

CHRISTOPHER NEWPORT UNIVERSITY

Audited Financial Statements



For the
year ended
June 30, 2019



CHRISTOPHER NEWPORT UNIVERSITY

Newport News, Virginia

FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The youngest comprehensive university in the Commonwealth, Christopher Newport University was founded in 1960 as Christopher Newport College, a two-year branch of the College of William & Mary in Williamsburg, Virginia. Located in historic Hampton Roads, the institution was named for the 17th-century English mariner who helped establish the Jamestown Colony. The University became independent in 1977 and gained university status in 1992.

Today, CNU is a four-year, undergraduate liberal arts university, enrolling 5,000 students in rigorous academic programs through the College of Arts and Humanities, the College of Natural and Behavioral Sciences, and the College of Social Sciences including the Luter School of Business. CNU combines traditional liberal arts and sciences curriculum with contemporary teaching ideologies with an emphasis on growing leaders of the future.

OVERVIEW

The following Management's Discussions and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective analysis of the University's financial activities based on currently known facts, decisions, and conditions. The discussion includes an analysis of the University's financial condition and results of operations for the fiscal year ended June 30, 2019, with comparative numbers for the year ended June 30, 2018. This presentation includes highly summarized data and should be read in conjunction with the accompanying financial statements, notes to financial statements and required supplemental information. University management is responsible for all of the financial information presented, including the discussion and analysis.

The Christopher Newport University Educational and Real Estate Foundations, Inc. are component units and are included, in separate columns, in the accompanying financial statements and footnote 17 in the notes to the financial statements. However, the following discussion and analysis does not include the Foundations' financial condition and activities.

The basic financial statements for Christopher Newport University are the Statement of Net Position, the Statement of Revenues, Expenses, and Change in Net Position, and the Statement of Cash Flows. The following analysis discusses elements from the Statement of Net Position, the Statement of Revenues, Expenses, and Change in Net Position, and the Statement of Cash Flows, as well as an overview of the University's activities.

STATEMENT OF NET POSITION

The *Statement of Net Position* (SNP) presents the assets, liabilities, and net position of the University as of the end of the fiscal year. The purpose of the statement is to present a snapshot of the University's financial position to the readers of the financial statements.

The data presented aids readers in determining the assets available to continue operations of the University. It also allows readers to determine how much the University owes to vendors, investors, and lending institutions. Finally, the SNP provides a picture of net position and their availability for expenditure by the University. Sustained increases in net position over time are one indicator of the financial health of the organization.

The University's net position is classified as follows:

- **Net investment in capital assets** – Net investment in capital assets represents the University's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. Debt incurred, but not yet expended for capital assets, is not included as a component of invested in capital assets, net of related debt.
- **Restricted net position, expendable** – Expendable restricted net position includes resources the University is legally or contractually obligated to expend in accordance with restrictions imposed by external third parties.
- **Restricted net position, nonexpendable** – Nonexpendable restricted net position consists of endowment and similar type funds where donors or other outside sources have stipulated, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or added to principal.
- **Unrestricted net position** – Unrestricted net position represents resources used for transactions relating to academic departments and general operations of the University, and may be used at the discretion of the University's Board of Visitors to meet current expenses for any lawful purpose in support of the University's primary missions. These resources are derived from student tuition and fees, state appropriations, and sales and services of auxiliary enterprises and educational departments. The auxiliary enterprises are self-supporting entities that provide services for students, faculty, and staff. Some examples of the University's auxiliaries are student residential and dining programs.

The University's assets and deferred outflows decreased by \$1.7 million, or 0.3%, during fiscal year 2019, bringing the total assets and deferred outflows to \$587.1 million at year-end. This decrease is a combination of the decrease in other non-current assets, net (\$0.9 million) and the decrease in deferred outflows of resources (\$0.8 million).

The decrease in other noncurrent assets consists of draws from the revenue bond proceeds for construction on the Regatta's Dining Hall expansion, the Athletic Facilities expansion, the Ratcliffe Hall expansion and Specialty Housing. The decrease in deferred outflows is primarily due to the decrease in the investment experience for the change in net pension liability as provided by the Virginia Retirement System (VRS).

Liabilities and deferred inflows decreased from prior year by \$15.0 million or 5.9%. This is a combination of the decrease in noncurrent liabilities of \$18.7 million, offset by increases in current liabilities of \$1.0 million and deferred inflows of resources of \$2.7.

The decrease in noncurrent liabilities represent payments made by the University on outstanding debt and the reduction of the pension and other post-employment benefit (OPEB) liabilities. The increase in current liabilities consists of payables due on the construction of the Fine Arts and Rehearsal Space at year end. Deferred inflows increase over prior year is due to the net difference between projected and actual experience plus the change in assumptions on the Pension and OPEB plans investments.

Changes in the net Pension or OPEB liability that have not been included in expense are required to be reported as deferred outflows of resources or deferred inflows of resources. Differences between employer contributions and proportionate share of contributions, as well as, employer contributions subsequent to the measurement date are recognized as deferred outflows of resources, and net difference between projected and actual experience plus the change in assumptions on plan investments are reported as deferred inflows of resources.

Capital assets, debt, pension and OPEB are discussed in detail

further in the MD&A as well as in the *Notes to the Financial Statements* and the *Required Supplemental Information (RSI)*.

Condensed Statement of Net Position

For the years ended June 30, 2019 and 2018

(All dollars in millions)

			Change	Change	
	2019	2018	Amount	Percent	
Assets and Deferred Outflows:					
Current assets	\$ 40.0	\$ 40.6	\$ (0.6)	(1.5)	%
Capital assets, net	533.5	532.9	0.6	0.1	%
Other noncurrent assets	3.0	3.9	(0.9)	(23.1)	%
Deferred outflows of resources	10.6	11.4	(0.8)	(7.0)	%
Total assets and deferred outflows	587.1	588.8	(1.7)	(0.3)	%
Liabilities and Deferred Inflows:					
Current liabilities	41.5	40.5	1.0	2.5	%
Noncurrent liabilities	188.4	207.1	(18.7)	(9.1)	%
Deferred inflows of resources	11.4	8.7	2.7	31.0	%
Total liabilities and deferred inflows	241.3	256.3	(15.0)	(5.9)	%
Net Position:					
Invested in capital assets, net	393.9	380.5	13.4	3.5	%
Restricted	1.3	1.4	(0.1)	(7.1)	%
Unrestricted	(49.4)	(49.4)	(0.0)	(0.0)	%
Total net position	\$ 345.8	\$ 332.5	\$ 13.3	4.0	%

Note 1 of the *Notes to Financial Statements* include the summary of significant accounting policies for Capital Assets, Pension and OPEB. Note 11 discusses the Retirement (Pension) Plan and Note 12 discusses the OPEB plans, these along with the RSI disclose information on the plans available to all full-time, salaried permanent employees of the University, along with detail on net Pension or OPEB liability (asset), expense, and contributions by the University.

The decrease of \$1.7 million in total assets and deferred outflows plus the decrease in total liabilities and deferred inflows of \$15.0 million resulted in a net increase to the University's net position by \$13.3 million, or 4.0% for fiscal year 2019.

CAPITAL ASSET AND DEBT ADMINISTRATION

One of the critical factors in ensuring the quality of the University's academic and residential life functions is the development and renewal of its capital assets. The University continues to maintain and upgrade current structures, as well as pursue opportunities for additional facilities. Investment in new structures and the upgrade of current structures serve to enrich the University's high-quality instructional programs and residential lifestyles.

Note 4 describes the University's significant investment in capital assets with gross additions of \$62.4 million.

Capital Assets	
For the year ended June 30, 2019 (All dollars in millions)	
	Amount
Additions	
Land	\$ 0.9
Buildings & other improvements	43.0
Infrastructure	0.5
Equipment, library & intangibles	2.2
Construction in progress (see table)	15.8
Total capital asset additions	\$ 62.4
Reductions	
Buildings & other improvements	\$ 1.8
Equipment, library & intangibles	0.3
Construction in progress	43.7
Total capital asset reductions	\$ 45.8

Ongoing investments in capital assets for fiscal year 2019 included additions to land and buildings for property acquired on Riverside Drive, and the completion of the Tribble Library Phase II which provides 28 group study rooms, four classrooms, eight large reading rooms and a 100-seat theater for special presentations and lectures.

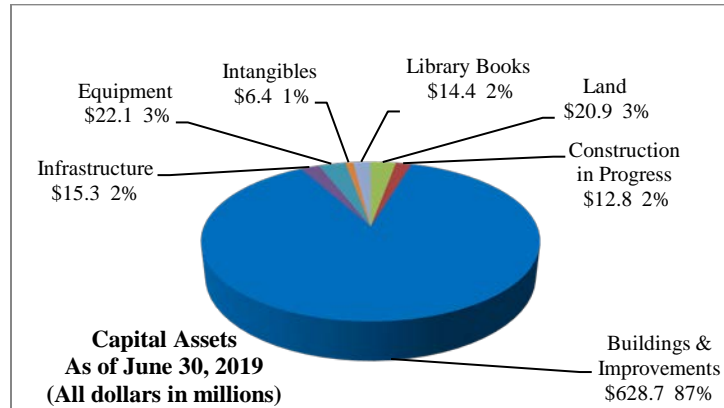
Equipment, library and intangibles additions include instructional, laboratory, and information technology equipment; an audio visual and projection system, additional library books; and three new vehicles for Academic Departments.

The investment in construction in progress is detailed in the table to the right. The Fine Arts and

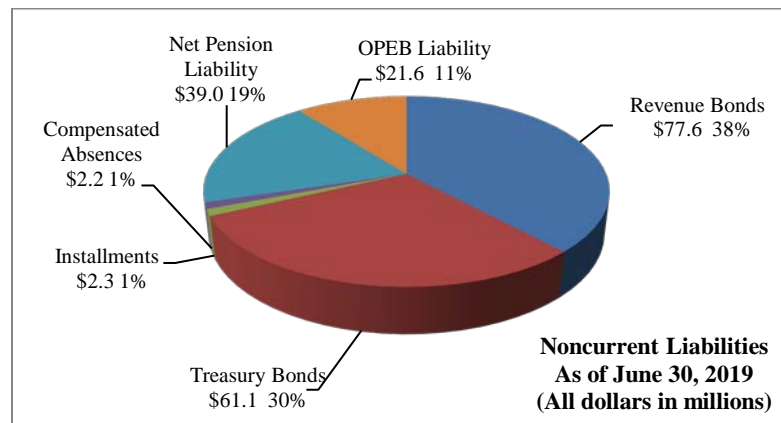
Rehearsal space is scheduled to be completed in 2020 and will house a gallery and programming space for the Newport News art museum, as well as a lecture hall with classrooms and studios for all types of art.

Construction in Progress	
For the year ended June 30, 2019 (All dollars in millions)	
	Project Amount
Fine Arts and Rehearsal Space	\$ 8.8
Athletics Facilities Expansion	2.5
Residence Hall VII	1.1
Band Rehearsal Hall	0.1
Central Chilled Water Plant	0.1
Software	0.1
Miscellaneous	0.1
Total construction in progress	\$ 12.8

Ending balances of capital assets at June 30, 2019 are presented in the graph below and total \$720.6 million before accumulated depreciation. Buildings and improvements continue to account for the majority of capital assets of the University. The majority of the costs currently in construction in progress will eventually become part of buildings and improvements once the projects are completed.



Notes 7 and 8 of the *Notes to Financial Statements* contain information relating to the long-term debt of the University. In fiscal year 2019, the Commonwealth of Virginia conducted no bond issues or bond refundings. The decreases to long-term liabilities consisted of principal payments on the outstanding debt of the University and additions and reductions to the Pension and OPEB liabilities based on the University's actuarially determined employer contributions to the pension plan for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. Total long-term liabilities at the end of fiscal year 2019 are \$203.8 million.



STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION

In fiscal year 2019 the University had an increase in net position of \$13.3 million resulting primarily from Capital Appropriations for construction projects related to the mission of the University to enhance student success, such as the Tribble Library and the Fine Arts and Rehearsal Hall.

Operating revenues are generally received through providing goods and services to the various customers and constituencies of the University. Operating expenses are expenditures made to acquire or procure the goods and services provided in return for the operating revenues and to carry out the mission of the University. Salaries and fringe benefits for faculty and staff are the largest type of operating expenses. Non-operating revenues are revenues received for which goods and services are not directly provided. State appropriations included in this category provide substantial support for paying operating expenses of the University. Therefore, the University, like most public institutions, will expect to show an operating loss.

Per the University's Mission Statement, our primary focus is excellence in teaching, inspired by sound scholarship. At CNU, personal attention in small classes creates a student-centered environment where creativity and excellence can flourish. First, second and third year students are required to live on campus. The University feels that students who live on campus statistically achieve higher academic success, are more engaged with faculty, more connected with campus, more likely to return for a second year, and go on to graduate. Operating and non-operating activities creating changes in the University's total net position are presented in the *Statement of Revenues, Expenses, and Changes in Net Position*. The purpose of this statement is to present all revenues received and accrued, all expenses paid and accrued, gains or losses from investments and capital assets.

Summary of the Statement of Revenues, Expenses, and Changes in Net Position					
For the years ended June 30, 2019 and 2018 (All dollars in millions)					
	2019	2018	Change Amount	Change Percent	
Operating revenues	\$ 122.0	\$ 116.0	\$ 6.0	5.2	%
Operating expenses	158.7	152.2	6.5	4.3	%
Operating loss	(36.7)	(36.2)	(0.5)	(1.4)	%
Non-operating revenues, net	36.2	34.3	1.9	5.5	%
Net other revenues (expenses)	13.8	25.8	(12.0)	(46.5)	%
Increase in net position	13.3	23.9	(10.6)	(44.3)	%
Net position beginning of the year	332.5	308.6	23.9	7.7	%
Net position end of year	<u>\$ 345.8</u>	<u>\$ 332.5</u>	<u>\$ 13.3</u>	4.0	%

OPERATING REVENUES

Total operating revenues increased by \$6.0 million, or 5.2%, from the prior fiscal year due primarily to the increase in the tuition, fees, room and board rate adjustments as approved by the Board of Visitors, as well as a \$1.0 million increase in other operating revenues for study abroad and scholarship funding.

Summary of Revenues					
For the years ended June 30, 2019 and 2018					
(All dollars in millions)					
	2019	2018	Change Amount	Change Percent	
Operating revenues					
Student tuition and fees, net	\$ 44.2	\$ 40.5	\$ 3.7	9.1	%
Grants and contracts	2.0	2.0	0.0	0.0	%
Auxiliary enterprises, net	71.2	69.9	1.3	1.9	%
Other operating revenue	4.6	3.6	1.0	27.8	%
Total operating revenue	122.0	116.0	6.0	5.2	%
Non-operating revenues					
State appropriations	34.6	33.9	0.7	2.1	%
Federal financial aid	3.0	3.1	(0.1)	(3.2)	%
Other non-operating revenue*	3.6	3.0	0.6	20.0	%
Total non-operating revenue	41.2	40.0	1.2	3.0	%
Other revenue					
Capital appropriations	13.6	25.6	(12.0)	(46.9)	%
Capital gifts and grants	0.2	0.3	(0.1)	(33.3)	%
Total other revenue	13.8	25.9	(12.1)	(46.7)	%
Total revenue	\$ 177.0	\$ 181.9	\$ (4.9)	(2.7)	%
* Includes gifts, Build America Bond subsidy, investment income, and other non-operating revenue.					

NON-OPERATING REVENUES

Total non-operating revenues increased by \$1.2 million. This increase is primarily due to the \$0.7 million increase the University received from State appropriations; and \$0.6 million in other non-operating revenue the University received in institutional support and investment income for Auxiliary Enterprises.

