

VIRGINIA COMMUNITY COLLEGE SYSTEM

**AUDITED FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2020**

**Prepared by:
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Virginia Community College System
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VCCS Financial Report 2019-2020

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VCCS Financial Report 2019-2020

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VIRGINIA COMMUNITY COLLEGE SYSTEM

Management's Discussion and Analysis (Unaudited)

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

The following discussion and analysis provides an overview of the financial position and activities of the VCCS for the year ended June 30, 2020. Management has prepared this discussion, which should be read in conjunction with the financial statements and footnotes.

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

Financial Highlights

The significant financial highlights for the VCCS in fiscal year 2020 were:

- Total net position increased by 3.59% as a result of both increases and decreases in several operating and nonoperating revenue and expense categories. The results of operations for fiscal year 2020 reflected an overall increase in net position of \$30.7 million.
- Total operating revenues declined by 5.27% largely as a result of decreased enrollment. Student tuition and fees, net of scholarship discounts and allowances, represented 68.92% of total operating revenues which is consistent with prior years.
- The State Board for Community Colleges, in May 2019, approved holding tuition rates (including the differentials at eight community colleges) steady for fiscal year 2020.
- From fiscal year 2019 to 2020, student full-time equivalent (FTE) enrollment decreased 3.3% from 98,858 to 95,592 FTEs. This decrease resulted in a decline in tuition and fee collections of approximately \$21.2 million in fiscal year 2020. One FTE represents 30 credit hours of classes taken by a student over an academic year and is calculated on an annual basis by taking the total credit hours taught divided by 30.
- Total state appropriations revenue (non-capital) decreased slightly by \$1.6 million, and state capital appropriations revenue decreased by \$24.3 million as construction and renovation activity at Southside Virginia Community College (SVCC), Virginia Western Community College (VWCC), John Tyler Community College (JTCC) and Blue Ridge Community College (BRCC) was completed in fiscal year 2019.
- Total operating expenses increased by \$30.7 million or 2.7%. Expenses for employee compensation represented 60.72% of the total operating costs, which is consistent with prior years.

Financial Statements

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

Statement of Net Position

The Statement of Net Position presents assets, deferred outflows of resources, liabilities, deferred inflows of resources and the net position of the VCCS as of June 30, 2020. Net position is the residual amount equal to assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net position is presented in three categories; Net investment in capital assets, consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net position consists of restricted assets reduced by liabilities related to those assets. Restricted net position is classified as either nonexpendable or expendable. Nonexpendable balances consist of loan funds and permanent endowments (available for investment purposes only). Expendable balances are available for expenditure by the VCCS, but must be used for purposes determined by external entities. Unrestricted net position balances are not subject to externally imposed restrictions and may be internally designated for specific purposes by management of the VCCS.

A summarized Statement of Net Position is as follows:

Summary of the Statement of Net Position, as of June 30:

(in thousands)

	2020	2019	Increase (Decrease)	
			Amount	Percentage
Assets				
Current assets	\$ 348,453	\$ 333,374	\$ 15,079	4.52%
Capital assets, net	1,392,598	1,393,760	(1,162)	(.08%)
Other non-current assets	57,123	72,053	(14,930)	(20.72%)
Total Assets	1,798,174	1,799,187	(1,013)	(.06%)
Deferred Outflows of Resources	126,694	73,403	53,291	72.60%
Total Assets and Deferred Outflows of Resources	1,924,868	1,872,590	52,278	2.79%
Liabilities				
Current liabilities	176,082	187,676	(11,594)	(6.18%)
Non-current liabilities	729,295	697,528	31,767	4.55%
Total Liabilities	905,377	885,204	20,173	2.28%
Deferred Inflows of Resources	133,381	131,997	1,384	1.05%
Total Liabilities and Deferred Inflows of Resources	1,038,758	1,017,201	21,557	2.12%
Net Position				
Net investment in capital assets	1,299,255	1,295,339	3,916	0.30%
Restricted-nonexpendable	54	59	(5)	(8.47%)
Restricted-expendable	35,218	31,708	3,510	11.07%
Unrestricted	(448,417)	(471,717)	23,300	4.94%
Total Net Position	\$ 886,110	\$ 855,389	\$ 30,721	3.59%

Current Assets

Current assets consist of \$311.6 million in cash, cash equivalents, and short-term investments, \$19 million in accounts, notes, and interest receivable, \$7.8 million in amounts due from the commonwealth, \$8.8 million in prepaid expenses, and \$1.3 million in inventories. The \$15.1 million increase in current assets was primarily attributable to an increase of \$25.6 million in cash, cash equivalents, and short-term investments, offset by a decrease of \$7.5 million in prepaid expenses and a decrease in receivables and due from Commonwealth of \$3 million. The decrease in prepaid expenses of \$7.5 million was largely due to higher prepayments in fiscal year 2019 for a major custodial contract, software subscription/hosting expenses, and worker's compensation and risk management insurance premiums.

Current assets cover current liabilities 1.98 times, an indicator of sound liquidity and the ability to weather short-term demands on working capital. Current assets also cover over 3.78 months of total operating expenses, excluding depreciation. Both ratios remained consistent with prior years. For fiscal year 2020, one month of operating expenses (excluding depreciation) equaled \$92.1 million.

Capital Assets, Net of Accumulated Depreciation

The overall decrease of \$1.2 million in net capital assets was due to the completion of construction and renovations across several colleges, resulting in the increase in buildings at year-end decreased by normal yearly depreciation. The following table compares fiscal year 2020 to fiscal year 2019 capital asset balances by category:

Summary of Capital Assets, net

(in thousands)

	2020	2019	Increase (Decrease)	
			Amount	Percentage
Land	\$ 72,415	\$ 70,134	\$ 2,281	3.25%
Construction in progress	21,295	97,205	(75,910)	(78.09%)
Land improvements	37,444	34,921	2,523	7.22%
Infrastructure	38,834	37,441	1,393	3.72%
Building	1,154,976	1,085,791	69,185	6.37%
Equipment and historical treasures	59,499	57,863	1,636	2.83%
Intangibles	2,871	2,727	144	5.28%
Library books	5,264	7,678	(2,414)	(31.44%)
TOTAL	\$ 1,392,598	\$ 1,393,760	\$ (1,162)	(.08%)

Construction in Progress (CIP) decreased due to projects being completed in fiscal year 2020 and moved into their depreciable asset categories for BRCC, JTCC, ESCC, NVCC, SVCC and VWCC. Depreciable land improvements, buildings, infrastructure, all increased from fiscal year 2019 due to the completion of these projects.

Other Non-Current Assets

The \$14.9 million decrease in other non-current assets was largely due to the \$8 million decrease in amounts due from the Commonwealth, a decrease of \$2.7 million in post employment benefit assets and a \$4.6 million decrease in other long-term investments as a result of movement of funds to short-term investments. There were other smaller increases in other non-current asset categories as well.

Cash equivalents held with trustees consists of balances in State Non-Arbitrage Program (SNAP) accounts related to pooled bond capital projects. The balance in appropriation available consists of General and Central Capital Planning funds for capital projects.

Deferred Outflows of Resources

Deferred outflows of resources category reports consumption of resources applicable to a future reporting period. The balances reported for fiscal years 2020 and 2019 include amounts for certain pension and OPEB changes and will be recognized as pension and OPEB expenses in future fiscal years. In addition, the balances for both fiscal years include deferred losses on defeasance of debt related to refinancing of certain pooled bond issuances and will be recognized as expense in future fiscal years.

Current Liabilities

Current liabilities consist of accounts and retainage payable of \$21.7 million, accrued payroll expense of \$53.6 million, unearned revenues of \$63.6 million, long-term obligations (current portion) of \$23 million, and deposits totaling \$12.1 million.

Current liabilities decreased by \$11.6 million in fiscal year 2020 primarily due to decreases in accounts and retainage payable, advances due to Treasury and the current portion of other long-term liabilities. There was also an increase in unearned revenue of \$12.1 million that offset some of the overall decrease.

Non-Current Liabilities

Non-Current liabilities consist of a net pension obligation of \$494.8 million, the OPEB obligation of \$129.4 million, pooled bonds of \$87.6 million, accrued leave of \$13.5 million, and federal loan program amounts due of \$2.8 million. The increase of \$31.8 million in non-current liabilities was primarily due to the increase of the VCCS' proportionate share of the Commonwealth's overall VRS pension liability and OPEB liabilities of \$37.7 million. This was offset slightly by decreases in pooled bond debt, and other non-current liabilities.

Deferred Inflows of Resources

The financial statement deferred inflows of resources category is used to report acquisition of resources applicable to a future reporting period. The balance in fiscal year 2020 reflects certain amounts related to pension and OPEB and will impact pension and OPEB expenses in future fiscal years.

Net Position

The increase in net investment in capital assets of \$3.9 million is explained by changes in capital assets, net of accumulated depreciation and in capital asset related debt. The increase of \$23.3 million in the unrestricted net position category is the result of several factors. The fluctuation of the VCCS' proportionate share of the Commonwealth's overall OPEB liability and VCCS' proportionate share of the overall VRS pension liability. Both liabilities had a combined increase of nearly \$37.7 million. This was offset by decreases in other liability categories and a \$30.7 million increase in overall operations. The balance in total net position is a residual amount equal to the sum of total assets and deferred outflows of resources less the sum of total liabilities and deferred inflows of resources and is considered one measure of the current financial condition of an organization.

Statement of Revenues, Expenses and Changes in Net Position

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

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

**Summary of the Statement of Revenues,
Expenses and Changes in Net Position
For the year ended June 30:**

(in thousands)

	2020	2019	Increase (Decrease)	
			Amount	Percentage
Operating revenue	\$ 462,509	\$ 488,236	\$ (25,727)	(5.27%)
Operating expenses	1,167,954	1,137,219	30,735	2.70%
Operating loss	(705,445)	(648,983)	(56,462)	(8.70%)
Non-operating revenues and expenses	668,305	642,280	26,025	4.05%
Income (loss) before other revenues, expenses, gains or losses	(37,140)	(6,703)	(30,437)	(454.08%)
Other revenues	67,861	92,016	(24,155)	(26.25%)
Increase in net position	30,721	85,313	(54,592)	(63.99%)
Net position, beginning of year	855,389	770,076	85,313	11.08%
Net position, end of year	\$ 886,110	\$ 855,389	\$ 30,721	3.59%

The following table is a more detailed representation and comparison of amounts included in operating, non-operating, and other (capital) revenues during the periods ended June 30, 2020 and 2019:

Summary Statement of Revenues

for the year ended June 30:

(in thousands)

	2020	2019	Increase (Decrease)	
			Amount	Percentage
Operating revenues				
Student tuition and fees, net	\$ 318,771	\$ 342,914	\$ (24,143)	(7.04%)
Grants and contracts	104,131	105,158	(1,027)	(.98%)
Auxiliary enterprises, net	22,934	25,583	(2,649)	(10.35%)
Other operating revenue**	16,674	14,581	2,093	14.35%
Total Operating Revenues	462,510	488,236	(25,726)	(5.27%)
Non-operating activity				
State operating appropriations	433,767	435,408	(1,641)	(.38%)
Local operating appropriations	2,987	2,792	195	6.98%
Grants and gifts	231,202	203,082	28,120	13.85%
Investment income	4,240	5,109	(869)	(17.01%)
Interest expense	(3,476)	(3,622)	146	4.03%
Other	(415)	(489)	74	15.13%
Total net non-operating revenue	668,305	642,280	26,025	4.05%
Other revenues (capital)				
Capital appropriations-state	51,287	75,636	(24,349)	(32.19%)
Capital appropriations-local	7,767	7,463	304	4.07%
Capital gifts and grants	8,807	8,917	(110)	(1.23%)
Total other revenues (capital)	67,861	92,016	(24,155)	(26.25%)
Total revenues	\$ 1,198,676	\$ 1,222,532	\$ (23,856)	(1.95%)

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

Operating Revenues

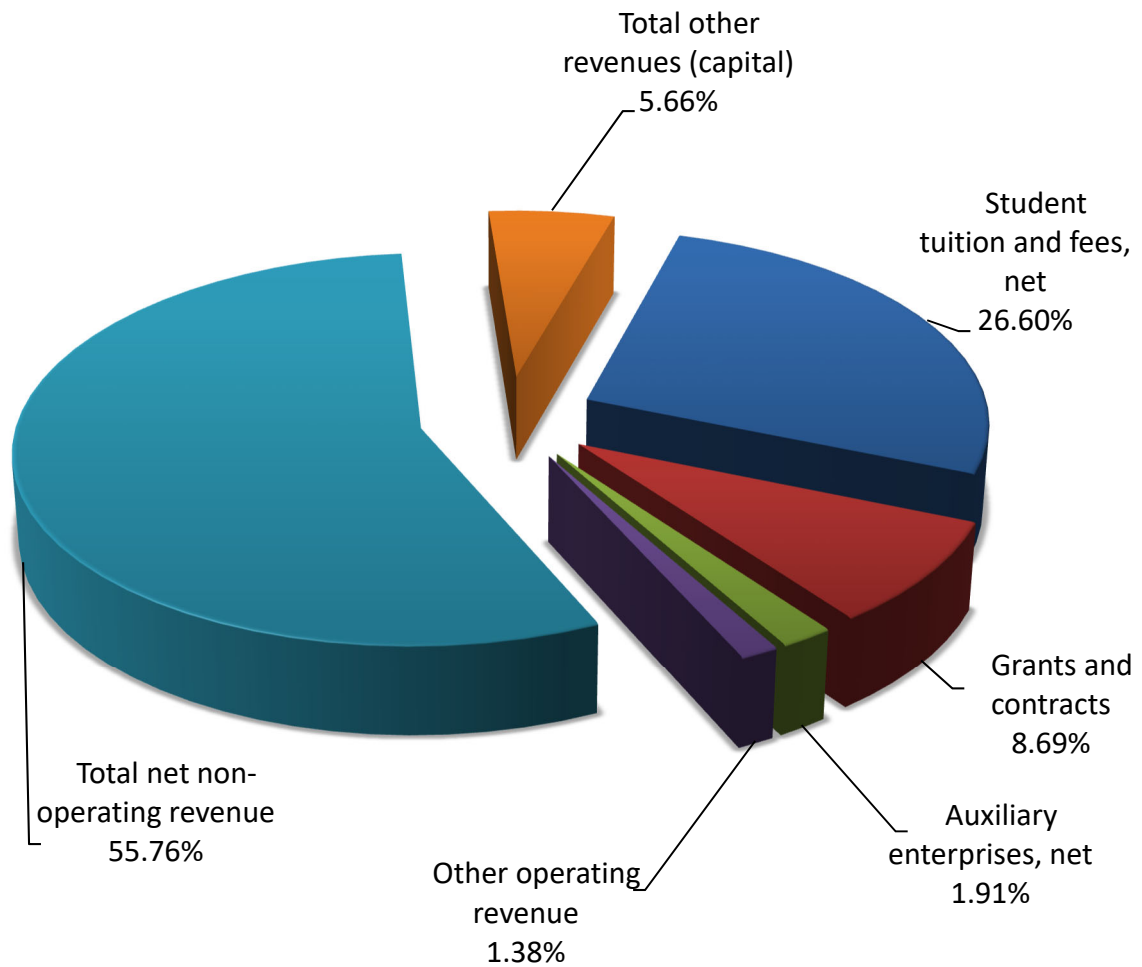
Total operating revenues decreased by 5.27% compared to the prior year. Gross student tuition and fee revenues (before scholarship discounts and allowances) declined by \$23.8 million reflecting a 3.3% decline in enrollment. Net tuition and fees revenue decreased by \$24.1 million or approximately 7.04%. Tuition and fee rates remained constant from FY19 contributing to this revenue decline. Other operating revenue sources fluctuated slightly contributing to the overall decline in operating revenues of \$25.7 million.

