Virginia Military Institute

Audited Financial Statements
For the Year Ended 30 June 2019

- TABLE OF CONTENTS -

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

The Virginia Military Institute (VMI or Institute) is pleased to present its financial statements for the fiscal year ended 30 June 2019, along with the financial statements of its affiliate component units. This management's discussion and analysis (MD&A) is designed to facilitate the reader's understanding of the accompanying financial statements and to provide an objective, easily readable analysis of the Institute's financial activities based on currently known facts, decisions and conditions. The discussion focuses primarily on VMI's fiscal year 2019 in comparison to the prior year and includes highly summarized data that should be read in conjunction with the accompanying financial statements, notes to the financial statements, and other supplementary information.

VMI's financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) stipulations and include three basic statements: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. Using criteria provided in GASB Statement 39 (GASB 39), *Determining Whether Certain Organizations are Component Units*, management determined that the VMI Alumni Agencies, Inc., and the VMI Research Laboratories, Inc., are both component units of the Institute. The affiliates' financial statements are prepared in accordance with Financial Accounting Standards Board (FASB) standards and include the Statement of Financial Position and the Statement of Activities. These statements are presented on a separate page within the Institute's financial statements as defined by GASB 39. As stated, the following MD&A discusses elements from VMI's statements and provides an overview of the Institute's activities. VMI's two affiliated entities (component units) however, are excluded from this MD&A.

Financial Highlights

VMI's financial condition continued to strengthen during the current year as total net position (the residual interest in assets after liabilities are deducted) grew $5.1 million or 1.6% to $321.2 million as measured at 30 June 2019. Over the most recent five-year period, the Institute's total net position increased $58.8 million or 22.4% (4.5% annualized), despite 2018 recognition of the proportionate share of the Commonwealth's total other non-pension post-employment benefits (a $14.4 million liability incurred in accordance with GASB 75 *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*). VMI's 2019 operating revenues rose $1.0 million or 1.9%, while a corresponding increase in operating costs totaled $3.5 million or 3.8%. Annualized over the most recent five year period, operating revenues grew an average of 3.3%, while the overall expansion per year in operating expenses was 2.7% (0.6% less). An increase in tuition and fees of 3.3% (in-state) and 3.9% (out-of-state) contributed to the 2019 growth in operating revenues.

Opening 2019 fall enrollment was 1,685, 2.1% less than the 1,722 experienced in 2018. Average enrollment for the current year, however, was 1,638 based upon fall and spring census information (above the Superintendent's targeted average enrollment of 1,625). Enrolled Cadets' academic credentials remain significantly above average, with the fall 2019 new class consisting of 39% in the top quartile and 78% in the top half of their high school cohort. Non-capital construction related Commonwealth appropriations (state support) increased 2.5% to $15.1 million, exceeding for the third year the $14.6 million received from the Commonwealth in 2008. To ensure continued optimization of ongoing Post infrastructure capabilities, planning was either complete or underway for nine capital projects totaling $148 million as of September 2019. VMI's significant private support, solidified by the VMI Alumni Agencies' $512 million endowment recently enhanced by successful conclusion of the *An Uncommon Purpose Campaign*, positions the Institute well for the continued provision of excellent Cadet programs and services through the ongoing execution of its unique mission.

Statement of Net Position

The Statement of Net Position presents the assets, deferred outflows, liabilities, deferred inflows and net position of the Institute as of the end of the fiscal year. The difference between total assets and total liabilities (Net Position) is one indicator of the current financial condition of VMI. The purpose of the statement is to present readers with a fiscal snapshot as of 30 June 2019. The data presented facilitates readers' determination of the asset values available to support Institute operations and the amounts owed to vendors, creditors and others.

The Institute's net position is classified as follows:

- **Net investment in capital assets** – Represents total investment in property, plant, and equipment, (net of accumulated depreciation) and outstanding debt obligations related to those capital assets. Debt incurred, but not yet expended for capital assets, is not included as a component of net investment in capital assets.

- **Restricted net position – expendable** – Consists of resources that must be expended by the Institute in accordance with donor or other external entity stipulations, such as time or purpose restrictions on the use of the assets.

- **Restricted net position – nonexpendable** – Represents the corpus of endowments and similar type funds where donors or other external entities have stipulated, as a condition of the gift instrument, that the principal be maintained inviolate, in perpetuity and invested for the purpose of producing present and future income to either be expended or added to the principal.

- **Unrestricted net position** – Represents resources utilized for the general operations of the Institute and, at the discretion of the Board of Visitors, for any lawful purpose in support of the Institute and the fulfilment of its mission.

Statement of Net Position

	30 June 2019	30 June 2018	Variance	
Assets:				
Current assets	$ 44,008,763	$ 41,014,441	$ 2,994,322	7.3%
Capital assets, net	337,459,115	334,169,710	3,289,405	1.0%
Other noncurrent assets	24,261,151	19,177,292	5,083,859	26.5%
Total assets	405,729,029	394,361,443	11,367,586	2.9%
Deferred outflows	4,209,125	4,097,559	111,566	2.7%
Total assets and deferred outflows	$ 409,938,154	$ 398,459,002	$ 11,479,152	2.9%
Liabilities:				
Current liabilities	$ 19,023,773	$ 13,200,396	$ 5,823,377	44.1%
Noncurrent liabilities	62,982,141	64,047,532	(1,065,391)	-1.7%
Total liabilities	82,005,914	77,247,928	4,757,986	6.2%
Deferred Inflows	6,748,881	5,113,320	1,635,561	32.0%
Total liabilities and deferred inflows	$ 88,754,795	$ 82,361,248	$ 6,393,547	7.8%
Net position:				
Net investment in capital assets	$ 314,863,304	$ 312,807,720	$ 2,055,584	0.7%
Restricted - expendable	16,098,130	15,534,467	563,663	3.6%
Restricted - nonexpendable	1,258,697	1,256,115	2,582	0.0%
Unrestricted	(11,036,772)	(13,500,548)	2,463,776	18.2%
Total net position	$ 321,183,359	$ 316,097,754	$ 5,085,605	1.6%

As of 30 June 2019, VMI's total assets and deferred outflows rose $11.5 million or 2.9% to $410 million from the prior year balance of $398.5 million. The change was primarily due to the following attributes: an increase of $5.9 million in nondepreciable assets (specifically construction-in-progress) driven by various ongoing capital improvement initiatives ($4.1 million from Post Infrastructure Improvements and $1.8 million from Preston Library Renovations), an additional $3 million of total cash and equivalents held at year-end, and $2.7 million due to the Institute from the Commonwealth resultant from outstanding construction reimbursements ($3 million combined from both Post Infrastructure Improvements and Preston Library Renovations activity). These three elements were offset by a $2.6 million decrease in total depreciable capital assets due to $12.7 million in current year depreciation expense (a non-cash expenditure), less $7 million in net capital asset additions. Cash balances, particularly auxiliary funds, continue to be earmarked for capital improvement projects underway and for those expected to take place in forthcoming fiscal periods.

The overall change of $6.4 million or 7.8% in total liabilities and deferred inflows of resources (an acquisition of net assets applicable to future periods) was substantially due to: $5.4 million additional accounts payable at year end ($3.4 million from Post Infrastructure and Preston Library Renovation obligations), $1.8 million of additional deferred inflows related to state-wide non-pension post-employment benefits (recorded as directed by the Commonwealth and recognized per GASB 75), and $1.9 million expansion of long-term indebtedness ($3.6 million new financing less $1.7 million principal paydown), all of which was offset by a $3.6 million or 9.2% contraction in the Institute's proportionate share of accrued post-employment benefits as measured, audited, and provided by applicable Commonwealth agencies.

The change in total net position of $5.1 million or 1.6% was due to the following factors: an increase of $3.4 million in net capital asset investment (contributing factors previously denoted), a $2.5 million or 18.3% increase in total unrestricted funds predominantly driven by the $3.6 million decline in postemployment benefit obligations, and a remaining net change of ($0.8) million within restricted-expendable net position due to a $2.1 million decline in restricted scholarship funds offset by $1.3 million or 14.7% growth in quasi endowment funds through general endowment earnings reinvestment. The negative unrestricted fund balance initially occurred in 2015 due to first year recognition of the Institute's proportionate share of the Commonwealth's overall net pension liability, recorded in accordance with GASB Statements 68/71, coupled with the 2018 recognition of other non-pension postemployment benefits posted in accordance with GASB 75.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position (SRECNP) presents the Institute's operating results, nonoperating revenues and expenses and gains or losses incurred during the period. Changes in total net position as represented on the Statement of Net Position are the result of the activity depicted in the Statement of Revenues, Expenses, and Changes in Net Position.

In general, operating revenues are recognized when goods and services are provided to Cadets and other constituencies of the Institute. Operating expenses are recognized when incurred in the acquisition or production of those goods and services.

Nonoperating revenues are funds for which goods and services are not directly provided. Included in this category are State appropriations and gifts, which augment coverage of the Institute's operating expenses and support Cadet scholarships. As a result, VMI, similar to other public higher-education institutions, is expected to show a net operating loss.

Statement of Revenues, Expenses, and Changes in Net Position

	30 June 2019	30 June 2018	Variance	
Operating revenues:				
Tuition and fees	$ 26,138,544	$ 25,391,710	$ 746,834	2.9%
Grants and contracts	91,286	91,286	-	0.0%
Auxiliary enterprises	23,611,925	23,228,528	383,397	1.7%
Unique military activities	3,470,626	3,458,061	12,565	0.4%
Other sources	1,499,867	1,628,980	(129,113)	-7.9%
Total operating revenues	54,812,248	53,798,565	1,013,683	1.9%
Operating expenses:				
Educational and general	53,137,071	50,949,341	2,187,730	4.3%
Auxiliary enterprises	28,826,504	28,316,746	509,758	1.8%
Unique military activity	11,482,714	10,693,224	789,490	7.4%
Other expense	-	30,783	(30,783)	-100.0%
Total operating expenses	93,446,289	89,990,094	3,456,195	3.8%
Operating loss	(38,634,041)	(36,191,529)	(2,442,512)	6.7%
Nonoperating revenues (expenses):				
State appropriations	15,092,678	14,725,387	367,291	2.5%
Gifts, grants and contributions	18,037,602	17,178,787	858,815	5.0%
Investments	1,674,401	1,592,538	81,863	5.1%
Other	(787,997)	(1,094,604)	306,607	28.0%
Net nonoperating revenues	34,016,684	32,402,108	1,614,576	5.0%
Income (loss) before other revenues	(4,617,357)	(3,789,421)	(827,936)	-21.8%
Other revenues/reductions	9,702,962	5,308,753	4,394,209	82.8%
Increase (decrease) in net position	5,085,605	1,519,332	3,566,273	234.7%
Net position - beginning of year, restated	316,097,754	314,578,422	1,519,332	0.5%
Net position - end of year	$ 321,183,359	$ 316,097,754	$ 5,085,605	1.6%

As of 30 June 2019, total operating revenues and total operating expenses rose by $1 million (1.9%) and $3.5 million (3.8%), respectively. Opening 2019 fall enrollment decreased 2.1% to 1,685 Cadets in comparison to 1,722 in 2018. Collective mandatory fees per Cadet (tuition, auxiliary enterprises and unique military activity charges) increased 3.3% for in-state and 3.9% for out-of-state Cadets as approved by the Institute's Board of Visitors, substantially contributing to a combined $1.1 million (or 2.2%) in additional revenues.

The $3.4 million change in annual operating expenditures, largely comprised of an additional $2.2 million or 4.3% in educational and general fees as well as $0.8 million in unique military activity charges, was specifically due to the confluence of: an additional $1 million in Physical Plant Post-wide operation and maintenance fees (previously down $1.4 million between 2017 and 2018), $0.8 million in both educational instruction charges and unique military activity costs (new OCP uniforms purchases in FY19), and $0.6 million in added scholarship related charges. A drop of $0.9 million in academic support costs offset the aforementioned increases, which were primarily the result of expanded facilities related contractual service fees (renovation costs below the capitalization threshold), targeted teaching faculty salary augmentation, year-end new uniform purchases, and prior year military store on-hand inventory balance fluctuation.

Net non-operating revenues increased $1.6 million or 5%, largely driven by an additional $0.9 million or 5.6% of gifts and contributions coupled with $0.4 million or 2.5% growth in state appropriations. The $0.9 million uptick in gifts and contributions revenue was primarily due to $0.9 million in additional VMI Keydet Club scholarship funding and $0.2 million increased Higher Education Equipment Trust Fund inflows (state provided funding to update instruction and research equipment), offset by a net $0.4 million decrease in recognized 2019 private restricted funds. Historically, 2019 state appropriations were $2.1 million greater than the $12.9 million received in 2015 (a 3.3% annualized increase over the five year period), representing approximately 17% of VMI's total budgeted sources of revenue. The preponderance of activity within the other nonoperating expense line item is interest incurred on capital asset related debt, of which balances were consistent year over year at $0.8 million. Furthermore, the overall $0.3 million or 28% decrease in miscellaneous nonoperating costs is primarily due to a required 2018 non-general fund repayment ($0.2 million) for previous state funded Virginia Retirement System (VRS) contributions not applicable in 2019.