OTHER REVENUE

Other revenue decreased by \$12.1 million, or 46.7%, from prior fiscal year due to the decrease in capital appropriations. In prior year, capital appropriations were received for the construction of Tribble Library and the Fine Arts and Rehearsal Hall. The Tribble Library was put into service in the Fall of 2019 and added to capital assets.

TOTAL EXPENSES

The expenses of the University are also separated into operating and non-operating expenses. The operating expenses are presented in the financial statements by function.

Summary of Expenses					
For the years ended June 30, 2019 and 2018					
(All dollars in millions)					
	2019	2018	Change Amount	Change Percent	
Operating expenses					
Instruction	\$ 37.2	\$ 37.0	\$ 0.2	0.5	%
Research	1.9	1.6	0.3	18.8	%
Academic support	10.7	9.2	1.5	16.3	%
Student services	7.7	7.5	0.2	2.7	%
Institutional support	11.0	10.4	0.6	5.8	%
Operation & maintenance of plant	10.7	9.7	1.0	10.3	%
Depreciation	18.0	17.4	0.6	3.4	%
Student aid	2.5	1.1	1.4	127.3	%
Auxiliary enterprises	59.1	58.3	0.8	1.4	%
Total operating expenses	158.8	152.2	6.6	4.3	%
Non-operating expenses					
Interest on capital asset related debt	4.7	5.2	(0.5)	(9.6)	%
Other non-operating expenses and loss on disposal of plant assets	0.2	0.6	(0.4)	(66.7)	%
Total non-operating expenses	4.9	5.8	(0.9)	(15.5)	%
Total expenses	\$ 163.7	\$ 158.0	\$ 5.7	3.7	%

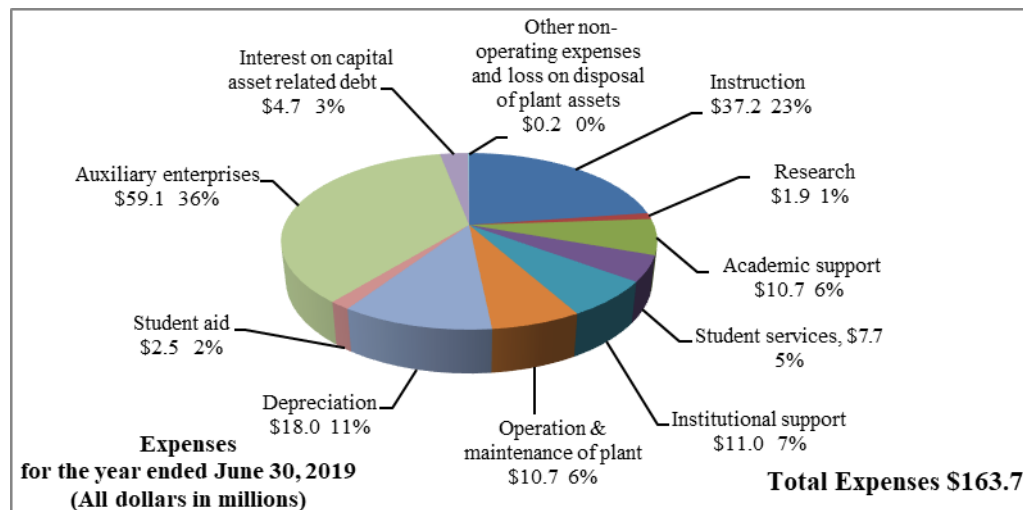
OPERATING EXPENSES

Total operating expenses for the fiscal year totaled \$158.8 million, up \$6.6 million from fiscal year 2018. The net change resulted primarily from Academic support, Operation and Maintenance of Plant and Student Aid in support of the University's mission to provide quality instruction, technology, student aid and facilities.

Investment in new structures and the upgrade of current structures serve to enrich the University's high-quality, programs and student experience.

NON-OPERATING EXPENSES

Non-operating expenses consist of losses on disposal of capital assets and interest paid on capital-related debt.



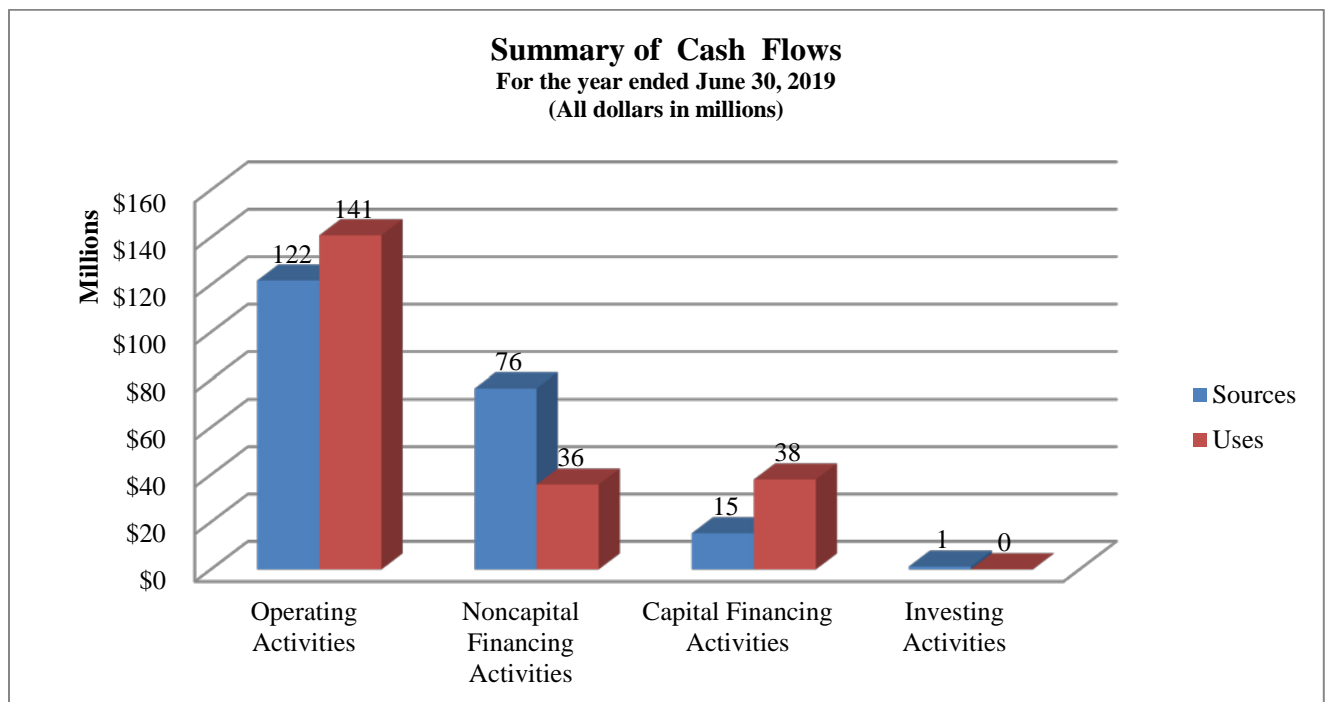
STATEMENT OF CASH FLOWS

The *Statement of Cash Flows* presents detailed information about the cash activity of the University during the year. Cash flows from operating activities will always be different from the operating loss on the *Statement of Revenues, Expenses, and Changes in Net Position* (SRECNP). This difference occurs because the SRECNP is prepared on the accrual basis of accounting and includes noncash items, such as depreciation expenses, whereas the *Statement of Cash Flows* presents cash inflows and outflows without regard to accrual items. The *Statement of Cash Flows* should help readers assess the ability of an institution to generate sufficient cash flows necessary to meet its obligations.

The statement is divided into five sections:

- *Cash flows from operating activities* deals with operating cash flows and shows net cash used by the operating activities of the University.
- *Cash flows from noncapital financing activities* reflects cash received and disbursed for purposes other than operating, investing, and capital financing. GASB requires that general appropriations from the Commonwealth be shown as cash flows from noncapital financing activities. Since state appropriations are used to cover the operating expenses of the University, net cash should always be used by operating activities and provided by noncapital financing activities.
- *Cash flows from capital financing activities* presents cash used for the acquisition and construction of capital and related items. Plant funds and related long-term debt activities (except depreciation and amortization), as well as capital appropriations, are included in cash flows from capital financing activities.
- *Cash flows from investing activities* reflects the cash flows generated from investments, including purchases, proceeds, and interest.
- The last section reconciles the operating loss reflected on the *Statement of Revenues, Expenses, and Changes in Net Position* to the net cash used by operating activities.

Summary of Cash Flows					
For the years ended June 30, 2019 and 2018					
(All dollars in millions)					
	2019	2018	Change Amount	Change Percent	
Net cash provided/(used) by operating activities	\$ (19.1)	\$ (20.3)	\$ 1.2	(5.9)	%
Net cash provided/(used) by noncapital activities	40.6	39.4	1.2	3.0	%
Net cash provided/(used) by capital and related financing activities	(22.8)	(28.6)	5.8	(20.3)	%
Net cash provided/(used) by investing activities	1.2	0.9	0.3	33.3	%
Net increase (decrease) in cash and cash equivalents	(0.1)	(8.6)	8.5	(98.8)	%
Cash and cash equivalents - beginning of year	33.0	41.6	(8.6)	(20.7)	%
Cash and cash equivalents - end of year	<u>\$ 32.9</u>	<u>\$ 33.0</u>	<u>\$ (0.1)</u>	(0.3)	%



The University ended 2019 with cash and cash equivalents of \$32.9 million, a net decrease in cash of \$0.1 million from prior fiscal year.

Net cash used by operating activities was \$19.1 million. The primary sources of cash from operating activities was \$70.7 million from Auxiliary services and \$43.4 million from student tuition and fees. The primary uses of cash from operating activities were payments to employees for salaries, wages and fringe benefits of \$84.2 million and payments for services and supplies of \$45.5 million.

Noncapital financing activities had net cash provided of \$40.6 million. The primary sources of cash from noncapital financing activities consisted of state appropriations of \$34.6 million, federal student financial aid of \$3.0 million and gifts and grants of \$2.3 million.

Net cash used by capital financing activities was \$22.8 million. The primary source of cash from capital financing was \$13.8 million from capital appropriations. Primary uses of cash from capital financing activities were for the purchase of capital assets of \$18.6 million and the principal and interest payments on debt of \$14.4 million and \$5.1 million, respectively.

ECONOMIC OUTLOOK

The University's economic outlook is closely related to its role as one of the Commonwealth's comprehensive higher education institutions. As such, it is largely dependent upon ongoing financial support from state government. The Board of Visitors approved a tuition freeze due to an increase in State support for higher education. Therefore, the University can offer all incoming and returning students a one-year tuition freeze. The incoming Class of 2019 will pay the same tuition as the 2018 freshmen. The University's governing board did however increase the comprehensive fee by \$170; and room and board by \$300 for fiscal year 2020.

Christopher Newport University is a young institution, but our formidable reputation is growing quickly thanks to our commitment to the principles of liberal learning and our dedication to the ideals of scholarship, leadership and service. This dedication has allowed the University to rise third among Southern regional public universities in the new 2020 *U.S. News & World Report* rankings, and now stands sixth among all 136 universities, public and private included in the analysis.

Christopher Newport University's innovative core curriculum has earned an "A" grade from the American Council of Trustees and Alumni (ACTA). Only 22 universities in the nation, public and private, were so honored. Christopher Newport was the only Virginia public institution to earn an "A" and the only public university in the nation with a perfect score. ACTA annually assesses the core academic requirements at 1,123 four-year institutions. Grades are based on whether universities require all students to take courses in seven subject areas as part of their general education programs: composition, literature, foreign language, U.S. government or history, economics, mathematics, and natural science. Christopher Newport's rigorous core curriculum requires courses in all seven subject areas.

Christopher Newport University has been named a College of Distinction by a top national guide to colleges that highlights innovative learning opportunities at top schools. The Colleges of Distinction guide is used by over 40,000 guidance counselors and thousands of parents and students across the country as they decide where to go to college. Christopher Newport was named a College of Distinction because of its variety and quality of high-impact student success initiatives.

In March 2020, the University moved from our traditional classroom teaching to complete virtual instruction as a result of the COVID-19 outbreak. For the health and safety of the campus community, the majority of on-campus operations and events were cancelled or delayed and staff began teleworking. For the fiscal year ending June, 30, 2020, rebates were issued to students from student housing and dining services. It is anticipated there will be additional expenses related to the transition to remote education and other activities in response to the outbreak. The full financial impact and duration of altered business processes cannot be reasonably estimated at this time.

The University's commitment to liberal learning and the pursuit of excellence in all that we do and our dedication to those initiatives will strengthen our teaching, our scholarship, our academic programs and disciplines, and our campus community. As Captains we are grounded in the principles of Liberal Learning and dedication to the ideals of scholarship, leadership, and service, and will come together and persevere during this time of uncertainty and be a stronger community and continue to prosper and lead lives of significance.

FINANCIAL STATEMENTS

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF NET POSITION
As of June 30, 2019

	University	Component Unit Education Foundation	Component Unit Real Estate Foundation
Current Assets:			
Cash and cash equivalents (Note 2)	\$ 2,824,106	\$ 785,383	\$ 1,009,793
Cash and cash equivalents Treasurer of Virginia (Note 2)	28,973,322	-	-
Cash and cash equivalents - securities lending (Note 2)	2,163,493	-	-
Accounts receivable, net of allowance (Note 3)	1,055,660	39,443	795,055
Pledges receivable, net of allowance (Note 17)	-	3,798,955	-
Due from Commonwealth (Note 3)	2,747,565	-	-
Prepaid expenses	2,063,684	-	-
Inventory	206,533	-	-
Total current assets	<u>40,034,363</u>	<u>4,623,781</u>	<u>1,804,848</u>
Noncurrent Assets:			
Restricted cash and cash equivalents (Note 2)	895,232	1,768,820	-
Restricted cash/cash equivalents Treasurer of Virginia (Note 2)	209,018	-	-
Restricted investments (Notes 2 and 17)	274,910	36,551,250	-
Other investments	-	3,487,410	-
Appropriations available/due from	64,952	-	-
Pledges receivable, net of allowance (Note 17)	-	9,462,470	-
Notes receivable	-	-	1,100,000
Other assets	-	1,355,000	383,000
Other restricted assets	1,554,000	2,300,213	-
Non-depreciable capital assets (Notes 4 and 17)	33,734,219	637,934	20,418,432
Capital assets, net (Notes 4 and 17)	<u>499,776,605</u>	<u>84,004</u>	<u>79,341,654</u>
Total noncurrent assets	<u>536,508,936</u>	<u>55,647,101</u>	<u>101,243,086</u>
Deferred outflows of resources (Note 5)	<u>10,606,764</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>587,150,063</u>	<u>60,270,882</u>	<u>103,047,934</u>
Current Liabilities:			
Accounts payable and accrued expenses (Note 6)	17,864,033	427,074	393,489
Unearned revenue	1,435,541	-	34,759
Obligations under securities lending	2,163,493	-	-
Accrued interest payable	1,237,310	-	140,649
Deposits held in custody for others	3,400,438	-	119,895
Long-term liabilities - current portion (Notes 7 and 17)	<u>15,456,084</u>	<u>-</u>	<u>6,104,706</u>
Total current liabilities	<u>41,556,899</u>	<u>427,074</u>	<u>6,793,498</u>
Noncurrent liabilities (Notes 7, 8 and 17)	<u>188,380,196</u>	<u>-</u>	<u>88,880,500</u>
Deferred inflows of resources (Note 5)	<u>11,473,905</u>	<u>-</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>241,411,000</u>	<u>427,074</u>	<u>95,673,998</u>
Net investment in capital assets	393,900,333	721,937	8,426,905
Restricted for:			
Nonexpendable - scholarships and fellowships	-	29,080,882	-
Expendable:			
OPEB	1,284,000	-	-
Scholarships and fellowships	-	3,462,627	-
Academic support	-	12,361,137	-
Capital projects	-	1,957,234	-
Other	-	8,019,747	-
Unrestricted	<u>(49,445,270)</u>	<u>4,240,244</u>	<u>(1,052,969)</u>
Total net position	<u>\$ 345,739,063</u>	<u>\$ 59,843,808</u>	<u>\$ 7,373,936</u>

