Position - beginning of year	25,067,792	23,493,083	20,360,896	19,459,789	15,181,041	172,521,946	276,084,547
Net Position - end of year	\$ 26,642,372	\$ 25,954,396	\$ 22,333,649	\$ 19,364,170	\$ 19,263,692	\$ 198,169,105	\$ 311,727,384

22. LITIGATION

A few community colleges have been named as defendants in lawsuits. The final outcome of these lawsuits cannot be determined at this time. However, management is of the opinion that any ultimate liability to which the colleges may be exposed will not have a material effect upon the Virginia Community College System's financial position.

***REQUIRED
SUPPLEMENTARY
INFORMATION***

REQUIRED SUPPLEMENTARY INFORMATION

As of June 30, 2018

Schedule of Employer's Share of Net Pension Liability

VRS State Employee Retirement Plan For the Years Ended June 30, 2018, 2017, 2016, and 2015

	2018*	2017*	2016*	2015*
VCCS' Proportion of the Net Pension Liability (Asset)	8.19%	8.48%	8.48%	8.43%
VCCS' Proportionate Share of the Net Pension Liability (Asset)	\$477,103,000	\$559,144,000	\$518,887,000	\$471,710,000
VCCS' Covered Payroll	\$326,278,349	\$328,281,989	\$326,582,151	\$325,381,501
VCCS' Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	146.22%	170.32%	158.88%	144.97%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.33%	71.29%	72.81%	74.28%

VaLORS Retirement Plan For the Years Ended June 30, 2018, 2017, 2016, and 2015

	2018*	2017*	2016*	2015*
VCCS' Proportion of the Net Pension Liability (Asset)	1.55%	1.50%	1.38%	1.26%
VCCS' Proportionate Share of the Net Pension Liability (Asset)	\$10,192,000	\$11,618,000	\$9,786,000	\$8,509,000
VCCS' Covered Payroll	\$5,349,651	\$5,187,256	\$4,662,097	\$4,449,485
VCCS' Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	190.52%	223.97%	209.91%	191.24%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	67.22%	61.01%	62.64%	63.05%

Schedules are intended to show information for 10 years. Since 2018 is the fourth year for this presentation, only four additional years of data are available. However, additional years will be included as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

Schedule of Employer Contributions**VRS State Employee Retirement Plan
For the 10 Years Ending June 30**

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$43,489,983	\$43,489,983		\$322,386,829	13.49%
2017	44,014,949	44,014,949		326,278,349	13.49%
2016	46,152,519	46,152,519		328,281,989	14.06%
2015	40,267,580	40,267,580		326,582,151	12.33%
2014	28,503,419	28,503,419		325,381,501	8.76%
2013	26,909,705	26,909,705		307,188,417	8.76%
2012	9,189,092	9,189,092		285,725,680	3.22%
2011	5,655,059	5,655,059		265,495,721	2.13%
2010	12,950,917	12,950,917		259,932,640	4.98%
2009	16,417,782	16,417,782		263,527,802	6.23%

**VaLORS Retirement Plan
For the 10 Years Ending June 30**

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$1,125,443	\$1,125,443		\$5,346,521	21.05%
2017	1,126,102	1,126,102		5,349,651	21.05%
2016	977,198	977,198		5,187,256	18.84%
2015	823,793	823,793		4,662,097	17.67%
2014	658,524	658,524		4,449,485	14.80%
2013	611,019	611,019		4,128,506	14.80%
2012	270,231	270,231		3,805,675	7.10%
2011	167,323	167,323		3,268,032	5.12%
2010	357,887	357,887		3,155,689	11.34%
2009	427,825	427,825		3,006,503	14.23%

**Notes to Required Supplementary Information
For the Year Ended June 30, 2018**

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 is not material.

Changes of assumptions – The following changes in actuarial assumptions were made for the VRS - State Employee Retirement Plan effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 25%

The following changes in actuarial assumptions were made for the VaLORS Retirement Plan effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decrease rate from 50% to 35%

Schedule of VCCS' Share of Net OPEB Liability
Group Life Insurance Program (GLI)
For the Year Ended June 30*

	2018
VCCS' Proportion of the Net GLI OPEB Liability (Asset)	2.14%
VCCS' Proportionate Share of the Net GLI OPEB Liability (Asset)	\$32,268,000
VCCS' Covered Payroll	\$395,579,732
VCCS' Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of its Covered Payroll	8.16%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	48.86%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

Schedule of Employer Contributions
Group Life Insurance Program

For the Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$2,036,008	\$2,036,008	\$ -	\$391,539,930	0.52%

**Schedule of VCCS' Share of Net OPEB Liability
Health Insurance Credit Program (HIC)
For the Year Ended June 30***

2018

VCCS' Proportion of the Net HIC OPEB Liability (Asset)	6.10%
VCCS' Proportionate Share of the Net HIC OPEB Liability (Asset)	\$55,585,000
VCCS' Covered Payroll	\$394,447,967
VCCS' Proportionate Share of the Net HIC OPEB Liability (Asset) as a Percentage of its Covered Payroll	14.09%
Plan Fiduciary Net Position as a Percentage of the Total HIC OPEB Liability	8.03%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

**Schedule of Employer Contributions
Health Insurance Credit Program**

For the Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$4,593,998	\$4,593,998	\$ -	\$389,321,850	1.18%