Non-operating and Other Revenues

Total net non-operating revenue increased by \$26 million. Grants and gifts revenue were the largest contributing factor increasing over \$28.1 million largely as a result of the CARES Act funding received. There were decreases in other non-operating revenues including state appropriations which declined \$1.6 million.

A graphic presentation of fiscal year 2020 revenues by source (per the Statement of Revenues, Expenses and Changes in Net Position) is below.

Total Revenue - By Source



The following table is a detailed breakdown of operating expenses by function and a comparison of changes by category for the periods ended June 30, 2020 and 2019:

**Summary Statement of Expenses by Function
for the year ended June 30:**
(in thousands)

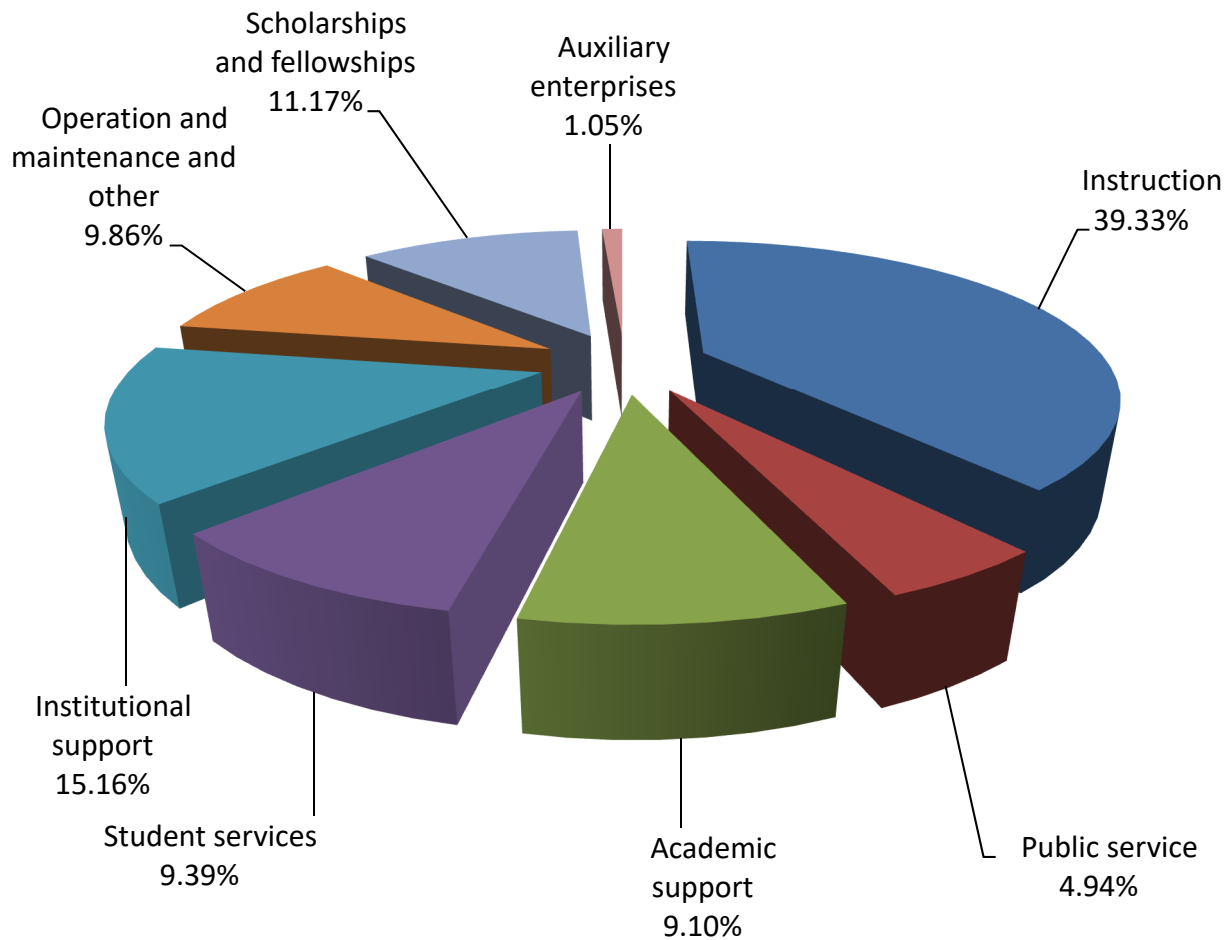
	2020	2019	Increase (Decrease)	
			Amount	Percentage
Operating expenses:				
Instruction	\$ 459,348	\$ 449,341	\$ 10,007	2.23%
Public service	57,644	53,003	4,641	8.76%
Academic support	106,316	113,041	(6,725)	(5.95%)
Student services	109,622	109,388	234	0.21%
Institutional support	177,104	181,208	(4,104)	(2.26%)
Operation and maintenance	114,699	121,907	(7,208)	(5.91%)
Scholarships and fellowships	130,492	95,320	35,172	36.90%
Auxiliary enterprises	12,217	13,950	(1,733)	(12.42%)
Other expenses	512	61	451	739.34%
Total operating expenses	\$ 1,167,954	\$ 1,137,219	\$ 30,735	2.70%

Operating Expenses

Operating expenses totaled approximately \$1.2 billion for fiscal year 2020, an increase of \$30.7 million. The natural expense category, compensation and benefits, comprised \$709.2 million of total VCCS operating expenses representing a 3.73% increase over fiscal year 2019. Scholarship expenses increased significantly, \$35.2 million, due to the additional CARES Act funding received for fiscal year 2020. The net change across the other natural expense categories (i.e., utilities and depreciation) remained relatively flat. Supplies, services, and other expenses decreased by \$30.9 million compared to the prior year.

A graphic presentation of fiscal year 2020 operating expenses by function (per the Statement of Revenues, Expenses and Changes in Net Position) is below.

Operating Expenses Functional Category



Statement of Cash Flows

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

Summary Statement of Cash Flows

for the year ended June 30:

(in thousands)

	For the year ended June 30:			
	2020	2019	\$ Change	% Change
Cash received from operations	\$ 477,425	\$ 483,410	\$ (5,985)	(1.24%)
Cash used in operations	1,120,894	1,111,500	9,394	0.85%
Net cash used in operations	(643,469)	(628,090)	(15,379)	(2.45%)
Net cash provided by non-capital financing activities	663,837	634,555	29,282	4.61%
Net cash used in capital and related financing activities	(3,240)	(16,202)	12,962	80.00%
Net cash provided by (used in) investing activities	7,397	16,187	(8,790)	(54.30%)
Net increase (decrease) in cash and cash equivalents	\$ 24,525	\$ 6,450	\$ 18,075	280.23%
Cash and cash equivalents, beginning of year	\$ 254,906	\$ 248,456		
Cash and cash equivalents, end of year	\$ 279,431	\$ 254,906		

The primary sources of cash for the VCCS included tuition and fees of \$329.8 million, operating grants and contracts of \$108 million, and auxiliary revenues of \$22.8 million. The primary uses of operating cash included employee salaries, wages, fringe benefits and pension benefits of \$718.9 million, operating expenses (payments to suppliers/others and utilities) of \$269 million and scholarships of \$132.9 million. Net cash used in operations is significantly greater than the cash received from operations on this statement due to the required presentation of state appropriation and grants/gifts as cash flows from non-capital financing activities. Net cash flows from capital and related financing activities increased \$13 million due to a decrease of \$21.8 million in cash disbursements for capital asset purchases offset by a decrease of \$8.6 million in state and local capital appropriations. Net cash provided by (used in) investing activities decreased \$8.8 million as investment purchases were \$1.4 million higher in fiscal year 2020 and sale of investments were \$6.6 million lower in fiscal year 2020. The overall increase in cash and cash equivalents was \$24.5 million at the end of fiscal year 2020.

Economic Outlook

In fiscal year 2020, the Commonwealth predicted a 3.2% increase in general fund revenues and actually collected at a rate that was 2.2% above fiscal year 2019. This shortfall was directly related to the impact of COVID-19 pandemic on the state's economy. Due to the uncertainty created by the pandemic, the General Assembly unallotted \$6.9 million that were originally approved to increase the VCCS general fund operating budget in fiscal year 2021.

The State Board for Community Colleges has noted its intention to keep VCCS tuition and mandatory fees at less than half the rates of public four-year institutions in Virginia. The VCCS' rate in fiscal year 2021 will be 33.2% of the average of the four-year institutions for total tuition and mandatory fees.

Effective with the fall 2019 session, the State Board for Community Colleges elected to not change tuition rates for all students. Within the VCCS, eight colleges have (unchanged) tuition differential rates ranging from \$1.00 per credit hour to \$29.05 per credit hour. The VCCS projects that ongoing enrollment declines will be exacerbated by the pandemic and could reach 8% in fiscal year 2021.

Chapter 1289, 2020 Virginia Acts of Assembly, authorized the funding for construction of three projects at various VCCS Colleges. This Chapter also authorized funding for system-wide HVAC and Roof Improvement projects and to replace the HVAC at the Franklin Campus of Paul D. Camp Community College.

The VCCS capitalized construction expenses totaling \$41.5 million during fiscal year 2020. These costs primarily included projects that were completed during the fiscal year but also included many projects that are still in progress. Construction costs for projects completed during fiscal year 2020 totaled \$115.1 million.

The VCCS entered into contractual commitments for capital projects totaling \$184.1 million prior to June 30, 2020. Expenses processed against these commitments during fiscal year 2020 totaled \$141.3 million, leaving an unpaid commitment balance of \$42.8 million as of June 30, 2020.

In March 2020, the community colleges shifted from traditional classroom teaching to online and distance learning platforms as a result of the Governor's executive orders that closed college campuses to respond to the COVID-19 global pandemic. For the health and safety of the public, the majority of on-campus operations and all events were canceled or delayed resulting in faculty and staff teleworking. For the fiscal year ending June 30, 2020, expenses related to the transition to remote education and other activities in response to the outbreak were incurred. The financial impact and duration of altered business processes cannot be reasonably estimated at this time.

***CONSOLIDATED
FINANCIAL
STATEMENTS***

Virginia Community College System
Consolidated
Statement of Net Position
As of June 30, 2020

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	VCCS	Component Units Foundations
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 275,344,202	\$ 23,393,336
Short term investments (Note 2)	36,233,365	6,243,770
Accounts receivable, net (Note 3)	17,828,613	642,655
Pledges receivable (Note 3)		6,447,706
Due from commonwealth (Note 4)	7,768,202	
Interest receivable	394,128	99,586
Prepaid expenses	8,834,988	492,571
Inventories	1,256,469	4,939
Notes receivable, net (Note 3)	792,546	87,844
Total Current Assets	<u>348,452,513</u>	<u>37,412,407</u>
Noncurrent Assets		
Restricted cash and cash equivalents (Note 2)	2,470,696	
Cash equivalents with trustees (Note 2)	1,638,406	
Endowment cash and cash equivalents (Note 2)	36,166	9,378,998
Appropriation available	79,310	
Endowment investments (Note 2)		194,203,416
Other long-term investments (Note 2)	31,937,444	82,137,514
Accounts receivable, net (Note 3)		115,631
Investments in real estate (Note 2)		1,050,505
Pledges receivable (Note 3)		6,651,667
Due from commonwealth (Note 4)	4,578,022	
Notes receivable, net (Note 3)	1,639,302	497,361
Post employment benefit assets (Note 19)	14,744,584	
Non-depreciable capital assets, net (Note 5)	93,858,499	12,228,286
Depreciable capital assets, net (Note 5)	1,298,739,366	21,922,793
Total Noncurrent Assets	<u>1,449,721,795</u>	<u>328,186,171</u>
Total Assets	<u>1,798,174,308</u>	<u>365,598,578</u>
Deferred Outflows of Resources (Note 8)	126,694,317	
Total Assets and Deferred Outflows of Resources	<u><u>1,924,868,625</u></u>	<u><u>365,598,578</u></u>
Liabilities		
Current Liabilities		
Accounts and retainage payable (Note 6)	21,661,574	2,975,766
Accrued payroll expense	53,617,233	177,877
Unearned revenue	63,611,614	346,185
Long-term liabilities-current portion (Note 10)	23,032,133	335,632
Securities lending obligation	58,314	
Post employment benefit obligations (Note 10)	2,006,327	
Deposits	12,095,299	3,032,051
Total Current Liabilities	<u>176,082,494</u>	<u>6,867,511</u>

Virginia Community College System
Consolidated
Statement of Net Position
As of June 30, 2020

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	VCCS	Component Units Foundations
Noncurrent Liabilities		
Long-term liabilities (Note 10)	102,328,030	8,333,801
Due to federal government (Note 10)	2,788,060	
Pension and post employment benefit obligations (Note 10)	624,178,545	
Total Noncurrent Liabilities	<u>729,294,635</u>	<u>8,333,801</u>
Total Liabilities	<u>905,377,129</u>	<u>15,201,312</u>
Deferred Inflows of Resources (Notes 18, 19)	133,381,050	
Total Liabilities and Deferred Inflows of Resources	<u>1,038,758,179</u>	<u>15,201,312</u>
Net Position		
Net investment in capital assets	1,299,255,069	25,857,705
Restricted for:		
Nonexpendable	54,640	118,333,024
Expendable	35,217,703	114,211,654
Unrestricted	(448,416,966)	91,994,883
Total Net Position	<u>\$ 886,110,446</u>	<u>\$ 350,397,266</u>