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

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended June 30, 2019

	University	Component Unit Education Foundation	Component Unit Real Estate Foundation
Operating Revenues:			
Student tuition and fees, Net of scholarship allowance of \$5,676,294	\$ 44,190,891	\$ -	\$ -
Federal grants and contracts	1,562,737	-	-
State grants and contracts	173,193	-	-
Nongovernmental grants and contracts	285,373	-	-
Gifts and contributions	-	4,871,566	-
Auxiliary enterprises, Net of scholarship allowance of \$7,832,182	71,217,800	-	-
Lease and rental revenue	-	-	11,892,204
Other operating revenue	4,598,129	59,328	384,433
Total operating revenues	<u>122,028,123</u>	<u>4,930,894</u>	<u>12,276,637</u>
Operating Expenses:			
Instruction	37,178,230	-	-
Research	1,926,080	-	-
Academic support	10,687,339	-	-
Student services	7,734,340	-	-
Institutional support	10,959,366	3,237,681	1,729,052
Operation and maintenance of plant	10,709,022	1,028,180	2,131,612
Depreciation	18,021,698	23,748	3,731,215
Student aid	2,512,158	2,361,076	-
Auxiliary enterprises	59,093,903	-	-
Total operating expenses	<u>158,822,136</u>	<u>6,650,685</u>	<u>7,591,879</u>
Operating gain/(loss)	<u>(36,794,013)</u>	<u>(1,719,791)</u>	<u>4,684,758</u>
Non-operating Revenues/(Expenses):			
State appropriations (Note 9)	34,555,694	-	-
Federal student financial aid	3,023,045	-	-
Gifts	2,338,705	-	-
Investment income, net of investment expenses of \$6,000	717,620	4,447,527	388,186
Interest on capital asset related debt	(4,747,760)	-	(3,723,164)
Build America Bonds subsidy	484,387	-	-
Other non-operating revenues (expenses)	56,700	-	(322,614)
Gain (Loss) on disposal of plant assets	(183,934)	-	(407,442)
Net nonoperating revenues/(expenses)	<u>36,244,457</u>	<u>4,447,527</u>	<u>(4,065,034)</u>
Income before other revenues/(expenses)/gains/(losses)	<u>(549,556)</u>	<u>2,727,736</u>	<u>619,724</u>
Capital appropriations	13,614,688	-	-
Capital gifts and grants	168,008	168,008	-
Additions to permanent endowments	-	2,002,161	-
Net other revenues	<u>13,782,696</u>	<u>2,170,169</u>	<u>-</u>
Increase/(decrease) in net position	13,233,140	4,897,905	619,724
Transfer to/from affiliate	-	(76,000)	76,000
Net Position - Beginning of year	<u>332,505,923</u>	<u>55,021,903</u>	<u>6,678,212</u>
Net Position - End of year	<u>\$ 345,739,063</u>	<u>\$ 59,843,808</u>	<u>\$ 7,373,936</u>

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

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019

Cash flows from operating activities:	
Student tuition and fees	\$ 43,414,157
Grants and contracts	2,289,545
Auxiliary enterprises	70,727,059
Other receipts	4,601,991
Payments to employees	(84,197,891)
Payments for services and supplies	(45,495,060)
Payments for utilities	(6,436,147)
Payments for scholarships and fellowships	(1,232,394)
Payments for plant improvements and equipment	(2,616,962)
Loans and advances issued to students and employees	(938,106)
Collection of loans and advances from students and employees	806,051
Net cash used by operating activities	<u>(19,077,756)</u>
Cash flows from noncapital financing activities:	
State appropriations	34,576,407
Gifts and grants for other than capital purposes	2,338,705
Federal student financial aid	3,023,045
Federal direct lending program receipts	24,913,365
Federal direct lending program disbursements	(24,919,767)
PLUS loan receipts	9,421,770
PLUS loan disbursements	(9,421,770)
Agency receipts	2,117,685
Agency payments	(1,542,357)
Other nonoperating revenues	56,700
Other nonoperating expenses	-
Net cash provided by noncapital financing activities	<u>40,563,783</u>
Cash flows from capital financing activities:	
Capital appropriations	13,790,658
Capital grants and contributions	168,008
Proceeds from sale of revenue bonds	1,330,009
Purchase of capital assets	(18,586,589)
Principal paid on capital debt, leases, and installments	(14,360,323)
Interest paid on capital debt, leases, and installments	(5,097,307)
Net cash used by capital financing activities	<u>(22,755,543)</u>
Cash flows from investing activities:	
Interest on investments	1,203,563
Purchase of investments	(57,264)
Sales of investments	31,193
Net cash provided by investing activities	<u>1,177,492</u>
Net decrease in cash	(92,024)
Cash and cash equivalents - Beginning of year	<u>32,993,702</u>
Cash and cash equivalents - End of year	<u>\$ 32,901,678</u>

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

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019

Reconciliation of Net Operating Loss to Net Cash
Used by Operating Activities:

Operating loss	\$ (36,794,013)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	18,021,698
Changes in assets, deferred outflows, liabilities and deferred inflows:	
Receivables, net	157,712
Inventory	2,865
Prepaid expenses	562,224
OPEB restricted asset	(142,000)
Deferred outflow of resources	(47,614)
Accounts payable and accrued expenses	857,579
Unearned revenue	78,383
Deposits held in custody	(116,056)
Accrued compensated absences	206,395
Net pension liability	(2,565,000)
OPEB liability	(2,187,254)
Deferred inflow of resources	2,887,326
Net cash used by operating activities	<u><u>\$ (19,077,756)</u></u>

Non Cash investing, non capital financing, and
capital and related financing transactions:

Amortization of bond premium and discount	\$ 1,716,166
Capitalization of interest expense	\$ 231,951
Amortization of deferral on defeased bonds	\$ (758,635)
Change in fair value of investments recognized as a component of interest income	\$ 26,071
Loss on disposal of plant assets	\$ (183,934)

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

NOTES TO THE FINANCIAL STATEMENTS

CHRISTOPHER NEWPORT UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the University are as follows:

A. Reporting Entity

Christopher Newport University is a comprehensive university that is part of the Commonwealth of Virginia's statewide system of public higher education. The University's Board of Visitors, appointed by the Governor, is responsible for overseeing governance of the University. A separate report is prepared for the Commonwealth of Virginia, which includes all agencies over which the Commonwealth exercises oversight authority. The University is a component unit of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth.

The University includes all entities over which the University exercises or has the ability to exercise oversight authority for financial reporting purposes. Under Governmental Accounting Standards Board (GASB) Statement 14, as amended by Statements 39 and 61, the Christopher Newport University Education and Real Estate Foundations, Inc. are discretely presented as component units of the University. The Foundations are legally separate and tax-exempt organizations formed to promote the achievements and further the aims and purposes of the University.

Christopher Newport University Education and Real Estate Foundations are tax-exempt, nonprofit, nonstock corporations. The Christopher Newport University Education Foundation was organized in September 1980 and Christopher Newport University Real Estate Foundation was organized in June 1997. The Foundations were created to receive, administer and distribute funds and property exclusively in furtherance of the educational activities and objectives of Christopher Newport University. Although the University does not control the timing or amount of receipts from the Foundations, the majority of resources, or incomes thereon, which the Foundations hold and invest, are restricted to the activities of the University by the donors. Since these restricted resources held by the Foundations can only be used by, or for the benefit of the University, the Foundations are considered a component unit of the University and are discretely presented in the University's financial statements.

During the year ended June 30, 2019, the Foundations distributed \$5,234,471 to the University for both restricted and unrestricted purposes. Separate financial statements for the Foundations can be obtained by writing the Chief Financial Officer, CNU Foundations, 1 Avenue of the Arts, Newport News, Virginia 23606.

B. Basis of Presentation

The University's accounting policies conform to generally accepted accounting principles as prescribed by GASB, including all applicable GASB pronouncements. The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities*. The University follows GASB 34 requirements for "reporting by special-purpose governments engaged only in business-type activities."

The following GASB statements of standards became effective in fiscal year 2019: Statement 83, Certain Asset Retirement Obligations; and Statement 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. Neither Statement had significant effects upon the University's financial statements for the current year.

The Foundations are private, nonprofit organizations that report under Financial Accounting Standards Board (FASB) standards, including FASB Statement 117, *“Financial Reporting for Not-for-Profit Organizations.”* As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition and presentation features. No modifications have been made to the Foundations’ financial information in the University’s financial reporting entity for these differences.

C. Basis of Accounting

The University’s financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. All significant intra-agency transactions have been eliminated.

D. Cash Equivalents and Investments

In accordance with GASB Statement 9, Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, the University considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, purchased investments, interest-bearing temporary investments classified with cash and investments received as gifts are recorded at fair value. All investment income, including changes in the fair value of investments (unrealized gains and losses), is reported as non-operating revenue in the Statement of Revenues, Expenses and Change in Net Position. The University implemented GASB Statement No. 72, *Fair Value Measurement and Application*, during fiscal year 2016. This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The fair value hierarchy is based on the valuation inputs used to measure the fair value of assets.

E. Capital Assets

Capital assets include land, buildings and other improvements, library materials, equipment, intangible assets such as computer software, and infrastructure assets such as sidewalks. Capital assets are defined by the University as assets, excluding computer software, infrastructure and building improvements, with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Computer software developed or obtained for internal use is defined as having a license cost of \$10,000 or more and an estimated useful life in excess of one year. Computer software and licenses purchased on installment agreements have a cost of \$50,000 or more. Infrastructure is defined as having an initial cost of \$100,000 or more and an estimated useful life in excess of one year. Building improvements are defined as the lesser of \$100,000 or 20% of the building’s cost and must enhance the use of or extend the life of the building beyond its original estimated life. Donated capital assets are recorded at acquisition value at the date of the donation. Expenses for major capital assets and improvements are capitalized (construction in progress) as projects are constructed. The cost of normal maintenance and repairs that do not add to the asset’s value or materially extend its useful life are not capitalized. Plant assets, at the time of disposal, revert to the Commonwealth of Virginia for disposition. Proceeds, if any, are returned to the University.

Depreciation is calculated using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expense categories. Useful lives by asset categories are listed below:

Buildings	5-50 years
Other improvements	12-30 years
Infrastructure	5-50 years
Equipment	5-20 years
Intangible Assets – Computer Software	3-5 years
Library materials	5 years

F. Prepaid Expenses

As of June 30, 2019, the University's prepaid expenses included items such as insurance premiums, membership dues, stipends and software maintenance for fiscal year 2020 that were paid in advance, and publication subscriptions which include initial and renewal annual subscriptions for technical and professional publications.

G. Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market. The inventory held by the University consists of expendable supplies and items for resale. The cost of inventories are recorded as expenditures when consumed or sold rather than when purchased.

H. Noncurrent Cash and Investments

Cash and investments that are externally restricted to construct capital and other noncurrent assets are classified as noncurrent assets in the Statement of Net Position.

I. Unearned Revenue

Unearned revenue includes amounts received for tuition, fees, and grants and contracts prior to the end of the fiscal year, but related to the period after June 30, 2019.

J. Long-term Debt and Debt Issue Costs

Long-term debt on the Statement of Net Position is reported net of related discounts and premiums, which are amortized over the life of the debt. Debt issuance costs are expensed as Non-operating expenses.

K. Accrued Compensated Absences

Accrued leave reflected in the accompanying financial statements represents the amount of annual, sick and compensatory leave earned but not taken as of June 30, 2019. The amount represents all earned vacation, sick and compensatory leave payable under the Commonwealth of Virginia's leave pay-out policy and the University Handbook, for all Administrators holding faculty appointments, upon employment termination. The applicable share of employer related taxes payable on the eventual termination payments is also included.

L. Federal Financial Assistance Programs

The University participates in federally funded Pell Grant, Supplemental Educational Opportunity Grants and Federal Work-Study programs. In addition, the University has numerous federal research grants. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the Office of Management and Budget Revised Circular A-133, Audit of State, *Local Governments and Non-Profit Organizations* and the Compliance Supplement. The Office of Management and Budget (OMB) incorporated OMB Circulars A-21, A-87, A-89, A-102, A-110, A-122 and A-133 into a single document. The document is titled 2 CFR, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards.

M. 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.

N. Net Position

GASB Statement 34 requires that the Statement of Net Position report the difference between assets and liabilities as net position. GASB Statement 63 changes that terminology from *net assets* to *net position*. Net position consists of *Net Investment in Capital Assets, Restricted* and *Unrestricted*. *Net Investment in Capital Assets* consists of capital assets, net of accumulated depreciation and is reduced by outstanding debt that is attributable to the acquisition, construction, or improvement of those assets. Net position is reported as *Restricted* when constraints on the net position use are either externally imposed by creditors, grantors, or contributors or imposed by law. *Unrestricted* net position consists of net assets that do not meet the definitions above. When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to evaluate these expenditures and apply resources on a case by case basis.

O. Revenue and Expense Classifications

Operating revenues include activities that have the characteristics of exchange transactions, such as: (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship allowances; and (3) federal, state and nongovernmental grants and contracts.

Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts, and other revenue sources that are defined as non-operating revenues by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement 34, such as state appropriations and investment and interest income.

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

P. 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 Change in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs are recorded as either operating or non-operating revenues in the University's financial statements. To the extent that such revenues are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Q. 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 Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' System (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 are reported at fair value.

The information included in the Required Supplemental Information (RSI) reflects GASB Statement 82 by the plan. The statement resolved two outstanding issues from GASB Statement 68; the Presentation of Payroll Measures in RSI and the Classification of Employer-paid Member Contributions.

R. Other Post-Employment Benefits

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. For purposes of measuring the net State Employee Health Insurance Credit Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the State Employee Health Insurance Credit Program OPEB, and the State Employee Health Insurance Credit Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) State Employee Health Insurance Credit Program; and the additions to/deductions from the VRS State Employee Health Insurance Credit Program's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

VRS Disability Insurance 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 Disability Insurance Program OPEB liability (asset), deferred outflows of resources and deferred inflows of resources related to the Disability Insurance Program OPEB, and Disability Insurance Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Disability Insurance Program OPEB Plan and the additions to/deductions from the VRS Disability Insurance Program 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.

Group Life Insurance

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 or participating employers. For purposes of measuring the net Group Life Insurance Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Group Life Insurance Program OPEB, and Group Life Insurance Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Group Life Insurance program OPEB and the additions to/deductions from the VRS Group Life Insurance Program OPEB'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.

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. For purposes of measuring the net Line of Duty Act Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Line of Duty Act Program OPEB, and Line of Duty Act Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Line of Duty Act Program OPEB Plan and the additions to/deductions from the VRS Line of Duty Act Program 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.

Pre-Medicare Retiree Healthcare Plan

Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes. This program was established by Title 2.2, Chapter 28 of the Code of Virginia for retirees who are not yet eligible to participate in Medicare. It is the same health insurance program offered to active employees and managed by the Virginia Department of Human Resource Management. After retirement, the University no longer subsidized the retiree's premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, retiree rates are effectively lower than what might otherwise be available outside of this benefit.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

GASB Statement 40, *Deposit and Investment Risk Disclosures*, became effective for periods beginning after June 15, 2004. This statement amends GASB Statement 3, *Deposits with Financial Institutions*, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements. GASB Statement 40 eliminates the custodial credit risk disclosures for Category 1 and 2 deposits and investments. However, this Statement does not change the disclosure requirements for Category 3 deposits and investments.

GASB Statement 40 requires the following risk disclosures:

Credit Risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligations. This Statement requires the disclosure of the credit quality ratings of all investments subject to credit risk.

