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VIRGINIA BOARD OF ACCOUNTANCY

FINANCIAL STATEMENTS

For the Fiscal Year Ended
June 30, 2019

- T A B L E OF C O N T E N T S –

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

As management of the Virginia Board of Accountancy (Board), the Board offers readers of these financial statements this narrative overview and analysis of the financial activities of the Board for the fiscal year ended June 30, 2019.

Financial Highlights

The assets and deferred outflows of resources of the Board exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $3,713,198 (net position), an increase of $230,406 in comparison with the prior year. Of this amount, $3,632,700 represents unrestricted net position, which may be used to meet the Board's ongoing obligations.

At the close of fiscal year 2019, the Board's governmental funds reported combined ending fund balances of $4,965,218, an increase of $727,049 in comparison with the prior year. The committed portion of the fund balance is $4,962,491, which is available for spending at the Board's discretion.

At the close of fiscal year 2019, the total fund balance for the Board's Operating Fund was $559,988, or approximately 25 percent of total operating expenditures. The Board also has a Trust Account to be used for the study, research, investigation, and adjudication of matters involving possible violations of statutes or regulations relating to the profession of public accounting, or for any other purpose the Board determines is relevant to its statutory purposes and cannot otherwise be funded through its Operating Fund. At the close of fiscal year 2019, the Trust Account reported an ending fund balance of $4,405,230.

The Board received Project Initiation Approval (PIA) from the Chief Information Officer of the Commonwealth in early fiscal year 2018 for a new Information Technology project and began development during that year. During fiscal year 2019, the project was placed in a suspended status with the Virginia Information Technologies Agency (VITA). The Board permanently impaired the capital asset related to the implementation of the project and reported a special item of $838,049 in fiscal year 2019 related to the impairment.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Board's basic financial statements, which are comprised of three components: (1) the entity-wide financial statements, (2) the fund financial statements, and (3) the Notes to Financial Statements.

Entity-Wide Financial Statements

The entity-wide financial statements are designed to provide readers with a broad overview of the Board's finances, in a manner similar to private-sector business.

The Statement of Net Position presents information on all of the Board's assets and deferred outflows of resources, and liabilities and deferred inflows of resources; net position represents the difference between all other elements in a statement of financial position and is displayed in three components – net investment in capital assets; restricted; and unrestricted. Over time, increases or decreases in net position may indicate whether the financial position of the Board is improving or deteriorating.

The Statement of Activities presents information showing how the Board's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned, but unused vacation leave).

The entity-wide financial statements can be found on pages 8 and 9 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board, like other state and local government agencies, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Board's funds are governmental funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions as governmental activities in the entity-wide financial statements. However, unlike the entity-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government agency's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the entity-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the entity-wide financial statements. By doing so, readers may better understand the long-term impact of the Board's near-term financing decisions. Both the Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Board has two governmental funds (Operating Fund and Trust Account), both of which are special revenue funds. Information is presented in separate columns in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance for each fund.

The Board adopts an annual operating budget for its Operating Fund. The Board's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. A budgetary comparison statement has been provided for the Operating Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 10 through 15 of this report.

Entity-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Board, assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $3,713,198 at the close of the most recent fiscal year.

By far the largest portion of the Board's net position (98 percent) is unrestricted, meaning they may be used to meet the Board's ongoing obligations. The remaining portion of the Board's net position reflects its net investment in capital assets (1 percent) and other postemployment asset (1 percent). The Board uses capital assets to provide services to exam and license applicants, regulants and the public; consequently, these assets are not available for future spending.

Condensed Summary Statement of Net Position

	for the year ended June 30, 2019	2018	Increase/(Decrease) Amount	Percent
Current and other assets	$ 5,205,074	$ 4,423,543	$ 781,531	18%
Capital assets, net of depreciation	40,498	554,322	(513,824)	(93%)
Total assets	5,245,572	4,977,865	267,707	5%
Deferred outflows of resources	221,694	259,312	(37,618)	(15%)
Total assets and deferred outflows	5,467,266	5,237,177	230,089	4%
Current liabilities	246,185	188,233	57,952	31%
Long-term liabilities	1,318,445	1,430,919	(112,474)	(8%)
Total liabilities	1,564,630	1,619,152	(54,522)	(3%)
Deferred inflows of resources	189,438	135,233	54,205	40%
Total liabilities and deferred inflows	1,754,068	1,754,385	(317)	0%
Net position:				
Net investment in capital assets	40,498	554,322	(513,824)	(93%)
Restricted	40,000	38,000	2,000	5%
Unrestricted	3,632,700	2,890,470	742,230	26%
Total net position	$ 3,713,198	$ 3,482,792	$ 230,406	7%

The Board's net position increased by $230,406 during fiscal year 2019. This increase represents the degree to which licensing and examination fees exceeded operating expenses. Key elements of this increase in net position are as follows.

Condensed Summary of Changes in Net Position

	for the year ended June 30,		Increase/(Decrease)	
	2019	2018	Amount	Percent
Program revenues:				
Charges for services	$ 2,957,418	$ 2,407,171	$ 550,247	23%
General revenues:				
Monetary penalties	198,632	276,738	(78,106)	(28%)
Total revenues	3,156,050	2,683,909	472,141	18%
Licensing and enforcement expenses	1,877,661	1,867,246	10,415	1%
Increase in net position before transfers	1,278,389	816,663	461,726	57%
Special Item	(838,049)	-	(838,049)	(100%)
Transfers/(net)	(209,934)	(286,893)	(76,959)	(27%)
Increase in net position:	230,406	529,770	(299,364)	(57%)
Net position - July 1	3,482,792	2,953,022	529,770	18%
Net position - June 30	$ 3,713,198	$ 3,482,792	$ 230,406	7%

Financial Analysis of the Board's Special Revenue Funds

As noted earlier, the Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financing requirements and fee structure. In particular, unrestricted fund balances may serve as a useful measure of the Board's net resources available for spending at the end of the fiscal year.

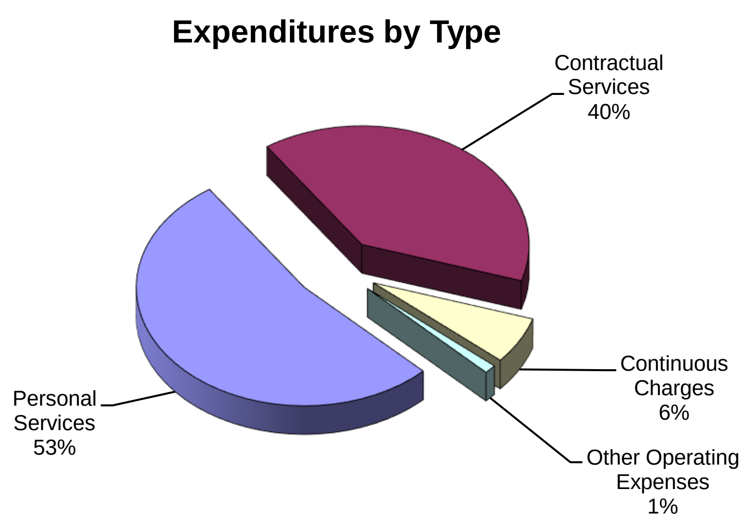
Program Revenues and Expenditures

The total fund balance of the Board increased by $727,049 during fiscal year 2019. Key factors affecting the change in fund balance are as follows:

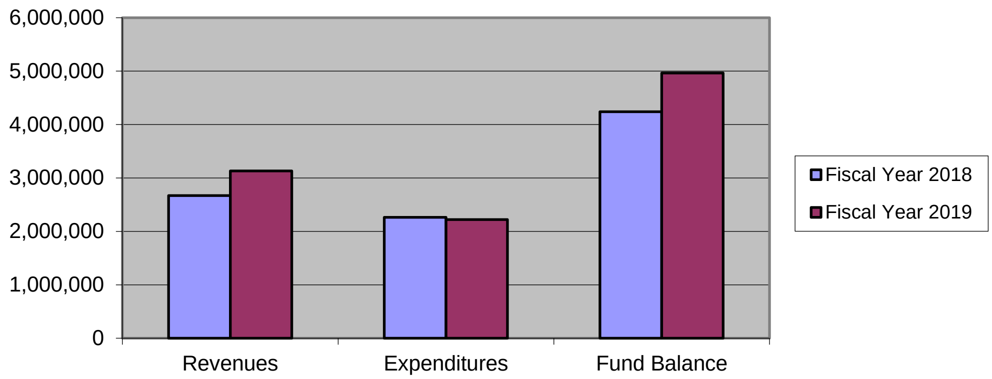
- Operating revenues exceeded expenditures by $838,200 in fiscal year 2019. Revenues from licensing and examination fees increased by $519,275 (22 percent) from the previous year. This is attributable to the Board's transition to a single renewal date in fiscal year 2019. Previously, licensees and firms renewed in the month when they first gained licensure. During fiscal year 2019, licensees and firms paid a pro-rated renewal fee to accomplish the move to a single renewal date of June 30. In addition, a full renewal fee was collected prior to June 30, 2019, allowing licensees and firms to remain active through June 30, 2020.