The $4.4 million or 82.8% increase in other revenues and reductions is directly correlated to cyclical capital construction project phasing, specifically, the aforementioned necessity of costs being born by the Institute prior to reimbursement from the Commonwealth. As current capital construction-related activity continues to increase, the $4.4 million variation was most specifically attributable to an additional $0.9 million and $0.6 million in Post Infrastructure Improvements and Preston Library Renovations, respectively, in comparison to 2018, as well as outstanding 2019 collective reimbursements totaling $3.0 million. The estimated total cost and completion date for the Post Infrastructure Improvements project is $33.2 million and October 2020, while the Preston Library Renovation is projected to cost $19.3 million and culminate in September 2020.

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the Institute's cash activity during the year. Cash flows from operating activities will always differ from the operating loss on the SRECNP. The SRECNP is prepared using the accrual basis of accounting and includes noncash items such as depreciation, whereas the Statement of Cash Flows presents cash inflows and outflows as received or disbursed, without consideration of accruals. The Statement of Cash Flows should assist readers in assessing the Institute's ability to generate cash flows sufficient to meet its obligations. It is divided into five parts: operating activities, noncapital financing activities, capital and related financing activities, investing activities, and a reconciliation of net operating expenses as reflected on the SRECNP to net cash used by operating activities.

Statement of Cash Flows

	30 June 2019	30 June 2018	Variance	
Net cash used by operating activities	$ (25,622,617)	$ (25,143,971)	$ (478,646)	1.9%
Net cash provided by noncapital financing activities	32,523,288	31,717,066	806,222	2.5%
Net cash used/provided by capital and financing activities	(4,418,007)	(7,745,405)	3,327,398	-43.0%
Net cash provided by investing activities	507,383	2,654,767	(2,147,384)	-80.9%
Net increase (decrease) in cash	2,990,047	1,482,457	1,507,590	101.7%
Cash - beginning of year	32,250,540	30,768,083	1,482,457	4.8%
Cash - end of year	$ 35,240,587	$ 32,250,540	$ 2,990,047	9.3%

Cash flows from operating activities will always result in a net use for the Institute as Commonwealth appropriations and private gifts are treated as cash sources for noncapital or capital financing activities as opposed to operating funds. Collective Institute cash balances increased $3 million or 9.3% in 2019 and $1.5 million or 4.8% in 2018.

Tuition and fees ($26.2 million), auxiliary charges ($23.7 million), and unique military activity charges ($3.5 million) continue to represent the most significant sources of operating cash ($53.4 million total), while compensation and benefits ($50.3 million) and supplies and services payments ($29.3 million) account for the most significant use of operating funds ($79.6 million total). Overall, net cash utilized in operating activities remained relatively consistent compared to 2018 ($0.5 million variance). A $1.1 million and $0.6 million increase in outlays for compensation related charges and scholarship expenditures, respectively, more than offset the additional $1.1 million in cash flow provided by mandatory tuition and fee related charges.

The $0.8 million in additional cash provided by noncapital financing activities was predominantly due to the $0.4 million (or 2.5%) increase in general funds derived primarily from State income and sales taxes appropriated to VMI by the Commonwealth's General Assembly (state appropriations).

Net cash provided by capital and related financing activities consists largely of gifts and contributions from the Commonwealth's Virginia College Building Authority (VCBA) bond funding programs and the VMI Development Board ($6.7 million total). Inversely, net cash utilized in capital and financing activities is primarily related to the purchase and construction of capital assets ($12.6 million), as well as principal and interest payments on capital debt ($2.4 million). The $3.3 million overall capital and related financing variation is attributable to $3.6 million in new VCBA bond financing earmarked for improvements to Post infrastructure. These particular bonds will be repaid over twenty years with an expected interest rate of approximately 3.5%. Additionally, $1 million in increased capital gifts and contributions (cash inflows) was offset by $1.4 million added purchases and construction of capital assets (cash outflows). Related capital construction costs are incurred by the Institute prior to VCBA reimbursement.

The decrease in cash provided by investing activities of $2.1 million can be bifurcated into two contributory factors, endowment investment earnings and investment transactional activity. Total 2019 investment income provision ($1.1 million) was $1.1 million less than the $2.2 million experienced in 2018, while monies provided by the purchase and sale of investments resulted in $1 million lower cash generation during the current fiscal year.

Capital Asset and Debt Administration

30 June 2019 represents the seventeenth year of the implementation of VMI's Vision 2039. Vision 2039 is a leadership plan rather than a construction plan; however, construction of new facilities and the renovation of older buildings on Post are essential components of Vision 2039. Since 2003, VMI has completed significant and comprehensive improvements to its facilities totaling approximately $369.1 million. This includes renovation of academic buildings, construction of a new Center for Leadership and Ethics, construction of new outdoor Military and Leadership Field Training Grounds, expansion and renovation of the Barracks and the Mess Hall, construction of a new Physical Plant facility, renovation of the Post Hospital, improvements to athletic facilities, construction of parking facilities, exterior renovations to JM Hall, renovations to 450 Institute Hill (Chaplain's Quarters), and the construction of the Corps Physical Training Facilities (CPTF) Phase I and II, which included the new Corp Physical Training Facility and the renovation of Cocke Hall and Cormack Hall. CPTF is Vision 2039 capital program's largest project to date.

During fiscal year 2019 planning and construction continued on a number of projects, including repairs to Barracks parapets, stoops, and windows, and renovations to the Turman House. These projects are financed through VCBA pooled bonds that were sold in 2013, 2014, and 2015. The pooled bond funds are an obligation of the Institute and are reflected as a liability in the Institute's Statement of Net Position. Construction began on Preston Library, Scott Shipp Hall, and Improving Post Infrastructure, which includes the construction of a new Post Police Building. These projects are funded by capital contributions from the Commonwealth of Virginia through the VCBA 21st Century bond funds. Planning continued on the Chessie Trail Bridge, with a majority of funding provided by the Federal Highway Administration (FHWA). Additionally, planning begun on the construction of CPTF III (Aquatic Center) and 412 Parade (Superintendent's Quarters).

All of the improvements noted above provide the most modernized and technologically advanced facilities in the long history of VMI. Since VMI began its Vision 2039 capital program, the Institute has incurred long-term debt only on Jackson Memorial Hall, the Cocke Hall Annex, Crozet Hall, South Institute Hill Parking, and several small repair and improvement projects. The remaining projects have been financed with State funds, auxiliary funds, or private gifts and contributions resulting in no debt obligations for the Institute. As of 30 June 2019, the debt outstanding on these projects totaled $23.3 million with annual debt service payments of $2.5 million. VMI's Board of Visitors adopted debt guidelines in August 2005 to help ensure sound management and control of debt and annually monitors the Institute's position relative to those guidelines.

The Institute's long-term debt consists of $5.1 million of bonds and $18.2 million of notes payable. The bonds payable were issued in August 2004 pursuant to Section 9(c) of Article X of the Constitution of Virginia by the Department of Treasury for the Commonwealth of Virginia on behalf of the Institute for renovation and expansion of Crozet Hall, the Institute dining facility, and parking. The bonds bear interest at an average coupon rate of 4.8% and are payable over 20 years through June 2025. The bonds are secured by the net revenues of the facilities, which are comprised primarily of Cadet fees.

The Institute's notes payable consists of debt obligations between VCBA and the Institute. VCBA issued bonds through its Pooled Bond Program and used the proceeds to purchase debt obligations (notes) of the Institute. Notes related to the Cocke Hall Annex and the Jackson Memorial Hall renovations, initially issued in 2002, have an average coupon rate of 4.3% and are payable over 20 years through 2023. Notes related to the South Institute Hill Parking project were issued in 2010 at an average coupon rate of 4.8% and are payable over 20 years through 2031. Notes related to the Post Improvements Phases I, II, and III projects were issued in 2013, 2014, and 2015, respectively, at an average coupon rate of 4.2% and are payable over 20 years through 2036. Improve Post Infrastructure Phases I, II, & III include $3.24 million financed through VCBA pooled bonds sold in 2018. Bonds issued with an average coupon rate of 4.6%, payable over 20 years, with final payment in FY 2039. The Cocke Hall Annex, South Institute Hill Parking and Post Improvements project notes will be paid from Auxiliary Enterprises Program reserve funds, which consist primarily of Cadet fees. The Jackson Memorial Hall note is secured by funds paid by the VMI Foundation, Inc. on a year-to-year basis as a gift to the Institute. Should the gift be discontinued, repayment will be made from the general revenues of the Institute.

Economic Outlook

The Institute's economic outlook is generally favorable due to its continuing strong Cadet demand and national reputation especially for its engineering programs. The Institute has consistently ranked high on the *U.S. News and World Report* list of public liberal arts colleges with a current ranking of #4 behind the three federal service academies. The magazine also ranks VMI's engineering programs as No. 26

nationally among colleges whose highest degree is a bachelor's or master's. *Money* magazine ranks VMI as No. 7 in its listing of the best small colleges in the United States. PayScale.com ranks VMI as No. 5 among all liberal arts colleges nationally on return on investment, which is based on tuition costs, student debt, and on post-graduation salaries. As a public institution with significant private support, the Institute continues to be well positioned to provide excellent programs and services to its Cadets as it maintains a clear educational focus and a well-established niche in the higher education marketplace.

VMI received 1,632 Cadet applications for its fall 2019 new Cadet class resulting in an average for the past three years of 1,796 applications. VMI accepted 58% of the applicants for fall 2019 with a yield of 54% or 515 new Cadets. VMI accepted 51% of the applicants for fall 2018 with a yield of 54% or 518 new Cadets. The academic credentials of the Cadets enrolled continue to be significantly above average with the fall 2019 new Cadet class consisting of 39% in the top quarter and 78% in the top half of their high school class.

VMI remains committed to an average Corps size of about 1,625 Cadets with an appropriate mix of in-state and out-of-state Cadets to help maintain financial stability. In-state Cadets totaled 63% of the Corps for fiscal 2018 and 62% for fiscal 2019. VMI continues to strive to keep its tuition and fees affordable and competitive while offering significant financial assistance for Cadets with demonstrated need. Operating revenues consisting mostly of Cadet tuition and fees provided about $54.8 million or 61% of total revenues and support in fiscal 2019 with this percentage expected to increase in the future.

State support provided $15.1 million or 17% of VMI's total revenues and support for operations in fiscal 2019 excluding funding for capital projects. State support provided $8.7 million for capital projects consisting primarily of Corps Physical Training Facilities, Post Infrastructure, Scott Shipp Renovation, Preston Renovation, and Maintenance Reserve. State support for operations is expected to total about $18.1 million in fiscal 2020 for an increase of 20% over fiscal 2019. FY 2020 operating support includes new UMA funding of $1.4 million to support uniform conversion costs. State support for capital projects for fiscal 2020 is estimated to total about $64.5 million and consists primarily of construction funding for Maintenance Reserve, Corps Physical Training Facilities, Post Infrastructure, Preston Library Renovation, and Scott Shipp Renovation capital projects.

Because State support is significant, VMI is directly impacted by changes in the State's economic outlook. The Commonwealth ended FY 2019 with a revenue surplus primarily due to federal tax conformity. This one-time impact will not continue in future years. VMI received an additional $2.2 million in Educational and General operating funds in FY 2020, including $661,000 from the tuition moderation fund in exchange for not increasing in-state tuition. In addition, in FY 2020 the Institute will receive additional one-time funding of $1.4 million in the Unique Military Activities program to support uniform conversions.

Private support provided $17.4 million or 18% of VMI's total revenues and support for operations in fiscal 2019 excluding funding for capital projects. Private support provided $186,000 for capital project debt service plus an additional $484,000 for the Stonewall Jackson House/Davidson Tucker House renovation/expansion project. Private support is derived mostly from VMI's alumni agencies and continues to remain strong due to ongoing fundraising efforts and the professional management of their diversified portfolio of endowment assets. The endowment had a market value of $512 million as of 30 June 2019 reflecting an increase of about 4.1% over fiscal 2018. The alumni agencies completed a fund-raising campaign on 30 June 2017 that significantly increased endowments in support of new and existing programs.

VMI's executive management believes that there will be modest growth in State support over the next few years. Because of the success of the ongoing fund-raising campaign, private support in the next few years is expected to increase, providing much needed revenues to help supplement State funding. VMI remains committed to on-going improvement of academic programs, cost containment, and the affordability and competitiveness of tuition and fees. These commitments, along with continuing major investments and improvements in facilities, are expected to bolster the favorable student demand for the VMI education and keep the Institute's overall financial position strong.

In March 2020, the Institute shifted from traditional classroom teaching to alternative virtual instructions as a result of the COVID-19 global outbreak. For the health and safety of the VMI community, the majority of on-Post operations and events were canceled or delayed and faculty and staff began teleworking. For the fiscal year ending June 30, 2020, revenue from housing, dining, and fees is expected to be impacted as well as additional expenses related to transition to remote education and other activities in response to the outbreak are expected to be incurred. The overall financial impact and duration of altered business processes cannot be reasonably estimated at this time.