Concentration of Credit Risk – The risk of loss attributed to the magnitude of a government's investment in a single issuer. This Statement requires disclosure of investments with any one issuer that represents five percent or more of total investments. However, investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external pools and other pooled investments are excluded from the requirement.

Interest Rate Risk – The risk that changes in interest rates will adversely affect the fair value of an investment. This Statement requires disclosure of the terms of the investments with fair values that are highly sensitive to changes in interest rates. The University does not have investments or deposits that are sensitive to change in interest rates as of the close of business on June 30, 2019.

Foreign Currency Risk – The risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University had no foreign investments/deposits for 2019.

A. Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of the University are held by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody and investment of state funds. Cash deposits held by the University are maintained in accounts that are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia. Cash and cash equivalents represent cash with the Treasurer, cash on hand and cash deposits including certificates of deposit, temporary investments with original maturities of three months or less, and cash equivalents with the Virginia State Non-Arbitrage Program (SNAP). 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. SNAP complies with all standards of GASB Statement 79. SNAP investments are reported using the net asset value per share, which is calculated on an amortized cost basis that provides a Net Asset Value per share that approximates fair value. Cash and cash equivalents reporting requirements are defined by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*.

Summarized below are cash and cash equivalents as of June 30, 2019:

Cash and cash equivalents:

Deposits with financial institutions	\$ 1,075,335
Treasurer of Virginia	31,345,833
Government Money Market Fund	1,748,771
State non-arbitrage program (SNAP)	895,232
Total cash and cash equivalents	<u>35,065,171</u>

B. Investments

The Board of Visitors establishes and monitors CNU's investment strategy. Authorized investments are set forth in the Investment of Public Funds Act, Section 2.2-4500 through 2.2-4517, et seq., Code of Virginia. Investments fall into two groups: short-term and long-term. Short-term investments have an original maturity of over 90 days, but less than or equal to one year. Long-term investments have an original maturity greater than one year.

C. Securities Lending Transactions

GASB Statement 28, *Accounting and Financial Reporting for Securities Lending Transactions*, establishes accounting and financial reporting standards for security lending transactions. In these transactions, governmental entities transfer their securities to brokers, dealers and other entities for collateral and simultaneously agree to return the collateral for the same securities in the future. Collateral held for securities lending and the securities lending transactions reported on the financial statements represent the University's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains or losses are realized, the actual gains and losses are recorded by the affected agencies. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*.

D. Fair Value Measurement

The University implemented GASB Statement No. 72, *Fair Value Measurement and Application*, which establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 - inputs are quoted prices for identical assets or liabilities.

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

Level 3 - inputs are unobservable inputs for an asset or liability and should be used only when relevant level 1 and level 2 inputs are unavailable.

Investments Measured at Fair Value including categorization of credit quality and interest rate risk

				Fair Value Measurement (Per GASB 72)	
		Standard & Poor's Credit Quality Rating	Value	Less than 1 Year	Not Applicable to Fair Value Measurement Level 1
Investments by Fair Value (FV)					
Cash and cash equivalents:					
Government Money Market Fund	NR	\$	1,748,771	\$	1,748,771
State non-arbitrage program (SNAP)	AAAm		895,232		895,232
Total cash and cash equivalents			2,644,003		2,644,003
Investments:					
Mutual Funds and Money Market	NA		274,910		274,910
Total investments			274,910		274,910
Total cash, cash equivalents and investments		\$	2,918,913	\$	2,918,913

3. ACCOUNTS RECEIVABLE

A. Accounts receivable consisted of the following at June 30, 2019:

Student tuition and fees	\$ 91,058
Auxiliary enterprises	235,666
Federal, state, private grants and contracts	540,786
Other activities	253,494
Gross receivables	<u>1,121,004</u>
Less: Allowance for doubtful accounts	<u>(65,344)</u>
Net accounts receivable	<u>\$ 1,055,660</u>

B. Due from the Commonwealth of Virginia consisted of the following at June 30, 2019:

Virginia College Building Authority 21st Century Bonds	<u>\$ 2,747,565</u>
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4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2019 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable capital assets:				
Land	\$ 20,038,227	\$ 902,000	\$ -	\$ 20,940,227
Construction in progress	<u>40,611,597</u>	<u>15,847,926</u>	<u>(43,665,531)</u>	<u>12,793,992</u>
Total nondepreciable capital assets	<u>60,649,824</u>	<u>16,749,926</u>	<u>(43,665,531)</u>	<u>33,734,219</u>
Depreciable capital assets:				
Buildings	554,221,604	41,561,550	(1,620,803)	594,162,351
Infrastructure	14,829,921	456,758	-	15,286,679
Equipment	20,930,201	1,385,800	(236,332)	22,079,669
Intangibles	6,245,261	251,600	(76,863)	6,419,998
Other improvements	33,189,957	1,498,154	(172,613)	34,515,498
Library materials	<u>13,873,618</u>	<u>589,827</u>	<u>(17,805)</u>	<u>14,445,640</u>
Total depreciable capital assets	<u>643,290,562</u>	<u>45,743,689</u>	<u>(2,124,416)</u>	<u>686,909,835</u>
Less accumulated depreciation:				
Buildings	114,533,282	13,014,182	(1,620,803)	125,926,661
Infrastructure	9,370,501	892,150	-	10,262,651
Equipment	13,559,723	1,763,743	(223,543)	15,099,923
Intangibles	4,974,849	540,568	(3,577)	5,511,840
Other improvements	16,298,368	1,334,993	(55,071)	17,578,290
Library materials	<u>12,277,803</u>	<u>476,062</u>	<u>-</u>	<u>12,753,865</u>
Total accumulated depreciation	<u>171,014,526</u>	<u>18,021,698</u>	<u>(1,902,994)</u>	<u>187,133,230</u>
Depreciable capital assets, net	<u>472,276,036</u>	<u>27,721,991</u>	<u>(221,422)</u>	<u>499,776,605</u>
Total capital assets, net	<u>\$ 532,925,860</u>	<u>\$ 44,471,917</u>	<u>\$ (43,886,953)</u>	<u>\$ 533,510,824</u>

During fiscal year 2019, the University incurred interest charges totaling \$4,979,711. Of this amount, \$231,951 was capitalized as part of the cost of construction and \$4,747,760 was expensed.

5. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES:

The composition of deferred outflows and inflows of resources at June 30, 2019 is summarized below:

Loss on debt defeasance (see Note 8)	\$ 2,782,381
Pension related (see Note 11)	5,250,487
Other postemployment benefit related (see Note 12)	
Health Insurance Credit Program	777,026
Virginia Sickness and Disability Program (VSDP)	182,780
Group Life Insurance Program	619,431
Line of Duty Act (LODA)	55,704
Pre-Medicare Retiree Healthcare	938,955
Total deferred outflows of resources	<u>\$ 10,606,764</u>
Gain on debt defeasance (see Note 8)	\$ 1,346,864
Pension related (see Note 11)	3,445,000
Other postemployment benefit related (see Note 12)	
Health Insurance Credit Program	142,000
Virginia Sickness and Disability Program (VSDP)	274,000
Group Life Insurance Program	441,000
Line of Duty Act (LODA)	60,000
Pre-Medicare Retiree Healthcare	5,765,041
Total deferred inflows of resources	<u>\$ 11,473,905</u>

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES:

Accounts payable and accrued expenses consisted of the following at June 30, 2019:

Employee salaries, wages and fringe benefits payable	\$ 9,802,651
Vendors and suppliers accounts payable	7,704,817
Retainage payable	356,565
Total accounts payable and accrued liabilities	<u>\$ 17,864,033</u>

7. NONCURRENT LIABILITIES

The University's noncurrent liabilities consist of long-term debt (further described in Note 8), and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ending June 30, 2019 is presented below:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds	\$ 87,295,714	\$ -	\$ (9,689,878)	\$ 77,605,836	\$ 8,150,000
Treasury-general obligation bonds	66,748,726	-	(5,700,220)	61,048,506	4,289,401
Installment purchases	1,664,148	1,330,009	(686,384)	2,307,773	502,886
Total long-term debt	155,708,588	1,330,009	(16,076,482)	140,962,115	12,942,287
Accrued compensated absences	2,017,616	2,299,855	(2,093,461)	2,224,010	2,109,795
Net pension liability (see Note 11)*	41,583,000	-	(2,565,000)	39,018,000	-
OPEB liabilities (see Note 12):					
Health Insurance Credit Program*	7,252,000	139,000	-	7,391,000	-
Group Life Insurance Program*	4,204,000	154,000	-	4,358,000	-
Line of Duty Act*	276,000	24,000	-	300,000	10,000
Pre-Medicare Retiree Healthcare*	12,087,409	-	(2,504,254)	9,583,155	394,002
Total long-term liabilities	\$ 223,128,613	\$ 3,946,864	\$ (23,239,197)	\$ 203,836,280	\$ 15,456,084

*Amounts reflect Net Additions/(Reductions)

8. LONG TERM DEBT

On behalf of The University, the Commonwealth has issued two categories of bonds pursuant to Section 9 of Article X of the *Constitution of Virginia*.

Section 9(c) bonds are general obligation bonds issued by the Commonwealth of Virginia on behalf of the University, which are secured by the net revenues of the completed project and the full faith, credit and taxing power of the Commonwealth of Virginia.

Section 9(d) bonds are revenue bonds, which are limited obligations of the University, payable exclusively from pledged general revenues and are not debt of the Commonwealth of Virginia. Pledged revenues include revenues of the University not required by law to be used for another purpose. The University issued 9(d) bonds through the Public Higher Education Financing Program (Pooled Bond Program) created by the Virginia General Assembly in 1996. Through the Pooled Bond Program, the Virginia College Building Authority (VCBA) issues 9(d) bonds and uses the proceeds to purchase debt obligations (notes) of the University and various other institutions of higher education.

Description	Interest Rates	Fiscal Year Maturity	Outstanding Balance at June 30, 2019
General obligation bonds:			
Residence Halls:			
Series 2009C	4.0	2021	\$ 1,813,959
Series 2010A-1 & 2010A-2	2.95-4.7	2040	28,045,000
Series 2011A	3.0-4.0	2021	980,000
Series 2014B	5.0	2020	1,560,000
Series 2015A	3.0-5.0	2035	16,870,000
Series 2016B	5.0	2021	310,000
Dining Services:			
Series 2015A	3.0-5.0	2035	8,010,000
Total general obligation bonds			<u>\$ 57,588,959</u>

Revenue bonds:

Athletics:

Series 2007B	4.0	2020	\$ 387,645
Series 2007B	4.0	2020	87,383
Series 2009A	3.25-5.0	2021	145,000
Series 2009B	5.0	2020	470,000
Series 2010B	5.0	2023	290,000
Series 2010B	5.0	2021	155,000
Series 2010B	5.0	2023	1,300,000
Series 2012A	5.0	2024	240,000
Series 2014A	5.0	2030	2,705,000
Series 2014B	4.0-5.0	2026	1,505,000
Series 2015B	3.0-5.0	2029	1,600,000
Series 2016A	3.0-5.0	2038	3,425,000
Series 2016A	3.0-5.0	2040	13,815,000

Dining Services:

Series 2007B	4.0	2020	75,000
Series 2007B	4.0	2020	21,381
Series 2010B	5.0	2022	155,000
Series 2010B	5.0	2023	60,000
Series 2011A	5.0	2022	1,460,000

Student Union:

Series 2007B	4.0	2020	594,018
Series 2010B	5.0	2023	1,995,000
Series 2012A	2.75-5.0	2026	9,775,000
Series 2014B	5.0	2024	680,000
Series 2016A	3.0	2027	485,000

Description	Interest Rates	Fiscal Year Maturity	Outstanding Balance at June 30, 2019
Parking Decks/Surface:			
Series 2007B	4.0	2020	567,059
Series 2010B	5.0	2023	1,895,000
Series 2011A	5.0	2022	1,030,000
Series 2012A	3.0-5.0	2025	750,000
Series 2012B	5.0	2023	430,000
Series 2014B	4.0	2026	150,000
Residence Halls:			
Series 2007B	4.0	2020	1,617,519
Series 2010B	5.0	2023	5,415,000
Land Acquisition/Other:			
Series 2009A	3.25-5.0	2021	460,000
Series 2009A	3.25-5.0	2021	100,000
Series 2009B	5.0	2020	150,000
Series 2009B	5.0	2020	45,000
Series 2010A-1	3.75-5.6	2041	3,910,000
Series 2011A	5.0	2022	1,070,000
Series 2014A	5.0	2030	2,920,000
Series 2015B	3.0-5.0	2029	5,000,000
Series 2015B	3.0-5.0	2029	1,050,000
Series 2016A	3.0-5.0	2030	2,010,000
Series 2016A	3.0-5.0	2030	550,000
Total revenue bonds			<u>\$ 70,545,005</u>
Total bonds payable			<u>\$ 128,133,964</u>
Unamortized premiums - GOB bonds			\$ 3,459,547
Unamortized premiums - VCBA bonds			<u>7,060,831</u>
Total unamortized premiums			<u>\$ 10,520,378</u>
Installment purchases			\$ 2,307,773
Total long-term debt			<u>\$ 140,962,115</u>

Long-term debt matures as follows:

	<u>Principal</u>	<u>Interest</u>
2020 \$	14,466,550	\$ 5,451,009
2021	14,813,265	4,860,983
2022	12,506,397	4,232,342
2023	11,416,261	3,709,105
2024	7,687,411	3,297,403
2025-2029	34,592,118	12,313,171
2030-2034	24,812,874	6,510,368
2035-2039	17,210,990	2,443,630
2040-2044	3,356,249	124,505
2045-2019	100,000	-
	<u>\$ 140,962,115</u>	<u>\$ 42,942,516</u>

Defeasance of Debt

For fiscal year 2019 the deferred outflow of resources from the amortization of losses on debt defeasance was \$2,782,381 and the deferred inflow of resources from the amortization of gains on debt defeasance was \$1,346,864.

At June 30, 2019, \$18,670,000 of the bonds considered defeased remain outstanding.

9. STATE APPROPRIATIONS

The University receives state appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that unexpended appropriations shall revert, except as specifically provided by the General Assembly, at the end of a biennium. For years ending at the middle of a biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the University for disbursement.

The following is a summary of state appropriations received by the University including all supplemental appropriations and reversions:

Original legislative appropriations Per Chapter 2	
Educational and general programs	\$29,175,568
Student financial assistance	4,975,320
Supplemental adjustments:	
Other central appropriation adjustments	338,170
Financial aid adjustments	<u>66,636</u>
Adjusted Appropriation	<u>\$34,555,694</u>

10. COMMITMENTS

At June 30, 2019, the University was committed to construction contracts totaling approximately \$59,513,279 of which \$45,860,521 was unexpended due to beginning the construction of the Fine Arts Center.

The University is committed under various operating leases for buildings and equipment. In general, the leases are for a one-year term and the University has renewal options on these leases for up to three additional one-year terms. In most cases, the University expects that in the normal course of business, these leases will be replaced by similar leases.

On August 1, 2002, the University entered into a fifteen-year lease agreement with the Educational Foundation for the lease of certain properties to be used for the purposes of student housing and administrative offices. In August 2017, the lease was extended for an additional five-year term totaling approximately \$44,410,001 of which \$26,553,802 remains outstanding on the lease commitment.