- Transfers to other funds totaled $184,304. Monetary penalties transferred to the Literary Fund represented 94 percent of these transfers.

- Total expenditures decreased by $41,612 (2 percent) over the previous year. The decrease is directly related to a decline in contractual services costs as system implementation expenses were suspended during fiscal year 2019.



Revenues, Expenditures, and Fund Balances
Operating and Trust Account Funds Combined



Operating Fund Budgetary Highlights

The Board adopts an annual operating budget for its Operating Fund. The Board's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly plus any pending budget execution transactions and amendments. The Board budgeted total expenditures of $2,476,080 and total revenue of $2,532,399, including $230,472 in monetary penalties to be deposited into the Literary fund. During the year, revenues were higher than budgetary estimates due to the implementation of the single renewal date. Both pro-rated fees and full renewal fees were collected during the year as part of the transition to the single renewal date. Actual expenditures were less than budgetary estimates for the year due to the suspension of the Information Technology project.

Capital Assets

The Board's net investment in capital assets at June 30, 2019, totals $40,498 (net of accumulated depreciation). This amount represents capitalized leasehold improvements and modular office furniture systems. Additional information on the Board's capital assets can be found in Note 5. The intangible asset reported as Construction in Progress in Note 5 became permanently impaired during fiscal year 2019. The Board reported a special item of $838,049 related to the impairment. Additional information on the special item can be found in Note 12.

Economic Factors and the Fiscal Year 2020 Budget

The Board experienced an increase in the number of licensed individuals and a decrease in licensed firms in the fiscal year 2019.

CPA License Holders

	At June 30, 2019	At June 30, 2018
Individuals	28,066	27,903
Firms	1,126	1,177
Total	29,192	29,080

The Board's major source of revenue is licensing and examination fees. As national accounting enrollments continue to trend down, the number of exam candidates and licensees in Virginia have the potential to decline. On-going expenditures continue to increase for the Board primarily in the areas of personal services and information technology. The Board's authorized appropriation will decrease from $2,476,080 in fiscal year 2019 to $2,104,195 in fiscal year 2020.

FINANCIAL STATEMENTS

VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF NET POSITION
As of June 30, 2019
With Comparative Figures for 2018

	Governmental Activities	
	2019	2018
Assets:		
Cash held by the Treasurer of Virginia (Note 3)	$ 5,128,792	$ 4,344,565
Accounts receivable, net (Note 4)	33,555	38,317
Prepaid items (Note 1E)	2,727	2,661
Net other postemployment benefit (Note 10)	40,000	38,000
Capital assets, net of accumulated depreciation (Notes 5 and 12)	40,498	554,322
Total Assets	5,245,572	4,977,865
Deferred Outflow of Resources:		
Deferred outflows related to pension (Note 9)	165,808	200,090
Deferred outflows related to other postemployment benefit (Note 10)	55,886	59,222
Total Deferred Outflows	221,694	259,312
Liabilities:		
Accounts payable	92,348	34,121
Accrued salaries payable	73,953	74,936
Due to the State Literary Fund (Note 4)	33,555	38,317
Long-term liabilities due within one year		
Compensated absences payable (Note 6)	41,115	36,208
Net other postemployment liability (Note 10)	5,214	4,651
Long-term liabilities due in more than one year		
Compensated absences payable (Note 6)	16,842	28,202
Net pension liability (Note 9)	1,015,000	1,068,000
Net other postemployment liability (Note 10)	286,603	334,717
Total Liabilities	1,564,630	1,619,152
Deferred Inflows of Resources:		
Deferred inflows related to pension (Note 9)	88,000	77,000
Deferred inflows related to other postemployment benefit (Note 10)	101,438	58,233
Total Deferred Inflows	189,438	135,233
Net Position:		
Net investment in capital assets (Notes 5 and 12)	40,498	554,322
Restricted for net other postemployment benefit (Note 10)	40,000	38,000
Unrestricted	3,632,700	2,890,470
Total Net Position	$ 3,713,198	$ 3,482,792

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

VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019
With Comparative Figures for 2018

	Governmental Activities			
	2019			2018
		Program Revenues	Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services		
Functions/programs:				
Governmental activities				
Licensing, examination and enforcement functions	$ 1,877,661	$ 2,957,418	$ 1,079,757	$ 539,925
General revenues:				
Monetary penalties			198,632	276,738
Special Item (Note 12)			(838,049)	-
Transfers:				
Transfers to the State General Fund			(11,302)	(10,155)
Transfers to the State Literary Fund			(198,632)	(276,738)
Total General Revenues, Special Item, and Transfers			(849,351)	(10,155)
Change in net position			230,406	529,770
Net position - July 1			3,482,792	2,953,022
Net position, June 30			$ 3,713,198	$ 3,482,792

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

VIRGINIA BOARD OF ACCOUNTANCY
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2019
With Comparative Figures for 2018

	Special Revenue Funds			
	Operating Fund	Trust Account	Total 2019	Total 2018
Assets:				
Cash held by the Treasurer of Virginia (Note 3)	$ 723,562	$ 4,405,230	$ 5,128,792	$ 4,344,565
Accounts receivable, net (Note 4)	33,555	-	33,555	38,317
Prepaid items (Note 1E)	2,727	-	2,727	2,661
Total assets	$ 759,844	$ 4,405,230	$ 5,165,074	$ 4,385,543
Liabilities, deferred inflows of resources and fund balance:				
Liabilities:				
Accounts payable	$ 92,348	$ -	$ 92,348	$ 34,121
Accrued salaries payable	73,953	-	73,953	74,936
Due to the State Literary Fund	7,875	-	7,875	25,988
Total liabilities	174,176	-	174,176	135,045
Deferred Inflows of Resources:				
Revenue not currently available	25,680	-	25,680	12,329
Total deferred inflows of resources	25,680	-	25,680	12,329
Fund balance:				
Nonspendable:				
Prepaid insurance/other	2,727	-	2,727	2,661
Committed for:				
Board operations	557,261	4,405,230	4,962,491	4,235,508
Total fund balance	559,988	4,405,230	4,965,218	4,238,169
Total liabilities, deferred inflows of resources and fund balance	$ 759,844	$ 4,405,230	$ 5,165,074	$ 4,385,543

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

VIRGINIA BOARD OF ACCOUNTANCY
BALANCE SHEET, continued
GOVERNMENTAL FUNDS
As of June 30, 2019
With Comparative Figures for 2018

	Special Revenue Funds	
	Total	
	2019	2018
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Total fund balance (per page 10)	$ 4,965,218	$ 4,238,169
Capital assets reported for governmental activities are not financial resources and, therefore, are not reported in the funds. (Notes 5 and 12)	40,498	554,322
Restricted net other postemployment asset is not a financial resource and, therefore is not reported in the funds. (Note 10)	40,000	38,000
Long-term liability for compensated absences, net pension liability, and net other postemployment liability are not due and payable in the current period and therefore are not reported in the funds. (Note 6, Note 9, and Note 10)	(16,842)	(28,202)
	(41,115)	(36,208)
	(1,015,000)	(1,068,000)
	(291,817)	(339,368)
Deferred inflows and outflows related to pension activity are not required to be reported in the funds but are required to be reported at the government-wide level. (Note 9)		
Deferred outflow - Employer contributions made subsequent to measurement date	104,808	104,090
Deferred outflow - Changes in proportion and differences between employer contributions and proportionate share of contributions	54,000	84,000
Deferred outflow - Net difference between projected and actual earnings on pension plan investments	-	-
Deferred outflow - Difference between expected and actual experience	-	2,000
Deferred outflow - Change in assumptions	7,000	10,000
Deferred inflow - Net difference between projected and actual earnings on pension plan investments	(61,000)	(31,000)
Deferred inflow - Net difference between projected and actual earnings on pension plan investments	(27,000)	(46,000)
Deferred inflows and outflows related to other postemployment activity are not required to be reported in the funds but are required to be reported at the government-wide level. (Note 10)		
Deferred outflow - Change in proportion	29,985	36,753
Deferred outflow - Amounts associated with transactions subsequent to the measurement date	22,901	22,469
Deferred outflow - Difference between expected and actual experience	3,000	-
Deferred inflow - Differences between actual and expected experience	(28,570)	(9,054)
Deferred inflow - Change in assumptions	(56,721)	(44,179)
Deferred inflow - Change in proportion	(12,147)	-
Deferred inflow - Net difference between projected and actual earnings on plan investments	(4,000)	(5,000)
Net position of governmental activities (page 8)	$ 3,713,198	$ 3,482,792