FINANCIAL STATEMENTS

VIRGINIA MILITARY INSTITUTE
Statement of Net Position
As of 30 June 2019

ASSETS	
Current assets	
Cash and cash equivalents (Note 2)	$ 28,400,746
Cash equivalent held by Treasurer of Virginia (Note 2)	1,597,964
Accounts receivable, *Net of allowance for doubtful accounts of $28,526* (Note 3)	1,624,906
Due from the Commonwealth (Note 4)	3,706,848
Due from federal government	142,464
Prepaid expenditures	1,076,607
Inventories (Note 5)	7,178,887
Loans receivable	280,341
Total current assets	44,008,763
Noncurrent assets	
Cash and cash equivalents (Note 2)	1,408,901
Cash equivalent-restricted (Note 2)	3,832,976
Investments held with trustees (Note 2)	17,300,849
Appropriations Available	137,058
Accounts receivable (Note 3)	34,464
Loans receivable, *Net of allowance for doubtful accounts of $36,146*	807,903
Nondepreciable capital assets (Note 6)	23,053,516
Depreciable capital assets, *Net of accumulated depreciation* (Note 6)	314,405,599
Net OPEB Asset (Note 13)	739,000
Total noncurrent assets	361,720,266
Total assets	405,729,029
DEFERRED OUTFLOW OF RESOURCES	
Loss on refunding	344,872
Deferred outflows related to OPEB	1,405,239
Deferred outflows related to pensions	2,459,014
Total deferred outflow of resources	4,209,125
Total assets and deferred outflows	409,938,154
LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses (Note 7)	12,872,185
Unearned revenue	1,368,804
Obligations under securities lending	1,597,964
Deposits held for others	688,441
Long-term liabilities-current portion (Note 8)	665,438
Long-term debt-current portion: (Note 8, Note 9)	1,560,000
OPEB Liability-current portion: (Note 13)	270,941
Total current liabilities	19,023,773
Noncurrent liabilities	
Accrued liabilities (Note 7)	4,035,368
Federal loan program contributions refundable	1,173,314
Long-term liabilities-noncurrent portion (Note 8)	790,787
Long-term debt-noncurrent portion: (Note 8, Note 9)	21,711,917
Net Pension Liability (Note 12)	22,236,000
OPEB Liability (Note 13)	13,034,755
Total noncurrent liabilities	62,982,141
Total liabilities	82,005,914
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to OPEB	4,431,881
Deferred inflows related to pensions	2,317,000
Total deferred inflow of resources	6,748,881

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

VIRGINIA MILITARY INSTITUTE
Statement of Net Position
As of 30 June 2019

NET POSITION	
Net investment in capital assets	314,863,304
Restricted-nonexpendable	
Endowment	1,258,697
Restricted-expendable	
Scholarships and other	1,436,611
Loan funds	601,720
Quasi-endowment-restricted	10,341,402
Capital projects	3,104,397
VSDP OPEB	614,000
	16,098,130
Unrestricted	(11,036,772)
Total net position	321,183,359
Total liabilities, deffered inflows and net position	$ 409,938,154

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

COMBINED STATEMENT OF FINANCIAL POSITION
Component Units of Virginia Military Institute
As of 30 June 2019

ASSETS	
Current assets:	
Cash and cash equivalents	$ 18,868,912
Contributions receivable (Note 19)	8,768,152
Accounts receivable	70,189
Note receivable	106,672
Other	194,800
Total current assets	28,008,725
Noncurrent assets:	
Contributions receivable (Note 19)	9,193,601
Investments held by trustees (Note 19)	492,262,136
Investments, other (Note 19)	18,934,228
Investment securities	271,334
Cash surrender of life insurance	5,466,998
Property and equipment, net of accumulated depreciation	376,646
Total noncurrent assets	526,504,943
Total assets	554,513,668
LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses	1,503,720
Long-term liabilities-current portion:	
Trust and annuity obligations	619,027
Total current liabilities	2,122,747
Noncurrent liabilities:	
Other liabilities	34,464
Long-term liabilities-noncurrent portion:	
Bonds payable (Note 19)	46,556,473
Trust and annuity obligations	4,746,268
Total noncurrent liabilities	51,337,205
Total liabilities	53,459,952
NET ASSETS	
Without donor restrictions	63,067,796
With donor restrictions	437,985,920
Total net assets	501,053,716
Total liabilities and net assets	$ 554,513,668

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

VIRGINIA MILITARY INSTITUTE
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended 30 June 2019

Operating revenues:	
Tuition and fees, *Net of scholarships allowances of $7,335,824*	26,138,544
Federal grants and contracts	91,286
Sales and services of educational departments	460,737
Auxiliary enterprise, *Net of scholarship allowances of $6,183,197*	23,611,925
Unique military activities, *Net of scholarships allowances of $1,015,998*	3,470,626
Other sources:	
Museum programs	530,895
Rents and commissions	349,992
Miscellaneous	158,243
Total operating revenues	54,812,248
Operating expenses:	
Educational and general	
Instruction	24,615,308
Research	189,301
Public service	1,502,041
Academic support	6,631,562
Student services	4,041,065
Institutional support	6,415,435
Operation and maintenance of physical plant	8,543,254
Scholarships and related expense	1,199,105
Auxiliary enterprises	28,826,504
Unique military activities	11,482,714
Total operating expenses (Note 10)	93,446,289
Net operating income (loss)	(38,634,041)
Nonoperating revenues/(expenses):	
State appropriations (Note 11)	15,092,678
Gifts and contributions	16,843,873
Federal student financial aid (Pell)	1,160,602
Federal stabilization funds (ARRA)	33,127
Investment income (loss)	1,674,401
Interest on capital asset - related debt	(811,617)
Gain/(loss) on disposal of plant assets	23,620
Net nonoperating revenues	34,016,684
Income (loss) before other revenues and extraordinary items	(4,617,357)
Other revenues and reductions:	
Grants and contributions-capital	9,644,326
Investment income-capital	58,636
Total other revenues and reductions	9,702,962
Increase/(Decrease) in net position	5,085,605
Net position beginning of the year	316,097,754
Net position end of year	321,183,359

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

COMBINED STATEMENT OF ACTIVITIES
Component Units of Virginia Military Institute
For the Year Ended 30 June 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES			
Amounts raised on behalf of VMI	$ 6,770,013	$ 17,277,407	$ 24,047,420
Grants, contributions and contracts	316,808	29,146	345,954
Investment income	(418,325)	2,843,506	2,425,181
Actuarial gain/(loss) on trust and annuity obligations	(356,866)	(274,483)	(631,349)
Other income	2,192	-	2,192
Net assets released from restrictions and reclassifications	13,411,101	(13,411,101)	-
Total revenues	19,724,923	6,464,475	26,189,398
EXPENSES			
Amounts remitted directly to or on behalf of VMI:			
Unrestricted	5,512,870	-	5,512,870
Designated	13,538,032	-	13,538,032
Cost of operations	7,558,793	-	7,558,793
Conference, research and education	417,258	-	417,258
Total expenses	27,026,953	-	27,026,953
Change in net assets before net realized and unrealized gain/(loss) on investments	(7,302,030)	6,464,475	(837,555)
Net realized and unrealized gain/(loss) on investments	6,910,188	16,512,779	23,422,967
Change in net assets	(391,842)	22,977,254	22,585,412
NET ASSETS			
Beginning	63,459,638	415,008,666	478,468,304
Ending	$ 63,067,796	$ 437,985,920	$ 501,053,716

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

VIRGINIA MILITARY INSTITUTE
Statement of Cash Flows
For the Year Ended 30 June 2019

Cash provided/(used) by operating activities:	
Tuition and fees	$ 26,260,145
Federal grants and contracts	91,286
Sales and services-educational and general	483,363
Auxiliary charges	23,670,512
Unique military activity charges	3,471,424
Other operating receipts	1,023,093
Payments to employees for salaries and benefits	(50,243,975)
Payments for supplies and services	(29,329,751)
Payments for scholarships and fellowships	(1,255,673)
Loan funds issued to students	7,445
Collections of loans from students	199,514
Net cash provided/(used) by operating activities	(25,622,617)
Cash provided/(used) by noncapital financing activities:	
State appropriations	15,092,678
Nonoperating grants and contracts	1,316,443
Gifts and contributions for other than capital purposes	16,139,417
Federal Direct Lending Program-receipts	7,914,264
Federal Direct Lending Program-disbursements	(7,914,264)
Agency receipts	1,379,314
Agency disbursements	(1,404,564)
Net cash provided/(used) by noncapital financing activities	32,523,288
Cash provided/(used) by capital and related financing activities:	
Capital gifts and contributions	6,724,491
Proceeds from capital assets	202,174
Purchase and construction of capital assets	(12,589,219)
Proceeds from capital debt	3,582,012
Principal paid on capital debt, leases and installments	(1,418,447)
Interest paid on capital debt, leases and installments	(977,654)
Investment income-capital	58,636
Net cash provided/(used) by capital and relating financing activities	(4,418,007)
Cash provided/(used) by investing activities:	
Interest on investments	16,301
Investment/Endowment income	1,059,276
Purchase of investments	(568,194)
Net cash provided/(used) by investing activities	507,383
Net increase/(decrease) in cash	2,990,047
Cash and cash equivalents-beginning of year	32,250,540
Cash and cash equivalents -end of year	$ 35,240,587

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

VIRGINIA MILITARY INSTITUTE
Statement of Cash Flows
For the Year Ended 30 June 2019

Reconciliation of net operating loss to net cash used by operating activities:

Operating loss	$ (38,634,041)
Adjustments to reconcile net operating expenses to cash used by operating activities:	
Depreciation expense	12,691,193
Changes in assets, liabilities, deferred outflows, and deferred inflows:	
Accounts receivable	75,141
Inventories	(77,229)
Prepaid expenditures	210,165
Loans receivable	191,595
Deferred outflows of resources related to pensions	109,300
Deferred outflows of resources related to OPEB	(297,418)
Accounts payable and accrued liabilities	1,881,621
Unearned revenue	114,243
Compensated absences	66,028
Federal loan program contributions refundable	12,887
Net OPEB Asset	(73,000)
OPEB Liability	(1,741,662)
Net Pension Liability	(1,787,000)
Deferred infows related to OPEB	1,796,561
Deferred inflows related to pensions	(161,000)
Net cash used in operating activities	$ (25,622,617)

Noncash investing, noncapital financing, and capital related financing transactions:

Change in fair value of investments recognized as a component of investment income	$ (142,275)
Amoritzation of bond premium/discount and gain/loss on debt refinancing	(278,139)
Gain on disposal of capital assets	23,620

Reconciliation of cash and cash equivalents to the Statement of Net Position:

Cash and cash equivalents classified as current assets	$ 29,998,710
Cash and cash equivalents classified as noncurrent assets	5,241,877
	$ 35,240,587

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

- NOTES TO FINANCIAL STATEMENTS -

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Military Institute believes that the measure of a college lies in the quality and performance of its graduates and their contributions to society. Therefore, it is the mission of the Virginia Military Institute to produce educated, honorable men and women prepared for the varied work of civil life, imbued with love of learning, confident in the functions and attitudes of leadership, possessing a high sense of public service, advocates of the American Democracy and free enterprise system, and ready as citizen-soldiers to defend their country in time of national peril.

To accomplish this result, Virginia Military Institute shall provide to qualified young men and women undergraduate education of highest quality – embracing engineering, science, and the arts – conducted in, and facilitated by, the unique VMI system of military discipline.

The Institute is part of the Commonwealth of Virginia's statewide system of public higher education. The VMI Board of Visitors, appointed by the Governor, is responsible for overseeing the Institute's governance. A Comprehensive Annual Financial Report (CAFR) 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 Institute, as a component unit of the Commonwealth of Virginia, is included in the general purpose financial statements of the Commonwealth.

The Governmental Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations Are Component Units,* provides guidance to determine whether certain organizations for which the Institute is not financially accountable should be reported as component units. Generally, it requires reporting as a component unit an organization that raises and holds economic resources for the direct benefit of the Institute.

The VMI Alumni Agencies is a legally separate, tax-exempt entity whose purpose is to organize the alumni of the Institute and to aid in the promotion of its welfare and the successful execution of its educational purpose. It accomplishes this through fund-raising to supplement tuition and fees charged to Cadets and the support VMI receives from the Commonwealth of Virginia. Because the VMI Alumni Agencies' resources are held almost entirely for the benefit of the Institute and these resources are considered significant to the Institute, the VMI Alumni Agencies are included as a component unit.

The VMI Research Laboratories (VMIRL) is a legally separate, tax-exempt entity whose purpose is to administer contract and grant research at the Institute. Because of this relationship to the Institute, it also has been determined to be a component unit of VMI. Both the VMI Alumni Agencies and the VMIRL have been presented in these statements in accordance with GASB Statement 39.