Rental expense for the fiscal year ended June 30, 2019 was \$8,462,624. The University has, as of June 30, 2019 the following total future minimum rental payments due under the above leases:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2020	\$ 8,581,905
2021	8,715,394
2022	8,886,755
2023	841,393
Total	<u>\$ 27,025,447</u>

11. RETIREMENT PLANS

General Information about the Pension Plan

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. 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 following table:

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>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.</p>	<p>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.</p>	<p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</p> <ul style="list-style-type: none"> • 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.
<p>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, and they have not taken a refund.</p> <p>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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p>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.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered 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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • 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. <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Members of the Virginia Law Officers' Retirement System (VaLORS) <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the</p>

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.	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.	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.
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 Same as Plan 1.	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 <u>Defined Benefit Component:</u> 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. <u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

<p>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.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> 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.</p> <p><u>Defined Contributions Component:</u> 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.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>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.</p> <ul style="list-style-type: none"> • 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. <p>Distribution is not required by law until age 70½.</p>
<p>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.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1</p> <p><u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net</p>

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.		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 their 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.
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.

		<p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>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.</p> <p>VaLORS: 50 with at least five years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>VaLORS: Same as Plan 1.</p>	<p>Earliest Reduced Retirement Eligibility Defined Benefit Component: VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>VaLORS: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>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%.</p> <p><u>Eligibility:</u> 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.</p> <p>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.</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. 	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as Plan 1.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement Defined Benefit Component: Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

<ul style="list-style-type: none"> • 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. 		
<p>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.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p> <p>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.</p>	<p>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.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p> <p>Purchase of Prior Service Same as Plan 1.</p>	<p>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.</p> <p>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.</p> <p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exception:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. <p><u>Defined Contribution Component:</u> Not applicable.</p>

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. Each state agency's contractually required employer contribution rate for the fiscal year ended June 30, 2019 was 13.52% of covered employee compensation for employees in the VRS State Employee Retirement Plan. For employees in the VaLORS Retirement Plan, the contribution rate was 21.61% of covered employee compensation. These rates were based on actuarially determined rates from an actuarial valuation as of June 30, 2017. 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 University to the VRS State Employee Retirement Plan were \$4,160,766 and \$4,069,411 for years ended June 30, 2019 and June 30, 2018, respectively. Contributions from the University to the VaLORS Retirement Plan were \$156,721 and \$155,604 for the year ended June 30, 2019 and June 30, 2018, respectively.

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

At June 30, 2019, the University reported a liability of \$37,321,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability and a liability of \$1,697,000 for its proportionate share of the VaLORS Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2018 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The University's proportion of the Net Pension Liability was based on the University's actuarially determined employer contributions to the pension plan for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the University's proportion of the VRS State Employee Retirement Plan was 0.68938% as compared to 0.68405% at June 30, 2017. At June 30, 2018, the University's proportion of the VaLORS Retirement Plan was 0.27233% as compared to 0.26217% at June 30, 2017.

For the year ended June 30, 2019, the University recognized pension expense of \$2,362,000 for the VRS State Employee Retirement Plan and \$114,000 for the VaLORS Retirement Plan. Since there was a change in proportionate share between June 30, 2017 and June 30, 2018, 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, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	VRS Deferred Outflows of Resources	VRS Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 2,256,000
Net difference between projected and actual earnings on pension plan investments	-	975,000
Change in assumptions	250,000	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	619,000	-
Employer contributions subsequent to the measurement date	4,160,766	-
Total	<u>\$ 5,029,766</u>	<u>\$ 3,231,000</u>

	VaLORS Deferred Outflows of Resources	VaLORS Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,000	\$ 48,000
Net difference between projected and actual earnings on pension plan investments	-	28,000
Change in assumptions	-	59,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	63,000	79,000
Employer contributions subsequent to the measurement date	156,721	-
Total	<u>\$ 220,721</u>	<u>\$ 214,000</u>

\$4,160,766 for the VRS Retirement Plan and \$156,721 for the VaLORS Retirement Plan reported as deferred outflows of resources related to pensions resulting from the University's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2020. 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:

	VRS Retirement Plan	VaLORS Retirement Plan
For the year ending		
June 30, 2020	\$ (123,000)	\$ (103,000)
June 30, 2021	\$ (497,000)	\$ (9,000)
June 30, 2022	\$ (1,639,000)	\$ (36,000)
June 30, 2023	\$ (103,000)	\$ (2,000)
June 30, 2024	\$ -	\$ -

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2017, 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, 2018.

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 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, 2017 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, 2017, 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, 2018.

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 to 2020; 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, 2017 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	Decrease 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, 2018, NPL amounts for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan are as follows (amounts expressed in thousands):

	State Employee Retirement Plan	VaLORS Retirement Plan
Total Pension Liability	\$ 23,945,821	\$ 2,047,161
Plan Fiduciary Net Position	18,532,189	1,423,980
Employer's Net Pension Liability (Asset)	<u>\$ 5,413,632</u>	<u>\$ 623,181</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.39%	69.56%

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, 2018, the rate contributed by the University 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 which was 100% of the actuarially determined contribution rate. From July 1, 2018 on, all agencies are assumed to continue 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 University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the University's proportionate share of the VRS State Employee Retirement Plan net pension liability using the discount rate of 7.00%, as well as what the University's 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:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Employer's proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	\$ 56,505,000	\$ 37,321,000	\$ 21,171,000

The following presents the University's proportionate share of the VaLORS Retirement Plan net pension liability using the discount rate of 7.00%, as well as what the University's 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:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Employer's proportionate share of the VaLORS Retirement Plan Net Pension Liability	\$ 2,408,000	\$ 1,697,000	\$ 1,108,000

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 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Optional Retirement Plans

Full-time faculty and certain administrative staff may participate in Optional Retirement Plans, as authorized by Section 51.1-126 of the *Code of Virginia*, rather than the VRS retirement plan. These Optional Retirement Plans are defined contribution plans to which the University contributes an amount established by statute. University employees currently participate in both of these plans to include: Fidelity Investments Institutional Service and Teacher Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF). The employer contribution rates will be 10.4% for Plan 1 participants (hired prior to July 1, 2010) and 8.5% for Plan 2 participants (hired on or after July 1, 2010), with Plan 2 participants continuing to contribute 5%.

Individual contracts issued under the plan provide for full and immediate vesting of both the University and the participant's contributions. Total pension costs under these Optional Retirement Plans were approximately \$2,418,993 for the year ended June 30, 2019. Contributions were calculated using the base salary amount of approximately \$25,672,286.

Deferred Compensation

Most employees of the Commonwealth's colleges and universities may participate in the Commonwealth's Deferred Compensation Plan in accordance with Internal Revenue Code Section 457(b) and/or the institution's deferred compensation plan in accordance with Internal Revenue Code Section 403(b). Under either plan, the institution's cash match under the Internal Revenue Code Section 401(a) during fiscal year 2019 was a maximum match up to \$20 per pay period or \$40 per month. This employer match is for either plan but not both plans. Employer contributions under these plans were approximately \$226,489 for fiscal year 2019.

12. POSTEMPLOYMENT BENEFITS

The University participates in postemployment benefit programs that are sponsored by the Commonwealth and administered by the Virginia Retirement System. These programs include the Retiree Health Insurance Credit Program, Virginia Sickness and Disability Program, Group Life Insurance Program, and Line of Duty Act Program.

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.

The specific information about the State Health Insurance Credit Program OPEB, including eligibility, coverage and benefits is set out in the table below:

STATE EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM (HIC) PLAN PROVISIONS
<p>Eligible Employees</p> <p>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.</p> <p>Eligible employees are enrolled automatically upon employment. They include:</p> <ul style="list-style-type: none"> • Full-time and part-time permanent salaried state employees covered under VRS, SPORS, VaLORS and JRS.
<p>Benefit Amounts</p> <p>The State Employee Retiree Health Insurance Credit Program provides the following benefits for eligible employees:</p> <ul style="list-style-type: none"> • <u>At Retirement</u> – For State employees who retire with at least 15 years of service credit, 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. <p>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.</p> <p>For State police officers 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.</p>
<p>Health Insurance Credit Program Notes:</p> <ul style="list-style-type: none"> • The monthly Health Insurance Credit benefit cannot exceed the individual’s 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.

Contributions

The contribution requirement for active employees 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, 2019 was 1.17% 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, 2017. 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 University to the VRS State Employee Health Insurance Credit Program were \$666,026 and \$664,138 for the years ended June 30, 2019 and June 30, 2018, 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

At June 30, 2019, the University reported a liability of \$7,391,000 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, 2018 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 University's proportion of the Net VRS State Employee Health Insurance Credit Program OPEB Liability was based on the University's actuarially determined employer contributions to the VRS State Employee Health Insurance Credit Program OPEB plan for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating state employers. At June 30, 2018, the University's proportion of the VRS State Employee Health Insurance Credit Program was 0.81017% as compared to 0.79653% at June 30, 2017.

For the year ended June 30, 2019, the University recognized VRS State Employee Health Insurance Credit Program OPEB expense of \$636,000. Since there was a change in proportionate share between measurement dates, a portion of the VRS State Employee Health Insurance Credit Program Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to the VRS State Employee Health Insurance Credit Program OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,000	\$ -
Net difference between projected and actual earnings on State HIC OPEB plan investments	-	12,000
Change in assumptions	-	67,000
Changes in proportionate share	106,000	63,000
Employer contributions subsequent to the measurement date	666,026	
Total	<u>\$ 777,026</u>	<u>\$ 142,000</u>

\$666,026 reported as deferred outflows of resources related to the State Employee HIC OPEB resulting from the University's 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the State Employee HIC OPEB will be recognized in the State Employee HIC OPEB expense in future reporting periods as follows:

For the year ending	Amount
June 30, 2020	\$ (14,000)
June 30, 2021	\$ (14,000)
June 30, 2022	\$ (14,000)
June 30, 2023	\$ (9,000)
June 30, 2024	\$ 14,000
Thereafter	\$ 6,000

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, 2017, 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, 2018.

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 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, 2017 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, 2017 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, 2017 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 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% compounding increase from ages 70 to 85.

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2017 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	Remove disability rates
Salary Scale	No change

Net State Employee HIC OPEB Liability

The net OPEB liability (NOL) for the State Employee Health Insurance Credit Program 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, 2018, NOL amounts for the VRS State Employee Health Insurance Credit Program is as follows (amounts expressed in thousands):

	State Employee HIC OPEB Plan
Total State Employee HIC OPEB Liability	\$ 1,008,184
Plan Fiduciary Net Position	95,908
State Employee net HIC OPEB Liability (Asset)	<u>\$ 912,276</u>
Plan Fiduciary Net Position as a Percentage of the Total State Employee HIC OPEB Liability	9.51%

The total State Employee HIC OPEB liability is calculated by the System's actuary, and the plan's fiduciary net position is reported in the System's financial statements. The net State Employee HIC OPEB liability 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

The long-term expected rate of return on VRS 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 VRS 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 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, 2018, the rate contributed by the University 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, which was 100% of the actuarially determined contribution rate. From July 1, 2018 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.

Sensitivity of the University's Proportionate Share of the State Employee HIC Net OPEB Liability to Changes in the Discount Rate

The following presents the University's 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 University's 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%)
Employer's proportionate share of the VRS State Employee HIC OPEB Plan Net HIC OPEB Liability	\$ 8,173,000	\$ 7,391,000	\$ 6,717,000

State Employee HIC OPEB Fiduciary Net Position

Detailed information about the VRS State Employee Health Insurance Credit Program's Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

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.

The specific information for Disability Insurance Program OPEB, including eligibility, coverage and benefits is set out in the table below:

DISABILITY INSURANCE PROGRAM (VSDP) PLAN PROVISIONS
<p>Eligible Employees</p> <p>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.</p> <p>Eligible employees are enrolled automatically upon employment. They include:</p> <ul style="list-style-type: none"> • 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.

Benefit Amounts

The Virginia Sickness and Disability Program (VSDP) provides the following benefits for eligible employees:

- **Leave** – Sick, family and personal leave. Eligible leave benefits are paid by the employer.
- **Short-Term Disability** – 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.
- **Long-Term Disability (LTD)** – 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.
- **Income Replacement Adjustment** – The program provides for an income replacement adjustment to 80% for catastrophic conditions.
- **VSDP Long-Term Care Plan** – The program also includes a self-funded long-term care plan that assists with the cost of covered long-term care services.

Disability Insurance Program (VSDP) 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.

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 actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement.
 - 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.
 - 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 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, 2019 was 0.62% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. 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 University were \$178,780 and \$185,581 for the years ended June 30, 2019 and June 30, 2018, respectively.

Disability Insurance Program (VSDP) OPEB Assets, VSDP OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the VSDP OPEB

At June 30, 2019, the University reported an asset of \$1,554,000 for its proportionate share of the Net VSDP OPEB Asset. The Net VSDP OPEB Asset was measured as of June 30, 2018 and the total VSDP OPEB liability used to calculate the Net VSDP OPEB Asset was determined by an actuarial valuation as of that date. The University's proportion of the Net VSDP OPEB Asset was based on the agency's actuarially determined employer contributions to the VSDP OPEB plan for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the University's proportion was 0.69026 % as compared to 0.68799 % at June 30, 2017.

For the year ended June 30, 2019, the university recognized VSDP OPEB expense of \$80,000. 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, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to the VSDP OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 66,000
Net difference between projected and actual earnings on VSDP OPEB plan investments	-	92,000
Change in assumptions	-	92,000
Changes in proportion	4,000	24,000
Employer contributions subsequent to the measurement date	178,780	
Total	\$ 182,780	\$ 274,000

\$178,780 reported as deferred outflows of resources related to the VSDP OPEB resulting from the University's 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the VSDP OPEB will be recognized in VSDP OPEB expense in future reporting periods as follows:

For the year ending	Amount
June 30, 2020	\$ (59,000)
June 30, 2021	\$ (59,000)
June 30, 2022	\$ (59,000)
June 30, 2023	\$ (30,000)
June 30, 2024	\$ (29,000)
Thereafter	\$ (34,000)

Actuarial Assumptions

The total VSDP OPEB liability was based on an actuarial valuation as of June 30, 2017, 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, 2018.

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, 2017 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, 2017 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, 2017 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 VSDP OPEB Liability (Asset)

The net OPEB asset (NOA) for the Disability Insurance Program (VSDP) represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the Measurement Date of June 30, 2018, NOA amounts for the Disability Insurance Program (VSDP) is as follows (amounts expressed in thousands):

	Disability Insurance Program
Total VSDP OPEB Liability	\$ 237,733
Plan Fiduciary Net Position	462,961
Employers' Net OPEB Liability (Asset)	<u>\$ (225,228)</u>

Plan Fiduciary Net Position as a Percentage of the Total VSDP OPEB Liability	194.74%
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The total VSDP 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 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

The long-term expected rate of return on 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 VRS 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	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%.

Discount Rate

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, 2018, 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 which was 100% of the actuarially determined contribution rate. From July 1, 2018 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 University's Proportionate Share of the Net VSDP OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the University's proportionate share of the net VSDP OPEB liability (asset) using the discount rate of 7.00%, as well as what the University's 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%)
Employer's proportionate share of the Total VSDP Net OPEB Asset	\$ 1,498,000	\$ 1,554,000	\$ 1,602,000

VSDP OPEB Fiduciary Net Position

Detailed information about the Disability Insurance Program (VSDP) Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report. A copy of the 2018 VRS Comprehensive Annual Financial Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

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.

The specific information for Group Life Insurance Program OPEB, including eligibility, coverage and benefits is set out in the table below:

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS	
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:	
<ul style="list-style-type: none">• 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 ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.	
Benefit Amounts	
The benefits payable under the Group Life Insurance Program have several components.	
<ul style="list-style-type: none">• <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:<ul style="list-style-type: none">○ Accidental dismemberment benefit○ Safety belt benefit○ Repatriation benefit○ Felonious assault benefit○ 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.

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 \$8,279 effective July 1, 2018.

Contributions

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, 2019 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. 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 University were \$298,431 and \$295,003 for the years ended June 30, 2019 and June 30, 2018, respectively.

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

At June 30, 2019, the University reported a liability of \$ 4,358,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2018 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 covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the University's proportion was 0.28694% as compared to 0.27931% at June 30, 2017.