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

VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2019
With Comparative Figures for 2018

	Special Revenue Funds			
	Operating Fund	Trust Account	Total 2019	Total 2018
Revenues:				
Licensing and examination fees	$ 2,870,785	$ -	$ 2,870,785	$ 2,351,510
Interest income	13,481	73,153	86,634	54,774
Monetary penalties	173,002	-	173,002	264,409
Other revenues	-	-	-	887
Total revenues	3,057,268	73,153	3,130,421	2,671,580
Expenditures:				
Licensing, examination and enforcement functions:				
Personal services	1,174,942	-	1,174,942	1,173,054
Contractual services	876,136	-	876,136	924,263
Supplies and materials	11,382	-	11,382	11,900
Transfer payments	1,358	-	1,358	848
Continuous charges	141,919	-	141,919	140,447
Equipment purchases	13,331	-	13,331	10,168
Total expenditures	2,219,068	-	2,219,068	2,260,680
Excess of revenues over expenditures	838,200	73,153	911,353	410,900
Other financing sources/(uses):				
Transfers to/from other funds (Note 7)	(631,270)	631,270	-	-
Transfers to the State General Fund	(11,302)	-	(11,302)	(10,155)
Transfers to the State Literary Fund	(173,002)	-	(173,002)	(264,409)
Total other financing sources and uses	(815,574)	631,270	(184,304)	(274,564)
Net change in fund balance	22,626	704,423	727,049	136,336
Fund balance, July 1	537,362	3,700,807	4,238,169	4,101,833
Fund balance, June 30	$ 559,988	$ 4,405,230	$ 4,965,218	$ 4,238,169

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

VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, continued
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2019
With Comparative Figures for 2018

	Special Revenue Funds Total 2019	Special Revenue Funds Total 2018
Amounts reported for governmental activities in the Statement of Activities are different because:		
Net change in fund balance (page 12)	$ 727,049	$ 136,336
Governmental funds report equipment purchases as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of equipment purchases less depreciation expense in the current period and includes a decrease for a permanently impaired asset (Note 5).	(513,824)	455,021
The expense associated with compensated absences reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.	6,453	11,579
Deferred inflows and outflows related to pension activity are not required to be reported in the funds but are required to be reported at the government-wide level.		
Change in deferred outflow - Employer contributions made subsequent to measurement date.	718	4,125
Change in deferred outflow - Changes in proportion and differences between employer contributions proportionate share of contributions	(30,000)	(38,000)
Change in deferred outflow - Net difference between projected and actual earnings on pension plan	-	(74,000)
Change in deferred outflow - Change in assumptions	(3,000)	10,000
Change in deferred outflow - Differences between expected and actual experience	(2,000)	(3,000)
Change in deferred inflow - Net difference between projected and actual earnings on pension plan	19,000	(46,000)
Change in deferred inflow - Differences between expected and actual experience	(30,000)	-
Change in net pension liability	53,000	91,000
Deferred inflows and outflows related to other postemployment activity are not required to be reported in the funds but are required to be reported at the government-wide level.		
Change in deferred outflow - Amounts associated with transactions subsequent to the measurement date	431	(1,370)
Change in deferred outflow - Changes in proportion	(6,768)	36,753
Change in deferred outflow - Differences between expected and actual experience	3,000	-
Change in deferred inflow - Net difference between projected and actual earnings on plan investments	1,000	(5,000)
Change in deferred inflow - Differences between expected and actual experience	(19,515)	(9,054)
Change in deferred inflow - Change in assumptions	(12,542)	(44,179)
Change in deferred inflow - Changes in proportion	(12,147)	-
Change in net other postemployment liability	49,551	5,559
Changes in net position of governmental activities (page 9)	$ 230,406	$ 529,770

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

VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
PREPARED ON THE BUDGETARY (CASH BASIS) OF ACCOUNTING
SPECIAL REVENUE FUND
For the Year Ended June 30, 2019
With Comparative Figures for 2018

	Operating Fund				
	2019				2018
	Original Budget	Final Budget	Actual Amounts	Final Budget/ Actual Variance Positive/ (Negative)	Actual Amounts
Revenues:					
Licensing and examination fees	$ 2,296,427	$2,296,427	$ 2,870,760	$ 574,333	$2,351,595
Interest income	5,500	5,500	13,481	7,981	7,134
Monetary penalties	230,472	230,472	191,115	(39,357)	256,354
Other revenues	-	-	-	-	887
Total revenues	2,532,399	2,532,399	3,075,356	542,957	2,615,970
Expenditures:					
Licensing, examination and enforcement functions:					
Personal services	1,246,789	1,246,789	1,175,925	70,864	1,174,172
Contractual services	1,048,914	1,048,914	830,032	218,882	933,694
Supplies and materials	14,725	14,725	11,382	3,343	11,900
Transfer payments	900	900	1,358	(458)	848
Continuous charges	143,002	143,002	141,985	1,017	140,457
Equipment purchases	21,750	21,750	13,331	8,419	10,168
Total expenditures	2,476,080	2,476,080	2,174,013	302,067	2,271,239
Excess of revenues over expenditures	56,319	56,319	901,343	845,024	344,731
Other financing sources/(uses):					
Transfers from/(to) other funds (Note 7)	-	(631,270)	(631,270)	-	24,435
Transfers to the State General Fund	(11,302)	(11,302)	(11,302)	-	(10,155)
Transfers to the State Literary Fund	(230,472)	(230,472)	(191,115)	39,357	(256,354)
Total other financing sources and uses	(241,774)	(873,044)	(833,687)	39,357	(242,074)
Net change in fund balance	(185,455)	(816,725)	67,656	884,381	102,657
Fund balance, July 1	614,003	614,003	614,003	-	511,346
Fund balance, June 30	$ 428,548	$ (202,722)	$ 681,659	$ 884,381	$ 614,003

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

This statement presents comparisons of the legally adopted budget prepared on the cash basis of accounting with actual data prepared on the cash basis. Actual amounts reported on the modified accrual basis of accounting are different because:

	Operating Fund	
	2019	2018
	Actual Amounts	Actual Amounts
Net change in fund balance (page 14)	$ 67,656	$ 102,657
Accrued revenues on modified accrual basis	(18,088)	7,970
Accrued expenditures on modified accrual basis	(45,055)	10,559
Accrued transfers on modified accrual basis	18,113	(8,055)
Change in fund balance on modified accrual basis (page 12)	$ 22,626	$ 113,131

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

NOTES TO FINANCIAL STATEMENTS

THE VIRGINIA BOARD OF ACCOUNTANCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board regulates the practice of accounting in Virginia, protecting and serving the citizens of the Commonwealth by administering the laws and regulations for their financial health, safety, and welfare. The Board's major activities include reviewing and approving applications to ensure applicants are competent to enter the public accounting profession; determining continued qualifications for licensure; conducting audits of continuing professional education; and adjudicating enforcement cases and disciplining those who do not follow acceptable, ethical, or professional standards.

A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Board is an agency of the Commonwealth and is included in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

B. Fund Accounting

The activities of the Board are accounted for in its special revenue funds. Special revenue funds account for transactions related to resources received and used for committed or specific purposes.

The Board has two special revenue funds. The Operating Fund is the Board's primary operating fund. It accounts for all financial resources of the Board, except those resources held in the Trust Account. The Trust Account is to be used for the study, research, investigation, and adjudication of matters involving possible violations of statutes or regulations relating to the profession of public accounting, or for any other purpose the Board determines is relevant to its statutory purposes and cannot otherwise be funded through its Operating Fund. Both funds are considered major funds of the Board.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Entity-Wide Financial Statements – The entity-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the Board's financial activities. For the most part, the effect of interfund activity has been removed from these statements. The Statement of Activities demonstrates the degree to which direct expenses are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues consist of charges to exam applicants and regulants. Other revenues not included among program revenues are reported instead as general revenues.

The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows.