Because the VMI Alumni Agencies and the VMIRL report under a different reporting model, the Financial Accounting Standards Board (FASB) standards, the VMI Board of Visitors and the administration of the Institute believe the Institute's financial statements should be presented on a separate page from the Institute's component units as allowable by GASB Statement 39. Separate financial statements for the VMI Alumni Agencies may be obtained by visiting www.vmi.edu/foundation/stewardship or by writing the Chief Financial Officer, VMI Foundation, Inc., 304 Letcher Avenue, P.O. Box 932, Lexington, Virginia 24450. Separate financial statements for the VMI Research Laboratories, Inc., may be obtained by writing the Treasurer, VMI Research Laboratories, Inc., Virginia Military Institute, Lexington, Virginia 24450.

B. Reporting Basis

The financial statements have been prepared in accordance with GASB standards, including GASB Statement 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities.*

The VMI Alumni Agencies and the VMI Research Laboratories, Inc. are private, nonprofit organizations that report under FASB standards including FASB Statement 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the VMI Alumni Agencies' or the VMI Research Laboratories' financial information included in the Institute's financial report for these differences.

C. Basis of Accounting

For financial statement purposes, the Institute is considered a special-purpose government engaged only in business-type activities. Accordingly, the Institute's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

D. Cash, Cash Equivalents and Investments

In accordance with GASB Statement 9, *Definition of Cash and Cash Equivalents*, cash represents cash with the Treasurer, cash on hand, and cash deposits, including certificate of deposits, and temporary investments with original maturities of three months or less.

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* purchased investments, interest-bearing temporary investments classified with cash, and investments received as gifts are recorded at fair value. All investment income, including changes in the fair value of investments (unrealized gains and losses), is reported as nonoperating revenue in the Statement of Revenues, Expenses, and Changes in Net Position.

In accordance with GASB Statement 72, *Fair Value Measurement and Application,* fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value of covered assets or liabilities is measured by either the market, cost or income approaches and is disclosed in accordance with the prescribed fair value hierarchy. The fair value hierarchy is categorized based upon the observability of inputs to valuation techniques used in measurement.

E. Capital Assets

Capital assets include land, buildings and other improvements, library materials, equipment, infrastructure assets, such as sidewalks, steam tunnels, and electrical and computer network cabling systems, and intangible assets. The Institute capitalizes construction costs that have a value or cost in excess of $100,000 at the date of acquisition. Renovations in excess of $100,000 are capitalized if they significantly extend the useful life of the existing asset. Expenses for major capital assets and improvements are capitalized within construction in progress until the project is substantially complete. Interest expense relating to construction is capitalized, net of interest income earned on resources set aside for this purpose. The costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life are expensed as incurred.

The Institute capitalizes moveable equipment that has a value or initial cost of $5,000 or more and an estimated useful life in excess of one year. Buildings and equipment are stated at cost, where determinable, or appraised value upon initial recognition. Land is stated at cost. Library materials are initially valued using published average prices for library acquisitions. Intangible assets are capitalized with an acquisition cost of $100,000 and a useful life of one or more years.

Depreciation is computed using the straight-line method over the estimated useful life of the asset. Average useful lives by asset categories are listed below:

Buildings	50 years
Other improvements	10-30 years
Equipment	5-25 years
Library materials	10 years
Intangible assets	5 years to indefinite

The Institute does not capitalize works of art, historical treasures and similar assets. Such items are held for public exhibition, education or research in the furtherance of public service rather than financial gain. Institute collections may be sold but the proceeds must be used for the acquisition of similar type Institute collections. Exceptions to this requirement must be pre-approved by the VMI Deputy Superintendent for Finance, Administration and Support.

F. Inventories

The Institute maintains inventory in its Military Store, Museums, Post Hospital and Physical Plant. The Military Store inventory is valued at cost using the first-in first-out method. Inventory for the Museum, Post Hospital and Physical Plant are valued at cost determined by using the weighted average method.

G. Prepaid Expenses

The Institute has recorded certain expenses for future fiscal years that were paid in advance as of June 30, 2019. Payments of expenses that extend beyond fiscal year 2019 are classified as a non-current asset. Prepaid expenses included items such as insurance premiums, membership dues, publication subscriptions, and information technology maintenance contracts.

H. Receivables

Receivables consist of tuition and fee charges to Cadets, and amounts due for auxiliary enterprise services provided to Cadets, faculty and staff. Receivables also include amounts due from federal, state and local governments and nongovernmental sources, in connection with reimbursement of allowable expenses made pursuant to the Institute's grants and contracts. Amounts due from the Federal Perkins Loan Program are also included. Receivables are recorded net allowance for doubtful accounts.

I. Deferred 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.

J. Unearned Revenue

Unearned revenue represents revenues collected but not earned as of 30 June 2019. This is primarily composed of revenue for Cadet tuition and fees received in advance of the semester or term.

K. Interest Capitalization

Interest expense incurred during the construction of capital assets is capitalized for the first two years following the issuance of the respective bond, if material, net of interest income earned on resources set aside for this purpose. The Institute incurred interest expense totaling $811,617 for the fiscal year ended 30 June 2019. However, none of the respective interest expense incurred met the above capitalization criteria.

L. Accrued Compensated Absences

The amount of leave earned, but not taken by classified salaried employees is recorded as a liability on the Statement of Net Position. The amount reflects, as of 30 June 2019, all unused vacation leave, overtime leave, compensatory leave, and the amount payable upon termination under the Commonwealth's sick leave payout policy. The applicable share of employer related taxes payable on the eventual termination payments is also included.

M. Federal Financial Assistance Programs

The Institute participates in federally funded Pell Grants, Supplemental Educational Opportunity Grants, Federal Work-Study and Perkins Loans programs. Federal programs are audited in accordance with Title 2, Part 200 of the U.S. Code of Federal Regulations, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

N. Deferred Inflows of Resources

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.

O. Net Position

The Institute's net position is classified as follows:

Net investment in capital assets*:* This represents the Institute's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net position – nonexpendable*:* Nonexpendable restricted net position consists of endowment funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to the principal.

Restricted net position – expendable*:* Restricted expendable net position includes resources for which the Institute is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net position*:* Unrestricted net position represents resources derived from Cadet tuition and fees, Commonwealth appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the Institute, and may be used at the discretion of the Board of Visitors for any lawful purpose in support of the Institute's primary mission. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for Cadets, faculty and staff. Also included in unrestricted net position are funds that have been set aside by the Board of Visitors as quasi-endowments. These funds are treated similar to true endowment funds, however, unlike true endowments, they may be expended.

The Institute's practice regarding flow assumption has been to allow Department Heads to determine which assets (restricted or unrestricted) will be used when both restricted and unrestricted assets are available for the same purpose. Historically, unrestricted assets have been spent prior to the expenditure of restricted assets.

P. Classification of Revenues

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

Operating revenues*:* Operating revenues include activities that have the characteristics of exchange transactions, such as (1) Cadet tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state and local grants and contracts, and (4) interest on Cadet loans.

Nonoperating revenues*:* Nonoperating revenues are revenues received for which goods and services are not provided. State appropriations, gifts and other revenue sources that are defined as nonoperating by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB Statement 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* are included in this category.

***Scholarship Discounts and Allowances**:* Cadet tuition and fee revenues are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the Institute and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the Institute's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees, the Institute has recorded a scholarship discount and allowance.

Q. Pensions

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

R. Other Post-Employment Benefits (OPEB)

The Institute participates in postemployment benefit programs that are sponsored by the Commonwealth and administered by the Virginia Retirement System. These programs include the Group Life Insurance Program, Virginia Sickness and Disability Program, Retiree Health Insurance Credit Program, and Line of Duty Act Program. VMI also participates in the Pre-Medicare Retiree Healthcare Plan, sponsored by the Commonwealth and administered by the Department of Human Resources Management. Descriptions of these plans are as follows:

Group Life Insurance

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

State Employee Health Insurance Credit Program

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

VRS Disability Insurance Program

The Virginia Retirement System (VRS) Disability Insurance Program (Virginia Sickness and Disability Program) is a single employer plan that is presented as a multiple-employer, cost-sharing plan. The Disability Insurance Program was established pursuant to §51.1-1100 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The Disability Insurance Program is a managed care program that provides sick, family and personal leave and short-term and long-term disability benefits for State Police Officers, state employees, and VaLORS employees. For purposes of measuring the net Disability Insurance Program OPEB liability (asset), deferred outflows of resources and deferred inflows of resources related to the Disability Insurance Program OPEB, and Disability Insurance Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Disability Insurance Program OPEB Plan and the additions to/deductions from the VRS Disability Insurance Program OPEB Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Line of Duty Act Program

The Virginia Retirement System (VRS) Line of Duty Act Program (LODA) is a multiple-employer, cost-sharing plan. The Line of Duty Act Program was established pursuant to §9.1-400 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The Line of Duty Act Program provides death and health insurance benefits to eligible state employees and local government employees, including volunteers, who die or become disabled as a result of the performance of their duties as a public safety officer. In addition, health insurance benefits are provided to eligible survivors and family members. For purposes of measuring the net Line of Duty Act Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Line of Duty Act Program OPEB, and Line of Duty Act Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Line of Duty Act Program OPEB Plan and the additions to/deductions from the VRS Line of Duty Act Program OPEB Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Pre-Medicare Retiree Healthcare Plan

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

S. Recently Adopted Accounting Pronouncements

In fiscal year 2019, the following GASB statements of standards became effective: Statement 83, *Certain Asset Retirement Obligations, and* Statement 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.*

Statement 83 establishes criteria for determining the time and pattern of recognition of a liability and corresponding deferred outflow of resources for asset retirement obligations (AROs). This statement requires that recognition occur when the liability is both incurred and reasonably estimable. This statement also requires disclosure of information about the nature of a government's AROS, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets and also requires similar disclosures for a government's minority shares of AROs. The Institute determined it did not have any material asset retirement obligations and the financial statements were unaffected by GASB 83 implementation. The primary objective of Statement 88 is to improve the information disclosed in the footnotes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, and significant subjective acceleration clauses. Statement 88 requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

For fiscal year 2019, the Institute adopted GASB Statement 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements,* which was effective for fiscal years beginning after June 15, 2018. This Statement amends Statement No 34, *Basic Financial Statements, and Management's Discussion and Analysis for State and Local Governments,* paragraph 119; Statement No. 38, *Certain Financial Statement Note Disclosures,* paragraphs 10 and 12; Interpretation No. 1, *Demand Bonds Issued by State and Local Governmental Entities,* paragraph 11; NCGA Interpretation 6, *Notes to the Financial Statement Disclosure,* paragraphs 4 and 5; and *Implementation Guide No. 2015-1,* Question 7.85.7. For purposes of disclosure, debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date of the contractual obligation is established. In addition to other requirements to disclose information related to debt in the notes to the financial statements, the Institute disclosed in notes to financial statements summarized information about terms specified in debt agreements related to significant events of default with finance related consequences, and separated information regarding direct borrowings and direct placements of debt from other debt.

NOTE 2: CASH AND CASH EQUIVALENTS AND INVESTMENTS

The following information is provided with respect to the Institute's cash, cash equivalents, and investments as of 30 June 2019. The ensuing risk disclosures are required by GASB Statement 40, *Deposit and Investment Risk Disclosures*.

Custodial Credit Risk (Category 3 deposits and investments) – The custodial risk for deposits is the risk that, in the event of a failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party. The Institute had no category 3 deposits or investments for fiscal year 2019.

Credit Risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligations. GASB Statement 40 requires the disclosure of the credit quality ratings of all investments subject to credit risk.

Concentration of Credit Risk – The risk of loss attributed to the magnitude of a government's investment in a single issuer. Disclosure of investments with any one issuer that represents five percent or more of total investments is required. However, investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools and other pooled investments are excluded from the requirement. The Institute does not have investments subject to risks due to concentration of credit.

Interest Rate Risk – The risk that interest rate changes will adversely affect the fair value of an investment. GASB Statement 40 requires disclosure of maturities for any investments subject to interest rate risk. The Institute does not have an interest rate risk policy.

Foreign Currency Risk – The risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The Institute has no direct investments subject to foreign currency risk.

Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., *Code of Virginia*, all state funds of the Institute are maintained by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Cash deposits held by VMI are maintained in accounts that are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., *Code of Virginia*. Cash and cash equivalents represent cash with the treasurer, cash on hand, certificates of deposit and cash equivalents with the Virginia State Non-Arbitrage Program (SNAP). SNAP offers a professionally-managed money market mutual fund, which provides a temporary pooled investment vehicle for proceeds pending expenditure, and with record keeping, depository and arbitrage rebate calculations. SNAP complies with all standards of

GASB Statement 79. SNAP investments are reported using the net asset value per share, which is calculated on amortized cost basis that provides an NAV per share that approximates fair value.