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

Consolidated
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2020

	VCCS	Component Units Foundations
Revenues		
Operating Revenue		
Tuition and fees (net of scholarship allowance of \$177,757,377)	\$ 318,771,001	
Federal grants and contracts	82,288,625	
State and local grants	8,486,259	\$ 1,358,536
Nongovernmental grants	13,355,401	4,184,950
Sales/services of education department	80,527	
Auxiliary enterprises (net of scholarship allowance of \$1,829,609)	22,934,112	
Gifts and contributions		19,017,039
Endowment income		20,185,841
Other operating revenues	16,593,599	7,524,992
Total Operating Revenue	<u>462,509,524</u>	<u>52,271,358</u>
Expenses		
Operating Expenses		
Instruction	459,347,651	892,587
Public service	57,644,045	900,682
Academic support	106,315,872	13,279,961
Student services	109,622,125	295,177
Institutional support	177,104,742	8,746,802
Operation and maintenance	114,698,842	1,878,971
Scholarships and fellowships	130,491,616	13,320,869
Auxiliary enterprises	12,217,437	
Fundraising		3,165,446
Other expenses	512,020	470,081
Total Operating Expenses (Note 13)	<u>1,167,954,350</u>	<u>42,950,576</u>
Operating Income (Loss)	<u>(705,444,826)</u>	<u>9,320,782</u>
Nonoperating Revenues(Expenses)		
State appropriations (Note 14)	433,767,469	
Local appropriations	2,987,155	
Grants and gifts	231,201,959	
Investment income	4,239,933	5,415,574
Interest on capital asset related debt	(3,475,833)	
Other nonoperating revenue (expense)	(415,413)	
Net Nonoperating Revenue	<u>668,305,270</u>	<u>5,415,574</u>
Income before other revenues, expenses gains (losses)	<u>(37,139,556)</u>	<u>14,736,356</u>
Capital appropriations-state (Note 21)	51,287,166	
Capital appropriations-local	7,766,758	
Capital gifts, grants and contracts	8,807,325	733,270
Additions to permanent and term endowments		10,830,476
Increase (Decrease) in Net Position	<u>30,721,693</u>	<u>26,300,102</u>
Net Position		
Net Position beginning of year, as restated (Note 1-R)	<u>855,388,753</u>	<u>324,097,164</u>
Net Position end of year	<u>\$ 886,110,446</u>	<u>\$ 350,397,266</u>

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

Virginia Community College System
Consolidated
Statement of Cash Flows
For the Year Ended June 30, 2020

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Cash flows from operating activities:

Tuition and fees	\$ 329,761,835
Grants and contracts	108,026,681
Payments to suppliers and others	(251,535,548)
Payments for employee wages	(539,729,720)
Payments for employee fringes and pension benefits	(179,171,872)
Payment for scholarships	(132,872,791)
Payments for utilities	(17,514,401)
Sales and services of education department	80,527
Auxiliary	22,755,446
Loans issued to students	(69,659)
Loans collected from students	394,425
Other	16,406,343
Net cash used by operating activities	<u>(643,468,734)</u>

Cash flows from non-capital financing activities:

State appropriations	433,767,469
Local appropriations	2,987,155
Grants and gifts	231,903,260
Custodial receipts	12,703,877
Custodial disbursements	(12,788,597)
PLUS, Stafford and Direct Lending loan receipts	87,840,228
PLUS, Stafford and Direct Lending loan disbursements	(88,335,697)
Loan repayments	(4,240,598)
Other non-operating revenue(expense)	288
Net cash provided (used) by non-capital financing activities	<u>663,837,385</u>

Cash flows from capital and related financing activities:

Capital appropriations-state	60,801,532
Capital appropriations-local	7,766,758
Capital grants and gifts	8,302,952
Purchase capital assets	(67,421,702)
Proceeds from sale of capital assets	206,622
Debt interest payments	(4,308,423)
Debt principal payments	(8,588,082)
Net cash provided (used) by capital financing activities	<u>(3,240,343)</u>

Cash flows from investing activities:

Purchases of investments	(32,937,874)
Sale of investments	37,224,439
Investment income	3,109,957
Net cash provided (used) by investing activities	<u>7,396,522</u>

Net increase (decrease) in cash and cash equivalents

24,524,830

Cash and cash equivalents, beginning of year

254,906,326

Cash and cash equivalents, End of Year

\$ 279,431,156

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

Operating income (loss)	\$ (705,444,826)
Adjustment to reconcile operating income (loss) to net cash used in operating activities:	
Depreciation expense	62,241,847
Changes in assets, deferred outflows, liabilities and deferred inflows:	
Appropriation available and accounts receivable, net	786,722
Prepaid expenses and other	7,550,657
Post employment benefits asset	2,688,416
Accrued compensation and leave	3,343,324
Accounts payable and other	(13,579,425)
Unearned revenue	12,116,186
Deposits pending distribution	2,309,613
Pension liability	56,229,693
Post employment benefits liability	(19,483,124)
Deferred inflows of resources related to pensions and post employment benefits	1,384,341
Deferred outflows of resources related to pensions and post employment benefits	(53,612,158)
Net cash used in operating activities	<u>(643,468,734)</u>

Reconciliation of cash and cash equivalents:

Cash and cash equivalents per Statement of Net Position	279,489,470
Less: Securities Lending Cash Equivalents	58,314
Cash and cash equivalents end of year	<u>\$ 279,431,156</u>

Noncash transactions

Donated fixed assets	504,373
Debt principal and interest payments made by Treasury	739,800
Amortization of bond premium	912,437
Unrealized gain/loss on investments	1,165,510
Amortization of deferral on debt defeasance	(320,803)

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

NOTES TO THE FINANCIAL STATEMENTS

VIRGINIA COMMUNITY COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

As of June 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

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

B. Community College Foundations

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

During the year ended June 30, 2020, the foundations distributed \$15,018,467 to the colleges for both restricted and unrestricted purposes. Complete financial statements for the foundations can be obtained by writing the VCCS Office of Fiscal Services, 300 Arboretum Place, Suite 200, Richmond, VA 23236.

C. Financial Statement Descriptions

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

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

D. Basis of Accounting

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

Revenues and expenses of the summer academic term occur within two fiscal years, because the term extends from May through August and the fiscal year ends on June 30. Expenses and an equal amount of revenue have been reported in the current period for the portion of the summer academic term from May 16 through June 30, 2020.

The community college foundations are private, nonprofit organizations that report under FASB standards. As such, certain revenue recognition criteria and presentation features are different from GASB. Where necessary, reclassifications have been made to convert FASB presentation to GASB presentation requirements.

The financial statements for the community college foundations are for the year ending June 30, 2020 except for Dabney S. Lancaster, Eastern Shore, Germanna, Lord Fairfax, Mountain Empire, New River, Piedmont, Tidewater (Educational and Real Estate Foundations), Virginia Western, and Wytheville (Educational and Scholarship Foundations) which are as of December 31, 2019.

E. Prepaid Assets

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

F. Inventories

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

G. Cash Equivalents and Investments

Cash equivalents maintained by the VCCS are investments with original maturities of less than three months. Investments in money market accounts and in Commonwealth sponsored investment pools are reported at amortized cost. All other investments are reported at fair market value, in accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended by GASB Statement 72, *Fair Value Measurement and Application*. GASB Statement 72

provides guidance for determining fair value measurements using the level of fair value hierarchy and valuation techniques.

H. Capital Assets

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

I. Accrued Compensated Absences

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

J. Unearned Revenues

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

K. Deposits

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

L. Pensions

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

M. Post-Employment Benefits

Plans administered by the VRS

State Employee Health Insurance Credit Program

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

Group Life Insurance Program

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

Line of Duty Act Program

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

Virginia Sickness and Disability Program

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

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

Plan administered by the Department of Human Resource Management

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, VCCS no longer subsidizes 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.

N. Classification of Revenues and Expenses

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

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

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

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

O. Scholarship Discounts and Allowances

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

P. Deferred Inflows and Outflows of Resources

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

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

Q. Net Position

Net position balances are classified as follows:

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

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

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

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

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

R. Restatements

Community College Foundations

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

Net Position as of June 30, 2019 - previously reported	\$322,197,164
Germanna Community College Educational Foundation- Recognize gift of land	<u>1,900,000</u>
Net Position as of July 1, 2019 - as restated	<u>\$324,097,164</u>

S. New Accounting Pronouncements

GASB issued Statement No. 84, Fiduciary Activities. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this statement were effective for reporting periods beginning after December 15, 2018. The statement has no effect on the VCCS financial statements.

2. **CASH AND INVESTMENTS**

Cash and Cash Equivalents

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

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

Deposits

Local cash deposits with banks and savings institutions not with the Treasurer of Virginia are covered by federal depository insurance or collateralized in accordance with the Virginia Security of Public Deposits Act, Section 2.2-4400 et seq., *Code of Virginia*. Deposits covered by the Virginia Security of Public Deposits Act totaled \$57,950,088 at June 30, 2020.

Investments

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

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

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

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. VCCS has no investments exposed to custodial credit risk for 2020.

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

Disclosure of any one issuer is required when it represents 5 percent or more of total investments. VCCS does not have such concentration of credit risk for 2020.

Foreign Currency Risk

Disclosure is required for investments exposed to changes in exchange rates that will adversely affect the fair value of an investment or a deposit. VCCS has no investments or deposits subject to Foreign Currency Risk for 2020.

Summary of VCCS Cash and Cash Equivalents

Cash and Cash Equivalents:

Local Cash and Cash Equivalents	\$139,357,644
Treasurer of Virginia	135,928,244
Treasurer of Virginia (Securities Lending)	58,314
Subtotal	<u>\$275,344,202</u>

Restricted Cash and Cash Equivalents:

Local Cash and Cash Equivalents	\$5,203,853
Treasurer of Virginia (Unreimbursed Bond Payments)	(2,733,157)
Treasurer of Virginia (State Nonarbitrage Program)	1,638,406
Endowment Cash and Cash Equivalents	36,166
Subtotal	<u>\$4,145,268</u>

Total Cash and Cash Equivalents	<u>\$279,489,470</u>
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<u>Cash Equivalents</u>	<u>Value</u>	<u>Credit Rating</u>
Local Government Investment Pool	\$54,625,721	AAA
Repurchase Agreements	22,137,158	Not Rated
Mutual and Money Market Funds	6,062,457	Not Rated
State Non-Arbitrage Program	1,638,406	AAAm
Total	<u>\$84,463,742</u>	

<u>Investment Type</u>	<u>S&P Credit Rating</u>	<u>Less than 1 year</u>	<u>1 - 5 Years</u>	<u>6 -10 Years</u>	<u>6/30/2020</u>
Agency Mortgage Backed Securities	AA+	\$ 3,179,778	\$ 4,060,871	\$ 184,359	\$ 7,425,008
Corporate Bonds	AAA	-	1,366,976	22,418	1,389,394
Corporate Bonds	AA+	-	2,129,048	-	2,129,048
Corporate Bonds	AA	1,216,491	2,859,385	22,371	4,098,247
Corporate Bonds	AA-	-	3,833,420	22,360	3,855,780
Corporate Bonds	A+	-	289,800	-	289,800
Corporate Bonds	A	-	95,367	-	95,367
Corporate Bonds	A-	3,351,332	3,991,056	-	7,342,388
Corporate Bonds	BBB+	99,342	375,466	-	474,808
Corporate Bonds	BBB	-	207,593	-	207,593
Corporate Bonds	BBB-	391,018	-	-	391,018
Negotiable CDs	Not Rated	13,060,142	1,498,782	-	14,558,924
Municipal Securities	AAA	50,080	-	-	50,080
Municipal Securities	AA+	-	5,338	-	5,338
Municipal Securities	AA	25,369	-	-	25,369
Mutual Funds	Not Rated	5,607,854	-	-	5,607,854
U.S. Treasury and Agency Securities	N/A	3,177,298	10,596,492	376,342	14,150,132
Non-Negotiable CDs	Not Rated	6,074,661	-	-	6,074,661
Total		<u>\$36,233,365</u>	<u>\$31,309,594</u>	<u>\$ 627,850</u>	<u>\$68,170,809</u>

Fair Value Measurement

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

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

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

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

Fair Value Measurement Using:

	Quoted Prices In Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Other Unobservable Inputs Level 3
Agency Mortgage Backed Securities	\$ -	\$ 7,425,008	-
Corporate Bonds	-	20,273,443	-
Negotiable Certificates of Deposit	-	14,558,924	-
Municipal Securities	-	80,787	-
Mutual and Money Market Funds	6,062,457	5,607,854	-
U.S. Treasury and Agency Securities	14,150,132	-	-
Repurchase Agreements	-	22,137,158	-
Total Investments measured at Fair Value	<u>\$20,212,589</u>	<u>\$70,083,174</u>	<u>-</u>

Community College Foundations

The Foundations had the following cash, cash equivalents and investments as of June 30, 2020:

Cash and cash equivalents	\$ 32,772,334
Investments:	
Mutual funds and money markets	\$118,214,413
Stocks	95,599,081
Corporate bonds	38,324,697
UVA investment fund	10,330,206
U.S. government securities & bonds	8,279,547
Mortgage-backed securities	2,991,819
Municipal bonds	2,217,238
Certificates of deposits	2,152,934
Investment in real estate	1,189,270
Partnership investments	1,128,675
Split interest agreements	1,008,473
Assets held for resale	727,005
Charitable Trusts	715,691
Alternative investments	389,729
Cash surrender value of life insurance	366,427
Total investments	<u>\$283,635,205</u>

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

3. RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

The following receivables included an allowance for doubtful accounts at June 30, 2020:

Gross accounts receivable:	
Tuition and fees	\$ 15,029,141
Auxiliary enterprises	706,887
Federal, state, local and nongovernmental grants, gifts, contracts	1,504,984
Other activities	2,007,913
Total gross accounts receivable	\$19,248,925
Less: Allowance for doubtful accounts	(1,420,312)
Net accounts receivable	<u>\$17,828,613</u>
 Gross Loans and notes receivable	 \$ 2,639,751
Less: Allowance for doubtful accounts	(207,903)
Net loans and notes receivable	<u>\$ 2,431,848</u>

Receivables not expected to be collected within one year are \$1,639,302 in accounts, notes, and loans receivable.

Community College Foundations

The foundations have the following receivables as of June 30, 2020:

Gross accounts receivable	\$758,286
Less: Allowance for doubtful accounts	-
Net accounts receivable	<u>\$758,286</u>
 Pledges receivable:	
Due in one year	\$6,695,491
Due in 1-5 years	6,536,051
Due in more than 5 years	758,593
Less: Allowance for doubtful accounts	(453,814)
Present value discount	(436,948)
Net pledges receivable	<u>\$13,099,373</u>
 Gross loans and notes receivable	 \$585,205
Less: Allowance for doubtful accounts	-
Net loans and notes receivable	<u>\$585,205</u>

Receivables not expected to be collected within one year are \$612,992 in accounts, notes, and loans receivable and \$6,651,667 in pledges receivable.