Governmental Fund Financial Statements – The financial statements also include separate fund financial statements. The Operating Fund and Trust Account are reported in separate columns in the fund financial statements. The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within sixty days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

D. Fund Balance

With the implementation of GASB No. 54, the fund balance classifications are reported as Non-spendable, Restricted, Committed, Assigned, and Unassigned. The Non-spendable fund balance includes amounts that cannot be spent because they are either a) not in spendable form or b) legally required to be maintained intact such as the corpus of a permanent fund. The Committed fund balance includes amounts that can be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority through enabling legislation. The highest level of decision authority for the Commonwealth is the General Assembly and the Governor.

E. Prepaid Items

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

F. Summarized Comparative Data

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Board's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

G. 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.

H. Pensions

The Virginia Retirement System (VRS) State Employee Retirement Plan is a single employer pension plan that is treated like a cost-sharing plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Virginia Retirement System (VRS) State Employee Retirement Plan; and the additions to/deductions from the VRS State Employee 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.

I. State Employee Health Insurance Credit Program (OPEB)

The VRS State Employee Health Insurance Credit Program is a single employer plan that is presented as a multiple-employer, cost-sharing plan. The State Employee Health Insurance Credit Program was established pursuant to §51.1-1400 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The State Employee Health Insurance Credit Program is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired state employees. For purposes of measuring the net State Employee Health Insurance Credit Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the State Employee Health Insurance Credit Program OPEB, and the State Employee Health Insurance Credit Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) State Employee Health Insurance Credit Program; and the additions to/deductions from the VRS State Employee Health Insurance Credit Program's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

J. Group Life Insurance Program (OPEB)

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

K. Disability Insurance Program (OPEB)

The 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 employees. For purposes of measuring the net Disability Insurance Program OPEB liability (asset), deferred outflows of resources and deferred inflows of resources related to the Disability Insurance Program OPEB, and Disability Insurance Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Disability Insurance Program

OPEB Plan and the additions to/deductions from the VRS Disability Insurance Program OPEB Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

L. Pre-Medicare Retiree Healthcare (OPEB)

The Commonwealth of Virginia State Health Plans Program for Pre-Medicare Retirees (Pre-Medicare Retiree Healthcare Plan) 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. The Pre-Medicare Retiree Healthcare Plan was established by Title 2.2, Chapter 28 of the Code of Virginia for retirees who are not yet eligible to participate in Medicare. Benefit payments are recognized when due and payable in accordance with benefit terms. There are no assets accumulated in a trust to pay benefits.

2. BUDGETARY INFORMATION

The Board adopts an annual operating budget for its Operating Fund. The Board's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be reappropriated for expenditure in the following fiscal year. The Governor, as required by the Code of Virginia, submits a budget composed of all proposed expenditures for the state, and of estimated revenues and borrowing for a biennium, to the General Assembly.

The budget is prepared on a biennial basis; however, the budget contains separate appropriations for each year within the biennial budget, as approved by the General Assembly, and signed into law by the Governor. For management control purposes, the budget is controlled at the program level.

Appropriations of special revenue funds may allow expenditures in excess of the original appropriations to the extent that revenues of the funds exceed original budget estimates and such additional expenditures are approved by the Governor through supplemental appropriations.

3. CASH WITH THE TREASURER OF VIRGINIA

All state funds of the Board are held by the Treasurer of Virginia, pursuant to Section 2.2-1800, Code of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Each fund's equity in pooled state funds is reported as "Cash Held by the Treasurer of Virginia" and is not categorized as to credit risk.

4. RECEIVABLES AND DUE TO THE STATE LITERARY FUND

The Board levies and collects penalties from regulants and non-regulants found guilty of violating the Board's statutes or regulations. The proceeds from penalties are deposited into the state's Literary Fund in accordance with Section 19.2-353, Code of Virginia. Consequently, receivables are offset by a corresponding amount Due to the Literary Fund and are not available to meet the Board's current operating needs. At June 30, 2019, the amount Due to the Literary Fund for collections on monetary penalties was $33,555.

	June 30, 2019
Gross receivables	$ 60,229
Less: allowance for doubtful	(26,674)
Net Receivables	$ 33,555

5. CAPITAL ASSETS

The following presents capital activity for the year ended June 30, 2019:

	Balance at June 30, 2018	Increases	Decreases	Balance at June 30, 2019
Nondepreciable capital assets:				
Construction-in-Progress (1)	$ 496,073	$ 341,976	$ 838,049	$ -
Total nondepreciable assets	496,073	341,976	838,049	-
Depreciable capital assets:				
Software	183,388	-	-	183,388
Tenant improvements	101,534	-	-	101,534
Equipment	72,260	5,366	-	77,626
Total depreciable assets	357,182	5,366	-	362,548
Less accumulated depreciation for:				
Software	(172,690)	(10,699)	-	(183,389)
Tenant improvements	(94,545)	(4,971)	-	(99,516)
Equipment	(31,698)	(7,447)	-	(39,145)
Total accumulated depreciation	(298,933)	(23,117)	-	(322,050)
Depreciable capital assets, net	58,249	(17,751)	-	40,498
Total capital assets, net	$ 554,322	$ 324,225	$ 838,049	$ 40,498

Note (1) Includes permanently impaired asset.

The Board capitalizes all software and equipment with an initial, individual cost of $5,000 or more and an estimated useful life in excess of one year. This includes capitalizing personal service costs and vendor payments associated with developing its licensing software for internal use.

Capital assets are reported at historical cost less accumulated depreciation. Depreciation of software and equipment costs is expensed on a straight-line basis over their estimated useful life of ten years. Depreciation of tenant improvement costs is expensed on a straight-line basis over the ten year life of the lease agreement.

During fiscal year 2019, the Board permanently impaired the construction-in-progress asset related to a suspended Information Technology project and determined the asset had a carrying value of zero.

6. COMPENSATED ABSENCES

Compensated absences reflected in the Statement of Net Position represent the amounts of vacation, sick, and compensatory leave earned by the Board's employees but not taken at June 30, 2019. The amount reflects all earned vacation, sick, and compensatory leave payable under the Commonwealth's leave payout policies. Information on the Commonwealth's leave payout policies is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.

Balance at June 30, 2018	Increases	Decreases	Balance at June 30, 2019
$64,410	$50,846	($57,299)	$57,957
		Due within one year	(41,115)
		Due in more than one year	$16,842

7. TRANSFERS TO AND FROM THE TRUST ACCOUNT

In accordance with § 54.1-4405.1 of the Code of Virginia, a special nonreverting fund known as the Board of Accountancy Trust Account (the Trust Account) was created. The purpose of the Trust Account is to provide a supplemental source of funds to the Board on a timely basis for its use in the study, research, investigation or adjudication of matters involving possible violations of the statutes or regulations pertaining to the profession of public accounting or for any other purpose that the Board determines is germane to its statutory purposes and cannot otherwise be funded through the Operating Fund. During fiscal year 2019 the Board transferred a total of $631,270 to the Trust Account.

8. COMMITMENTS

On August 29, 2007, the Board entered into a ten-year operating lease for office space in the Perimeter Center Building at 9960 Mayland Drive, Henrico, VA 23233. The Perimeter Center Building was sold to a new owner in May of 2014. Effective March 1, 2019, the term of the lease was extended to January 31, 2027 and included an adjustment to the Board's portion of the total square footage.

The Board has, as of June 30, 2019, the following future obligations due under the Perimeter Center Building lease agreement:

Year Ending June 30,	Amount	
2020	$ 95,161	
2021	95,440	
2022	97,997	
2023	100,625	
2024	103,324	
2025	106,098	
2026	108,948	
2027	64,825	(Lease expires on 1/31/2027)
	$ 772,419	

9. DEFINED BENEFIT PENSION PLAN

Plan Description

All full-time, salaried permanent employees of state agencies are automatically covered by the VRS State Employee Retirement Plan upon employment. This plan is 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 are paying 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. Each of these benefit structures has a 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:

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

Eligible Members	**Eligible Members**	**Eligible Members**
Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund. **Hybrid Opt-In Election** VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. **Hybrid Opt-In Election** 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. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • State employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 ***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. 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.
Retirement Contributions	**Retirement Contributions**	**Retirement Contributions**
State employees, excluding state elected officials, and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	Same as Plan 1.	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.

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Credible Service	**Credible Service**	**Credible Service**
Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	Same as Plan 1.	**Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
Vesting	**Vesting**	**Vesting**
Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	Same as Plan 1.	**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.