For the year ended June 30, 2019, the University recognized GLI OPEB expense of \$42,000. 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.

At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 213,000	\$ 80,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	141,000
Change in assumptions	-	181,000
Changes in proportion	108,000	39,000
Employer contributions subsequent to the measurement date	298,431	
Total	<u>\$ 619,431</u>	<u>\$ 441,000</u>

\$298,431 reported as deferred outflows of resources related to the GLI OPEB resulting from the University's 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

For the year ending	Amount
June 30, 2020	\$ (53,000)
June 30, 2021	\$ (53,000)
June 30, 2022	\$ (53,000)
June 30, 2023	\$ (12,000)
June 30, 2024	\$ 30,000
Thereafter	\$ 21,000

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2017, 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, 2018.

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 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, 2017 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 Healthy 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% 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, 2017 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, 2017 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, 2017 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 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, 2017 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, 2017 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 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 Employees – 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, 2017 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 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, 2017 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 Employees – 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, 2017 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 retirement 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%

Net GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the Measurement Date of June 30, 2018, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

	<u>Group Life Insurance OPEB Program</u>
Total GLI OPEB Liability	\$ 3,113,508
Plan Fiduciary Net Position	<u>1,594,773</u>
Employers' Net GLI OPEB Liability (Asset)	<u>\$ 1,518,735</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	51.22%

The total GLI 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 GLI OPEB liability 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

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:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
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 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, 2018, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2018 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.

Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

The following presents the University's proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, as well as what the University's 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%)
Employer's proportionate share of the Group Life Insurance Program	\$ 5,695,000	\$ 4,358,000	\$ 3,272,000
Net OPEB Liability			

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

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 Line of Duty Act Program OPEB, including eligibility, coverage and benefits is set out in the table below:

LINE OF DUTY ACT PROGRAM (LODA) PLAN PROVISIONS
<p>Eligible Employees</p> <p>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).</p>
<p>Benefit Amounts</p> <p>The Line of Duty Act Program (LODA) provides death and health insurance benefits for eligible individuals:</p> <ul style="list-style-type: none"> • Death – 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: <ul style="list-style-type: none"> ○ \$100,000 when a death occurs as the direct or proximate result of performing duty as of January 1, 2006, or after. ○ \$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. ○ 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. <ul style="list-style-type: none"> ○ 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. ○ 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.

Contributions

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, 2019 was \$705.77 per covered full-time-equivalent employee. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017 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 University were \$12,704 and \$10,213 for the years ended June 30, 2019 and June 30, 2018, respectively.

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

At June 30, 2019, the University reported a liability of \$300,000 for its proportionate share of the Net LODA OPEB Liability. The Net LODA OPEB Liability was measured as of June 30, 2018 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 University's proportion of the Net LODA OPEB Liability was based on the University's actuarially determined pay-as-you-go employer contributions to the LODA OPEB plan for the year ended June 30, 2018 relative to the total of the actuarially determined pay-as-you-go employer contributions for all participating employers. At June 30, 2018, the University's proportion was 0.09588% as compared to 0.10522% at June 30, 2017.

For the year ended June 30, 2019, the University recognized LODA OPEB expense of \$21,000. 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.

At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to the LODA OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 43,000	\$ (1,000)
Net difference between projected and actual earnings on LODA OPEB plan investments	-	1,000
Change in assumptions	-	35,000
Changes in proportion	-	25,000
Employer contributions subsequent to the measurement date	12,704	
Total	<u>\$ 55,704</u>	<u>\$ 60,000</u>

\$12,704 reported as deferred outflows of resources related to the LODA OPEB resulting from the University's 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in LODA OPEB expense in future reporting periods as follows:

For the year ending	Amount
June 30, 2020	\$ (2,000)
June 30, 2021	\$ (2,000)
June 30, 2022	\$ (2,000)
June 30, 2023	\$ (2,000)
June 30, 2024	\$ (2,000)
Thereafter	\$ (7,000)

Actuarial Assumptions

The total LODA OPEB liability was based on an actuarial valuation as of June 30, 2017, 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, 2018.

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

Year of ultimate trend rate

Fiscal year ended 2024

Investment rate of return

3.89 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 3.89%. However, since the difference was minimal, a more conservative 3.89% investment return assumption has been used. Since LODA is funded on a current-disbursement basis, the assumed annual rate of return of 3.89% 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, 2017 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, 2017 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, 2017 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, 2017 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 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, 2017 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 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%

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, 2017 actuarial valuation results which were rolled forward to the measurement date of June 30, 2018. There is limited 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 monitored and factored into future actuarial valuations for the LODA Program if and when sufficient experience develops.

- The discontinuance of spouse health care coverage, if a covered spouse divorces a disabled employee or a covered surviving spouse remarries.
- The potential for the 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 the System certifies current income exceeds salary at the time of the disability, indexed for inflation.

Net LODA OPEB Liability

The net OPEB liability (NOL) for the Line of Duty Act Program (LODA) represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the Measurement Date of June 30, 2018, NOL amounts for the Line of Duty Act Program (LODA) is as follows (amounts expressed in thousands):

	<u>Line of Duty Act Program</u>
Total LODA OPEB Liability	\$ 315,395
Plan Fiduciary Net Position	<u>1,889</u>
Employers' Net OPEB Liability (Asset)	<u>\$ 313,506</u>
Plan Fiduciary Net Position as a Percentage of the Total LODA OPEB Liability	0.60%

The total LODA 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 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

The long-term expected rate of return on LODA OPEB Program's investments was set at 3.89% 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 3.89% 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 as of the measurement date of June 30, 2018.

Discount Rate

The discount rate used to measure the total LODA OPEB liability was 3.89%. 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, 2018, 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.

Sensitivity of the Employer's Proportionate Share of the Net LODA OPEB Liability to Changes in the Discount Rate

The following presents the employer's proportionate share of the net LODA OPEB liability using the discount rate of 3.89%, as well as what the covered employer's proportionate share of the net LODA OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.89%) or one percentage point higher (4.89%) than the current rate:

1.00% Decrease (2.89%)	Current Discount Rate (3.89%)	1.00% Increase (4.89%)
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Employer's proportionate share of the Total LODA Net OPEB Liability	\$ 344,000	\$ 300,000	\$ 265,000
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Sensitivity of the Employer's Proportionate Share of the Net LODA OPEB Liability to Changes in the Health Care Trend Rate

Because the Line of Duty Act Program (LODA) contains a provision for the payment of health insurance premiums, the liabilities are also impacted by the health care trend rates. The following presents the employer's 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 employer's 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%)
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Employer's proportionate share of the Total LODA Net OPEB Liability	\$ 256,000	\$ 300,000	\$ 356,000
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LODA OPEB Plan Fiduciary Net Position

Detailed information about the Line of Duty Act Program (LODA) Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report. A copy of the 2018 VRS Comprehensive Annual Financial Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

General Information about the Pre-Medicare Retiree Healthcare Program

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. Eligibility requirements for Virginia Retirement System (VRS) retirees are as follows:

- the participant must be a retiring state employee who is eligible for a monthly retirement benefit from the VRS, and
- starts receiving (does not defer) the retirement benefit immediately upon retirement*; and
- his or her last employer before retirement was the Commonwealth of Virginia, and
- he or she was eligible for (even if not enrolled) coverage as an active employee in the State Health Benefits Program until his or her retirement date (not including Extended Coverage/COBRA), and,
- he or she enrolls no later than 31 days from his or her retirement date.

*For VRS retirees, this means that their employing agency reported a retirement contribution or leave without pay status for retirement in the month immediately prior to their retirement date. Some faculty members may also be eligible if they are paid on an alternate pay cycle but maintain eligibility for active coverage until their retirement date.

Effective January 1, 2017**, the following are eligibility requirements for Optional Retirement Plan retirees:

- he or she is a terminating state employee who participates in one of the qualified Optional Retirement Plans (ORP), and
- the last employer before termination was the Commonwealth of Virginia, and
- was eligible for (even if not enrolled) coverage in the State Employee Health Benefits Program for active employees at the time of termination, and
- he or she meets the age and service requirements for an immediate retirement benefit under the non-ORP Virginia Retirement System plan that he or she would have been eligible for on their date of hire had they not elected the ORP, and
- they enroll in the State Retiree Health Benefits Program no later than 31 days from the date they lose coverage (or lose eligibility for coverage) in the State Health Benefits Program for active employees due to their termination of employment.

**This change applies to ORP terminations effective January 1, 2017, or later. Eligibility for those who terminate employment prior to January 1 should be determined based on the policy in place at the time of their termination.

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 5,200 retirees and 91,800 active employees in the program in fiscal year 2018. 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.

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, 2018. 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 8.21 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, 2018 (one year prior to the end of the fiscal year)
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar, Closed
Effective Amortization Period	6.19 years

Discount Rate	3.87%
Project Salary Increases	4.00%
Medical Trend Under 65	Medical & Rx: 8.21% to 5.00% Dental: 4.00% Before reflecting Excise tax
Year of Ultimate Trend	2025

Mortality rates – Mortality rates vary by participant status

Pre-Retirement:

RP-2014 Employee Rates 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 and females setback 1 year.

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, 2018.

Changes of Assumptions: The following actuarial assumptions were updated since the July 1, 2017 valuation based on recent experience:

- Spousal Coverage – reduced the rate from 50% to 35%
- Retiree Participation – reduced the rate from 70% to 60%

Spousal coverage and retiree participation were both reduced based on a blend of recent experience and the prior year assumptions. The mortality assumption was modified slightly to reflect mortality improvement projection Scale BB to 2020. Additionally, the discount rate was increased from 3.58% to 3.87% based on the Bond Buyers GO 20 Municipal Bond Index.

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

At June 30, 2019, the University reported a liability of \$9,583,154 for its proportionate share of the collective total Pre-Medicare Retiree Healthcare OPEB liability of \$1.0 billion. The Pre-Medicare Retiree Healthcare OPEB liability was measured as of June 30, 2018 and was determined by an actuarial valuation as of June 30, 2018. The covered employer's 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, 2018, the participating employer's proportion was 0.95294% as compared to 0.93058% at June 30, 2017. For the year ended June 30, 2019, the participating employer recognized Pre-Medicare Retiree Healthcare OPEB expense of \$289,639.

At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to Pre-Medicare Retiree Healthcare from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ -	\$ 1,932,239
Changes in assumptions	-	3,832,802
Changes in proportion	544,953	-
Amounts associated with transactions subsequent to the measurement date	<u>394,002</u>	<u>-</u>
Total	<u><u>\$ 938,955</u></u>	<u><u>\$ 5,765,041</u></u>

\$394,002 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, 2020. 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:

For the year ending	Amount
June 30, 2020	\$ (1,082,054)
June 30, 2021	\$ (1,082,054)
June 30, 2022	\$ (1,082,054)
June 30, 2023	\$ (1,082,054)
June 30, 2024	\$ (785,226)
Thereafter	\$ (106,646)

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

The following presents the University's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using the discount rate of 3.87%, as well as what the University's 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 (2.87%) or one percentage point higher (4.87%) than the current rate:

	1.00% Decrease (2.87%)	Current Rate (3.87%)	1.00% Increase (4.87%)
Employer's proportionate share of the Total Pre-Medicare Retiree Healthcare OPEB Liability	\$ 10,253,709	\$ 9,583,154	\$ 8,945,516

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

The following presents the University's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using healthcare cost trend rate of 8.21% decreasing to 5%, as well as what the University's 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 (7.21% decreasing to 4.0%) or one percentage point higher (9.21% decreasing to 6.0%) than the current rate:

		Trend Rates		
		1.00% Decrease (7.21% decreasing to 4.00%)	(8.21% decreasing to 5.00%)	1.00% Increase (9.21% decreasing to 6.00%)
Employer's proportionate share of the Total Pre-Medicare Retiree Healthcare OPEB Liability		\$ 8,547,558	\$ 9,583,154	\$ 10,800,437

13. CONTINGENCIES

Grants and Contracts

Christopher Newport University has received federal, state and private grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal laws, including the expenditure of resources for eligible purposes. Any disallowance resulting from a federal audit may become a liability of the University.

In addition, the University is required to comply with various federal regulations issued by the Office of Management and Budget. Failure to comply with certain systems requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 2019, the University estimates that no material liabilities will result from such audits or questions.

14. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

The University 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 athletes; and natural disasters. The University participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans 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, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. For athletes, the University maintains insurance through a third party provider. The University's insurance premiums for the fiscal year ended June 30, 2019 totaled \$527,630. Information relating to the Commonwealth's insurance plans is available at the statewide level in the *Commonwealth's Comprehensive Annual Financial Report*.

15. FEDERAL DIRECT LENDING PROGRAM

The University participates in the Federal Direct Lending Program. Under this program, the University receives funds from the U.S. Department of Education for Stafford and Parent PLUS Loan Programs and disburses these funds to eligible students. The funds can be applied to outstanding student tuition and fee charges or refunded directly to the student.

These loan programs are treated as student payments with the University acting as a fiduciary agent for the student. Therefore, the receipt of the funds from the federal government is not reflected in the federal government grants and contracts total on the Statement of Revenues, Expenses, and Changes in Net Position. The activity is included in the noncapital financing section of the Statement of Cash Flows. For the fiscal year ended June 30, 2019 cash used by the program totaled \$24,919,767.

16. SUBSEQUENT EVENTS

In fiscal year 2020, the Commonwealth of Virginia issued \$93,760,000 in 9(c) general obligation refunding bonds, series 2019B, on behalf of the University and various other institutions of higher education. This issue refunded \$1,720,000 of Series 2001 for Residence Hall.

Section 9(c) bonds are general obligation bonds issued by the Commonwealth of Virginia on behalf of the University, which are secured by the net revenues of the completed project and the full faith, credit and taxing power of the Commonwealth of Virginia.

Also, in fiscal year 2020, the VCBA issued \$4,120,000 in 9(d) revenue refunding bonds, series 2019A, on behalf of the University, to fund the Athletics Expansion II.

Section 9(d) bonds are revenue bonds, which are limited obligations of the University, payable exclusively from pledged general revenues and are not debt of the Commonwealth of Virginia. Pledged revenues include revenues of the University not required by law to be used for another purpose.

17. COMPONENT UNITS

Cash and Investments

The Education Foundation and the Real Estate Foundation consider all highly liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalents. The following information is provided with respect to the credit risk associated with the Foundations' cash and cash equivalents and investments at June 30, 2019.

Financial instruments that potentially subject the Foundations to concentrations of credit risk consist of cash balances and overnight investments. The Foundations maintain operating accounts in excess of the \$250,000 limit of federal insurance with financial institutions. In addition, the Foundations maintain cash balances with brokers that are not insured by the FDIC.

Other investments were held in accounts with brokerage firms to reduce the Foundations' risk. The balances are insured by the Securities Investor Protection Corporation (SIPC) up to a maximum of \$500,000. At times, balances in the Foundations' cash accounts may exceed the SIPC insured levels.

Investments are carried at their estimated fair value determined at the date of the combined statement of financial position. Because some investment valuations at June 30 are not available on a timely basis, certain private equity and hedge funds are valued using March 31 valuations, adjusted for any purchase or sale activity in the fourth fiscal quarter. In addition, due to the absence of readily determinable market values, management estimates fair value based on a broad range of factors, including but not limited to the price at which the investment was acquired, the nature of the investment, comparable private and public investments used to determine enterprise value, overall financial condition, current and projected operating performance and discounted cash flow models. Because of the inherent uncertainty of valuation, those estimated fair values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material. Management believes the carrying value of these investments is a reasonable estimate of their fair value at June 30. Income from investments, including realized gains and losses, is accounted for as an increase or decrease in unrestricted, temporarily restricted, or permanently restricted net assets, depending upon the nature of donor restrictions.