Schedule of VCCS' Share of Net OPEB Liability

Line of Duty Act (LODA)

For the Year Ended June 30*

2018

VCCS' Proportion of the Net LODA OPEB Liability (Asset)	0.55%
VCCS' Proportionate Share of the Net LODA OPEB Liability (Asset)	\$1,449,000
VCCS' Covered Employee Payroll**	\$5,349,651
VCCS' Proportionate Share of the Net LODA OPEB Liability (Asset) as a Percentage of its Covered Employee Payroll	27.09%
Plan Fiduciary Net Position as a Percentage of the Total LODA OPEB Liability	1.30%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

** The contributions for the Line of Duty Act Program are based on the number of participants in the Program using a per capita-based contribution versus a payroll-based contribution. Therefore, covered-employee payroll is the relevant measurement, which is the total payroll of the employees in the OPEB plan.

Schedule of Employer Contributions

Line of Duty Act

For the Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Payroll
2018	\$68,000	\$68,000	\$ -	\$5,346,521	1.27%

**Schedule of VCCS' Share of Net OPEB Liability
Disability Insurance Program (VSDP)
For the Year Ended June 30***

	2018
VCCS' Proportion of the Net VSDP OPEB Liability (Asset)	(8.11%)
VCCS' Proportionate Share of the Net VSDP OPEB Liability (Asset)	(\$16,659,000)
VCCS' Covered Payroll	\$306,049,960
VCCS' Proportionate Share of the Net VSDP OPEB Liability (Asset) as a Percentage of its Covered Payroll	(5.44%)
Plan Fiduciary Net Position as a Percentage of the Total VSDP OPEB Liability	186.63%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

**Schedule of Employer Contributions
Disability Insurance Program**

For the Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$2,014,544	\$2,014,544	\$ -	\$305,233,995	0.66%

**Notes to Required Supplementary Information
Plans Administered by VRS**

Health Insurance Credit Program (HIC)

Group Life Insurance Program (GLI)

Line of Duty Act (LODA)

**Disability Insurance Program (VSDP)
For the Year Ended June 30, 2018**

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

General State Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

SPORS Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

VaLORS Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

JRS Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

Largest Ten Locality Employers - General Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75.
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14 to 15%

Largest Ten Locality Employers – Hazardous Duty Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Non-Largest Ten Locality Employers – Hazardous Duty Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Largest Ten Locality Employers – Public Safety Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Non-Largest Ten Locality Employers – Public Safety Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Required Supplementary Information

**Commonwealth of Virginia State Health Plans
Program for Pre-Medicare Retirees
For the Fiscal Year Ended June 30, 2018**

Schedule of VCCS' Share of Total OPEB Liability

Pre-Medicare Retiree Program

For the Year Ended June 30*

2018

VCCS' Proportion of the Pre-Medicare Retiree OPEB Liability	7.14%
VCCS' Proportionate Share of the Pre-Medicare Retiree OPEB Liability	\$92,753,806
VCCS' Covered Employee Payroll	\$356,495,630
VCCS' Proportionate Share of the Pre-Medicare Retiree OPEB Liability as a Percentage of its Covered Employee Payroll	26.02%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

**Notes to Required Supplementary Information
For the Fiscal Year Ended June 30, 2018**

There are no assets accumulated in a trust to pay related benefits.

Changes of benefit terms – There have been no changes to the benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following assumptions were updated since the July 1, 2016 valuation based on the results of a Virginia Retirement System actuarial experience study performed for the period of July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Mortality rates – updated to a more current mortality table – RP-2014 projected to 2020
- Retirement rates – lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal rates – adjusted rates to better fit experience at each year age and service through 9 years of service

The discount rate was increased from 2.85% to 3.58% based on the Bond Buyers GO 20 Municipal Bond Index and spousal coverage was reduced from 70% to 50% based on a blend of recent spousal coverage election rates and the prior year assumption. Based on the 2017 census, new retirees since 1/1/2015 have chosen to cover their spouses approximately 20% of the time. However, active employees cover their spouses at a rate close to 53%



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

July 25, 2019

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

State Board for Community Colleges
Virginia Community College System

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the Virginia Community College System (System), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2018, 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 did not audit the financial statements of the aggregate discretely presented component units of the System, which are discussed in Note 1. Those financial statements were audited by other

auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the System, is based on the reports of the other auditors.

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. The financial statements of the component units of the System that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

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 financial statement presentation.

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

Opinion

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of the System as of June 30, 2018, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 1 of the accompanying financial statements, the System implemented Governmental Accounting Standards Board Statement No. 75, related to

accounting and financial reporting for postemployment benefits other than pensions. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the following be presented to supplement the basic financial statements: Management's Discussion and Analysis on pages 1 through 11; the Schedule of Employer's Share of Net Pension Liability, the Schedule of Employer Contributions, and the Notes to the Required Supplementary Information on pages 88 through 90; the Schedule of Employer's Share of Net OPEB Liability, the Schedule of Employer Contributions, and the Notes to the Required Supplementary Information for the Health Insurance Credit, Group Life Insurance, Disability Insurance, and Line of Duty programs on pages 91 through 97; and the Schedule of Employer's Share of Total OPEB Liability and the Notes to the Required Supplementary Information for the Pre-Medicare Retiree Healthcare program on page 98. 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 25, 2019, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, 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.



AUDITOR OF PUBLIC ACCOUNTS