4. COMMONWEALTH EQUIPMENT AND CAPITAL PROJECT REIMBURSEMENT PROGRAMS

The Commonwealth has established several programs to provide state-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional equipment and facilities. During fiscal year 2020, funding has been provided to the VCCS from three programs: general obligation bonds 9(b), 21st Century, and Equipment Trust Fund managed by the

Virginia College Building Authority (VCBA). The VCBA issues bonds and uses the proceeds to reimburse the VCCS and other institutions of higher education for expenses incurred in the acquisition of equipment and facilities.

The line items, Due from Commonwealth, Current and Noncurrent, on the Statement of Net Position, for the year ended June 30, 2020, represent pending reimbursements from the following programs:

Due from Commonwealth, Current	
VCBA Equipment Trust Fund program	\$5,820,124
VCBA 21 st Century program	1,942,874
General Fund	5,204
Total Due from Commonwealth, Current	<u>\$7,768,202</u>
Due from Commonwealth, Noncurrent	
VCBA 21 st Century program	<u>\$4,578,022</u>
Total Due from Commonwealth, Noncurrent	<u>\$4,578,022</u>

5. CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2020 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Nondepreciable capital assets:				
Land / Land Improvements	\$70,134,151	\$2,280,768	-	\$72,414,919
Inexhaustible Works of Art	148,174	-	-	148,174
Construction in Progress	97,205,105	39,219,893	\$(115,129,592)	21,295,406
Total capital assets not being depreciated	<u>\$167,487,430</u>	<u>\$41,500,661</u>	<u>\$(115,129,592)</u>	<u>\$93,858,499</u>
Depreciable capital assets:				
Buildings	\$1,529,384,124	\$104,421,419	\$(2,768,839)	\$1,631,036,704
Infrastructure	78,435,634	4,976,864	(84,082)	83,328,416
Equipment	222,284,162	17,610,703	(4,245,331)	235,649,534
Land Improvements	98,266,089	6,118,387	-	104,384,476
Library Books	46,104,856	966,664	(2,032,495)	45,039,025
Intangible	46,638,046	1,323,315	(12,650)	47,948,711
Total other capital assets	<u>\$2,021,112,911</u>	<u>\$135,417,352</u>	<u>\$(9,143,397)</u>	<u>\$2,147,386,866</u>
Less accumulated depreciation for				
Buildings	\$(443,592,875)	\$(34,915,201)	\$2,446,729	\$(476,061,347)
Infrastructure	(40,994,543)	(3,499,692)	-	(44,494,235)
Equipment	(164,569,062)	(15,698,418)	3,968,572	(176,298,908)
Land Improvements	(63,345,539)	(3,594,719)	-	(66,940,258)
Library Books	(38,427,083)	(3,369,346)	2,021,692	(39,774,737)
Intangible	(43,910,957)	(1,167,058)	-	(45,078,015)
Total accumulated depreciation	<u>\$(794,840,059)</u>	<u>\$(62,244,434)</u>	<u>\$8,436,993</u>	<u>\$(848,647,500)</u>

Other capital assets, net	\$1,226,272,852	\$73,172,918	\$(706,404)	\$1,298,739,366
Total capital assets, net	\$1,393,760,282	\$114,673,579	\$(115,835,996)	\$1,392,597,865

Community College Foundations

The foundations had the following capital assets as of June 30, 2020:

Non-depreciable capital assets:	
Land	\$8,779,356
Construction in Process	3,325,303
Works of art	123,627
Total nondepreciable capital assets	\$12,228,286
Depreciable capital assets:	
Buildings	\$25,143,677
Equipment	1,821,668
Site improvement	1,878,874
Total depreciable capital assets	\$28,844,219
Less: Accumulated depreciation	(6,921,426)
Depreciable capital assets, net	\$21,922,793
Total capital assets, net	\$34,151,079

6. ACCOUNTS AND RETAINAGE PAYABLE

Accounts and retainage payable consisted of the following as of June 30, 2020:

	VCCS	Foundations
Vendors payable	\$19,789,818	\$2,975,766
Students payable	369,477	-
Retainage payable	1,488,280	-
Taxes payable	13,999	-
Total	\$21,661,574	\$2,975,766

7. COMMITMENTS

At June 30, 2020, the VCCS was committed to construction contracts totaling \$184,107,906 of which \$42,750,210 was unexpended. The System held \$1,488,280 as retainage payable on construction and architectural/engineering contracts for work performed. The retainage payable will be remitted to the various contractors upon satisfactory completion of the construction projects.

8. DEFERRED OUTFLOWS OF RESOURCES

The composition of deferred outflows of resources on June 30, 2020, is summarized as follows:

Deferred Loss on Debt Defeasance	\$ 2,388,323
Pension	100,248,035
Post Employment Benefit	24,057,959
Total Deferred Outflows of Resources	\$126,694,317

9. ADVANCE FROM THE TREASURER OF VIRGINIA

Section 4-3.02 of the Appropriation Act describes the circumstances under which agencies and institutions may borrow funds from the state treasury, including prefunding for capital projects in anticipation of bond sale proceeds and operating funds in anticipation of federal revenues. As of June 30, 2020, there were no outstanding Advances from the Treasurer.

	Beginning Balance	Additions	Reductions	Ending Balance
Advance from the Treasury	\$3,400,000	-	(\$3,400,000)	-

10. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2020 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Debt:					
Capital leases	\$ 1,405,331	-	\$ (1,052,172)	\$ 353,159	\$ 353,159
Notes Payable:					
Installment purchases	1,994,627	-	(440,910)	1,553,717	277,480
Pooled bonds	102,972,367	-	(8,007,437)	94,964,930	7,390,000
Total bonds, notes and capital leases	106,372,325	-	(9,500,519)	96,871,806	8,020,639
Other liabilities:					
Compensated absences	28,129,169	\$22,764,050	(22,404,862)	28,488,357	15,011,494
Pension obligations	434,294,000	60,473,351	-	494,767,351	-
Postemployment benefits	155,144,303	-	(23,726,782)	131,417,521	2,006,327
Federal loan program contributions	3,210,039	-	(421,979)	2,788,060	-
Total other liabilities	620,777,511	83,237,401	(46,553,623)	657,461,289	17,017,821
Total long-term liabilities	\$ 727,149,836	\$83,237,401	\$(56,054,142)	\$ 754,333,095	\$25,038,460

Community College Foundations

The foundations had the following long-term liabilities as of June 30, 2020:

Notes payable	\$8,510,634
Trust & Annuity Obligations	158,799
Total long-term liabilities	<u>8,669,433</u>
Less current portion	335,632
Total long-term liabilities	<u>\$8,333,801</u>

11. NOTES PAYABLE

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

Parking garage for the Medical Education campus of Northern Virginia Community College - The balance is to be repaid in annual installments ranging from \$340,000 to \$530,000 with coupon rates ranging from 3% to 5% payable semiannually. The final installment of \$530,000 is due September 1, 2021. The outstanding balance at June 30, 2020 is \$1,082,266.

Parking deck for the Annandale Campus of Northern Virginia Community College - The balance is to be repaid in annual installments ranging from \$355,000 to \$400,000 with a coupon rate of 5% payable semiannually. The final installment of \$360,000 is due September 1, 2023. The outstanding balance at June 30, 2020 is \$1,579,436.

Parking garage for J. Sargeant Reynolds Community College - The balance is to be repaid in annual installments ranging from \$200,000 to \$325,000 with coupon rates ranging from 3% to 5% payable semiannually. The final installment of \$325,000 is due September 1, 2022. The outstanding balance at June 30, 2020 is \$964,036.

Student Center for Tidewater Community College Norfolk Campus - The balance is to be repaid in annual installments ranging from \$580,000 to \$1,095,000 with coupon rates ranging from 3% to 5% payable semiannually. The final installment of \$1,095,000 is due September 1, 2028. The outstanding balance at June 30, 2020 is \$9,141,901.

Workforce Training and Technology Center for J. Sargeant Reynolds Community College - The balance is to be repaid in annual installments ranging from \$30,000 to \$75,000 with an average coupon rate of 4.914% payable semiannually. The final installment of \$70,000 is due September 1, 2029. The outstanding balance at June 30, 2020 is \$651,695.

Student Center for Tidewater Community College Virginia Beach Campus – The balance is to be repaid in annual installments ranging from \$285,000 to \$1,035,000 with coupon rates ranging from 3% to 5% payable semiannually. The final installment of \$585,000 is due September 1, 2030. The outstanding balance at June 30, 2020 is \$15,255,354.

Student Center for Tidewater Community College Chesapeake Campus - The balance is to be repaid in annual installments ranging from \$345,000 to \$725,000 with coupon rates ranging from 3% to 5% payable semiannually. The final installment of \$415,000 is due September 1, 2030. The outstanding balance at June 30, 2020 is \$10,709,793.

Academic Building for Tidewater Community College Chesapeake Campus - The balance is to be repaid in annual installments ranging from \$170,000 to \$325,000 with an average coupon rate of 4.969% payable semiannually. The final installment of \$325,000 is due September 1, 2024. The outstanding balance at June 30, 2020 is \$1,636,161.

Student Center for Blue Ridge Community College Weyers Cave Campus - The balance is to be repaid in annual installments ranging from \$335,000 to \$660,000 with a coupon rate of 3.12% payable semiannually. The final installment of \$660,000 is due September 1, 2030. The outstanding balance at June 30, 2020 is \$6,367,869.

Student Center for Tidewater Community College Portsmouth Campus - The balance is to be repaid in annual installments ranging from \$520,000 to \$1,065,000 with a coupon rate of 3.12% payable semiannually. The final installment of \$1,065,000 is due September 1, 2030. The outstanding balance at June 30, 2020 is \$10,295,306.

Student Center for Virginia Western Community College - The balance is to be repaid in annual installments ranging from \$200,000 to \$465,000 with an average coupon rate of 4.23% payable semiannually. The final installment of \$465,000 is due September 1, 2031. The outstanding balance at June 30, 2020 is \$4,771,617.

Parking garage for Germanna Community College - The balance is to be repaid in annual installments ranging from \$175,000 to \$405,000 with an average coupon rate of 4.23% payable semiannually. The final installment of \$405,000 is due September 1, 2031. The outstanding balance at June 30, 2020 is \$4,144,303.

Parking garage for John Tyler Community College Midlothian Campus - The balance is to be repaid in annual installments ranging from \$210,000 to \$440,000 with an average coupon rate of 3.6% payable semiannually. The final installment of \$440,000 is due September 1, 2032. The outstanding balance at June 30, 2020 is \$5,182,876.

Parking garage for Tidewater Community College Chesapeake Campus - The balance is to be repaid in annual installments ranging from \$740,000 to \$1,620,000 with an average coupon rate of 3.6% payable semiannually. The final installment of \$1,620,000 is due September 1, 2032. The outstanding balance at June 30, 2020 is \$19,106,083.

Parking garage for Blue Ridge Community College Weyers Cave Campus - The balance is to be repaid in annual installments ranging from \$135,000 to \$325,000 with coupon rates ranging from 4% to 5% payable semiannually. The final installment of \$325,000 is due September 1, 2034. The outstanding balance at June 30, 2020 is \$4,076,234.

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

Scheduled maturities of notes payable are as follows:

Year Ending June 30	Principal	Interest	Total Payments
2021	\$7,390,000	\$3,703,672	\$11,093,672
2022	7,690,000	3,345,425	11,035,425
2023	7,450,000	2,985,338	10,435,338
2024	7,430,000	2,634,109	10,064,109
2025	7,330,000	2,319,237	9,649,237
2026-2030	38,125,000	6,726,913	44,851,913
2031-2035	11,900,000	609,087	12,509,087
Sub Totals	\$87,315,000	\$22,323,781	\$109,638,781
Plus Bond Premium	7,649,930	-	7,649,930
Totals	<u>\$94,964,930</u>	<u>\$22,323,781</u>	<u>\$117,288,711</u>

12. LEASE COMMITMENTS AND INSTALLMENT PURCHASES

The System is committed under various capital lease, operating lease, and installment purchase agreements. The cost of assets capitalized under capital lease and installment purchase agreements total \$4,182,700 and \$4,267,506, respectively. Rent expense under operating lease agreements amounted to \$7,243,632 for the year. A summary of future obligations under lease agreements as of June 30, 2020 follows:

Year Ending June 30	Capital Lease Obligations	Installment Purchase Obligations	Operating Lease Obligations
2021	\$369,194	\$297,402	\$11,707,957
2022	-	406,980	11,712,201
2023	-	406,980	10,571,016
2024	-	300,460	9,000,458
2025	-	117,769	7,053,131
2026-2030	-	134,146	18,718,113
2031-2035	-	-	2,858,050
Total obligation and gross minimum lease payments	\$369,194	\$1,663,737	\$71,620,926
Less: Interest	(16,035)	(110,020)	-
Present value of minimum lease payments	\$353,159	\$1,553,717	\$71,620,926

Capital leases represent the remaining obligation for the capital lease agreement. Thomas Nelson Community College entered into an agreement in 2002 for the Peninsula Workforce Development Center. The gross amount of the Peninsula Workforce Development Center is broken down as follows: \$3,502,251 for Building, \$492,904 for Land Improvements, and \$187,545 for Infrastructure.

13. OPERATING EXPENSES BY NATURAL AND FUNCTIONAL CLASSIFICATIONS

VCCS operating expenses for the year ended June 30, 2020 were as follows:

Natural Classification

Functional Classification	Salaries & Benefits	Utilities	Scholarships	Depreciation	Supplies Services & Other	Total
Instruction	\$ 355,001,618	\$ 253,922	\$ 483,711	\$ 44,693,884	\$ 58,914,516	\$ 459,347,651
Public Service	14,643,282	287	561,202	275,596	42,163,678	57,644,045
Academic Support	80,122,720	242,072	185,552	6,455,338	19,310,190	106,315,872
Student Services	94,231,261	34,863	915,299	2,585,996	11,854,706	109,622,125
Institutional Support	119,816,011	264,410	1,693,332	5,316,139	50,014,850	177,104,742
Operation & Maintenance	40,240,673	16,223,029	19,322	2,805,461	55,410,357	114,698,842
Scholarships and Fellowships	124,176	-	129,065,765	-	1,301,675	130,491,616
Auxiliary Enterprises	5,006,812	294,033	3,951	109,433	6,803,208	12,217,437
Other Expenses	-	-	-	-	512,020	512,020
Total Expenses	\$ 709,186,553	\$ 17,312,616	\$ 132,928,134	\$ 62,241,847	\$ 246,285,200	\$ 1,167,954,350

14. STATE APPROPRIATIONS

All Commonwealth unrestricted revenues must be appropriated by the Legislature and are provided on an annual basis. Unspent balances of these appropriations at the close of the fiscal year revert to the Commonwealth's General Fund. These reverted funds are eligible for re-appropriation in fiscal year 2020-21 provided that the VCCS meets financial and administrative standards outlined in the *Code of Virginia*.