Summarized below are Education Foundation investments recorded at estimated fair value:

Mutual Funds	\$ 2,029,228
Private Equity Funds	6,175,414
Hedge Funds	31,834,018
Total investments	<u>\$ 40,038,660</u>

Education Foundation investments are recorded on the statement of financial position as follows:

Without Donor Restrictions	\$ 3,487,410
With Donor Restrictions	<u>36,551,250</u>
Total investments	<u><u>\$ 40,038,660</u></u>

Fair Value of Financial Instruments

The Foundations have adopted the provisions of FASB ASC 820-10, *Fair Value Measurements*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value.

ASC 820-55 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Foundations have no Level 2 financial instruments.

The following table presents the financial instruments carried at fair value on a recurring basis as of June 30, 2019 by ASC 820-55 valuation hierarchy defined above:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Education Foundation Assets:			
Mutual Funds	\$ 2,029,228	\$ -	\$ 2,029,228
Charitable Remainder Trusts	-	<u>2,188,977</u>	<u>2,188,977</u>
Total assets in the fair value hierarchy	<u>\$ 2,029,228</u>	<u>\$ 2,188,977</u>	4,218,205
Investments measured at net asset value			<u>39,501,863</u>
Total assets at fair value			<u><u>\$ 43,720,068</u></u>

Following is a description of the Foundations' valuation methodologies for assets and liabilities measured at fair value. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 3 consists of charitable remainder trusts. Investments measured at net asset value are valued based on the net asset value reported by such investment vehicles. As a result of adopting ASU 2015-07, the investments in investment vehicles are excluded from the fair value hierarchy.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundations believe its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The fair value measurements of investments in entities that calculate net asset value as of June 30, 2019 are disclosed below:

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Global Equity	\$ 16,217,107	\$ -	Quarterly	105 Days
Hedged Equity	6,736,560	-	Quarterly	105 Days
Absolute Strategies	6,011,019	586,625	Quarterly	105 Days
Fixed Income	2,917,522	-	Quarterly	105 Days
Private Investments	5,845,171	4,836,497	Not Applicable	None
Real Estate	1,774,484	20,121	Not Applicable	None
Total	<u>\$ 39,501,863</u>	<u>\$ 5,443,243</u>		

The Global Equity asset class seeks to outperform the broad equity markets over a full market cycle by providing relative downside protection and participating in upward-moving markets. That said, it should be expected that the strategies implemented in this asset class are generally unhedged. Capital is allocated across the globe in those countries, market capitalizations and asset classes that offer value with a primary objective of capital appreciation.

The Hedged Equity asset class seeks to generate equity-like returns with significantly less volatility over a full market cycle. Managers generally maintain long and short positions, primarily in equities across sectors, geographies and market capitalizations.

The Absolute Strategies asset class seeks to generate absolute investment returns with low volatility. Generally speaking, there are two primary components to the asset class: credit and multi-strategy. Credit managers include publicly and privately traded credit and credit-related securities. Multi-strategy managers allocate capital opportunistically across a broad array of investments including equities, credit, commodities, structured products, currencies, etc.

The Fixed Income asset class seeks to exhibit a low correlation with other asset classes and serve as a hedge against inflation. Investments may include, but are not limited to, U.S. dollar- denominated bonds; including U.S. Treasury and Agency securities, mortgage-backed and asset- backed securities; U.S. and non-U.S. domiciled corporations; and sovereign and supranational issuers.

The Private Investments and Real Estate asset classes seek to provide a portfolio with diversification and an illiquidity premium. Investment opportunities are sought within the sub- strategies of private equity, private real estate and private real assets.

The following table is a roll forward of the combined statements of financial position amounts for charitable remainder trusts classified by the Education Foundation within Level 3 of the valuation hierarchy defined above as of June 30, 2019:

Fair value, beginning of year	\$ 1,275,158
Realized and unrealized gains	<u>913,819</u>
Fair value, end of year	<u>\$ 2,188,977</u>

The following table is a roll forward of the combined statements of financial position amounts for fair value of hedges classified by the Real Estate Foundation within Level 3 of the valuation hierarchy defined above as of June 30, 2019:

Fair value, beginning of year	\$ 388,047
Change in value of interest rate swaps	<u>(388,047)</u>
Fair value, end of year	<u>\$ -</u>

The fair value of the interest rate swap agreement is the estimated amount the Foundation would receive or pay to terminate the agreement as of the reporting date. As part of the \$26.9 million bond financing entered into in July 2004, an interest rate swap was obtained to fix the rate at 3.73% rather than the stated rate of 67% of LIBOR. The swap expired on May 1, 2019.

The carrying amounts of cash and cash equivalents, accounts payable, other current liabilities and other liabilities (excluding derivative financial instruments) approximate fair value because of the short maturity of these instruments.

Pledges Receivable

The Education Foundation has on-going fundraising campaigns to benefit the University. The pledges receivable are unconditional. At June 30, 2019, pledges receivable are as follows:

Receivable in less than one year	\$ 3,798,955
Receivable in one to five years	6,375,678
Receivable in more than five years	<u>6,331,000</u>
Total unconditional pledges	16,505,633
Less discount to net present value	(2,642,650)
Less allowances for uncollectible pledges receivable	<u>(601,558)</u>
Net unconditional pledges receivable	<u>\$ 13,261,425</u>

Long-term pledges receivable are initially recorded by the Foundations at fair value using Level 3 inputs. The present value technique is the primary input for this valuation and other inputs include an analysis of the donor's payment history, relationship with the donor, the donor's creditworthiness, and other factors. There were no changes in the valuation techniques used in valuing long-term pledges during the year ended June 30, 2019.

The table below presents information about the changes in pledges receivable for the year ended June 30, 2019:

Beginning balance	\$ 17,021,739
New pledges receivable	2,309,843
Collections	(2,690,249)
Write-offs	<u>(135,700)</u>
Ending balance	<u>\$ 16,505,633</u>

The carrying amounts of pledges receivable approximate fair value because they have been discounted to their net present value. After initial measurement at fair value, the discount rate is not changed and the pledge is valued in subsequent years at net realizable value. The discount rate employed by the Foundations for new pledges during the year ended June 30 are as follows:

2019	5.50%
2018	4.75%
2017	4.00%
2016	3.50%
2012-2015	3.25%
Prior to 2012	6.00%

Property and Equipment

Property and equipment for 2019 are summarized as follows:

	Education Foundation	Real Estate Foundation
Land	\$ -	\$ 18,859,376
Buildings	-	110,246,250
Furniture and equipment	225,496	2,305,112
Held for sale	19,600	-
Construction in progress	-	1,559,057
	<u>\$ 245,096</u>	<u>\$ 132,969,795</u>
Less accumulated depreciation	<u>(141,493)</u>	<u>(33,209,708)</u>
	<u>\$ 103,603</u>	<u>\$ 99,760,087</u>

Education Foundation depreciation charged to expense totaled \$23,748 in 2019. Real Estate Foundation depreciation charged to expense totaled \$3,731,215 in 2019; capitalized interest was \$71,110.

During the year ended June 30, 2017, the assets of a marina in Westmoreland County, Virginia were donated to the Real Estate Foundation. Westmoreland Marina, LLC holds the assets and operates the marina. Contributions and assets recorded totaled \$3,300,000 for the year ended June 30, 2017. As of June 30, 2019, after considering several alternatives, management entered into an agreement to sell the asset for \$700,000. Accordingly, the Real Estate Foundation financial statements include an impairment loss of \$322,614 in 2019 and \$2,214,096 in 2018.

Lines of Credit

The Real Estate Foundation has available two lines of credit facilities of \$4,500,000 and \$2,000,000 with TowneBank. The lines of credit mature on September 10, 2019. The lines are unsecured and are subject to certain financial covenants. Borrowings under these facilities accrue interest at the Wall Street Journal Prime Rate less 0.25% with a minimum rate of 3.00%. This amount was 5.25% at June 30, 2019. The credit facilities may be used to finance any lawful activity of the Foundations.

Long Term Debt

Notes Payable

Notes payable for the Real Estate Foundation at June 30, 2019 consists of the following:

Old Point National Bank, collateralized by deed of trust on leasehold interest and assignment of rents and leases, accruing interest is at the Wall Street Journal (WSJ) prime rate less 0.25% with a maximum rate of 5.75%. The interest rate at June 30, 2019 was 5.25%. Principal payments of \$13,951 are due monthly and the note matures August 2029.	\$ 1,166,500
Towne Bank, collateralized by deed of trust on 12270 Warwick Boulevard, interest due monthly at the WSJ prime rate plus 0.5%, subject to a maximum rate of 6.5%. The interest rate at June 30, 2019 was 6.0%. Principal and interest payments of \$14,238 are due monthly with the balance due July 2032.	1,833,851
CGA Mortgage Capital, collateralized by a deed of trust on leasehold interest and assignment of rents and leases on Riverside Medical Center located at 12422 Warwick Boulevard and 4 and 8 Glendale Road, interest due monthly at 4.74%. Principal and interest payments of \$74,875 are due monthly with the balance due December 2033.	9,410,564

Union Bank and Trust, unsecured, interest due monthly at the WSJ prime rate minus 0.25%. The interest rate at June 30, 2019 was 5.25%. Principal is due annually each August beginning in 2016 at various amounts between \$42,000 and \$52,600, balance is due June 2025.	1,204,150
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Towne Bank, collateralized by deed of trust on leasehold interest and assignment of rents and leases on Hidenwood Shopping Center located at 2 Hidenwood Boulevard, 12423, 12435, and 12437 Warwick Boulevard, interest due monthly at 4.25%. Interest only payments until December 2018, then principal payments of \$59,594, balance due December 2043.	10,848,752
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Union Bank and Trust, collateralized by 12386 Warwick Boulevard, interest due monthly at 3.99%. Interest only payments until November 2018, then equal consecutive monthly payments of principal plus interest over a 25-year amortization period. Balance is due June 2028.	2,134,585
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Less unamortized debt costs for notes payable	<u>(571,063)</u>
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Total	<u><u>\$26,027,339</u></u>
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Bonds Payable

In March 2001, the Real Estate Foundation entered into an agreement with the Economic Development Authority of the County of James City, Virginia, under which the Authority issued \$8.0 million of variable rate bank-qualified tax-exempt bonds. The Foundation used the proceeds from the bonds to finance the acquisition of various properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion. The bonds were refinanced in June 2016 at a fixed rate of 2.68%. Principal payments of \$6,000 are paid monthly and interest due is paid monthly. At June 30, 2019, the balance outstanding on the bonds was \$2,414,119. The bonds mature in June 2026.

In November 2001, the Real Estate Foundation entered into an agreement with the Economic Development Authority of New Kent County, Virginia, under which the Authority issued \$10.0 million of variable rate bank-qualified tax-exempt bonds. The Foundation used the proceeds from the bonds to finance the acquisition of various properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion. In December 2013, the bonds were refinanced through the Industrial Development Authority of Poquoson City at a fixed interest rate of 1.69%. In December 2018, the bonds were refinanced through the Economic Development Authority of Newport News at a rate of 3.85%. Principal payments of \$31,145 are paid monthly and interest due is paid monthly. At June 30, 2019, the balance outstanding on the bonds was \$5,387,875. The bonds mature in December 2023.

In July 2002, the Real Estate Foundation entered into an agreement with the Economic Development Authority of New Kent County, Virginia, under which the Authority issued \$5.5 million of variable rate bank-qualified tax-exempt bonds. The Foundation used the proceeds from the bonds to finance the acquisition of various properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion. In December 2013, the bonds were refinanced with the Industrial Authority of Richmond County at a fixed interest rate of 1.69%. In December 2018, the bonds were refinanced through the Economic Development Authority of Newport News at a rate of 3.85%. Principal payments of \$17,748 are paid monthly and interest due is paid monthly. At June 30, 2019, the balance outstanding on the bonds was \$3,070,174. The bonds mature in December 2023.

In July 2004, the Real Estate Foundation entered into an agreement with the Industrial Development Authority of the City of Newport News, Virginia, under which the Authority issued \$26.9 million of variable rate bank-qualified tax-exempt bonds. The Foundation used the proceeds from the bonds to finance the acquisition of various properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion. The bonds were payable interest only until November 2005 at 67% of LIBOR, at which time principal curtailments began. Principal payments vary and are paid biannually in November and May and interest due is paid monthly. At June 30, 2019, the balance outstanding on the bonds was \$18,150,000. The bonds mature November 2028.

In August 2006, the Real Estate Foundation entered into an agreement with the Industrial Development Authority of the City of Newport News, Virginia, under which the Authority issued \$17.5 million of tax-exempt adjustable mode educational facilities revenue bonds. The Foundation used the proceeds from the bonds to refinance indebtedness of the Foundations in connection with the expansion and improvement of various properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion. In June 2015, the bonds were refinanced with the Economic Development Authority of Newport News at a variable interest rate of 65% of LIBOR plus 1.5% with a cap of 3.5% until June 1, 2022 and 3.82% thereafter. The interest rate at June 30, 2019 was 2.52%. Principal payments vary and are paid annually in August and interest due is paid quarterly. At June 30, 2019, the balance outstanding on the bonds was \$6,127,500. The bonds mature in August 2036.

In November 2013, the Real Estate Foundation entered into an agreement with the Industrial Development Authority of the City of Newport News, Virginia, under which the Authority issued \$41.29 million of tax-exempt adjustable mode educational facilities revenue bonds. The Foundation used the proceeds from the bonds to refinance indebtedness of the Foundations in connection with Rappahannock Residence Hall. The interest rate on the bonds is 65% of LIBOR plus 1.6% with a floor of 1.92% and a cap of 4.5%. The interest rate at June 30, 2019 was 3.22%. Principal payments of \$56,000 are paid monthly and interest due is paid monthly. At June 30, 2019, the balance outstanding on the bonds was \$32,137,465. The bonds mature in November 2043.

Unamortized debt issuance costs for bonds payable at June 30, 2019 was \$1,666,532.

The Real Estate Foundation has entered into various letters of credit and credit line deeds of trust as additional security for each of the bond issuances. In addition, some of the note and bond payable agreements contain certain financial covenants pertaining to debt service coverage and lease payment coverage.

Notes and bond principal maturities for the succeeding fiscal years ending June 30 are as follows:

Year	Amount
2020	\$ 4,334,492
2021	4,545,810
2022	4,807,727
2023	5,052,116
2024	10,705,130
Thereafter	64,440,260
	<u>\$ 93,885,535</u>

Subsequent Events

The Real Estate Foundation began building a dormitory building during the year ended June 30, 2019. As of September 12, 2019, the Foundation committed \$14,000,000 through a debt note to which TowneBank has committed. Of this amount, \$1,600,000 has been incurred as of June 30, 2019. Costs incurred subsequent to the year ended June 30, 2019 through September 12, 2019, were \$279,000.

Subsequent to June 30, 2019, the Education Foundation committed \$3,250,000 to a private equity fund. The term of the investment will end on the tenth anniversary of the fund's initial closing date (July 31, 2019). The General Partner, at its sole discretion, may extend the term of the investment for two successive one-year periods as well as for additional one-year periods with the consent of the limited partners. \$617,500 of the capital commitment has been called after year-end.

In January 2020, Bond IV (Newport News IDA) was refinanced to 2.53% for 15 years. In addition, \$2,300,000 was added to the bond to permit the replacement of the roof at CNU Village. Total bond amount \$20,075,000, matures January 1, 2035.

In December 2019, Bond VII (Newport News IDA) was financed at 2.9% for 26 years to build the new President's Residence Hall. Total bond amount \$14,000,000, matures December 1, 2045.

In April and May 2020, all of the Foundations debt instruments have converted to interest only for approximately three months due to the COVID-19 pandemic.