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
		Defined Contribution 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. Member are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. * After two years, a member is 50% vested and may withdraw 50% of employer contributions. *After three years, a member is 75% vested and may withdraw 75% of employer contributions. *After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit	**Calculating the Benefit**	**Calculating the Benefit**
The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	See definition under Plan 1.	**Defined Benefit Component:** See definition under Plan 1. **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Average Final Compensation	**Average Final Compensation**	**Average Final Compensation**
A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	A member's average final compensation is their average of the 60 consecutive months of highest compensation as a covered employee.	Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier	**Service Retirement Multiplier**	**Service Retirement Multiplier**
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%.	Same as Plan 1 of 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.	**Defined Benefit Component:** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **Defined Contribution Component:** Not applicable.
Normal Retirement Age	**Normal Retirement Age**	**Normal Retirement Age**
Age 65.	Normal Social Security retirement age.	**Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility	**Earliest Unreduced Retirement Eligibility**	**Earliest Unreduced Retirement Eligibility**
Age 65 with a least five years (60 months) of creditable service or age 50 with at least 30 years of creditable service.	Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.	**Defined Benefit Component:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Earliest Reduced Retirement Eligibility	**Earliest Reduced Retirement Eligibility**	**Earliest Reduced Retirement Eligibility**
Age 55 with a least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service	Age 60 with at least five years (60 months) of creditable service	**Defined Benefit Component:** Age 60 with at least five years (60 months) of creditable service. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions
Cost-of-Living Adjustment (COLA) in Retirement	**Cost-of-Living Adjustment (COLA) in Retirement**	**Cost-of-Living Adjustment (COLA) in Retirement**
The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. **Eligibility:** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit or 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.	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%. **Eligibility:** Same as Plan 1	**Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable. **Eligibility:** Same as Plan 1 and Plan 2.

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Exceptions to COLA Effective Dates	**Exceptions to COLA Effective Dates**	**Exceptions to COLA Effective Dates**
The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: * The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. *The member retires on disability. *The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). *The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. *The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	Same as Plan 1.	Same as Plan 1 and Plan 2.
Disability Coverage	**Disability Coverage**	**Disability Coverage**
Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.	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.	State employees (including Plan 1 or 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.

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Disability Coverage	**Disability Coverage**	**Disability Coverage**
Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	Hybrid members (including Plan 1 and Plan 2 opt- ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service	**Purchase of Prior Service**	**Purchase of Prior Service**
Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts towards 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.	Same as Plan 1.	**Defined Benefit Component:** Same as Plan 1, with the following exceptions: *Hybrid Retirement Plan members are ineligible for ported service. **Defined Contribution Component:** Not applicable.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Each state agency's contractually required contribution rate for the year ended June 30, 2019, was 13.52% of covered employee compensation for employees in the VRS State Employee Retirement Plan. 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 cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the Board to the VRS State Employee retirement plan were $104,808 and $104,090 for the years ended June 30, 2019 and 2018, respectively.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

At June 30, 2019, the Board reported a liability of $1,015,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Board's proportion of the net pension liability was based on the Board's actuarially determined employer contributions to the pension plan for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the Board's proportion of the VRS State Employee Retirement Plan was 0.01876% as compared to 0.01833% at June 30, 2017.

For the year ended June 30, 2019, the Board recognized pension expense of $96,000 for the VRS State Employee Retirement Plan. Since there was a change in proportionate share between June 30, 2017 and June 30, 2018, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ -	$ 61,000
Change in assumptions	7,000	-
Net difference between projected and actual earnings on pension plan investments	-	27,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	54,000	-
Employer contributions subsequent to measurement date	104,808	-
	$ 165,808	$ 88,000

$104,808 reported as deferred outflows of resources related to pensions resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,		
2020	$	17,000
2021	$	(1,000)
2022	$	(40,000)
2023	$	(3,000)
2024	$	-

Actuarial assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

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

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

Mortality rates:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

Net pension liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2018, NPL amounts for the VRS State Employee Retirement Plan are as follows (amounts expressed in thousands):

Total pension liability	$ 23,945,821
Plan fiduciary net position	18,532,189
Employers' net pension liability	$ 5,413,632
Plan fiduciary net position as a percentage of the total pension liability	77.39%

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:

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

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

Discount rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the Board for the VRS State Employee Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2018 on, all agencies are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Board's proportionate share of the net pension liability to changes in the discount rate

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Board's proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	$ 1,537,000	$ 1,015,000	$ 576,000

Pension plan fiduciary net position

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

10. OTHER POST EMPLOYMENT BENEFIT PLANS

The Board participates in postemployment benefit programs that are sponsored by the Commonwealth and administered by the Virginia Retirement System and the Department of Human Resource Management. These programs include the State Employee Health Insurance Credit Program, Group Life Insurance Program, Virginia Sickness and Disability Program and Pre- Medicare Retiree Healthcare Program.

State Employee Health Insurance Credit Program

Plan Description

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

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

Plan Provisions

Eligible employees: The State Employee Retiree Health Insurance Credit Program was established January 1, 1990 for retired state employees covered under VRS, SPORS, VaLORS and JRS who retire with at least 15 years of service credit. Eligible employees are enrolled automatically upon employment. They include full-time and part-time permanent salaried state employees covered under VRS, SPORS, VaLORS and JRS.

Benefit amounts: The State Employee Retiree Health Insurance Credit Program provides the following benefits for eligible employees:

- At Retirement **-** 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.
- Disability Retirement **-** 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.

Health Insurance Credit Program notes:

- The monthly Health Insurance Credit benefit cannot exceed the individual's premium amount.
- Employees who retire after being on long-term disability under VSDP must have at least 15 years of service credit to qualify for the health insurance credit as a retiree.

Contributions

The contribution requirement for active employees is governed by §51.1-1400(D) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each state agency's contractually required employer contribution rate for the year ended June 30, 2019 was 1.17% of covered employee compensation for employees in the VRS State Employee Health Insurance Credit Program. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the Board to the VRS State Employee Health Insurance Credit Program were $9,070 and $9,103 for the years ended June 30, 2019 and 2018, respectively.

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

At June 30, 2019, the Board reported a liability of $104,000 for its proportionate share of the VRS State Employee Health Insurance Credit Program Net OPEB Liability. The Net VRS State Employee Health Insurance Credit Program OPEB Liability was measured as of June 30, 2018, and the total VRS State Employee Health Insurance Credit Program OPEB liability used to calculate the Net VRS State Employee Health Insurance Credit Program OPEB Liability was determined by an actuarial valuation as of that date. The Board's proportion of the Net VRS State Employee Health Insurance Credit Program OPEB Liability was based on the Board's actuarially determined employer contributions to the VRS State Employee Health Insurance Credit Program OPEB plan for the year ended June 30, 2018, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the Board's proportion of the VRS State Employee Health Insurance Credit Program was 0.01145% as compared to 0.01139% at June 30, 2017.

For the year ended June 30, 2019, the Board recognized VRS State Employee Health Insurance Credit Program OPEB expense of $10,000. Since there was a change in proportionate share between measurement dates, a portion of the VRS State Employee Health Insurance Credit Program Net OPEB expense was related to deferred amounts from changes in proportion.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Net difference between projected and actual earnings on State HIC OPEB plan investments	-	-
Changes in assumptions	-	1,000
Changes in proportionate share		-
Employer contributions subsequent to the measurement date	9,070	-
Total	$ 9,070	$ 1,000

$9,070 reported as deferred outflows of resources related to the State Employee HIC OPEB resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net State Employee HIC OPEB Liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the State Employee HIC OPEB will be recognized in the State Employee HIC OPEB expense in future reporting periods as follows:

Year Ended June 30,		
2020	$	(1,000)
2021	$	-
2022	$	-
2023	$	-
2024	$	-
Thereafter	$	-

Actuarial Assumptions

The total State Employee HIC OPEB liability for the VRS State Employee Health Insurance Credit Program was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

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

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

Mortality Rates – General State Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Mortality rates (Pre-retirement, post-retirement healthy, and disability): 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: Increase rate from 14% to 25%

Mortality rates – SPORS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Mortality rates (Pre-retirement, post-retirement healthy, and disability): 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: Increase rate from 60% to 85%

Mortality rates – VaLORS Employees

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

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

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Mortality rates (Pre-retirement, post-retirement healthy, and disability): 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: Increase rate from 50% to 35%

Mortality rates – JRS Employees

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

Post-Retirement:

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

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Mortality rates (Pre-retirement, post-retirement healthy, and disability): 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

Net state employee HIC OPEB liability

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

Total state employee HIC OPEB liability	$ 1,008,184
Plan fiduciary net position	95,908
State employee net HIC OPEB liability	$ 912,276
Plan fiduciary net position as a percentage of the total state employee HIC OPEB liability	9.5%

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

Long-Term Expected Rate of Return

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

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

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

Discount Rate

The discount rate used to measure the total State Employee HIC OPEB was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2018, the rate contributed by the Board for the VRS State Employee Health Insurance Credit Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the State Employee HIC OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total State Employee HIC OPEB liability.