During the year ended June 30, 2020, the Virginia Community College System received the following general fund appropriations in accordance with Chapter 854, 2019 Virginia Acts of Assembly.

Appropriated – Chapter 854 – approved May 2, 2019	\$400,719,618
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Additions:

Net central accounts distribution	9,303,407
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Other:

Transfer from SCHEV – VIVA	89,085
Online Virginia Network Authority Initiative	620,000
Transfer HS teacher computer science training	550,000
Interest earnings and credit card rebates	1,714,521
Carryover fiscal year 2019 year-end balances	32,943,758
Tech Talent Investment Program funding	719,220
CISCO settlement	110,420
Tuition moderation funding	8,093,000
Equipment Trust Fund lease payment	(633,657)
DHRM – PMIS system charges	(56,388)
Shared position with Secretary of Education	(22,197)
Transfer to SCHEV – Graduate study	(13,000)
Philpott manufacturing	(1,252,512)
Capital fee transfers	(3,301,665)
Reversion	(77,129,137)

Adjusted Unrestricted Appropriations	<u>\$372,454,473</u>
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Other restricted appropriations were \$61,312,996 for a total of \$433,767,469.

15. EQUIPMENT TRUST FUND

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

16. DONOR-RESTRICTED ENDOWMENTS

VCCS has two donor-restricted endowments. The net appreciation on investments of donor-restricted endowments that is available for expenditure by the governing board did not change for the year ended June 30, 2020. These amounts are reported as restricted expendable net position. Total-return policy is followed for authorizing and spending investment income.

17. CONTINGENCIES ON GRANTS

The VCCS receives assistance from non-state grantor agencies in the form of grants. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant agreements. Substantially all grants are subject to financial and compliance audits by the grantors. All disallowances as a result of these audits become a liability of the VCCS. As of June 30, 2020, the VCCS estimates that no material liabilities will result from such audits.

18. RETIREMENT PLANS

Virginia Retirement System – General Information about the Pension Plans

Plan Description

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

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

Retirement Plan Provisions By Plan Structure		
Plan 1	Plan 2	Hybrid
<p>About Plan 1</p> <p>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</p> <p>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</p> <p>The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</p> <p>The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</p> <p>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.</p> <p>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>

Retirement Plan Provisions By Plan Structure

<p>Eligible Members</p> <p>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>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.</p>	<p>Eligible Members</p> <p>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>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.</p>	<p>Eligible Members</p> <p>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> <p>Members of the Virginia Law Officers' Retirement System (VaLORS).</p> <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
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Retirement Plan Provisions By Plan Structure

<p>Retirement Contributions</p> <hr/> <p>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.</p>	<p>Retirement Contributions</p> <hr/> <p>Same as Plan 1.</p>	<p>Retirement Contributions</p> <hr/> <p>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.</p>
<p>Creditable Service</p> <hr/> <p>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.</p>	<p>Creditable Service</p> <hr/> <p>Same as Plan 1.</p>	<p>Creditable Service</p> <hr/> <p>Defined Benefit Component: Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p>Defined Contribution Component: Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>

Retirement Plan Provisions By Plan Structure

<p>Vesting</p> <p>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</p> <p>Same as Plan 1.</p>	<p>Vesting</p> <p>Defined Benefit Component: Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p>Defined Contributions Component: Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</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> <p>After two years, a member is 50% vested and may withdraw 50% of employer contributions.</p> <p>After three years, a member is 75% vested and may withdraw 75% of employer contributions.</p> <p>After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</p> <p>Distribution is not required by law until age 70½.</p>

Retirement Plan Provisions By Plan Structure		
<p>Calculating the Benefit</p> <p>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>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.</p>	<p>Calculating the Benefit</p> <p>See definition under Plan 1.</p>	<p>Calculating the Benefit</p> <p>Defined Benefit Component: See definition under Plan 1</p> <p>Defined Contribution Component: The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p>Average Final Compensation</p> <p>A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation</p> <p>A member's average final compensation is the average of the 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation</p> <p>Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier</p> <p>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%.</p> <p>VaLORS: The retirement multiplier for VaLORS employees is 1.70% or 2.00%.</p>	<p>Service Retirement Multiplier</p> <p>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.</p> <p>VaLORS: The retirement multiplier for VaLORS employees is 2.00%.</p>	<p>Service Retirement Multiplier</p> <p>Defined Benefit Component: VRS: The retirement multiplier for the defined benefit component is 1.00%.</p> <p>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.</p> <p>VaLORS: Not applicable.</p> <p>Defined Contribution Component: Not applicable.</p>

Retirement Plan Provisions By Plan Structure

<p>Normal Retirement Age</p> <hr/> <p>VRS: Age 65.</p> <p>VaLORS: Age 60.</p>	<p>Normal Retirement Age</p> <hr/> <p>VRS: Normal Social Security retirement age.</p> <p>VaLORS: Same as Plan 1.</p>	<p>Normal Retirement Age</p> <hr/> <p>Defined Benefit Component: VRS: Same as Plan 2.</p> <p>VaLORS: Not applicable.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Unreduced Retirement Eligibility</p> <hr/> <p>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.</p> <p>VaLORS: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility</p> <hr/> <p>VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>VaLORS: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility</p> <hr/> <p>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.</p> <p>VaLORS: Not applicable.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility</p> <hr/> <p>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</p> <hr/> <p>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</p> <hr/> <p>Defined Benefit Component: VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>VaLORS: Not applicable.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

Retirement Plan Provisions By Plan Structure

Cost-of-Living Adjustment (COLA) in Retirement	Cost-of-Living Adjustment (COLA) in Retirement	Cost-of-Living Adjustment (COLA) in Retirement
<p>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>Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</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>Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</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. • 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>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>Eligibility: Same as Plan 1</p> <p>Exceptions to COLA Effective Dates: Same as Plan 1</p>	<p>Defined Benefit Component: Same as Plan 2.</p> <p>Defined Contribution Component: Not applicable.</p> <p>Eligibility: Same as Plan 1 and Plan 2.</p> <p>Exceptions to COLA Effective Dates: Same as Plan 1 and Plan 2.</p>

Retirement Plan Provisions By Plan Structure

<p>Disability Coverage</p> <p>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>Disability Coverage</p> <p>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>Disability Coverage</p> <p>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</p> <p>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>Purchase of Prior Service</p> <p>Same as Plan 1.</p>	<p>Purchase of Prior Service</p> <p>Defined Benefit Component: Same as Plan 1, with the following exceptions:</p> <p>Hybrid Retirement Plan members are ineligible for ported service.</p> <p>Defined Contribution Component: 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, 2020 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 an actuarially determined rate(s) 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 VCCS to the VRS State Employee Retirement Plan were \$42.0 million and \$41.8 million for the years ended June 30, 2020 and June 30, 2019, respectively. Contributions from the VCCS to the VaLORS Retirement Plan were \$1.3 million and \$1.1 million for the years ended June 30, 2020 and June 30, 2019, respectively.

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

At June 30, 2020, the VCCS reported a liability of \$484.2 million for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability and a liability of \$10.6 million for its proportionate share of the VaLORS Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2019, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation performed as of June 30, 2018 and rolled forward to the measurement date of June 30, 2019. The VCCS' proportion of the Net Pension Liability was based on the VCCS' actuarially determined employer contributions to the pension plan for the year ended June 30, 2019 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the VCCS' proportion of the VRS State Employee Retirement Plan was 7.66 % as compared to 7.84% at June 30, 2018. At June 30, 2019, the VCCS' proportion of the VaLORS Retirement Plan was 1.52% as compared to 1.55% at June 30, 2018.

For the year ended June 30, 2020, the VCCS recognized pension expense of \$41.5 million for the VRS State Employee Retirement Plan and \$1.2 million for the VaLORS Retirement Plan. Since there was a change in proportionate share between June 30, 2018 and June 30, 2019, 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, 2020, the VCCS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

VRS State Employer Retirement Plan (\$ Thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 10,089	\$ 13,025
Net difference between projected and actual earnings on pension plan investments	-	12,106
Change in assumptions	38,166	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	7,751	29,241
Employer contributions subsequent to the measurement date	42,016	-
Total	\$ 98,022	\$ 54,372

VaLORS Retirement Plan (\$ Thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 107	\$ 122
Net difference between projected and actual earnings on pension plan investments	-	168
Change in assumptions	599	16
Changes in proportion and differences between Employer contributions and proportionate share of contributions	197	305
Employer contributions subsequent to the measurement date	1,323	-
Total	\$ 2,226	\$ 611

\$42.0 million reported as deferred outflows of resources related to pensions and \$1.3 million reported as deferred outflows of resources related to pensions resulting from the VCCS' contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30

(\$ thousands)	<u>VRS Retirement Plan</u>	<u>VaLORS Retirement Plan</u>
2021	\$ (1,465)	\$ 208
2022	(7,413)	68
2023	9,551	1
2024	960	15
2025	-	-

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2018, 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, 2019.

Inflation	2.5 percent
Salary increases, including Inflation	3.5 percent – 5.35 percent
Investment rate of return	6.75 percent, net of pension plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of pension 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, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016 except the change in the discount rate, which was based on VRS Board action effective July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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%
Discount Rate	Decrease rate from 7.00% to 6.75%

The total pension liability for the VaLORS Retirement Plan was based on an actuarial valuation as of June 30, 2018, 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, 2019.

Inflation	2.5 percent
Salary increases, including Inflation	3.5 percent – 4.75 percent
Investment rate of return	6.75 percent, net of pension plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of pension liabilities.

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 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, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016 except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%
Discount Rate	Decreased rate from 7.00% to 6.75%

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, 2019, 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	\$ 25,409,842	\$ 2,190,025
Plan Fiduciary Net Position	<u>19,090,110</u>	<u>1,495,990</u>
Employers' Net Pension Liability (Asset)	<u>\$ 6,319,732</u>	<u>\$ 694,035</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.13%	68.31%

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	34.00%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS - Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP - Private Investment Partnership	3.00%	6.29%	0.19%
Total	100.00%		5.13%
	Inflation		2.50%
	* Expected arithmetic nominal return		7.63%

* The above allocation provides a one-year return of 7.63%. 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 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the VCCS for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2019 on, participating employers 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 State VCCS' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the VCCS' proportionate share of the VRS State Employee Retirement Plan net pension liability using the discount rate of 6.75%, as well as what the VCCS' proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate (amounts expressed in thousands):

	1.00% Decrease (5.75%)	Discount Rate (6.75%)	1.00% Increase (7.75%)
VCCS' proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	\$ 711,275	\$ 484,193	\$ 293,299

The following presents the VCCS' proportionate share of the VaLORS Retirement Plan net pension liability using the discount rate of 6.75%, as well as what the VCCS' proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate (amounts expressed in thousands)

	1.00% Decrease (5.75%)	Discount Rate (6.75%)	1.00% Increase (7.75%)
VCCS' proportionate share of the VaLORS Retirement Plan Net Pension Liability	\$ 14,851	\$ 10,575	\$ 7,042

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 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2019-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

The VCCS recognized \$53.6 million as Accrued Payroll Expenses as of June 30, 2020 which represents hours worked before June 30 but paid after July 1. The portion payable to the VRS for pension contributions is estimated at \$1.8 million.

Optional Retirement Plans

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

Faculty rank employees can participate in a defined contribution plan administered by two providers other than the VRS. The two different providers are TIAA/CREF Insurance Companies and Fidelity Investments Tax-Exempt Services Company. This is a fixed-contribution plan where the retirement benefits received are based on the employer's (10.4%) contributions, plus interest and dividends for those employees who became a member prior to July 1, 2010. For those employees who became a member on or after July 1, 2010, the employer's contributions are 8.5% and the employee's contributions are 5.0%.

Individual contracts issued under the ORP plan provide for full and immediate vesting of the VCCS contributions. Total pension costs under this plan were \$5.8 million and \$5.7 million for years ended June 30, 2020 and 2019, respectively. Contributions to the ORP plan were calculated using the base salary amount of \$59.4 million and \$58.5 million for fiscal years 2020 and 2019. The VCCS total payroll for fiscal years 2020 and 2019 was \$540.2 million and \$536.7 million respectively.

Payables to the Optional Retirement Plan

The VCCS recognized \$53.6 million as Accrued Payroll Expenses as of June 30, 2020, which represents hours worked before June 30 but paid after July 1 or after. The portion payable for contributions to the optional retirement plans is estimated at \$479 thousand.

Deferred Compensation Plan

Employees of the VCCS are employees of the Commonwealth of Virginia. State employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to \$20 per pay period. The dollar amount match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were approximately \$1.6 million for fiscal year 2020.

19. POST-EMPLOYMENT BENEFITS

Plans administered by VRS

General Information about the State Employee Health Insurance Credit Program

Plan Description

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

General Information about the Group Life Insurance Program

Plan Description

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

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

General Information about the 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.

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 the VRS administered OPEB programs, including eligibility, coverage and benefits is set out in the table below:

STATE EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM (HIC) PLAN PROVISIONS	GROUP LIFE INSURANCE PROGRAM (GLI) PLAN PROVISIONS	LINE OF DUTY ACT PROGRAM (LODA) PLAN PROVISIONS	DISABILITY INSURANCE PROGRAM (VSDP) PLAN PROVISIONS
<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>Eligible Employees</p> <p>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:</p> <ul style="list-style-type: none"> • City of Richmond • City of Portsmouth • City of Roanoke • City of Norfolk • Roanoke City Schools Board <p>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 member contributions and accrued interest.</p>	<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>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.