Cash and cash equivalents consist of the following balances as of 30 June 2019:

	Current	Noncurrent	Total
Cash with Treasurer of Virginia	$ 23,055,712	$ 905,758	$ 23,961,470
State Non-Arbitrage Program (SNAP)	-	3,832,977	3,832,977
BB&T public fund checking	5,337,485	503,142	5,840,627
Securities under Securities Lending/Treasurer VA	1,597,964	-	1,597,964
Petty cash	7,550	-	7,550
Total cash and cash equivalents	$ 29,998,711	$ 5,241,877	$ 35,240,588

Investments

Investments include endowment and similar funds pooled and invested with VMI affiliates and retirement fund investments for selected employees. Investments consist of the following balances as of 30 June 2019:

	Current	Noncurrent	Total
Investments with trustees:			
Investments pooled with VMI affiliates	$ -	$ 13,425,482	$ 13,425,482
Mutual fund investments (retirement accounts)	-	3,875,367	3,875,367
Total investments	$ -	$ 17,300,849	$ 17,300,849

Fair Value Measurements

Accounting standards establish general principles for measuring fair value, standards of accounting and financial reporting for assets and liabilities measured at fair value and a fair value hierarchy that categorizes the inputs to valuation techniques used to measure fair value into three levels. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date. Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for an asset or liability.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques utilized need to maximize the use of observable inputs and minimize the use of unobservable inputs. All assets reported at fair value have been valued using the market approach (i.e. using prices and other relevant information generated by market transactions involving identical or similar assets, liabilities, or groups of assets and liabilities). As of fiscal year end, VMI did not hold any assets categorized as Level 2 or 3.

Mutual fund investments (retirement accounts) are valued utilizing the closing price reported on the active market on which the individual funds are traded to derive the net asset value of shares held at year end.

The following table sets forth by level, within the fair value hierarchy, the Institute's assets at fair value at 30 June 2019. Certain investments that are measured at fair value using the net asset value per share (or its equivalent) have not been categorized in the fair value hierarchy. The amounts presented are intended to permit reconciliation of the fair value hierarchy to the Statement of Net Positon.

	Balance at 30 June 2019	Credit Rating	Investment Maturity	Quoted prices in active markets for identical assets (Level 1)	Fair value established using Net Asset Value (NAV)	Amounts not measured at fair value
Cash with Treasurer of Virginia	$ 23,961,470			$ -	$ -	$ 23,961,470
State Non-Arbitrage Program (SNAP)	3,832,977	AAAm	< 1 year	-	-	$ 3,832,977
BB&T public fund checking	5,840,627			-	-	5,840,627
Securities under Securities Lending/Treasurer VA	1,597,964			-	-	1,597,964
Petty Cash	7,550			-	-	7,550
Investments held with trustees:						
Mutual fund investments (retirement accounts)	3,875,367			3,875,367	-	-
Investments pooled with VMI affiliates*	13,425,482			-	13,425,482	-
Total cash, cash equivalents and investments	$ 52,541,437			$ 3,875,367	$ 13,425,482	$ 35,240,588

INVESTMENTS MEASURED AT NET ASSET VALUE (NAV)

	Fair Value at 30 June 2018	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Investments pooled with VMI affiliates	13,425,482	(a)	(a)
	$ 13,425,482		

*(a) See * and Note 17 for additional discussion regarding VMI Investment Holdings, LLC operations.*

*VMI's endowment, loan and similar funds are pooled for investment purposes with the endowment funds of its affiliate, the VMI Alumni Agencies (the VMI Foundation, Inc., the VMI Development Board, Inc., and the VMI Keydet Club) and the George C. Marshall Foundation. VMI owns units in the pooled fund (the "Fund") that operates similar to a mutual fund. VMI Investment Holdings, LLC (LLC) manages and operates the unitized investment pool with BNY Mellon, N.A. serving as custodian. The VMI Foundation, Inc. is the sole member of the LLC and acts as an intermediary between the LLC, VMI and the other agencies. Deposits to and withdrawals from the pool by VMI and the other agencies are made through the LLC. There are currently no official restrictions regarding redemption frequency or required notification. A separate board of directors manages the LLC. The board has approved an investment policy that outlines the standards and disciplines adopted, and the investment objectives, principles, and guidelines for managing the Fund. Authorized investments are set forth in the Uniform Prudent Management of Institutional Funds Act, Section 55-268 et seq. of the *Code of Virginia* and may include any real or personal property, whether or not it produces a current return, including mortgages, stocks and bonds, debentures, and other securities of profit or nonprofit corporations, shares in or obligations of associations, partnerships, or individuals, and obligations of any government or subdivision.

The market value of the Fund as of 30 June 2019 was $512.2 million, of which, VMI owned $13.4 million or 2.6 percent of the Fund assets. The Fund annually approves an asset allocation which directs how assets are invested amongst major categories of investments. The Fund held $62.5 million in debt securities with an average maturity of 12.2 years. The average quality rating was BBB (Moody's). The Fund held $139.3 million in US equity investments. The Fund held $61.5 million in developed markets international funds with equities denominated primarily in the Euro, the Pound, and the Yen, and $44.8 million in emerging markets international funds with equities denominated in a variety of currencies. The Fund held $77.7 million in absolute return fund investments, which may also hold fixed income and equity securities. The Fund held $101.7 million in private investments and $0.6 million in master limited partnerships. The remaining investments are held in cash and other diversifying instruments. The custodians for the Fund are independently audited annually.

Funds Held In Trust By Others

Individual assets of funds held by trustees for the benefit of the Institute are not reflected in the accompanying Statement of Net Position. The Institute has irrevocable rights to all or a portion of the income of these funds. However, individual assets of the funds are not under the management discretion of the Institute according to the trust agreements. Income from funds held by trustees for the benefit of the Institute totaled $98,696 for fiscal year 2019 and is included in the endowment income.

Securities Lending Transactions

Collateral held for securities lending and the securities lending transactions reported on the financial statements represent the Institute's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's *Comprehensive Annual Financial Report.* The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains or losses are realized, the actual gains and losses are recorded by the affected agencies.

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at 30 June 2019:

	Current	Noncurrent	Total
Student tuition and fees	$ 687,461	$ -	$ 687,461
Other educational and general	18,640	-	18,640
Auxiliary enterprises	100,374	-	100,374
Unique military activity	4,200	-	4,200
Private gifts	704,455	-	704,455
Agency funds	65,514	-	65,514
Other operating	61,845	34,464	96,309
Retirement of indebtedness	10,943		10,943
	$ 1,653,432	$ 34,464	$ 1,687,896
Less: Allowance for doubtful accounts	(28,526)	-	(28,526)
Total accounts receivable, net	$ 1,624,906	$ 34,464	$ 1,659,370

NOTE 4: COMMONWEALTH REIMBURSEMENT PROGRAMS

The Commonwealth has established several programs to provide state-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional and research equipment and facilities. During the 2019 fiscal year, funding has been provided to the Institute from two programs (21st Century Program and the Equipment Trust Fund) managed by the Virginia College Building Authority (VCBA). The VCBA issues bonds and uses the proceeds to reimburse the Institute for expenses incurred in the acquisition of equipment and facilities.

The line item, "Due from the Commonwealth" on the Statement of Net Position for the year ended 30 June 2019 represents pending reimbursements from the following programs:

VCBA Equipment Trust Fund program	$ 509,480
VCBA 21st Century program	3,197,368
Total Due from Commonwealth	$ 3,706,848

NOTE 5: INVENTORIES

Inventories consisted of the following balances at 30 June 2019:

Military Store	$ 6,526,555
Physical Plant	412,099
Museums	220,269
VMI Hospital	19,964
Total	$ 7,178,887

NOTE 6: CAPITAL ASSETS

A summary of changes in the various capital asset categories is presented as follows:

	Beginning Balance 1 July 2018	Additions	Reductions	Ending Balance 30 June 2019
Nondepreciable capital assets:				
Land	$ 3,742,372	$ -	$ -	$ 3,742,372
Construction in progress	13,455,893	13,270,903	(7,415,652)	19,311,144
Total nondepreciable capital assets	17,198,265	13,270,903	(7,415,652)	23,053,516
Depreciable capital assets:				
Buildings	403,369,632	6,871,716	(120,000)	410,121,348
Improvements other than buildings	30,545,269	543,936	-	31,089,205
Equipment	19,938,521	1,842,313	(2,324,727)	19,456,107
Library books	11,808,599	1,045,935	(854,292)	12,000,242
Total depreciable capital assets	465,662,021	10,303,900	(3,299,019)	472,666,902
Less accumulated depreciation for:				
Buildings	109,713,180	9,375,573	(120,000)	118,968,753
Improvements other than buildings	13,410,799	1,458,682	-	14,869,481
Equipment	15,217,521	1,588,527	(2,146,173)	14,659,875
Library books	10,349,076	268,410	(854,292)	9,763,194
Total accumulated depreciation	148,690,576	12,691,192	(3,120,465)	158,261,303
Depreciable capital assets, net	316,971,445	(2,387,292)	(178,554)	314,405,599
Total capital assets, net	$ 334,169,710	$ 10,883,611	$ (7,594,206)	$ 337,459,115

NOTE 7: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	Current	Noncurrent	Total
Employee salaries, wages and benefits payable	$ 4,448,491	$ -	$ 4,448,491
Vendors and supplies accounts payable	7,850,439	-	7,850,439
Accrued interest payable	268,098	-	268,098
Retainage payable	203,490	-	203,490
Contractual liability	101,667	160,000	261,667
Retirement annuities*	-	3,875,368	3,875,368
Total accounts payable and accrued expenses	$ 12,872,185	$ 4,035,368	$ 16,907,553

**See Note 12 for additional discussion about Retirement Annuities*

NOTE 8: LONG-TERM LIABILITIES SUMMARY

The Institute's long-term liabilities primarily consist of long-term debt (further described in Note 9) and accrued compensated absences. A summary of changes in long-term liabilities for the year ending 30 June 2019 is presented as follows:

	Beginning Balance 1 July 2018	Additions	Reductions	Ending Balance 30 June 2019	Current Portion 30 June 2019
Long-term debt:					
Bonds payable	$ 5,786,781	$ -	$ (745,926)	$ 5,040,855	$ 670,000
Notes payable	15,599,711	3,582,012	(950,661)	18,231,062	890,000
Total long-term debt	$ 21,386,492	$ 3,582,012	$ (1,696,587)	$ 23,271,917	$ 1,560,000
Accrued compensated absences	1,390,198	873,488	(807,461)	1,456,225	665,438
Total long-term liabilities	$ 22,776,690	$ 4,455,500	$ (2,504,048)	$ 24,728,142	$ 2,225,438

NOTE 9: LONG-TERM INDEBTEDNESS DETAIL

Bonds payable:

The Institute has issued bonds pursuant to Section 9(c) of Article X of the Constitution of Virginia. Section 9(c) bonds are general obligation bonds issued by the Commonwealth on behalf of the Institute for the renovation and expansion of Crozet Hall, the Institute dining facility, and parking. The revenue bonds are secured by the net revenues of the facility, which is comprised primarily of Cadet fees.

Bonds Payable:	Interest Rates (%)	Maturity Fiscal Year	Balance 30 June 2019
Crozet Hall:			
Series 2009D, issued $4,241,860 - refunding Series 2004A	5.00	2022	$ 2,295,659
Series 2012A, issued $3,018,620 - refunding Series 2004A	2.00 - 5.00	2025	2,745,196
			$ 5,040,855

Notes payable:

Notes Payable:	Interest Rates (%)	Maturity Fiscal Year	Balance 30 June 2019
Cocke Hall Annex:			
Series 2007B, issued $735,000 - refunding Series 2002A	4.00	2020	$ 137,017
Series 2010B, issued $555,000 - refunding Series 2002A	5.00	2023	479,463
Jackson Memorial Hall Renovation:			
Series 2007B, issued $850,000 - refunding Series 2002A	4.00	2020	158,459
Series 2010B, issued $650,000 - refunding Series 2002A	5.00	2023	558,597
South Institute Hill Parking:			
Series 2010A1/2, issued $2,850,000	3.75 - 5.50	2031	2,098,432
Improve Post Facilities I:			
Series 2013A, issued $4,085,000	2.00 - 5.00	2034	3,589,808
Improve Post Facilities II:			
Series 2014A, issued $3,565,000	5.00	2035	3,736,838
Improve Post Facilities III:			
Series 2015A, issued $3,915,000	3.00 - 5.00	2036	3,900,412
Improve Post Infrastructure I, II, III:			
Series 2018A, issued $3,240,000	4.00 - 5.00	2039	3,572,036
			$ 18,231,062

Notes payable consists of debt obligations between the Virginia College Building Authority (VCBA) and the Institute. The VCBA issued bonds through the Pooled Bond Program and used the proceeds to purchase debt obligations (notes) of the Institute. The Cocke Hall Annex, South Institute Hill Parking and Post Infrastructure Improvement notes will be paid from auxiliary reserve funds, which consist predominantly of Cadet fees. The JM Hall Renovation note is secured by funds paid by the VMI Foundation, Inc. on a year-to-year basis as a gift to the Institute. Should the gift be discontinued, repayment will be made from the general revenues of the Institute.