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Board's proportionate share of the VRS State Employee HIC OPEB Plan Net HIC OPEB Liability	$ 115,000	$ 104,000	$ 95,000

State Employee HIC OPEB Fiduciary Net Position

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

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 OBEB plans, for public employer groups in the Commonwealth of Virginia

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

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

*Eligible employees***:** The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement: City of Richmond, City of Portsmouth, City of Roanoke, City of Norfolk and Roanoke City Schools Board. Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.

*Benefit amounts***:** The benefits payable under the Group Life Insurance Program have several components.

- Natural Death Benefit - The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.
- Accidental Death Benefit - The accidental death benefit is double the natural death benefit.
- Other Benefit Provisions - In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:
    - Accidental dismemberment benefit
    - Safety belt benefit
    - Repatriation benefit
    - Felonious assault benefit

- Accelerated death benefit option

Reduction in benefit amounts: The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.

Minimum benefit amount and Cost-of-Living Adjustment (COLA): For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at $8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and was increased to $8,279 effective July 1, 2018.

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2019, was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Program from the entity were $4,062 and $4,043 for the years ended June 30, 2019 and 2018, respectively.

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

At June 30, 2019, the Board reported a liability of $61,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2018, and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2018, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the Board's proportion was 0.00406% as compared to 0.00399% at June 30, 2017.

For the year ended June 30, 2019, the Board recognized GLI OPEB expense of $1,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 3,000	$ 1,000
Change in assumptions	-	3,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	2,000
Employer contributions subsequent to the measurement date	4,062	-
	$ 7,062	$ 6,000

$4,062 reported as deferred outflows of resources related to the GLI OPEB resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ended June 30,	
2020	$ (1,000)
2021	$ (1,000)
2022	$ (1,000)
2023	$ -
2024	$ -
Thereafter	$ -

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

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

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

projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of the OPEB liabilities.

Mortality rates – General State Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Mortality rates (Pre-retirement, post-retirement healthy, and disability): 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: Increase rate from 14% to 25%

Mortality rates – Teachers

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Mortality rates (Pre-retirement, post-retirement healthy, and disability): Updated to a more current mortality table - RP-2014 projected to 2020
- Retirement rates: Lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal rates: Adjusted rates to better fit experience at each year age and service through 9 years of

service
- Disability rates: Adjusted rates to better match experience
- Salary scale: No change

Mortality rates – SPORS Employees

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

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

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

Mortality rates – VaLORS Employees

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

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

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Mortality rates (Pre-retirement, post-retirement healthy, and disability): 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 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 50% to 35%

Mortality rates – JRS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

Mortality rates – Largest Ten Locality Employers - General Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

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

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

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

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

Mortality rates – Largest Ten Locality Employers – Hazardous Duty Employees

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

Post-Retirement:

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

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

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

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

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

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Mortality rates (Pre-retirement, post-retirement healthy, and disability): 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%

Net GLI OPEB Liability

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

Total GLIP OPEB liability	$ 3,113,508
Plan fiduciary net position	1,594,773
Employers' net GLI OPEB liability	$ 1,518,735
Plan fiduciary net position as a percentage of the total GLI OPEB liability	51.22%

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

Long-Term Expected Rate of Return

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

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

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

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board- certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2018 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

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

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

	1.00% Decrease (6.00%)	**Current Discount Rate (7.00%)**	**1.00% Increase (8.00%)**
Board's proportionate share of the Group Life Insurance Program Net OPEB Liability	$ 80,000	$ 61,000	$ 46,000

Group Life Insurance Program Fiduciary Net Position

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

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 OBEB plans, for public employer groups in the Commonwealth of Virginia.

Plan Provisions

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

Eligible employees: The Virginia Sickness and Disability Program (VSDP), also known as the Disability Insurance Trust Fund was established January 1, 1999 to provide short-term and long-term disability benefits for non-work-related and work-related disabilities. Eligible employees are enrolled automatically upon employment. They include:

- Full-time and part-time permanent salaried state employees covered under VRS, SPORS and VaLORS (members new to VaLORS following its creation on October 1, 1999, have been enrolled since the inception of VSDP).
- State employees hired before January 1, 1999, who elected to transfer to VSDP rather than retain their eligibility to be considered for VRS disability retirement.
- Public college and university faculty members who elect the VRS defined benefit plan. They may participate in VSDP or their institution's disability program, if offered. If the institution does not offer the program or the faculty member does not make an election, he or she is enrolled in VSDP.

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

- Leave - Sick, family and personal leave. Eligible leave benefits are paid by the employer.
- Short-Term Disability - The program provides a short-term disability benefit beginning after a seven-calendar-day waiting period from the first day of disability. The benefit provides income replacement beginning at 100% of the employee's pre-disability income, reducing to 80% and then 60% based on the period of the disability and the length of service of the employee. Short-term disability benefits are paid by the employer.
- Long Term Disability - The program provides a long-term disability benefit beginning after 125 workdays of short-term disability and continuing until the employee reaches his or her normal retirement age. The benefit provides income replacement of 60% of the employee's pre-disability income. If an employee becomes disabled within five years of his or her normal retirement age, the employee will receive up to five years of VSDP benefits, provided he or she remains medically eligible. Long-term disability benefits are paid for by the Virginia Disability Insurance Program (VSDP) OPEB Plan.
- Income Replacement Adjustment - The program provides for an income replacement adjustment to 80% of catastrophic conditions.
- VSDP Long-Term Care Plan - The program also includes a self-funded long-term care plan that assists with the cost of covered long-term care services.

Disability Insurance Program (VSDP) Plan Notes:

- Employees hired or rehired on or after July 1, 2009, must satisfy eligibility periods before becoming eligible for non-work-related short-term disability benefits and certain income-replacement levels.
- A state employee who is approved for VSDP benefits on or after the date this is five years prior to his or her normal retirement date is eligible for up five years of VSDP benefits.
- Employees on work-related short-term disability receiving only a workers' compensation payment may be eligible to purchase service credit for this period if retirement contributions are not being withheld from the workers' compensation payment. The rate will be based on 5.00% of the employee's compensation.

Cost-of-Living Adjustments (COLA):

- During periods an employee receives long-term disability benefits, the LTD benefit may be increased annually by an amount recommended by the actuary and approved by the Board.
    - Plan 1 employees vested as of 1/1/2013 - 100% of the VRS Plan 1 COLA (The first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%).
    - Plan 1 employee non-vested as of 1/1/2013, Plan 2 and Hybrid Plan employees - 100% of the VRS Plan 2 and Hybrid COLA (The first 2% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 2%) up to a maximum COLA of 3%).
- For participating full-time employees taking service retirement, the creditable compensation may be increased annually by an amount recommended by the actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement. 100% of the increase in the pay over the previous plan year for continuing VSDP members in the State, SPORS and VaLORS Plans, with a maximum COLA of 4.00%.
- For participating full-time employees receiving supplemental (work-related) disability benefits, the creditable compensation may be increased annually by an amount recommended by the actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement. 100% of the increase in the pay over the previous plan year for continuing VSDP members in the State, SPORS and VaLORS Plans, with a maximum COLA of 4.00%.

Contributions

The contribution requirements for the Disability Insurance Program (VSDP) are governed by §51.1-1140 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer's contractually required employer contribution rate for the Disability Insurance Program (VSDP) for the year ended June 30, 2019, was 0.62% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate was expected to finance the costs of benefits payable during the year, with an adjustment to amortize the accrued OPEB assets. Contributions to the Disability Insurance Program (VSDP) from the Board were $4,555 and $4,672 for the years ended June 30, 2019 and 2018, respectively.

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

At June 30, 2019, the Board reported a liability (asset) of $(40,000) for its proportionate share of the Net VSDP OPEB Liability (Asset). The Net VSDP OPEB Liability (Asset) was measured as of June 30, 2018, and the total VSDP OPEB liability used to calculate the Net VSDP OPEB Liability (Asset) was determined by an actuarial valuation as of that date. The Board's proportion of the Net VSDP OPEB Liability (Asset) was based on the Board's actuarially determined employer contributions to the VSDP OPEB plan for the year ended June 30, 2018, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the Board's proportion was 0.01797% as compared 0.01829% at June 30, 2017.