The full impact of the COVID-19 outbreak continues to develop. As such, it is uncertain as to the full magnitude that the pandemic will have on the Foundations' financial condition, liquidity, and future results of operations. The Foundations' management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, donors, industry, and workforce. Management of the Foundations has estimated a temporary decline in investment values of approximately 2.1% from January 1, 2020 to May 31, 2020 and an overall increase in investment values of 2.1% from July 1, 2019 to May 31, 2020.

Management is also actively involved in monitoring the impact related to the collectability of promises to give, as it represents a significant asset to the Foundations. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Foundations are not able to estimate further effects of the COVID-19 outbreak on its results of operations, financial conditions, or liquidity for 2020.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information
Cost-Sharing Employer Plans –
VRS State Employee Retirement Plan and VaLORS Retirement Plan
For the Fiscal Year Ended June 30, 2019

Schedule of Christopher Newport University's Share of Net Pension Liability					
VRS State Employee and VaLORS Retirement Plans					
For the Years Ended June 30, 2019, 2018, 2017, 2016 and 2015*					
	2019	2018	2017	2016	2015
Employer's Proportion of the Net Pension Liability (Asset)					
State Employees	0.69%	0.68%	0.67%	0.66%	0.62%
VaLORS Employees	0.27%	0.26%	0.29%	0.27%	0.24%
Employer's Proportionate Share of the Net Pension Liability (Asset)					
State Employees	\$ 37,321,000	\$ 39,863,000	\$44,560,000	\$40,702,000	\$34,952,000
VaLORS Employees	1,697,000	1,720,000	2,266,000	1,911,000	1,621,000
TOTAL	<u>\$ 39,018,000</u>	<u>\$ 41,583,000</u>	<u>\$46,826,000</u>	<u>\$42,613,000</u>	<u>\$36,573,000</u>
Employer's Covered Payroll					
State Employees	\$ 28,236,237	\$ 26,984,837	\$26,521,211	\$25,863,124	\$23,839,726
VaLORS Employees	960,013	978,964	1,005,098	903,094	842,938
TOTAL	<u>\$ 29,196,250</u>	<u>\$ 27,963,801</u>	<u>\$27,526,309</u>	<u>\$26,766,218</u>	<u>\$24,682,664</u>
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll					
State Employees	132.17%	147.72%	168.02%	157.37%	146.61%
VaLORS Employees	176.77%	175.70%	225.45%	211.61%	192.30%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability					
State Employees	77.39%	75.33%	71.29%	72.81%	74.28%
VaLORS Employees	69.56%	67.22%	61.01%	62.64%	63.05%
<i>Schedule is intended to show information for 10 years. Since 2019 is the fifth year for this presentation, there are only five years available. However, additional years will be included as they become available.</i>					
* The amounts presented have a measurement date of the previous fiscal year end.					

Schedule of Employer Contributions VRS State Employees Retirement Plan For the Years Ended June 30, 2010 through 2019					
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
2019	\$ 4,160,766	\$ 4,160,766	\$ -	\$ 29,761,141	13.98%
2018	4,069,411	4,069,411	-	28,236,237	14.41%
2017	3,696,487	3,696,487	-	26,984,837	13.70%
2016	3,708,521	3,708,521	-	26,521,211	13.98%
2015	3,113,867	3,113,867	-	25,863,124	12.04%
2014	2,111,836	2,111,836	-	23,839,726	8.86%
2013	2,016,265	2,016,265	-	23,472,417	8.59%
2012	1,824,568	1,824,568	-	21,730,079	8.40%
2011	2,352,642	2,352,642	-	21,009,959	11.20%
2010	1,848,835	1,848,835	-	20,544,885	9.00%

Schedule of Employer Contributions VaLORS State Employees Retirement Plan For the Years Ended June 30, 2010 through 2019					
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
2019	\$ 156,721	\$ 156,721	\$ -	\$ 984,529	15.92%
2018	155,604	155,604	-	960,013	16.21%
2017	152,871	152,871	-	978,964	15.62%
2016	157,970	157,970	-	1,005,098	15.72%
2015	133,272	133,272	-	903,094	14.76%
2014	105,329	105,329	-	842,938	12.50%
2013	102,789	102,789	-	820,404	12.53%
2012	77,101	77,101	-	641,626	12.02%
2011	65,201	65,201	-	605,309	10.77%
2010	96,688	96,688	-	626,294	15.44%

Notes to Required Supplementary Information For the Year Ended June 30, 2019

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 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)	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%

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)	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%

Required Supplementary Information
Cost-Sharing Employer Plans –
VRS State Employee Health Insurance Credit Program (HIC)
For the Fiscal Year Ended June 30, 2019

Schedule of Christopher Newport University's Share of Net OPEB Liability		
Health Insurance Credit Program (HIC)		
For the Years Ended June 30, 2019, 2018*		
	2019	2018
Employer's Proportion of the Net HIC OPEB Liability (Asset)		
State Employees	0.80%	0.78%
VaLORS Employees	0.01%	0.01%
Employer's Proportionate Share of the Net HIC OPEB Liability (Asset)		
State Employees	\$ 7,263,000	\$ 7,125,000
VaLORS Employees	128,000	127,000
TOTAL	<u>\$ 7,391,000</u>	<u>\$ 7,252,000</u>
Employer's Covered Payroll		
State Employees	\$ 53,036,237	\$ 50,084,837
VaLORS Employees	960,013	978,964
TOTAL	<u>\$ 53,996,250</u>	<u>\$ 51,063,801</u>
Employer's Proportionate Share of the Net HIC OPEB Liability (Asset)		
as a Percentage of its Covered Payroll		
State Employees	13.69%	14.23%
VaLORS Employees	13.33%	12.97%
Plan Fiduciary Net Position as a Percentage of the Total HIC OPEB Liability	9.51%	8.03%
<i>Schedule is intended to show information for 10 years. Since 2019 is the second year for this presentation, no other data is available. However, additional years will be included as they become available.</i>		
* The amounts presented have a measurement date of the previous fiscal year end.		

Schedule of Employer Contributions Health Insurance Credit Program For the Years Ended June 30, 2010 through 2019						
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	
2019	\$ 666,026	\$ 666,026	\$ -	\$ 56,445,670	1.18%	
2018	664,138	664,138	-	53,996,250	1.23%	
2017	603,092	603,092	-	51,063,801	1.18%	
2016	531,047	531,047	-	50,126,309	1.06%	
2015	503,766	503,766	-	47,766,217	1.05%	
2014	449,791	449,791	-	44,382,664	1.01%	
2013	440,634	440,634	-	42,492,821	1.04%	
2012	393,641	393,641	-	39,971,705	0.98%	
2011	376,367	376,367	-	38,015,268	0.99%	
2010	302,737	302,737	-	37,871,178	0.80%	

Notes to Required Supplementary Information For the Year Ended June 30, 2019

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

Required Supplementary Information
Cost-Sharing Employer Plans –
Disability Insurance Program (VSDP)
For the Fiscal Year Ended June 30, 2019

Schedule of Christopher Newport University's Share of Net OPEB Liability (Asset)		
Disability Insurance Program (VSDP)		
For the Years Ended June 30, 2019, 2018*		
	2019	2018
Employer's Proportion of the Net VSDP OPEB Liability (Asset)		
State Employees	(0.67%)	(0.66%)
VaLORS Employees	(0.02%)	(0.02%)
Employer's Proportionate Share of the VSDP OPEB Liability (Asset)		
State Employees	\$ (1,501,000)	\$ (1,363,000)
VaLORS Employees	(53,000)	(49,000)
TOTAL	<u>\$ (1,554,000)</u>	<u>\$ (1,412,000)</u>
Employer's Covered Payroll		
State Employees	\$ 26,060,957	\$ 24,616,521
VaLORS Employees	960,013	978,964
TOTAL	<u>\$ 27,020,970</u>	<u>\$ 25,595,485</u>
Employer's Proportionate Share of the Net VSDP OPEB Liability (Asset)		
as a Percentage of its Covered Payroll		
State Employees	(5.76%)	(5.54%)
VaLORS Employees	(5.52%)	(5.01%)
Plan Fiduciary Net Position as a Percentage of the Total VSDP OPEB Liability	194.74%	186.63%
<i>Schedule is intended to show information for 10 years. Since 2019 is the second year for this presentation, no other data is available. However, additional years will be included as they become available.</i>		
<i>* The amounts presented have a measurement date of the previous fiscal year end.</i>		

Schedule of Employer Contributions Disability Insurance Program For the Years Ended June 30, 2010 through 2019					
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
2019	\$ 178,780	\$ 178,780	\$ -	\$ 28,927,709	0.62%
2018	185,581	185,581	-	27,020,970	0.69%
2017	168,895	168,895	-	25,595,485	0.66%
2016	162,490	162,490	-	24,976,611	0.65%
2015	151,459	151,459	-	24,144,317	0.63%
2014	101,285	101,285	-	21,699,328	0.47%
2013	102,173	102,173	-	21,229,156	0.48%
2012	146,943	146,943	-	19,033,612	0.77%
2011	144,515	144,515	-	17,811,491	0.81%
2010	167,300	167,300	-	16,925,547	0.99%

Notes to Required Supplementary Information **For the Year Ended June 30, 2019**

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%

Required Supplementary Information
Cost-Sharing Employer Plans –
Group Life Insurance Program (GLI)
For the Fiscal Year Ended June 30, 2019

Schedule of Christopher Newport University's Share of Net OPEB Liability
Group Life Insurance Program (GLI)
For the Years Ended June 30, 2019, 2018*

	2019	2018
Employer's Proportion of the Net GLI OPEB Liability (Asset)		
State Employees	0.28%	0.27%
VaLORS Employees	0.00%	0.00%
Employer's Proportionate Share of the GLI OPEB Liability (Asset)		
State Employees	\$ 4,283,000	\$ 4,129,000
VaLORS Employees	75,000	75,000
TOTAL	<u>\$ 4,358,000</u>	<u>\$ 4,204,000</u>
Employer's Covered Payroll		
State Employees	\$ 53,036,237	\$ 50,084,837
VaLORS Employees	960,013	978,964
TOTAL	<u>\$ 53,996,250</u>	<u>\$ 51,063,801</u>
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset)		
as a Percentage of its Covered Payroll		
State Employees	8.08%	8.24%
VaLORS Employees	7.81%	7.66%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	51.22%	48.86%

Schedule is intended to show information for 10 years. Since 2019 is the second year for this presentation, no other 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 Years Ended June 30, 2010 through 2019**

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
2019	\$ 298,431	\$ 298,431	\$ -	\$ 56,445,670	0.53%
2018	295,003	295,003	-	53,996,250	0.55%
2017	268,319	268,319	-	51,063,801	0.53%
2016	240,753	240,753	-	50,126,309	0.48%
2015	228,703	228,703	-	47,766,217	0.48%
2014	214,661	214,661	-	44,382,664	0.48%
2013	209,432	209,432	-	42,492,821	0.49%
2012	162,871	162,871	-	39,971,705	0.41%
2011	148,547	148,547	-	38,015,268	0.39%
2010	95,267	95,267	-	37,871,178	0.25%

**Notes to Required Supplementary Information
For the Year Ended June 30, 2019**

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%

Teachers:

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

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 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 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 retirement 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%

Required Supplementary Information
Cost-Sharing Employer Plans –
Line of Duty Act Program (LODA)
For the Fiscal Year Ended June 30, 2019

Schedule of Christopher Newport University's Share of Net OPEB Liability		
Line of Duty Act		
For the Years Ended June 30, 2019, 2018*		
	2019	2018
Employer's Proportion of the Net LODA OPEB Liability (Asset)	0.10%	0.11%
Employer's Proportionate Share of the LODA OPEB Liability (Asset)	\$ 300,000	\$ 276,000
Covered-Employee Payroll	** \$ 1,085,905	\$ 1,097,450
Employer's Proportionate Share of the Net LODA OPEB Liability (Asset) as a Percentage of its Covered-Employee Payroll	27.63%	25.15%
Plan Fiduciary Net Position as a Percentage of the Total LODA OPEB Liability	0.60%	1.30%
<i>Schedule is intended to show information for 10 years. Since 2019 is the second year for this presentation, no other data is available. However, additional years will be included as they become available.</i>		
<i>* The amounts presented have a measurement date of the previous fiscal year end.</i>		
<i>** 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.</i>		

Schedule of Employer Contributions Line of Duty Act For the Years Ended June 30, 2010 through 2019					
Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a % of Covered Employee Payroll*
2019	\$ 12,704	\$ 12,704	\$ -	1,107,679	1.15%
2018	10,213	10,213	-	1,085,905	0.94%
2017	11,347	11,347	-	1,097,450	1.03%
2016	10,377	10,377	-	1,120,912	0.93%
2015	9,858	9,858	-	1,027,202	0.96%
2014	8,352	8,352	-	963,276	0.87%
2013	7,112	7,112	-	931,417	0.76%
2012	3,508	3,508	-	706,832	0.50%
2011	N/A **	N/A **	-	N/A **	N/A **
2010	N/A **	N/A **	-	N/A **	N/A **
<p>* 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 employees in the OPEB plan.</p> <p>**FY 2011 was the first year for the Line of Duty Act Program, however there were no contributions.</p>					

Notes to Required Supplementary Information For the Year Ended June 30, 2019

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%

Employees in The Largest Ten Locality Employers With 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%

Employees in The Non-Largest Ten Locality Employers With 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, 2019

Schedule of Christopher Newport University's Share of Total OPEB Liability Pre-Medicare Retirees For the Years Ended June 30, 2019, 2018*		
	2019	2018
Employer's Proportion of the collective total OPEB Liability (Asset)	0.95%	0.93%
Employer's Proportionate Share of the collective total OPEB Liability (Asset)	\$ 9,583,154	\$ 12,087,409
Employer's Covered-Employee Payroll	\$ 67,399,200	\$ 65,134,915
Employer's Proportionate Share of the collective total OPEB Liability (Asset) as a Percentage of its Covered-Employee Payroll	14.22%	18.56%
<i>Schedule is intended to show information for 10 years. Since 2019 is the second year for this presentation, no other data is available. However, additional years will be included as they become available.</i>		
<i>* The amounts presented have a measurement date of the previous fiscal year end.</i>		

Notes to Required Supplementary Information For the Year Ended June 30, 2019

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 June 30, 2017 valuation based on the recent experience:

- Spousal Coverage – reduced the rate from 50% to 35%
- Retiree Participation - reduced the rate from 70% to 60%

Spousal coverage and retiree participation were both reduced based on a blend of recent experience and the prior year assumptions. The mortality assumption was modified slightly to reflect mortality improvement projection scale BB to 2020. Additionally, the discount rate was increased from 3.58% to 3.87% based on the Bond Buyers GO 20 Municipal Bond Index.

INDEPENDENT AUDITOR'S REPORT



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

May 15, 2020

The Honorable Ralph S. Northam
Governor of Virginia

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

Board of Visitors
Christopher Newport University

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 Christopher Newport University, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the University'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 University, which are discussed in Notes 1 and 17. 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 University, 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 University 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 University as of June 30, 2019, 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.

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 Christopher Newport University's Share of Net Pension Liability, the Schedule of Employer Contributions, and the Notes to the Required Supplementary Information on pages 86 through 88; the Schedule of Christopher Newport University's Share of Net OPEB Liability, the Schedule of Employer Contributions, and the Notes to the Required Supplementary Information for the Health Insurance Credit, Disability Insurance, Group Life Insurance, and Line of Duty Act programs on pages 89 through 102; the Schedule of Christopher Newport University's Share of Total OPEB Liability and the Notes to the Required Supplementary Information for the Pre-Medicare Retiree

program on pages 103 through 104. 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 May 15, 2020, on our consideration of Christopher Newport University'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 University's internal control over financial reporting and compliance.

Martha S. Mavredes
AUDITOR OF PUBLIC ACCOUNTS

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Newport News, Virginia

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