Maturities on notes and bonds payable for years subsequent 30 June 2019 are as follows:

Year	Bonds Payable	Notes Payable	Total
2020	$ 670,000	$ 890,000	$ 1,560,000
2021	705,000	1,035,000	1,740,000
2022	740,000	1,085,000	1,825,000
2023	792,290	1,130,000	1,922,290
2024	831,325	835,000	1,666,325
2025-2029	865,000	4,725,000	5,590,000
2030-2034	-	5,150,000	5,150,000
2035-2039	-	1,990,000	1,990,000
Total principal payments	4,603,615	16,840,000	21,443,615
Unamortized premium	437,240	1,391,062	1,828,302
Total long-term debt, net	$ 5,040,855	$ 18,231,062	$ 23,271,917

A summary of future interest commitments for fiscal years subsequent to 30 June 2019 is presented as follows:

Year	Bonds Payable	Notes Payable	Total
2020	$ 105,925	$ 733,166	$ 839,091
2021	105,925	692,491	798,416
2022	100,763	642,604	743,367
2023	43,985	588,370	632,355
2024	43,985	540,109	584,094
2025-2029	36,654	2,077,831	2,114,485
2030-2034	-	949,512	949,512
2035-2039	-	146,516	146,516
Total future interest requirements	$ 437,237	$ 6,370,599	$ 6,807,836

Long-term Debt Defeasance

In prior years, in accordance with GASB Statement 7, *Advance Refundings Resulting in the Defeasance of Debt*, the Institute excluded from its financial statements the assets in escrow and the Section 9(c) or 9(d) bonds payable that were defeased "in-substance." As of June 30, 2019 no defeased debt is considered outstanding.

Operating Leases

VMI is committed under operating leases for equipment. Operating leases do not give rise to property rights and are not reflected as obligations in the Institute's Statement of Net Position. In general, the leases have a three-year term and the Institute has renewal options. In most cases, the Institute expects that these leases will be replaced by similar leases in the normal course of business. As of 30 June, 2019, the Institute did not replace the current lease with similar leases.

Capital Improvement Commitments

As of 30 June 2019, the Institute had outstanding construction contract commitments of $42,607,069. This amount represents the value of obligations remaining on capital improvement project contracts. These obligations are for future efforts and, as such, have not been accrued as expenses or liabilities on the Institute's financial statements.

<u>NOTE 10: EXPENSES BY NATURAL CLASSIFICATION</u>

The Institute's operating expenses by natural classification were as follows for the year ended 30 June 2019:

Program	Compensation and benefits	Supplies, Equipment, Utilities and Other Services	Student Aid	Other Expenses	Depreciation	Total
Instruction	$ 19,928,700	$ 1,187,087	$ -	$ 56,048	$ 3,443,473	$ 24,615,308
Research	75,185	26,216	-	87,900	-	189,301
Public service	713,619	399,825	-	8,040	380,557	1,502,041
Academic support	4,398,189	1,028,856	-	24,310	1,180,207	6,631,562
Student services	2,569,489	1,166,205	-	48,502	256,869	4,041,065
Institutional support	4,284,154	1,474,929	-	457,555	198,797	6,415,435
Operation of plant	3,718,411	3,394,524	-	852,009	578,310	8,543,254
Scholarships and related expense	14,197	35,482	1,149,426	-	-	1,199,105
Auxiliary enterprises	6,955,425	12,128,896	106,247	5,751,067	3,884,869	28,826,504
Unique military activities	5,493,925	2,764,862	-	455,817	2,768,110	11,482,714
Other	-	-	-	-	-	-
TOTAL	$ 48,151,294	$ 23,606,882	$ 1,255,673	$ 7,741,248	$ 12,691,192	$ 93,446,289

NOTE 11: STATE APPROPRIATIONS

The Institute receives State appropriations from the General Fund of the Commonwealth of Virginia. The Appropriation Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of the biennium. For years ending at the middle of the biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to VMI for disbursement. Fiscal year 2018 ended the previous biennium.

During the fiscal year ended 30 June 2019, the Institute received the following supplemental appropriations and reversions in accordance with the Appropriation Act:

Original legislative appropriation:	
Educational and general (E&G) programs	$ 9,995,154
Unique military activity (UMA)	4,210,058
Student financial assistance	1,036,680
Adjustments:	
Adjustments-GF portion	129,737
ETF lease payment – NGF portion	(88,844)
Student financial assistance	22,800
Interest and credit card rebate	151,227
Debt service fee – Non-Virginia Cadets	(377,190)
Appropriation transfers:	
SCHEV programs	13,056
Adjusted appropriation	$ 15,092,678

NOTE 12: RETIREMENT AND PENSION SYSTEMS

General Information about the Pension Plan

Plan Description

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

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

Retirement Plan Provisions by Plan Structure		
Plan 1	**Plan 2**	**Hybrid Retirement Plan**
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from

<table>
<tr><td></td><td></td><td>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.</td></tr>
<tr><td>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.</td><td>Eligible Members
Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

Hybrid Opt-In Election
Eligible plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan’s effective date for eligible Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</td><td>Eligible Members
Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:
• State employees*
• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 – April 30, 2014; the plan’s effective date for opt-in members was July 1, 2014.

*Non Eligible Members
Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:
• Members of the Virginia Law Officers’ Retirement System (VaLORS)

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</td></tr>
</table>

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

		<u>Defined Contributions Component</u>: Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
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 balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	**Vesting** Same as Plan 1.	**Vesting** **<u>Defined Benefit Component</u>:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **<u>Defined Contributions Component</u>:** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

		• After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **<u>Defined Benefit Component</u>:** See definition under Plan 1 **<u>Defined Contribution Component</u>:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier **VRS:** The retirement	**Service Retirement Multiplier** **VRS:** Same as Plan 1 for	**Service Retirement Multiplier** **<u>Defined Benefit Component</u>:**

multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70% **VaLORS:** The retirement multiplier for VaLORS employees is 1.70% or 2.00%	service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. **VaLORS:** The retirement multiplier for VaLORS employees is 2.00%.	**VRS:** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **VaLORS:** Not applicable. **<u>Defined Contribution Component</u>:** Not applicable.
Normal Retirement Age **VRS:** Age 65 **VaLORS:** Age 60	**Normal Retirement Age** **VRS:** Normal Social Security retirement age. **VaLORS:** Same as Plan 1	**Normal Retirement Age** **<u>Defined Benefit Component</u>:** **VRS:** Same as Plan 2 **VaLORS:** Not applicable. **<u>Defined Contribution Component</u>:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility **VRS:** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. **VaLORS:** Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**Earliest Unreduced Retirement Eligibility** **VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. **VaLORS:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **<u>Defined Benefit Component</u>:** **VRS:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **VaLORS:** Not applicable. **<u>Defined Contribution Component</u>:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

<table>
<tr><td></td><td></td><td></td></tr>
<tr><td>Earliest Reduced Retirement Eligibility
VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.

VaLORS: 50 with at least five years of creditable service.</td><td>Earliest Reduced Retirement Eligibility
VRS: Age 60 with at least five years (60 months) of creditable service.

VaLORS: Same as Plan 1.</td><td>Earliest Reduced Retirement Eligibility
<u>Defined Benefit Component</u>:
VRS: Age 60 with at least five years (60 months) of creditable service.

VaLORS: Not applicable.

<u>Defined Contribution Component</u>:
Members are eligible to receive distributions upon leaving employment, subject to restrictions.</td></tr>
<tr><td>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%.

<u>Eligibility</u>:
For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.

For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

<u>Exceptions to COLA</u></td><td>Cost-of-Living Adjustment (COLA) in Retirement
The Cost-of-Living adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.

<u>Eligibility</u>:
Same as Plan 1.

<u>Exceptions to COLA</u></td><td>Cost-of-Living Adjustment (COLA) in Retirement
<u>Defined Benefit Component</u>:
Same as Plan 2.

<u>Defined Contribution Component</u>:
Not applicable.

<u>Eligibility</u>:
Same as Plan 1 and Plan 2.

<u>Exceptions to COLA</u></td></tr>
</table>

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.	**Effective Dates:** Same as Plan 1.	**Effective Dates:** Same as Plan 1 and Plan 2.
Disability Coverage Members who are eligible to	**Disability Coverage** Members who are eligible to	**Disability Coverage** State employees (including

be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **Defined Benefit Component:** Same as Plan 1, with the following exception: • 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 employer contribution rate for the year June 30, 2019 was 13.52% of covered employee compensation for employees in the VRS State Employee Retirement Plan. For employees in the VaLORS Retirement Plan, the contribution rate was 21.61% of covered employee compensation. These rates were based on 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 earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the Institute to the VRS State Employee Retirement Plan were $2,161,609 and $2,139,901 for the years ended June 30, 2019 and June 30, 2018, respectively. Contributions from the Institute to the VaLORS Retirement Plan were $114,404 and $76,412 for the years ended June 30, 2019 and June 30, 2018, respectively.

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

At June 30, 2019, the Virginia Military Institute reported a liability of $21,462,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability and a liability of $774,000 for its proportionate share of the VaLORS Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2018 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. VMI's proportion of the Net Pension Liability was based on the Institute'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, VMI's proportion of the VRS State Employee Retirement Plan was 0.396% as compared to 0.397% at June 30, 2017. At June 30, 2018, the Institute’s proportion of the VaLORS Retirement Plan was 0.124% as compared to 0.135% at June 30, 2017.

For the year ended June 30, 2019, the Virginia Military Institute recognized pension expense of $446,000 for the VRS State Employee Retirement Plan and $39,000 for the VaLORS Retirement Plan. Since there was a change in proportionate share between June 30, 2017 and June 30, 2018, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

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

VRS Retirement Plan

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 1,297,000
Change in assumptions	144,000	-
Net difference between projected and actual earnings on pension plan investments	-	561,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	345,000
Employer contributions subsequent to the measurement date	2,161,609	-
Total	$ 2,305,609	$ 2,203,000

VaLORS Retirement Plan

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 22,000
Change in assumptions	-	27,000
Net difference between projected and actual earnings on pension plan investments	-	13,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	39,000	52,000
Employer contributions subsequent to the measurement date	114,404	-
Total	$ 153,404	$ 114,000

$2,276,013 reported as deferred outflows of resources related to pensions resulting from the Institute's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30,	VRS Plan	VaLORS Plan
2020	$ (525,000)	$ (23,000)
2021	(485,000)	(33,000)
2022	(989,000)	(16,000)
2023	(60,000)	(3,000)
2024	-	-
	$ (2,059,000)	**$ (75,000)**

Actuarial Assumptions

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

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

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

Mortality rates:

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

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

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

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

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

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

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

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

Mortality rates:

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

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

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

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

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

Net Pension Liability

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

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

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

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	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 Institute for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2018 on, all agencies are assumed to 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 Institute's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents VMI'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 Institute'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%)
Virginia Military Institute's proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	$32,495,000	$21,462,000	$12,175,000

The following presents VMI's proportionate share of the VaLORS Retirement Plan net pension liability using the discount rate of 7.00%, as well as what the Institute'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%)
Virginia Military Institute's proportionate share of the VaLORS Retirement Plan Net Pension Liability	$1,098,000	$774,000	$506,000

Pension Plan Fiduciary Net Position

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

Optional Retirement Plan

Full-time faculty and contracted administrative staff may participate in optional retirement plans as authorized by the *Code of Virginia* rather than traditional VRS retirement plans. These optional retirement plans are defined contribution plans offered through Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA), Fidelity Investments Tax-Exempt Services Company and VRS (through ICMA-RC). The plans are fixed-contribution programs where the retirement benefits received are based upon employer and employee (if applicable) contributions, plus net investment gains or losses. Employees hired prior to 1 July 2010 (Plan 1) have an employer required contribution rate of 10.4%. Employees hired on or after 1 July 2010 (Plan 2) have an employer required contribution rate of 8.5% and an employee required contribution rate of 5%. Individual contracts issued under the plans provide for full and immediate vesting of both the Institute's and the employee's contributions.

Total employer pension costs under optional retirement plans were approximately $1,430,807 for the year ended 30 June 2019. Contributions to the optional retirement plans were calculated using the base salary amount of approximately $15,309,757 for fiscal year 2018.

Included in Accounts Payable and Accrued Expenses at June 30, 2019 are accrued expenses of $3,875,367 for the 457(F) Institute Executive defined contribution plan as voted on and approved by the VMI Board of Visitors.

Deferred Compensation Plan

Employees of the Institute, as employees of the Commonwealth, may participate in Virginia's Deferred Compensation Plan (the Plan). Participating employees can contribute to the Plan each pay period, with the Commonwealth matching up to $20 per pay period ($40 per month). The dollar amount match may change depending on the funding available in the Commonwealth's budget. The Plan is a qualified defined contribution plan under Section 401(a) of the *Internal Revenue Code*. Employer contributions under the Plan were approximately $150,595 for the fiscal year 2019.