STATE EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM (HIC) PLAN PROVISIONS	GROUP LIFE INSURANCE PROGRAM (GLI) PLAN PROVISIONS	LINE OF DUTY ACT PROGRAM (LODA) PLAN PROVISIONS	DISABILITY INSURANCE PROGRAM (VSDP) PLAN PROVISIONS
<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>Benefit Amounts</p> <p>The benefits payable under the Group Life Insurance Program have several components.</p> <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 <p>Reduction in benefit Amounts</p> <p>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.</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"> • <u>Death</u> – The Line of Duty Act program death benefit is a one-time payment made to the beneficiary or beneficiaries of a covered individual. Amounts vary as follows: <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. • <u>Health Insurance</u> – 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. 	<p>Benefit Amounts</p> <p>The Virginia Sickness and Disability Program (VSDP) provides the following benefits for eligible employees:</p> <ul style="list-style-type: none"> • <u>Leave</u> – Sick, family and personal leave. Eligible leave benefits are paid by the employer. • <u>Short-Term Disability</u> – The program provides a short-term disability benefit beginning after a seven-calendar-day waiting period from the first day of disability. The benefit provides income replacement beginning at 100% of the employee's pre-disability income, reducing to 80% and then 60% based on the period of the disability and the length of service of the employee. Short-term disability benefits are paid by the employer. • <u>Long-Term Disability</u> – The program provides a long-term disability benefit beginning after 125 workdays of short-term disability and continuing until the employee reaches his or her normal retirement age. The benefit provides income replacement of 60% of the employee's pre-disability income. If an employee becomes disabled within five years of his or her normal retirement age, the employee will receive up to five years of VSDP benefits, provided he or she remains medically eligible. Long-term disability benefits are paid for by the Virginia Disability Insurance Program (VSDP) OPEB Plan. • <u>Income Replacement Adjustment</u> – The program provides for an income replacement adjustment to 80% for catastrophic conditions. • <u>VSDP Long-Term Care Plan</u> – The program also includes a self-funded long-term care plan that assists with the cost of covered long-term care services.

STATE EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM (HIC) PLAN PROVISIONS	GROUP LIFE INSURANCE PROGRAM (GLI) PLAN PROVISIONS	LINE OF DUTY ACT PROGRAM (LODA) PLAN PROVISIONS	DISABILITY INSURANCE PROGRAM (VSDP) PLAN PROVISIONS
<p>Plan Notes</p> <ul style="list-style-type: none"> • The monthly Health Insurance Credit benefit cannot exceed the individual premium amount. • Employees who retire after being on long-term disability under VSDP must have at least 15 years of service credit to qualify for the health insurance credit as a retiree. 			<p>Plan Notes</p> <ul style="list-style-type: none"> • 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.
	<p>Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)</p> <p>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 \$8,463 effective June 30, 2020.</p>		<p>Cost-of-Living Adjustment (COLA)</p> <ul style="list-style-type: none"> • 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. <ul style="list-style-type: none"> ○ 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

STATE EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM (HIC) PLAN PROVISIONS	GROUP LIFE INSURANCE PROGRAM (GLI) PLAN PROVISIONS	LINE OF DUTY ACT PROGRAM (LODA) PLAN PROVISIONS	DISABILITY INSURANCE PROGRAM (VSDP) PLAN PROVISIONS
			<p>amount recommended by the actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement.</p> <ul style="list-style-type: none"> ○ 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 Postmarket of 4.00%.

Contributions

The contribution requirement for active employees in the VRS State Employee Health Insurance Credit Program is governed by §51.1-1400(D) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each state agency's contractually required employer contribution rate for the year ended June 30, 2020 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 VCCS to the VRS State Employee Health Insurance Credit Program were \$4.7 million and \$4.5 million for the years ended June 30, 2020 and June 30, 2019, respectively.

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution; however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2020, 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 VCCS were \$2.1 million and \$2.0 million for the years ended June 30, 2020 and June 30, 2019, respectively.

The contribution requirements for the Line of Duty Act Program (LODA) are governed by §9.1-400.1 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer's contractually required employer contribution rate for the Line of Duty Act Program (LODA) for the year ended June 30, 2020 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 VCCS were \$82 thousand and \$69 thousand for the years ended June 30, 2020 and June 30, 2019, respectively.

The contribution requirements for the Disability Insurance Program (VSDP) are governed by §51.1-1140 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer's contractually required employer contribution rate for the Disability Insurance Program (VSDP) for the year ended June 30, 2020 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 VCCS were \$2.0 million and \$1.9 million for the years ended June 30, 2020 and June 30, 2019, 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, 2020, the VCCS reported a liability of \$51.7 million for its proportionate share of the VRS State Employee Health Insurance Credit Program Net OPEB Liability. The Net VRS State Employee Health Insurance Credit Program OPEB Liability was measured as of June 30, 2019, 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 performed as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. The VCCS' proportion of the Net VRS State Employee Health Insurance Credit Program OPEB Liability was based on the VCCS' actuarially determined employer contributions to the VRS State Employee Health Insurance Credit Program OPEB plan for the year ended June 30, 2019 relative to the total of the actuarially determined employer contributions for all participating state employers. At June 30, 2019, the VCCS' proportion of the VRS State Employee Health Insurance Credit Program was 5.60% as compared to 5.78% at June 30, 2018.

For the year ended June 30, 2020, the VCCS recognized VRS State Employee Health Insurance Credit Program OPEB expense of \$3.3 million. 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.

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

At June 30, 2020, the VCCS reported a liability of \$31.8 million for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2019, and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. The VCCS' proportion of the Net GLI OPEB Liability was based on the VCCS' actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2019, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the VCCS proportion was 1.96% as compared to 2.06% at June 30, 2018.

For the year ended June 30, 2020, the VCCS recognized GLI OPEB expense of (\$26) thousand. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

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

At June 30, 2020, the VCCS reported a liability of \$1.8 million for its proportionate share of the Net LODA OPEB Liability. The Net LODA OPEB Liability was measured as of June 30, 2019, and the total LODA OPEB liability used to calculate the Net LODA OPEB Liability was determined by an actuarial valuation performed as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. The VCCS' proportion of the Net LODA OPEB Liability was based on the VCCS' actuarially determined pay-as-you-go employer contributions to the LODA OPEB plan for the year ended June 30, 2019, relative to the total of the actuarially determined pay-as-you-go employer contributions for all participating employers. At June 30, 2019, the VCCS' proportion was 0.52% as compared 0.53% at June 30, 2018.

For the year ended June 30, 2020, the VCCS recognized LODA OPEB expense of \$149 thousand. Since there was a change in proportionate share between measurement dates, a portion of the LODA OPEB expense was related to deferred amounts from changes in proportion.

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

At June 30, 2020, the VCCS reported an (asset) of (\$14.7) million for its proportionate share of the Net VSDP OPEB Liability (Asset). The Net VSDP OPEB Liability (Asset) was measured as of June 30, 2019, and the total VSDP OPEB liability used to calculate the Net VSDP OPEB Liability (Asset) was determined by an actuarial valuation performed as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. The VCCS' proportion of the Net VSDP OPEB Liability (Asset) was based on the VCCS' actuarially determined employer contributions to the VSDP OPEB plan for the year ended June 30, 2019, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the VCCS' proportion was 7.52% as compared to 7.74% at June 30, 2018.

For the year ended June 30, 2020, the VCCS recognized VSDP OPEB expense of \$1.4 million. Since there was a change in proportionate share between measurement dates, a portion of the VSDP OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2020, the VCCS reported deferred outflows of resources and deferred inflows of resources related to the VRS OPEB plans from the following sources:

VRS Health Insurance Credit Program (\$ Thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 28	\$ 629
Net difference between projected and actual earnings on HIC OPEB program investments	-	20
Change in assumptions	1,065	354
Changes in proportionate share	813	5,636
Employer contributions subsequent to the measurement date	4,656	-
Total	\$ 6,562	\$ 6,639

VRS Group Life Insurance Program (\$ Thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,118	\$ 413
Net difference between projected and actual earnings on GLI OPEB program investments	-	654
Change in assumptions	2,011	960
Changes in proportionate share	451	3,773
Employer contributions subsequent to the measurement date	2,061	-
Total	\$ 6,641	\$ 5,800

VRS Line of Duty Act Program (\$ Thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 269	\$ -
Net difference between projected and actual earnings on LODA OPEB program investments	-	4
Change in assumptions	87	160
Changes in proportionate share	135	171
Employer contributions subsequent to the measurement date	82	-
Total	\$ 573	\$ 335

VRS Virginia Sickness and Disability Plan (\$ Thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,888	\$ 593
Net difference between projected and actual earnings on VSDP OPEB program investments	-	569
Change in assumptions	268	840
Changes in proportionate share	1,445	316
Employer contributions subsequent to the measurement date	1,991	-
Total	\$ 5,592	\$ 2,318

\$4.7 million reported as deferred outflows of resources related to the State Employee HIC OPEB resulting from the VCCS' contributions subsequent to the measurement date will be recognized as a reduction of the Net State Employee HIC OPEB Liability in the Fiscal Year ending June 30, 2021.

\$2.1 million reported as deferred outflows of resources related to the GLI OPEB resulting from the VCCS' contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the Fiscal Year ending June 30, 2021.

\$82 thousand reported as deferred outflows of resources related to the LODA OPEB resulting from the VCCS' contributions subsequent to the measurement date will be recognized as a reduction of the Net LODA OPEB Liability in the Fiscal Year ending June 30, 2021.

\$2.0 million reported as deferred outflows of resources related to the VSDP OPEB resulting from the VCCS' contributions subsequent to the measurement date will be recognized as an adjustment of the Net VSDP OPEB Liability (Asset) in the Fiscal Year ending June 30, 2021.

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

Year ended June 30				
(\$ thousands)	HIC	GLI	LODA	VSDP
2021	(1,238)	(649)	20	9
2022	(1,238)	(649)	20	9
2023	(1,207)	(372)	20	312
2024	(767)	37	21	335
2025	(259)	315	21	317
Thereafter	(24)	98	54	300

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, 2018, 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, 2019.

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	6.75 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% 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, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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%
Discount Rate	Decrease from 7.00% to 6.75%

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, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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%
Discount Rate	Decrease from 7.00% to 6.75%

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, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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%
Discount Rate	Decrease from 7.00% to 6.75%

Mortality rates – JRS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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
Discount Rate	Decrease rate from 7.00% to 6.75%

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2018, 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, 2019.

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	6.75 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% 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, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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%
Discount Rate	Decrease rate from 7.00% to 6.75%

Mortality rates – Teachers

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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
Discount Rate	Decrease rate from 7.00% to 6.75%

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, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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%
Discount Rate	Decrease rate from 7.00% to 6.75%

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, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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%
Discount Rate	Decrease rate from 7.00% to 6.75%

Mortality rates – JRS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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
Discount Rate	Decrease rate from 7.00% to 6.75%

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, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%
Discount Rate	Decrease rate from 7.00% to 6.75%

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75.
Withdrawal Rates	Adjusted termination rates to better fit experience at each year age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14 to 15%
Discount Rate	Decrease rate from 7.00% to 6.75%

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, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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%
Discount Rate	Decrease rate from 7.00% to 6.75%

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%
Discount Rate	Decreased rate from 7.00% to 6.75%

Actuarial Assumptions

The total LODA OPEB liability was based on an actuarial valuation as of June 30, 2018, 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, 2019.

Inflation	2.50 percent
Salary increases, including Inflation –	
General state employees	N/A
SPORS employees	N/A
VaLORS employees	N/A
Locality employees	N/A
Medical cost trend rates assumption –	
Under age 65	7.25 percent – 4.75 percent
Ages 65 and older	5.50 percent – 4.75 percent
Year of ultimate trend rate	
Post-65	Fiscal year ended 2023
Pre-65	Fiscal year ended 2028
Investment rate of return	3.50 percent, 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 3.50%. However, since the difference was minimal, a more conservative 3.50% investment return assumption has been used. Since LODA is funded on a current-disbursement basis, the assumed annual rate of return of 3.50% 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, 2018, 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, 2018, 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, 2018, 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, 2018, 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, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

Actuarial Assumptions

The total VSDP OPEB liability was based on an actuarial valuation as of June 30, 2018, 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, 2019.

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	6.75 percent, net of investment expenses, including inflation*
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* 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% 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, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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%
Discount Rate	Decreased rate from 7.00% to 6.75%

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, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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%
Discount Rate	Decreased rate from 7.00% to 6.75%

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, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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%
Discount Rate	Decreased rate from 7.00% to 6.75%

Net OPEB Liability (Asset)

The net OPEB liability (asset) represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2019, Net OPEB liability (asset) amounts for VRS administered programs are as follows (amounts expressed in thousands):

		HIC	GLI	LODA	VSDP
Total OPEB Liability	\$	1,032,094	\$ 3,390,238	\$ 361,626	\$ 292,046
Plan Fiduciary Net Position		109,023	1,762,972	2,839	488,241
Employers' Net OPEB Liability (Asset)	\$	923,071	\$ 1,627,266	\$ 358,787	\$ (196,195)
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability		10.56%	52.00%	0.79%	167.18%

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

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

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	34.00%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS - Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP - Private Investment Partnership	3.00%	6.29%	0.19%
Total	100.00%		5.13%
Inflation			2.50%
* Expected arithmetic nominal return			7.63%

* The above allocation provides a one-year return of 7.63%. 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 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Long-Term Expected Rate of Return

The long-term expected rate of return on LODA OPEB Program's investments was set at 3.50% for this valuation. Since LODA is funded on a current-disbursement basis, it is not able to use the VRS Pooled Investments 6.75% assumption. Instead, the assumed annual rate of return of 3.50% 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, 2019.

Discount Rate

The discount rate used to measure the total State Employee HIC OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by the entity 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, 2019 on, employers are assumed to continue 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 eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total State Employee HIC OPEB liability.

The discount rate used to measure the total GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the 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, 2019 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

The discount rate used to measure the total LODA OPEB liability was 3.50%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by participating employers to the LODA OPEB Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly.

The discount rate used to measure the total VSDP OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by participating employers to the VSDP OPEB Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2019 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the VSDP OPEB Program's fiduciary net position was projected to be

available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total VSDP OPEB liability.