For the year ended June 30, 2019, the Board recognized VSDP OPEB expense of $3,000. Since there was a change in proportionate share between measurement dates, a portion of the VSDP OPEB expense was related to deferred amounts from changes in proportion.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,000
Net difference between projected and actual earnings on VSDP OPEB plan investments	-	2,000
Changes in assumptions	-	2,000
Employer contributions subsequent to the measurement date	4,555	-
	$ 4,555	$ 6,000

$4,555 reported as deferred outflows of resources related to the VSDP OPEB resulting from the Board's contributions subsequent to the measurement date will be recognized as an adjustment of the Net VSDP OPEB Liability (Asset) in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the VSDP OPEB will be recognized in VSDP OPEB expense in future reporting periods as follows:

Year Ended June 30,	
2020	$ (1,000)
2021	$ (1,000)
2022	$ (1,000)
2023	$ (1,000)
2024	$ (1,000)
Thereafter	$ (1,000)

Actuarial Assumptions

The total VSDP OPEB liability was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

Inflation	2.5 percent
Salary increases, including inflation:	3.5 percent - 5.35 percent
General state employees	3.5 percent – 5.35 percent
SPORS employees	3.5 percent – 4.75 percent
VaLORS employees	3.5 percent – 4.75 percent
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

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

Mortality Rates – General State Employees

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

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

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

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

Mortality rates – SPORS Employees

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

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

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

Mortality rates – VaLORS Employees

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

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

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Mortality rates (Pre-retirement, post-retirement healthy, and disability): 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 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 50% to 35%

Net VSDP OPEB Liability (Asset)

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

Total VSDP OPEB liability	$	237,733
Plan fiduciary net position		462,961
Employers' net OPEB liability (asset)	$	(225,228)
Plan fiduciary net position as a percentage of the total VSDP OPEB liability		194.74%

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

Long-term expected rate of return

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

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

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

Discount Rate

The discount rate used to measure the total VSDP OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2018, the rate contributed by participating employers to the VSDP OPEB Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2018 on, participating employers are assumed to 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 Board's Proportionate Share of the Net VSDP OPEB Liability (Asset) to Changes in the Discount Rate

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Board's proportionate share of the total VSDP Net OPEB liability (asset)	$ (39,000)	$ (40,000)	$ (42,000)

VSDP OPEB Fiduciary Net Position

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

Pre-Medicare Retiree Healthcare Program

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

*For VRS retirees, this means that the 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 eligibly 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 he or she would have been eligible for on his or her date of hire had he or she not elected ORP, and
- You enroll in the State Retiree Health Benefits Program no later than 31 days from the date he or she lose coverage (or lose eligibility for coverage) in the State Health Benefits Program for active employees due to 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 5,200 retirees and 91,800 active employees in the program in fiscal year 2018. There are no inactive employees entitled to future benefits who are not currently receiving benefits. There are no assets accumulated in a trust to pay benefits.

Actuarial Assumptions and Methods

The total Pre-Medicare Retiree Healthcare OPEB liability was based on an actuarial valuation with a valuation date of June 30, 2018. The Department of Human Resource Management selected the economic, demographic and healthcare claim cost assumptions. The actuary provided guidance with respect to these assumptions. Initial healthcare costs trend rates used were 8.21 percent for medical and pharmacy and 4.0 percent for dental. The ultimate trend rates used were 5.0 percent for medical and pharmacy and 4.0 percent for dental.

Valuation Date	Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported.
Measurement Date	June 30, 2018 (one year prior to the end of the fiscal year)
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar, Closed
Effective Amortization Period	6.19 years
Discount Rate	3.87%
Projected Salary Increases	4.0%
Medical Trend Under 65	Medical & Rx: 8.21% to 5.00% Dental: 4.00% Before reflecting Excise tax
Year of Ultimate Trend	2025
Mortality:	Mortality rates vary by participant status
Pre-Retirement	RP-2014 Employee Rates projected with Scale BB to 2020; males setback 1 year, 85% of rates; females setback 1 year
Post-Retirement	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males and females setback 1 year
Post-Disablement	RP-2014 Disabled Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates

The discount rate was based on the Bond Buyers GO 20 Municipal Bond Index as of the measurement date which is June 30, 2018.

Changes of Assumptions: The following assumptions were updated since the June 30, 2017, valuation based recent experience:

- Spousal coverage - reduced rate from 50% to 35%
- Retiree participation - reduced the rate from 70% to 60%

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

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

At June 30, 2019, the Board reported a liability of $126,817 for its proportionate share of the collective total Pre-Medicare Retiree Healthcare OPEB liability of $1.0 billion. The Pre-Medicare Retiree Healthcare OPEB liability was measured as of June 30, 2018, and was determined by an actuarial valuation as of June 30, 2018. The Board’s proportion of the Pre-Medicare Retiree Healthcare OPEB liability was based on the Board’s healthcare premium contributions as a percentage of the total employer’s healthcare premium contributions for all participating employers. At June 30, 2018, the Board’s proportion was 0.01261% as compared to 0.01350% at June 30, 2017. For the year ended June 30, 2019, the Board recognized Pre-Medicare Retiree Healthcare OPEB expense of $6,766.

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

	Deferred Outflows	Deferred Inflows
Difference between actual and expected experience	$ -	$ 25,570
Changes in assumptions	-	50,721
Changes in proportion	29,985	12,147
Subtotal	29,985	88,438
Amounts associated with transactions subsequent to the measurement date	5,214	-
Total	$ 35,199	$ 88,438

$5,214 reported as deferred outflows of resources related to the Pre-Medicare Retiree Healthcare OPEB resulting from amounts associated with transactions subsequent to the measurement date will be recognized as a reduction of the total OPEB Liability in the fiscal year ending June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pre-Medicare Retiree Healthcare OPEB will be recognized in the Pre-Medicare Retiree Healthcare OPEB expense as follows:

Year Ended June 30,	
2020	$(11,387)
2021	$(11,387)
2022	$(11,387)
2023	$(11,387)
2024	$(10,905)
Thereafter	$ (2,001)

Sensitivity of the Board’s Proportionate Share of the Pre-Medicare Retiree Healthcare OPEB Liability to Changes in the Discount Rate

The following presents the Board’s proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using the discount rate of 3.87%, as well as what the Board’s proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.87%) or one percentage point higher (4.87%) than the current rate:

	1.00% Decrease (2.87%)	**Current Rate (3.87%)**	**1.00% Increase (4.87%)**
OPEB Liability	$135,691	$126,817	$118,379

Sensitivity of the Board's Proportionate Share of the Pre-Medicare Retiree Healthcare OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the Board's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using the healthcare cost trend rate of 8.21% decreasing to 5.00%, as well as what the Board's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (7.21% decreasing to 4.00%) or one percentage point higher (9.21% decreasing to 6.00%) than the current rate:

	1% Decrease (7.21% decreasing to 4.00%)	**Trend Rate (8.21% decreasing to 5.00%)**	**1% Increase (9.21% decreasing to 6.00%)**
OPEB Liability	$113,113	$126,817	$142,926

11. RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Board participates in insurance plans maintained by the Commonwealth. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, faithful performance of duty bond, and automobile plans. The Board 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's Comprehensive Annual Financial Report.

12. SPECIAL ITEM

The intangible asset reported as Construction in Progress (see Note 5) became permanently impaired during fiscal year 2019. The Board reported a special item of $838,049 related to the impairment and determined the asset had a carrying value of zero.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Employer's Share of Net Pension Liability
VRS State Employee Retirement Plan

Year Ended June 30,*	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	0.01876%	0.01833%	0.01759%	0.01669%	0.01498%
Employer's proportionate share of the net pension liability	$1,015,000	$1,068,000	$1,159,000	$1,022,000	$839,000
Employer's covered payroll	$778,755	$739,906	$695,362	$644,621	$578,909
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	130.34%	144.34%	166.68%	158.54%	144.93%
Plan fiduciary net position as a percentage of the total pension liability	77.39%	75.33%	71.29%	72.81%	74.28%

Schedule is intended to show information for 10 years. Since 2019 is the fifth year for this presentation, only five years of data is available. However, additional years will be included as they become available.

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

Virginia Board of Accountancy

Schedule of Employer Contributions
VRS State Employee Retirement Plan

Year Ended June 30,	2019	2018	2017	2016	2015
Contractually required contribution	$ 104,808	$ 104,090	$ 99,965	$ 97,505	$ 79,482
Contributions in relation to the contractually required contribution	104,808	104,090	99,965	97,505	79,461
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ 21
Employer's covered payroll	$ 784,323	$ 778,755	$ 739,906	$ 695,362	$ 644,621
Contributions as a percentage covered payroll	13.36%	13.37%	13.51%	14.02%	12.33%

Schedule is intended to show information for 10 years. Since 2019 is the fifth year for this presentation, only three additional years of data is available. However, additional years will be included as they become available.