NOTE 13: POSTEMPLOYMENT BENEFITS

The Institute participates in postemployment benefit programs that are sponsored by the Commonwealth and administered by VRS. These programs include the Group Life Insurance Program, Virginia Sickness and Disability Program, Retiree Health Insurance Credit Program, and Line of Duty Act Program. The Institute also participates in the Pre-Medicare Retiree Healthcare Plan, which is sponsored by the Commonwealth and administered by the Department of Human Resources Management. Below are the detailed descriptions for each program.

General Information about the Group Life Insurance Program

Plan Description

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

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

Benefit Amounts
The benefits payable under the Group Life Insurance Program have several components.
• **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:
  o Accidental dismemberment benefit
  o Safety belt benefit
  o Repatriation benefit
  o Felonious assault benefit
  o Accelerated death benefit option

Reduction in benefit Amounts The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.
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 Institute were $169,521 and $162,824 for the years ended June 30, 2019 and June 30, 2018, respectively.

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

At June 30, 2019, the Institute reported a liability of $2,480,000 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. VMI's proportion of the Net GLI OPEB Liability was based on the Institute'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, VMI's proportion of the VRS GLI OPEB liability was 0.16332% as compared to 0.16076% at June 30, 2017.

For the year ended June 30, 2019, VMI recognized GLI OPEB expense of $17,000. 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 Institute reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

Group Life Insurance OPEB

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 122,000	$ 44,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	81,000
Change in assumptions	-	103,000
Changes in proportion	42,000	33,000
Employer contributions subsequent to the measurement date	169,521	-
Total	$ 333,521	$ 261,000

$169,521 reported as deferred outflows of resources related to the GLI OPEB resulting from the Institute'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	GLI OPEB
2020	$ (37,000)
2021	(37,000)
2022	(36,000)
2023	(13,000)
2024	12,000
Thereafter	14,000

Actuarial Assumptions

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

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

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

Mortality rates – General State Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

Mortality rates – Teachers

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

Mortality rates – SPORS Employees

Pre-Retirement:

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

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

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

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

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

Mortality rates – VaLORS Employees

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

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

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

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

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

Mortality rates – JRS Employees

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

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

Post-Disablement:
RP-2014 Disability 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 disabled)	Updated to a more current mortality table-RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

Mortality rates – Largest Ten Locality Employers - General Employees

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

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

Post-Disablement:

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

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

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

Mortality rates – Largest Ten Locality Employers – Hazardous Duty Employees

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

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

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

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

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

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

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

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

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

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

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

Net GLI OPEB Liability

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

	Group Life Insurance OPEB Program
Total GLI OPEB Liability	$ 3,113,508
Plan Fiduciary Net Position	1,594,773
Employers' Net GLI OPEB Liability (Asset)	$ 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 each plan's fiduciary net position is reported in the System's financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

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

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

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

Discount Rate

The discount rate used to measure the total 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 continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

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

The following presents VMI's proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, as well as what the Institute'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%)
Virginia Military Institute's proportionate share of the Group Life Insurance Program Net OPEB Liability	$3,241,000	$2,480,000	$1,862,000

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.

General Information about the State Employee Health Insurance Credit Program

Plan Description

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

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

STATE EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM (HIC) PLAN PROVISIONS
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:

- **<u>At Retirement</u>** – For State employees who retire with at least 15 years of service credit, the monthly benefit is $4.00 per year of service per month with no cap on the benefit amount.
- **<u>Disability Retirement</u>** – For State employees, other than state police officers, who retire on disability or go on long-term disability under the Virginia Sickness and Disability Program (VSDP), the monthly benefit is $120.00 or $4.00 per year of service, whichever is higher.

  For State police officers with a non-work-related disability who retire on disability or go on long-term disability under the Virginia Sickness and Disability Program (VSDP) the monthly benefit is $120.00 or $4.00 per year of service, whichever is higher.

  For State police officers with a work-related disability, there is no benefit provided under the State Employee Retiree Health Insurance Credit Program if the premiums are being paid under the Virginia Line of Duty Act. However, they may receive the credit for premiums paid for other qualified health plans.

Health Insurance Credit Program Notes:

- The monthly Health Insurance Credit benefit cannot exceed the individual premium amount.
- Employees who retire after being on long-term disability under VSDP must have at least 15 year 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 VMI to the VRS State Employee Health Insurance Credit Program were $377,684 and $365,735 for the years ended June 30, 2019 and June 30, 2018, respectively.

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

At June 30, 2019, VMI reported a liability of $4,200,000 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. VMI's proportion of the Net VRS State

Employee Health Insurance Credit Program OPEB Liability was based on the Institute's actuarially determined employer contributions to the VRS State Employee Health Insurance Credit Program OPEB plan for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating state employers. At June 30, 2018, VMI's proportion of the VRS State Employee Health Insurance Credit Program was 0.46036% as compared to 0.45858% at June 30, 2017.

For the year ended June 30, 2019, VMI recognized VRS State Employee Health Insurance Credit Program OPEB expense of $351,000. Since there was a change in proportionate share between measurements, 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, VMI 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:

State Employee Health Insurance Credit OPEB

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 4,000	$ -
Net difference between projected and actual earnings on State HIC OPEB plan investments	-	7,000
Change in assumptions	-	39,000
Changes in proportion	24,000	52,000
Employer contributions subsequent to the measurement date	377,684	-
Total	$ 405,684	$ 98,000

$377,684 reported as deferred outflows of resources related to the State Employee HIC OPEB resulting from the Institute'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	HIC OPEB
2020	$ (18,000)
2021	(18,000)
2022	(18,000)
2023	(15,000)
2024	1,000
Thereafter	(2,000)

Actuarial Assumptions

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

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

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

Mortality rates – General State Employees

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

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

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

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

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

Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Mortality rates – SPORS Employees

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

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

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

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

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

Mortality rates – VaLORS Employees

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

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

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

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

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

Mortality rates – JRS Employees

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

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

Post-Disablement:
RP-2014 Disability 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 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

Net State Employee HIC OPEB Liability

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

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

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

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	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 state agency for the VRS State Employee Health Insurance Credit Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2018 on, all agencies are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the State Employee HIC OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of 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 State Agency's Proportionate Share of the State Employee HIC Net OPEB Liability to Changes in the Discount Rate

The following presents VMI'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 Institute'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%)**
Virginia Military Institute's proportionate share of the VRS State Employee HIC Net OPEB Liability	$4,645,000	$4,200,000	$3,818,000

State Employee HIC OPEB Fiduciary Net Position

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

General Information about the *VRS Disability Insurance Program*

Plan Description

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

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

DISABILITY INSURANCE PROGRAM (VSDP) PLAN PROVISIONS
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 (LTD)** – The program provides a long-term disability benefit beginning after 125 workdays of short-term disability and continuing until the employee reaches his or her normal retirement age. The benefit provides income replacement of 60% of the employee's pre-disability income. If an employee becomes disabled within five years of his or her normal

retirement age, the employee will receive up to five years of VSDP benefits, provided he or she remains medically eligible. Long-term disability benefits are paid for by the Virginia Disability Insurance Program (VSDP) OPEB Plan.

- **Income Replacement Adjustment** – The program provides for an income replacement adjustment to 80% for catastrophic conditions.
- **VSDP Long-Term Care Plan** – The program also includes a self-funded long-term care plan that assists with the cost of covered long-term care services.

Disability Insurance Program (VSDP) Plan Notes:

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

Cost-of-Living Adjustment (COLA)

- During periods an employee receives long-term disability benefits, the LTD benefit may be increased annually by an amount recommended by the actuary and approved by the Board.
    - Plan 1 employees vested as of 1/1/2013 – 100% of the VRS Plan 1 COLA (The first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%).
    - Plan 1 employees 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 VMI were $82,947 and $85,359 for the years ended June 30, 2019 and June 30, 2018, respectively.

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

At June 30, 2019, VMI reported a liability (asset) of ($739,000) 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 Institute's proportion of the Net VSDP OPEB Liability (Asset) was based on the Institute'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 Institute's proportion was 0.32837% as compared to 0.32472% at June 30, 2017.

For the year ended June 30, 2019, VMI recognized VSDP OPEB expense of $38,000. 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, VMI reported deferred outflows of resources and deferred inflows of resources related to the VSDP OPEB from the following sources:

Virginia Sickness and Disability OPEB	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Difference between expected and actual experience	$ -	$ 33,000
Net difference between projected and actual earnings on VSDP OPEB plan investments	-	43,000
Change in assumptions	-	43,000
Changes in proportion		6,000
Employer contributions subsequent to the measurement date	82,947	-
Total	$ 82,947	$ 125,000

$82,947 reported as deferred outflows of resources related to the VSDP OPEB resulting from the Institute'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	VSDP OPEB
2020	$ (28,000)
2021	(28,000)
2022	(28,000)
2023	(14,000)
2024	(13,000)
Thereafter	(14,000)

Actuarial Assumptions

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

Inflation	2.5 percent
Salary Increases, Including inflation:	
General state employees	3.5 percent - 5.35 percent
SPORS employees	3.5 percent - 4.75 percent
VaLORS employees	3.5 percent - 4.75 percent
Investment rate of return	7.0 percent, net of OPEB plan investment expenses, including inflation*

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

Mortality rates – General State Employees

Pre-Retirement:

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

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

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

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

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

Mortality rates – SPORS Employees

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

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

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

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

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

Mortality rates – VaLORS Employees

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

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

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

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

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

Net VSDP OPEB Liability (Asset)

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

	Disability Insurance Program
Total VSDP OPEB Liability	$ 237,733
Plan Fiduciary Net Position	462,961
Employers' Net OPEB Liability (Asset)	($ 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:

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

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

Discount Rate

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

The following presents VMI's proportionate share of the Net VSDP OPEB Liability (Asset) using the discount rate of 7.00%, as well as what the Institute'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%)
Virginia Military Institute's proportionate share of the total VSDP Net OPEB Liability (Asset)	($713,000)	($739,000)	($762,000)

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.

General Information about the Line of Duty Act Program

Plan Description

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

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

LINE OF DUTY ACT PROGRAM (LODA) PLAN PROVISIONS
Eligible Employees The eligible employees of the Line of Duty Act Program (LODA) are paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers' Retirement System (VaLORS).

Benefit Amounts
The Line of Duty Act Program (LODA) provides death and health insurance benefits for eligible individuals:

- **Death** – The Line of Duty Act program death benefit is a one-time payment made to the beneficiary or beneficiaries of a covered individual. Amounts vary as follows:
    - $100,000 when a death occurs as the direct or proximate result of performing duty as of January 1, 2006, or after.
    - $25,000 when the cause of death is attributed to one of the applicable presumptions and occurred earlier than five years after the retirement date.
    - An additional $20,000 benefit is payable when certain members of the National Guard and U.S. military reserves are killed in action in any armed conflict on or after October 7, 2001.
- **Health Insurance** – The Line of Duty Act program provides health insurance benefits.
    - Prior to July 1, 2017, these benefits were managed through the various employer plans and maintained the benefits that existed prior to the employee's death or disability. These premiums were reimbursed to the employer by the LODA program.
    - Beginning July 1, 2017 the health insurance benefits are managed through the Virginia Department of Human Resource Management (DHRM). The health benefits are modeled after the State Employee Health benefits Program plans and provide consistent, premium-free continued health plan coverage for LODA-eligible disabled individuals, survivors and family members. Individuals receiving the health insurance benefits must continue to meet eligibility requirements as defined by the Line of Duty Act.

Contributions

The contribution requirements for the Line of Duty Act Program (LODA) are governed by §9.1-400.1 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer's contractually required employer contribution rate for the Line of Duty Act Program (LODA) for the year ended June 30, 2019 was $705.77 per covered full-time-equivalent employee. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017 and represents the pay-as-you-go funding rate and not the full actuarial cost of the benefits under the program. The actuarially determined pay-as-you-go rate was expected to finance the costs and related expenses of benefits payable during the year. Contributions to the Line of Duty Act Program (LODA) from the Institute were $8,469 and $4,539 for the years ended June 30, 2019 and June 30, 2018, respectively.

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

At June 30, 2019 the Institute reported a liability of $133,000 for its proportionate share of the Net LODA OPEB Liability. The Net LODA OPEB Liability was measured as of June 30, 2018 and the total LODA OPEB liability used to calculate the Net LODA OPEB Liability was determined by an actuarial valuation as of that date. VMI's proportion of the Net LODA OPEB Liability was based on the Institute's actuarially determined pay-as-you-go employer contributions to the LODA OPEB plan for the year ended June 30, 2018 relative to the total of the actuarially determined pay-as-you-go employer contributions for all participating employers. At June 30, 2018, the Institute's proportion was 0.04261% as compared to 0.05261% at June 30, 2017.

For the year ended June 30, 2019, VMI recognized LODA OPEB expense of $11,000. Since there was a change in proportionate share between measurement dates, a portion of the LODA OPEB expense was related to deferred amounts from changes in proportion.