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

The following presents the VCCS' proportionate share of the VRS State Employee Health Insurance Credit Program net HIC OPEB liability using the discount rate of 6.75%, as well as what the VCCS' proportionate share of the net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate (amounts expressed in thousands):

	1.00% Decrease (5.75%)	Discount Rate (6.75%)	1.00% Increase (7.75%)
VCCS' proportionate share of the VRS State Employee HIC OPEB Plan Net OPEB Liability	\$ 57,332	\$ 51,729	\$ 46,913

The following presents the VCCS' proportionate share of the net GLI OPEB liability using the discount rate of 6.75%, as well as what the VCCS' proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate (amounts expressed in thousands):

	1.00% Decrease (5.75%)	Discount Rate (6.75%)	1.00% Increase (7.75%)
VCCS' proportionate share of the Group Life Insurance Plan Net OPEB Liability	\$ 41,838	\$ 31,847	\$ 23,744

The following presents the VCCS' proportionate share of the net LODA OPEB liability using the discount rate of 3.50%, as well as what the VCCS' proportionate share of the net LODA OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.50%) or one percentage point higher (4.50%) than the current rate (amounts expressed in thousands):

	1.00% Decrease (2.50%)	Discount Rate (3.50%)	1.00% Increase (4.50%)
VCCS' proportionate share of the total LODA Net OPEB Liability	\$ 2,145	\$ 1,849	\$ 1,615

Because the Line of Duty Act Program (LODA) contains a provisions for the payment of health insurance premiums, the liabilities are also impacted by the health care trend rates. The

following presents the VCCS' proportionate share of the net LODA OPEB liability using health care trend rate of 7.75% decreasing to 4.75%, as well as what the VCCS' proportionate share of the net LODA OPEB liability would be if it were calculated using a health care trend rate that is one percentage point lower (6.75% decreasing to 3.75%) or one percentage point higher (8.75% decreasing to 5.75%) than the current rate (amounts expressed in thousands):

	1.00% Decrease (6.75% decreasing to 3.75%)	Current Discount Rate (7.75% decreasing to 4.75%)	1.00% Increase (8.75% decreasing to 5.75%)
VCCS' proportionate share of the LODA Net OPEB Liability (Asset)	\$ 1,563	\$ 1,849	\$ 2,209

The following presents the VCCS' proportionate share of the net VSDP OPEB liability (asset) using the discount rate of 6.75%, as well as what the VCCS' proportionate share of the net VSDP OPEB liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate (amounts expressed in thousands):

	1.00% Decrease (5.75%)	Discount Rate (6.75%)	1.00% Increase (7.75%)
VCCS' proportionate share of the VSDP Net OPEB Liability (Asset)	\$ (13,388)	\$ (14,745)	\$ (15,947)

VRS OPEB Program Fiduciary Net Position

Detailed information about the VRS OPEB Program's Fiduciary Net Position is available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2019-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the State Employee Health Insurance Credit Program OPEB Plan

The VCCS recognized \$53.6 million as Accrued Payroll Expenses as of June 30, 2020 which represents hours worked before June 30 but paid after July 1. The portion payable for contributions to the Health Insurance Credit Program is estimated at \$171 thousand.

Payables to the VRS Group Life Insurance OPEB Plan

The VCCS recognized \$53.6 million as Accrued Payroll Expenses as of June 30, 2020 which represents hours worked before June 30 but paid after July 1. The portion payable for contributions to the Group Life Insurance Plan is estimated at \$197 thousand.

Payables to the Disability Insurance Program (VSDP) OPEB Plan

The VCCS recognized \$53.6 million as Accrued Payroll Expenses as of June 30, 2020 which represents hours worked before June 30 but paid after July 1. The portion payable for contributions to the Disability Insurance Plan is estimated at \$80 thousand.

Plans administered by the DHRM

Pre-Medicare Retiree Healthcare

The Commonwealth provides a healthcare plan established by Title 2.2, Chapter 28 of the *Code of Virginia* for retirees who are not yet eligible to participate in Medicare.

Following are eligibility requirements for Virginia Retirement System retirees:

- You are a retiring state employee who is eligible for a monthly retirement benefit from the Virginia Retirement System (VRS), and
- You start receiving (do not defer) your retirement benefit immediately upon retirement*, and
- Your last employer before retirement was the Commonwealth of Virginia, and
- You were eligible for (even if you were not enrolled) coverage as an active employee in the State Health Benefits Program until your retirement date (not including Extended Coverage/COBRA), and
- You enroll no later than 31 days from your retirement date.

*For VRS retirees, this means that your employing agency reported a retirement contribution or leave without pay status for retirement in the month immediately prior to your 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**, following are eligibility requirements for Optional Retirement Plan retirees:

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

**This change applies to ORP terminations effective January 1, 2017, or later. Eligibility for those who terminated 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 4,800 retirees and 89,000 active employees in the program in fiscal year 2019. There are no inactive employees

entitled to future benefits who are not currently receiving benefits. There are no assets accumulated in a trust to pay benefits.

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

At June 30, 2020, the VCCS reported a liability of \$46.0 million for its proportionate share of the collective total Pre-Medicare Retiree Healthcare OPEB liability of \$678.9 million. The Pre-Medicare Retiree Healthcare OPEB liability was measured as of June 30, 2019 and was determined by an actuarial valuation as of June 30, 2019. The VCCS' proportion of the Pre-Medicare Retiree Healthcare OPEB liability was based on each employer's healthcare premium contributions as a percentage of the total employer's healthcare premium contributions for all participating employers. At June 30, 2019, the VCCS' proportion was 6.77% as compared to 6.91% at June 30, 2018. For the year ended June 30, 2020, the VCCS recognized Pre-Medicare Retiree Healthcare OPEB expense of \$6.3 million.

At June 30, 2020, the VCCS reported deferred outflows or resources and deferred inflows of resources related to Pre-Medicare Retiree Healthcare from the following sources:

Pre-Medicare Retiree Healthcare (\$ Thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 23,337
Change in assumptions	-	31,865
Changes in proportion	2,815	8,103
Amounts associated with transactions subsequent to the measurement date	1,958	-
Total	\$ 4,773	\$ 63,305

\$2.0 million reported as deferred outflows of resources related to the Pre-Medicare Retiree Healthcare OPEB resulting from amounts associated with transactions subsequent to the measurement date will be recognized as a reduction of the total OPEB Liability in the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pre-Medicare Retiree Healthcare OPEB will be recognized in the Pre-Medicare Retiree Healthcare OPEB expense as follows:

Year ended June 30
(\$ thousands)

2021	(14,047)
2022	(14,047)
2023	(14,047)
2024	(11,563)
2025	(5,619)
Thereafter	(1,166)

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, 2019. 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 7.00 percent for medical and pharmacy and 4.00 percent for dental. The ultimate trend rates used were 4.50 percent for medical and pharmacy and 4.00 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, 2019 (one year prior to the end of the fiscal year)
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar, Closed
Effective Amortization Period	6.25 years
Discount Rate	3.51%
Projected Salary Increases	4.0%
Medical Trend Under 65	Medical & Rx: 7.00% to 4.50% Dental: 4.00% Before reflecting Excise tax
Year of Ultimate Trend	2029
Mortality	Mortality rates vary by participant status
Pre-Retirement:	RP-2014 Employee Rates; males setback 1 year, 85% of rates; females setback 1 year
Post-Retirement	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females setback 1 year

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, 2019.

Changes of Assumptions

The following actuarial assumptions were updated since the June 30, 2018 valuation based on recent experience:

- Spousal Coverage – reduced the rate from 35% to 25%
- Retirement participation – reduced the rate from 60% to 50%

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 modified pre-retirement Mortality base rates to exclude age over 65 instead of apply mortality improvement projection scale BB. The excise tax was modified to reflect updated projection of the tax thresholds. Trend rates were updated based on economic conditions as of 6/30/2019. Additionally, the discount rate was decreased from 3.87% to 3.51% based on the Bond Buyers GO 20 Municipal Bond Index.

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

The following presents the VCCS' proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using the discount rate of 3.51%, as well as what the VCCS' proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.51%) or one percentage point higher (4.51%) than the current rate:

	1.00% Decrease (2.51%)	Current Discount Rate (3.51%)	1.00% Increase (4.51%)
OPEB Liability	\$ 49,196	\$ 45,993	\$ 42,989

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

The following presents the VCCS' proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using healthcare cost trend rate of 7.00% decreasing to 4.50%, as well as what the VCCS' proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (6.00% decreasing to 3.50%) or one percentage point higher (8.00% decreasing to 5.50%) than the current rate:

	1.00% Decrease (6.00% decreasing to 3.50%)	Current Discount Rate (7.00% decreasing to 4.50%)	1.00% Increase (8.00% decreasing to 5.50%)
OPEB Liability	\$ 41,074	\$ 45,993	\$ 51,815

20. RISK MANAGEMENT

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

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

21. CAPITAL APPROPRIATIONS-STATE

Capital appropriations-state is comprised of the following:

Virginia College Building Authority appropriation revenue	\$50,471,578
General Obligation Bond appropriation revenue	75,788
Tidewater Community College capital lease agreement	739,800
Total	<u>\$51,287,166</u>

22. COMPONENT UNIT FINANCIAL INFORMATION

Below is a summary of the foundations.

VCCS has five major component units— Lord Fairfax Community College Educational Foundation, Mountain Empire Community College Foundation, Northern Virginia Community College Educational Foundation, Southwest Virginia Community College Educational Foundation and Virginia Western Community College Educational Foundation. Additionally, the System has twenty-two non-major component units—Blue Ridge Community College Educational Foundation, Central Virginia Community College Educational Foundation, Dabney S. Lancaster Community College Educational Foundation, Danville Community College Educational Foundation, Eastern Shore Community College Foundation, Germanna Community College Educational Foundation, J. Sargeant Reynolds Community College Educational and Real Estate Foundations, John Tyler Community College Foundation, John Tyler Community College Real Estate Foundation, New River Community College Educational Foundation, Patrick Henry Community College Foundation, Paul D. Camp Community College Foundation, Piedmont Community College Educational Foundation, Rappahannock Community College Educational Foundation, Southside

Virginia Community College Foundation, Thomas Nelson Community College Educational Foundation, Tidewater Community College Educational Foundation, Tidewater Community College Real Estate Foundation, Virginia Highlands Community College Educational Foundation, Wytheville Community College Educational Foundation, Wytheville Community College Scholarship Foundation, and the Virginia Foundation for Community College Education. These organizations are separately incorporated entities and other auditors examine the related financial statements.

Virginia Community College System Foundations
Statement of Net Position
As of June 30, 2020**

	Southwest Virginia Community College Educational Foundation	Mountain Empire Community College Educational Foundation	Northern Virginia Community College Educational Foundation	Virginia Western Community College Educational Foundation	Lord Fairfax Community College Educational Foundation	Combined Non- Major Component Units	Total Component Units
ASSETS							
Total current assets	\$ 954,264	\$ 636,828	\$ 5,386,599	\$ 507,495	\$ 1,225,234	\$ 28,701,987	\$ 37,412,407
Noncurrent assets:							
Other noncurrent assets	24,736,534	28,250,587	19,160,246	22,645,660	13,879,913	185,362,152	294,035,092
Capital assets, net	3,438,397	-	-	9,801	12,381,634	18,321,247	34,151,079
Total noncurrent assets	28,174,931	28,250,587	19,160,246	22,655,461	26,261,547	203,683,399	328,186,171
Total assets	29,129,195	28,887,415	24,546,845	23,162,956	27,486,781	232,385,386	365,598,578
LIABILITIES							
Total current liabilities	21,790	293,681	1,015,557	132,782	451,613	4,952,088	6,867,511
Noncurrent liabilities:							
Long-term liabilities	-	-	-	-	5,624,420	2,709,381	8,333,801
Other noncurrent liabilities	-	-	-	-	-	-	-
Total noncurrent liabilities	-	-	-	-	5,624,420	2,709,381	8,333,801
Total liabilities	21,790	293,681	1,015,557	132,782	6,076,033	7,661,469	15,201,312
NET POSITION							
Net investment in capital assets	3,438,397	-	-	9,801	6,505,529	15,903,978	25,857,705
Restricted for:							
Nonexpendable	2,455,777	10,388,194	7,309,451	7,422,318	6,152,992	84,604,292	118,333,024
Expendable	3,942,320	10,408,421	5,395,711	14,182,405	8,506,883	71,775,914	114,211,654
Unrestricted	19,270,911	7,797,119	10,826,126	1,415,650	245,344	52,439,733	91,994,883
Total Net Position	\$ 29,107,405	\$ 28,593,734	\$ 23,531,288	\$ 23,030,174	\$ 21,410,748	\$ 224,723,917	\$ 350,397,266

** Refer to Footnote 1-D

Virginia Community College System Foundations
Statement of Revenues, Expenses, and Changes in Net Position
As of June 30, 2020**

	Southwest Virginia Community College Educational Foundation	Mountain Empire Community College Educational Foundation	Northern Virginia Community College Educational Foundation	Virginia Western Community College Educational Foundation	Lord Fairfax Community College Educational Foundation	Combined Non- Major Component Units	Total Component Units
Total operating revenues	\$ 1,413,538	\$ 5,851,088	\$ 1,400,186	\$ 5,132,136	\$ 2,852,937	\$ 35,621,473	\$ 52,271,358
Total operating expenses	1,917,821	1,329,537	2,561,243	2,808,072	1,689,192	32,644,711	42,950,576
Operating income (loss)	(504,283)	4,521,551	(1,161,057)	2,324,064	1,163,745	2,976,762	9,320,782
Nonoperating revenues (expenses):							
Investment Income	467,154	-	465,998	917,120	-	3,565,302	5,415,574
Other nonoperating revenues (expenses)	-	-	-	-	-	-	-
Net nonoperating revenue	467,154	-	465,998	917,120	-	3,565,302	5,415,574
Income (loss) before other revenues, expenses gains and losses	(37,129)	4,521,551	(695,059)	3,241,184	1,163,745	6,542,064	14,736,356
Capital gifts, grants and contracts	28,116	-	-	-	481,277	223,877	733,270
Additions to permanent and term endowments	33,153	410,132	1,265,158	310,473	559,088	8,252,472	10,830,476
Increase (decrease) in net position	24,140	4,931,683	570,099	3,551,657	2,204,110	15,018,413	26,300,102
Net Position - beginning of year*	29,083,265	23,662,051	22,961,189	19,478,517	19,206,638	209,705,504	324,097,164
Net Position - end of year	\$ 29,107,405	\$ 28,593,734	\$ 23,531,288	\$ 23,030,174	\$ 21,410,748	\$ 224,723,917	\$ 350,397,266

*As restated, refer to Footnote 1-R

**Refer to Footnote 1-D

23. LITIGATION

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

24. CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY (CARES) ACT

During the fiscal year, the VCCS was awarded \$74.0 million from the CARES Act for the Higher Education Emergency Relief Fund (HEERF). \$37 million will be used to provide students with emergency hardship support related to the disruption of on campus operations due to COVID-19. The remaining \$37 million, which will be drawn in fiscal year 2021, will be used to cover costs associated with changes in instruction delivery due to the coronavirus, faculty and staff training, additional scholarships and aid to students, and where allowed by the Act, revenue loss.

As of June 30, 2020, the VCCS had spent \$27.9 million on emergency aid to students.

The VCCS was awarded \$3.4 million from the Coronavirus Relief Fund (CRF) as federal pass-through funds from the Commonwealth of Virginia during the fiscal year. The funds will primarily be used to reimburse computer and peripheral equipment used in distance learning and teleworking for public sector employees, personal protective equipment, and preparing campuses for social distancing requirements. As of June 30, 2020, the VCCS had spent \$2.4 million towards these purposes.