VRS State Employee Retirement Plan
Notes to Required Supplementary Information for the Year Ended June 30, 2019

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

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled	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%

Virginia Board of Accountancy
Schedule of Employer's Share of Net OPEB Liability
Health Insurance Credit Program (HIC)

Year Ended June 30,*	**2019**	**2018**
Employer's proportion of the Net HIC OPEB Liability (Asset)	0.01145%	0.01139%
Employer's proportionate share of the Net HIC OPEB Liability (Asset)	$104,000	$104,000
Employer's covered payroll	$778,755	$739,907
Employer's proportionate share of the Net HIC OPEB Liability (Asset) as a percentage of its covered payroll	13.35%	14.06%
Plan fiduciary net position as a percentage of the total HIC OPEB Liability	9.51%	8.03%

Schedule is intended to show information for 10 years. Since 2019 is the second year for this presentation, only two years of data is available. However, additional years will be included as they become available.

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

Virginia Board of Accountancy
Schedule of Employer Contributions
Health Insurance Credit Program (HIC)

Year Ended June 30,	2019	2018
Contractually required contribution	$ 9,070	$ 9,103
Contributions in relation to the contractually required contribution	9,070	9,103
Contribution deficiency (excess)	$ -	$ -
Employer's covered payroll	$ 784,323	$ 778,755
Contributions as a percentage covered payroll	1.16%	1.17%

Schedule is intended to show information for 10 years. Since 2019 is the second year for this presentation, only two years of data is available. However, additional years will be included as they become available.

Health Insurance Credit Program (HIC)
Notes to Required Supplementary Information for the Year Ended June 30, 2019

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

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

General State Employees:

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

SPORS Employees:

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

VaLORS Employees:

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

JRS Employees:

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

Virginia Board of Accountancy

Schedule of Employer's Share of Net OPEB Liability
Group Life Insurance Program (GLI)

Year Ended June 30,*	**2019**	**2018**
Employer's proportion of the Net GLI OPEB Liability (Asset)	0.00406%	0.00399%
Employer's proportionate share of the Net GLI OPEB Liability (Asset)	$61,000	$60,000
Employer's covered payroll	$778,755	$739,907
Employer's proportionate share of the Net GLI OPEB Liability (Asset) as a percentage of its covered payroll	7.83%	8.11%
Plan fiduciary net position as a percentage of the total GLI OPEB Liability	51.22%	48.86%

Schedule is intended to show information for 10 years. Since 2019 is the second year for this presentation, only two years of data is available. However, additional years will be included as they become available.

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

Virginia Board of Accountancy

Schedule of Employer Contributions
Group Life Insurance Program (GLI)

Year Ended June 30,	2019	2018
Contractually required contribution	$ 4,062	$ 4,043
Contributions in relation to the contractually required contribution	4,062	4,043
Contribution deficiency (excess)	$ -	$ -
Employer's covered payroll	$ 784,323	$ 778,755
Contributions as a percentage covered payroll	0.52%	0.52%

Schedule is intended to show information for 10 years. Since 2019 is the second year for this presentation, only two years of data is available. However, additional years will be included as they become available.

Group Life Insurance Program (GLI)
Notes to Required Supplementary Information for the Year Ended June 30, 2019

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

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

General State Employees:

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

Teachers:

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

SPORS Employees:

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

VaLORS Employees:

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

JRS Employees:

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

Largest Ten Locality Employers - General Employees:

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

Non-Largest Ten Locality Employers - General Employees:

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

Largest Ten Locality Employers – Hazardous Duty Employees:

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

Non-Largest Ten Locality Employers – Hazardous Duty Employees:

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

Virginia Board of Accountancy

Schedule of Employer's Share of Net OPEB Liability
Disability Insurance Program (VSDP)

Year Ended June 30,*	2019	2018
Employer's proportion of the Net VSDP OPEB Liability (Asset)	0.01797%	0.01829%
Employer's proportionate share of the Net VSDP OPEB Liability (Asset)	$40,000	$38,000
Employer's covered payroll	$715,906	$689,058
Employer's proportionate share of the Net VSDP OPEB Liability (Asset) as a percentage of its covered payroll	5.59%	5.51%
Plan fiduciary net position as a percentage of the total VSDP OPEB Liability	194.74%	186.63%

Schedule is intended to show information for 10 years. Since 2019 is the second year for this presentation, only two years of data is available. However, additional years will be included as they become available.

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

Virginia Board of Accountancy

Schedule of Employer Contributions
Disability Insurance Program (VSDP)

Year Ended June 30,	**2019**	**2018**
Contractually required contribution	$ 4,555	$ 4,672
Contributions in relation to the contractually required contribution	4,555	4,672
Contribution deficiency (excess)	$ -	$ -
Employer's covered payroll	$ 747,661	$ 715,906
Contributions as a percentage covered payroll	0.61%	0.65%

Schedule is intended to show information for 10 years. Since 2019 is the second year for this presentation, only two years of data is available. However, additional years will be included as they become available.

Disability Insurance Program (VSDP)
Notes to Required Supplementary Information for the Year Ended June 30, 2019

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

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

General State Employees:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	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	Increased rate from 14% to 25%

SPORS Employees:

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
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

VaLORS Employees:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	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%

Virginia Board of Accountancy

Schedule of Employer's Share of Total OPEB Liability
Pre-Medicare Retiree Healthcare Program

Year Ended June 30,*	2019	2018
Employer's proportion of the collective total OPEB Liability	0.01261%	0.01350%
Employer's proportionate share of the collective collective total OPEB Liability	$126,817	$175,370
Employer's covered-employee payroll	$793,590	$745,758
Employer's proportionate share of the collective total OPEB Liability as a percentage of its covered-employee payroll	15.98%	23.52%

Schedule is intended to show information for 10 years. Since 2019 was the second year for this presentation, only two years of data is available. However, additional years will be included as they become available.

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

Pre-Medicare Retiree Healthcare Program
Notes to Required Supplementary Information for the Year Ended June 30, 2019

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

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

Changes of assumptions – The following assumptions were updated since the June 30, 2017 valuation based on recent experience:

- Spousal Coverage – reduced the rate from 50% to 35%
- Retirement participation – reduced rate from 70% to 60%

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

VIRGINIA BOARD OF ACCOUNTANCY

BOARD MEMBERSHIP
As of June 30, 2019

The Board is comprised of five Certified Public Accountants who hold Virginia licenses, one educator in the field of accountancy who holds a Virginia license, and one public member. The Governor appoints each member to a term of four years and no member may serve more than two consecutive terms.

Susan Quaintance Ferguson, CPA
Chair

D. Brian Carson, CPA, CGFM
Vice Chair

Laurie A. Warwick, CPA
Stephanie S. Saunders, CPA
Matthew P. Bosher, Esq.
William R. Brown, CPA
W. Barclay Bradshaw, CPA

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 19, 2020

The Honorable Ralph S. Northam
Governor of Virginia

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

Board Members
Virginia Board of Accountancy

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Virginia Board of Accountancy (Accountancy) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Accountancy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Accountancy as of June 30, 2019, and the respective changes in financial position and the respective budgetary comparison for the operating fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Relationship to the Commonwealth of Virginia

As discussed in Note 1.A., the basic financial statements of Accountancy are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and aggregate remaining fund information of the Commonwealth of Virginia that is attributable to the transactions of Accountancy. They do not purport to, and do not, present fairly the Commonwealth of Virginia's overall financial position as of June 30, 2019, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Prior-Year Summarized Comparative Information

We have previously audited Accountancy's 2018 financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated June 18, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 7; 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 62 through 64; the Schedule of Employer's Share of Net OPEB Liability, the Schedule of Employer Contributions, and the Notes to the Required Supplementary Information for the Health Insurance Credit, Group Life Insurance, Disability Insurance and Line of Duty programs on pages 65 through 77; the Schedule of Employer's Share of Total OPEB Liability and the Notes to the Required Supplementary Information for the Pre-Medicare Retiree Healthcare program on pages 78 through 79. 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 June 19, 2020, on our consideration of Accountancy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Accountancy's internal control over financial reporting and compliance.

Martha S. Mavredes
AUDITOR OF PUBLIC ACCOUNTS

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