The VCCS was also awarded \$4.9 million from the Governor's Emergency Education Relief Fund (GEERF) to be reimbursed through the Virginia Department of Education. The distribution to the VCCS includes one-time funds to support last-dollar scholarships for displaced adults who enroll in stackable credential programs that lead to jobs in targeted industry sectors, and to extend broadband internet into parking lots to provide access for students who do not have internet access at home. It also includes the allocation of additional financial aid for in-state undergraduate students as outlined in the Governor's proposed budget for Fiscal Year 2021.

25. SUBSEQUENT EVENTS

On February 9, 2021, the Virginia College Building Authority issued Series 2021 AB refunding bonds; VCCS's share consisted of \$36,295,000 par. Also subsequent to the financial report, was the roof collapse at Thomas Nelson Community College Templin Hall. The building is being stabilized, then debris removed from the interior to determine the extent of the damage. The target date for Templin Hall reopening is Fall 2022.

***REQUIRED
SUPPLEMENTARY
INFORMATION***

REQUIRED SUPPLEMENTARY INFORMATION

As of June 30, 2020

Schedule of Employer's Share of Net Pension Liability

VRS State Employee Retirement Plan

For the Years Ended June 30

	2020*	2019*	2018*	2017*	2016*	2015*
VCCS' Proportion of the Net Pension Liability (Asset)	7.66%	7.84%	8.19%	8.48%	8.48%	8.43%
VCCS' Proportionate Share of the Net Pension Liability (Asset)	\$484,192,628	\$424,652,000	\$477,103,000	\$559,144,000	\$518,887,000	\$471,710,000
VCCS' Covered Payroll	\$318,144,635	\$322,386,829	\$326,278,349	\$328,281,989	\$326,582,151	\$325,381,501
VCCS' Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	152.19%	131.72%	146.22%	170.32%	158.88%	144.97%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.13%	77.39%	75.33%	71.29%	72.81%	74.28%

VaLORS Retirement Plan

For the Years Ended June 30

	2020*	2019*	2018*	2017*	2016*	2015*
VCCS' Proportion of the Net Pension Liability (Asset)	1.52%	1.55%	1.55%	1.50%	1.38%	1.26%
VCCS' Proportionate Share of the Net Pension Liability (Asset)	\$ 10,574,723	\$ 9,642,000	\$ 10,192,000	\$ 11,618,000	\$ 9,786,000	\$ 8,509,000
VCCS' Covered Payroll	\$ 5,332,773	\$ 5,346,521	\$ 5,349,651	\$ 5,187,256	\$ 4,662,097	\$ 4,449,485
VCCS' Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	198.30%	180.34%	190.52%	223.97%	209.91%	191.24%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.31%	69.56%	67.22%	61.01%	62.64%	63.05%

Schedules are intended to show information for 10 years. Since 2020 is the sixth year for this presentation, only six years of data is available. However, additional years will be included as they become available.

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

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

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2020	\$ 42,016,000	\$ 42,016,000	-	\$ 310,769,231	13.52%
2019	41,787,000	41,787,000	-	318,144,635	13.13%
2018	43,489,983	43,489,983	-	322,386,829	13.49%
2017	44,014,949	44,014,949	-	326,278,349	13.49%
2016	46,152,519	46,152,519	-	328,281,989	14.06%
2015	40,267,580	40,267,580	-	326,582,151	12.33%
2014	28,503,419	28,503,419	-	325,381,501	8.76%
2013	26,909,705	26,909,705	-	307,188,417	8.76%
2012	9,189,092	9,189,092	-	285,725,680	3.22%
2011	5,655,059	5,655,059	-	265,495,721	2.13%

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

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2020	\$ 1,323,000	\$ 1,323,000	-	\$ 6,122,166	21.61%
2019	1,145,000	1,145,000	-	5,332,773	21.47%
2018	1,125,443	1,125,443	-	5,346,521	21.05%
2017	1,126,102	1,126,102	-	5,349,651	21.05%
2016	977,198	977,198	-	5,187,256	18.84%
2015	823,793	823,793	-	4,662,097	17.67%
2014	658,524	658,524	-	4,449,485	14.80%
2013	611,019	611,019	-	4,128,506	14.80%
2012	270,231	270,231	-	3,805,675	7.10%
2011	167,323	167,323	-	3,268,032	5.12%

**Notes to Required Supplementary Information
For the Year Ended June 30, 2020**

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 actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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%
Discount Rate	Decrease rate from 7.00% to 6.75%

The following changes in actuarial assumptions were made for the VaLORS Retirement Plan effective June 30, 2016 except the change in discount rate, which was based on the VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action 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%
Discount Rate	Decrease rate from 7.00% to 6.75%

Schedule of VCCS' Share of the Net OPEB Liability

Group Life Insurance Program (GLI)

For the Years Ended June 30

	2020*	2019*	2018*
VCCS' Proportion of the Net GLI OPEB Liability (Asset)	1.96%	2.06%	2.14%
VCCS' Proportionate Share of the Net GLI OPEB Liability (Asset)	\$ 31,846,900	\$ 31,274,000	\$ 32,268,000
VCCS' Covered Payroll	\$383,653,769	\$391,539,930	\$395,579,732
VCCS' Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of its Covered Payroll	8.30%	7.99%	8.16%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	52.00%	51.22%	48.86%

Schedule is intended to show information for 10 years. Since 2020 is the third year for this presentation, only three years of data is available. However, additional years will be added as they become available.

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

Schedule of Employer Contributions

Group Life Insurance

For the Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2020	\$ 2,060,972	\$2,060,972	-	\$ 396,340,769	0.52%
2019	1,995,018	1,995,018	-	383,653,769	0.52%
2018	2,036,008	2,036,008	-	391,539,930	0.52%

Schedule is intended to show information for 10 years. Since 2020 is the third year for this presentation, only three years of data is available. However, additional years will be added as they become available.

Schedule of VCCS' Share of the Net OPEB Liability

Health Insurance Credit Program

For the Years Ended June 30

	2020*	2019*	2018*
VCCS' Proportion of the Net HIC OPEB Liability (Asset)	5.60%	5.78%	6.10%
VCCS' Proportionate Share of the Net HIC OPEB Liability (Asset)	\$ 51,728,631	\$ 52,749,000	\$ 55,585,000
VCCS' Covered Payroll	\$381,875,067	\$389,321,850	\$394,447,967
VCCS' Proportionate Share of the Net HIC OPEB Liability (Asset) as a Percentage of its Covered Payroll	13.55%	13.55%	14.09%
Plan Fiduciary Net Position as a Percentage of the Total HIC OPEB Liability	10.56%	9.51%	8.03%

Schedule is intended to show information for 10 years. Since 2020 is the third year for this presentation, only three years of data is available. However, additional years will be added as they become available.

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

Schedule of Employer Contributions

Health Insurance Credit

For the Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2020	\$ 4,656,287	\$4,656,287	-	\$ 397,973,248	1.17%
2019	4,468,478	4,468,478	-	381,875,067	1.17%
2018	4,593,998	4,593,998	-	389,321,850	1.18%

Schedule is intended to show information for 10 years. Since 2020 is the third year for this presentation, only three years of data is available. However, additional years will be added as they become available.

Schedule of VCCS' Share of the Net OPEB Liability

Line of Duty Act (LODA)

For the Years Ended June 30

	2020*	2019*	2018*
VCCS' Proportion of the Net LODA OPEB Liability (Asset)	0.52%	0.53%	0.55%
VCCS' Proportionate Share of the Net LODA OPEB Liability (Asset)	\$ 1,849,043	\$ 1,670,000	\$ 1,449,000
VCCS' Covered-employee Payroll**	\$ 5,697,818	\$ 5,346,521	\$ 5,349,651
VCCS' Proportionate Share of the Net LODA OPEB Liability (Asset) as a Percentage of its Covered-employee Payroll**	32.45%	31.24%	27.09%
Plan Fiduciary Net Position as a Percentage of the Total LODA OPEB Liability	0.79%	0.60%	1.30%

Schedule is intended to show information for 10 years. Since 2020 is the third year for this presentation, only three years of data is available. However, additional years will be added as they become available.

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

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

Schedule of Employer Contributions

Line of Duty Act Program

For the 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
2020	\$ 81,869	\$ 81,869	-	\$ 6,171,841	1.33%
2019	69,165	69,165	-	5,697,818	1.21%
2018	68,000	68,000	-	5,346,521	1.27%

Schedule is intended to show information for 10 years. Since 2020 is the third year for this presentation, only three years of data is available. However, additional years will be added as they become available.

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

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

	2020*	2019*	2018*
VCCS' Proportion of the Net VSDP OPEB Liability (Asset)	(7.52%)	(7.74%)	(8.11%)
VCCS' Proportionate Share of the Net VSDP OPEB Liability (Asset)	\$ (14,744,584)	\$ (17,433,000)	\$ (16,659,000)
VCCS' Covered Payroll	\$304,193,586	\$305,233,995	\$306,049,960
VCCS' Proportionate Share of the Net VSDP OPEB Liability (Asset) as a Percentage of its Covered Payroll	(4.85%)	(5.71%)	(5.44%)
Plan Fiduciary Net Position as a Percentage of the Total VSDP OPEB Liability	167.18%	194.74%	186.63%

Schedule is intended to show information for 10 years. Since 2020 is the third year for this presentation, only three years of data is available. However, additional years will be added as they become available.

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

Schedule of Employer Contributions
Virginia Sickness and Disability Program (VSDP)

For the Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2020	\$ 1,990,962	\$ 1,990,962	-	\$ 321,122,903	0.62%
2019	1,885,999	1,885,999	-	304,193,586	0.62%
2018	2,014,544	2,014,544	-	305,233,995	0.66%

Schedule is intended to show information for 10 years. Since 2020 is the third year for this presentation, only three years of data is available. However, additional years will be added as they become available.

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

Health Insurance Credit Program (HIC)

Group Life Insurance Program (GLI)

Line of Duty Act (LODA)

Disability Insurance Program (VSDP)

For the Year Ended June 30, 2020

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 actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

General State Employees (HIC, GLI, LODA, VSDP)

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%
Discount Rate	Decreased rate from 7.00% to 6.75% N/A for LODA

Teachers (GLI)

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
Discount Rate	Decreased rate from 7.00% to 6.75%

SPORS Employees (HIC, GLI, LODA, VSDP)

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%
Discount Rate	Decreased rate from 7.00% to 6.75% N/A for LODA

VaLORS Employees (HIC, GLI, LODA, VSDP)

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%
Discount Rate	Decreased rate from 7.00% to 6.75% N/A for LODA

JRS Employees (HIC, GLI)

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
Discount Rate	Decreased rate from 7.00% to 6.75%

Largest Ten Locality Employers - General Employees (GLI)

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%
Discount Rate	Decreased rate from 7.00% to 6.75%

Non-Largest Ten Locality Employers - General Employees (GLI)

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75.
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%
Discount Rate	Decreased rate from 7.00% to 6.75%

Largest Ten Locality Employers – Hazardous Duty Employees (GLI)

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%
Discount Rate	Decreased rate from 7.00% to 6.75%

Non-Largest Ten Locality Employers – Hazardous Duty Employees (GLI)

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
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Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%
Discount Rate	Decreased rate from 7.00% to 6.75%

Largest Ten Locality Employers – Public Safety Employees (LODA)

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

Non-Largest Ten Locality Employers – Public Safety Employees (LODA)

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, 2020**

**Schedule of VCCS' Share of the Total OPEB Liability
Pre-Medicare Retiree Program
For the Years Ended June 30**

	2020*	2019*	2018*
VCCS' Proportion of the Collective Total VSDP OPEB Liability (Asset)	6.77%	6.91%	7.14%
VCCS' Proportionate Share of the Collective Total VSDP OPEB Liability (Asset)	\$ 45,992,947	\$ 69,451,303	\$ 92,753,806
VCCS' Covered-employee Payroll	\$363,562,657	\$348,687,142	\$356,495,630
VCCS' Proportionate Share of the Collective Total VSDP OPEB Liability (Asset) as a Percentage of its Covered-employee Payroll	12.65%	19.92%	26.02%

Schedule is intended to show information for 10 years. Since 2020 is the third year for this presentation, only three years of data is available. However, additional years will be added as they become available.

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

**Notes to Required Supplementary Information
For the Fiscal 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 actuarial assumptions were updated since the June 30, 2018 valuation based on recent experience:

- Spousal Coverage – reduced the rate from 35% to 25%
- Retiree Participation - reduced the rate from 60% to 50%

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 modified pre-retirement mortality base rates to exclude age over 65 instead of apply mortality improvement projection scale BB. The excise tax was modified to reflect updated projection of the tax thresholds. Trend rates were updated based on economic conditions as of June 30, 2019. Additionally, the discount rate was decreased from 3.87% to 3.51% based on the Bond Buyers GO 20 Municipal Bond index.



Staci A. Henshaw, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 25, 2021

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Kenneth R. Plum
Chairman, Joint Legislative Audit
and Review Commission

State Board for Community Colleges
Virginia Community College System

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the Virginia Community College System (System), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units of the System, which are discussed in Note 1 and Note 22. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the System, is based on the reports of the other auditors. We did not obtain audited financial statements for the Virginia Highlands Community College

Educational Foundation, Paul D. Camp Community College Foundation, and John Tyler Community College Real Estate Foundation, which collectively represent 1.97 percent, 2.05 percent, and 2.46 percent of assets, net position, and revenues, respectively, of the aggregate discretely presented component units, as the audits as of and for the year ended June 30, 2020, were not complete as of the date of this report. Our opinion is not modified with respect to this matter.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component units of the System that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

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

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

Opinion

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of the System as of June 30, 2020, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Correction of 2019 Financial Statements

As discussed in Note 1 of the accompanying financial statements, the fiscal year 2019 financial statements have been restated to correct a misstatement related to the aggregate discretely presented component units of the System. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the following be presented to supplement the basic financial statements: Management's Discussion and Analysis on pages 1 through 11; the Schedule of Employer's Share of Net Pension Liability, the Schedule of Employer Contributions, and the Notes to the Required Supplementary Information on pages 91 through 93; the Schedule of VCCS' Share of Net OPEB Liability, the Schedule of Employer Contributions, and the Notes to the Required Supplementary Information for the Group Life Insurance, Health Insurance Credit, Line of Duty, and Disability Insurance programs on pages 94 through 101; the Schedule of VCCS' Share of the Total OPEB Liability and the Notes to the Required Supplementary Information for the Pre-Medicare Retiree program on page 102. 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 August 25, 2021, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the System's internal control over financial reporting and compliance.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

GDS/clj