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

Line of Duty Act OPEB

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 19,000	$ 1,000
Net difference between projected and actual earnings on LODA OPEB plan investments	-	-
Change in assumptions	-	15,000
Changes in proportion	22,000	26,000
Employer contributions subsequent to the measurement date	8,469	-
Total	$ 49,469	$ 42,000

$8,469 reported as deferred outflows of resources related to the LODA OPEB resulting from the Institute's contributions subsequent to the measurement date will be recognized as a reduction to the Net LODA OPEB Liability in the Fiscal Year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the LODA OPEB will be recognized in LODA OPEB expense in future reporting periods as follows:

Year ended June 30	Line of Duty Act
2020	$ -
2021	-
2022	-
2023	-
2024	-
Total Thereafter	(1,000)

Actuarial Assumptions

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

Inflation	2.50 percent
Salary increases, including Inflation –	
General state employees	3.50 percent – 5.35 percent
SPORS employees	3.50 percent – 4.75 percent
VaLORS employees	3.50 percent – 4.75 percent
Locality employees	3.50 percent – 4.75 percent
Medical cost trend rates assumption –	
Under age 65	7.75 percent – 5.00 percent
Ages 65 and older	5.75 percent – 5.00 percent
Year of ultimate trend rate	Fiscal year ended 2024
Investment rate of return	3.89 Percent, net of OPEB plan Investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 3.89%. However, since the difference was minimal, a more conservative 3.89% investment return assumption has been used. Since LODA is funded on a current-disbursement basis, the assumed annual rate of return of 3.89% was used since it approximates the risk-free rate of return.

Mortality rates – General State Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

	from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Mortality rates – SPORS Employees

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

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

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

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

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

Mortality rates – VaLORS Employees

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

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

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

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

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

Mortality rates – Largest Ten Locality Employers With Public Safety Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

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

Pre-Retirement:

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

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

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

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

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

Changes to the LODA Program Associated with HB1345 (2016) and HB 2243 (2017)

The following changes were made to the LODA Program as a result of legislation in 2016 and 2017, but were specifically not considered in the June 30, 2017 actuarial valuation results which were rolled forward to the measurement date of June 30, 2018. There is limited actuarial experience on which to base the adjustments and the combined impact of the changes was not considered to be material to the final results. These changes will be monitored and factored into future actuarial valuations for the LODA Program if and when sufficient experience develops

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

Net LODA OPEB Liability

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

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

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

Long-Term Expected Rate of Return

The long-term expected rate of return on LODA OPEB Program's investments was set at 3.89% for this valuation. Since LODA is funded on a current-disbursement basis, it is not able to use the VRS Pooled Investments 7.00% assumption. Instead, the assumed annual rate of return of 3.89% was used since it approximates the risk-free rate of return. This Single Equivalent Interest Rate (SEIR) is the applicable municipal bond index rate based on the Bond Buyer General Obligation 20-year Municipal Bond Index as of the measurement date of June 30, 2018.

Discount Rate

The discount rate used to measure the total LODA OPEB liability was 3.89%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2018, the rate contributed by participating employers to the LODA OPEB Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly.

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

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

	1.00% Decrease (2.89%)	Current Discount Rate (3.89%)	1.00% Increase (4.89%)
Virginia Military Institute's proportionate share of the total LODA Net OPEB Liability	$153,000	$133,000	$118,000

Sensitivity of the Covered Employer's Proportionate Share of the Net LODA OPEB liability to Changes in the Health Care Trend Rate

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

	1.00% Decrease (6.75% decreasing to 4.00%)	Health Care Trend Rates (7.75% decreasing to 5.00%)	1.00% Increase (8.75% decreasing to 6.00%)
Virginia Military Institute's proportionate share of the total LODA Net OPEB Liability	$114,000	$133,000	$158,000

LODA OPEB Plan Fiduciary Net Position

Detailed information about the Line of Duty Act Program (LODA) Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (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

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

Following are eligibility requirements for Virginia Retirement System retirees:

- You are a retiring state employee who is eligible for a monthly retirement benefit from the Virginia Retirement System (VRS), and
- You start receiving (do not defer) your retirement benefit immediately upon retirement*, and
- Your last employer before retirement was the Commonwealth of Virginia, and

- You were eligible for (even if you were not enrolled) coverage as an active employee in the State Health Benefits Program until your retirement date (not including Extended Coverage/COBRA), and
- You enroll no later than 31 days from your retirement date.

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

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

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

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

The Institute 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 Institute 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		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		4.00%
Medical Trend Under 65		Medical & Rx: 8.21% to 5.00% Dental: 4.00% before reflecting Excise tax
Year of Ultimate Trend		2025
Mortality		Mortality rates vary by participant status
	Pre-Retirement:	RP-2014 Employee Rates projected with Scale BB to 2020; males setback 1 year, 85% of rates; females setback 1 year
	Post-Retirement:	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males and females setback 1 year.
	Post-Disablement:	RP-2014 Disabled Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates

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

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

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

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

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

At June 30, 2019, the Institute reported a liability of $6,492,695 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. VMI's proportion of the Pre-Medicare Retiree Healthcare OPEB liability was based on each employer's healthcare premium contributions as a percentage of the total employer's healthcare premium contributions for all participating employers. At June 30, 2018, the Institute's portion was 0.64563% as compared to 0.64018% at June 30, 2017. For the year ended June 30, 2019, VMI's recognized Pre-Medicare Retiree Healthcare OPEB expense of $177,462.

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

Pre-Medicare Retiree Healthcare OPEB Plan

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 1,309,114
Change in assumptions	-	2,596,767
Changes in proportion	266,677	-
Sub Total	266,677	3,905,881
Amounts associated with transactions subsequent to the measurement date	266,941	-
Total	$ 533,618	$ 3,905,881

$266,941 reported as deferred outflows of resources related to the Pre-Medicare Retiree Healthcare OPEB resulting from amounts associated with transactions subsequent to the measurement date will be recognized as a reduction of the total OPEB Liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pre-Medicare Retiree Healthcare OPEB will be recognized in the Pre-Medicare Retiree Healthcare OPEB expense as follows:

Year ended June 30	Pre-Medicare Retiree Healthcare Plan
2020	$ (751,876)
2021	(751,876)
2022	(751,876)
2023	(751,876)
2024	(554,602)
Total Thereafter	(77,100)

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

The following presents the Institute's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using the discount rate of 3.87%, as well as what the employer'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 Discount Rate (3.87%)**	**1.00% Increase (4.87%)**
Virginia Military Institute's proportionate share of the Pre-Medicare Retiree Healthcare OPEB Liability	$6,947,004	$6,492,695	$6,060,688

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

The following presents the Institute's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using healthcare cost trend rate of 8.21% decreasing to 5%, as well as what VMI's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (7.21% decreasing to 4.0%) or one percentage point higher (9.21% decreasing to 6.0%) than the current rate:

	1.00% Decrease (7.21% decreasing to 4.00%)	**Current Trend Rate (8.21% decreasing to 5.00%)**	**1.00% Increase (9.21% decreasing to 6.00%)**
Virginia Military Institute's proportionate share of the Pre-Medicare Retiree Healthcare OPEB Liability	$5,791,067	$6,492,695	$7,317,418

NOTE 14: RISK MANAGEMENT

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

NOTE 15: CONTINGENCIES

The Institute received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the Institute.

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

In February 2015, VMI entered into a contract with Follett Higher Education Group for service as VMI's bookstore management and operations provider under which VMI received financial incentives of $250,000 and $50,000 in fiscal 2015 and 2017, respectively. The contract requires VMI to repay the unamortized balance of the financial incentive, using the straight-line method, in the event the contractual relationship is terminated prior to June 2020.

In December 2017, VMI entered into a contract with Parkhurst Dining Services, in effect through December 2022 with one optional five-year renewal by mutual consent. In accordance with contractual terms, $250,000 was allocated as a financial incentive during fiscal 2019 towards the installation of food service equipment, marketing materials and area décor. VMI is required to repay the unamortized balance of the financial incentive, using the straight-line method, in the event the contractual relationship is terminated prior to June 2022.

NOTE 16: SUBSEQUENT EVENTS

The 2008 and 2011 General Assembly of the Commonwealth of Virginia approved VMI's request for $3.5 million of VCBA bond financing to construct parking at Lackey Park. The bonds to support this project were issued by the Commonwealth of Virginia on December 4, 2019, and resulted in a note payable between VCBA and the Institute. Bond financing for this project total $3.5 million, plus bond issue costs and interest. The bonds will be repaid over 20 years with interest rates between 2.5% and 5.0%. This new debt increases the book value of VMI's total outstanding debt, including unamortized premiums and refunding losses, to approximately $28.1 million.

Since 30 June 2019, significant volatility and overall declines in stock market valuations due to the COVID-19 global outbreak has resulted in a major reduction in the market value of VMI and the VMI Alumni Agencies' endowment investments. VMI's endowment assets dropped in value from $13.4 million as of 30 June 2019 to $12.6 million as of 30 April 2020 due primarily to a 6% reduction in investment market value. The VMI Foundation's endowment investments dropped from $492.3 million as of 30 June 2019 to $474.6 million as of 30 April 2020 also primarily due to decreases in market value.

NOTE 17: VMI ALUMNI AGENCIES

The VMI Alumni Agencies (the "Agencies") are comprised of four organizations that share the common purpose of raising funds, investing funds, and performing other activities on behalf of VMI alumni and other donors in support of the Institute. Significant sources of revenue consist of contributions and investment return. Due to their shared purpose, the Agencies have elected to present their financial statements on a combined basis. All significant interagency accounts and transactions have been eliminated. The individual organizations comprising the Agencies and their purposes are as follows:

The VMI Alumni Association
The purpose of The VMI Alumni Association is to organize the alumni of VMI into one general body.

VMI Foundation, Incorporated and Subsidiary
The purpose of the VMI Foundation, Incorporated and Subsidiary is to solicit and to accept various funds and to disburse such funds, or income earned from those funds, for the advancement of VMI and the Alumni Association. The Foundation is the sole member of VMI Investment Holdings, LLC.

VMI Development Board, Incorporated
The purpose of the VMI Development Board, Incorporated is to support VMI by coordinating development and fundraising efforts conducted on behalf of VMI Alumni and other donors.

VMI Keydet Club, Incorporated
The purpose of the VMI Keydet Club, Incorporated is to support, strengthen, and develop the intercollegiate athletic program at VMI.

Contributions receivable
Contributions receivable consist of the following as of 30 June 2019:

Unconditional promises to give	$ 17,961,753
Current portion	(8,768,152)
Contributions receivable	$ 9,193,601
Gross amounts expected to be collected in:	
Less than one year	$ 9,893,764
One to five years	10,769,812
More than five years	32,808
	20,696,384
Less:	
Discount	(664,993)
Allowance for uncollectible contributions	(2,069,638)
Fair value	$ 17,961,753

The distribution of contributions receivable for each class of net assets as of 30 June 2019 is as follows:

Gross contributions receivable, beginning of year	$ 24,608,815
New contributions receivable	4,911,270
Payments received	(7,295,587)
Write-offs and other adjustments	(1,528,114)
Gross contributions receivable, end of year	$ 20,696,384

At 30 June 2019, the Agencies had also received bequest and other intentions of approximately $164 million. These intentions to give are not recognized as assets and, if they are received, they will generally be restricted for specific purposes stipulated by the donors.

For 2019, approximately 36% of the contributions receivable balance was from five donors.

Investments held by trustees

The Agencies participate in a combined investment fund (the "Fund") controlled by the VMI Investment Holdings, LLC. BNY Mellon, N.A. serves as custodian for the Fund's assets. The Fund's investments consist of the following as of 30 June 2019:

Equities	$ 256,675,789	52.1 %
Private equities	97,758,459	19.9
Absolute return funds	74,631,009	15.2
Fixed income	60,111,862	12.2
Cash and cash equivalents	2,515,500	0.5
Master limited partnerships	569,517	0.1
	$ 492,262,136	100.0 %

These investments, which comprise the majority of the Agencies' assets, are subject to market risk. However, the Agencies' investment funds are managed by a number of investment managers, which limits the amount of risk in any one fund. VMI Investment Holdings, LLC establishes investment guidelines and performance standards which further reduce its exposure to market risk.

Investments held by trustees activity for the year ended 30 June 2019 is reflected in the table below:

Investments, beginning of year	$ 473,341,310
Gifts and amounts available for investments	4,000,000
	477,341,310
Investments returns:	
Dividends and interest	5,253,709
Net realized and unrealized losses	22,605,366
Investment fees	(3,218,249)
Total return on investments held by trustee, net	24,640,826
Net disbursements used to fund operations	(9,720,000)
Investments, ending of year	$ 492,262,136

VMI Investment Holdings, LLC

On 29 April 2009, VMI Investment Holdings, LLC (LLC) was formed to manage the investments held by trustees. On 1 June 2009, all investments held by trustees and for which BNY Mellon, N.A. serves as custodian were transferred to the LLC. The Foundation is the sole member of the LLC, and acts as an intermediary between the LLC and the other agencies. As stated in the Deposit and Management Agreement, the LLC will operate the unitized investment pool and issue a number of units in the pool to each depositor based on the amount of its deposit divided by the then unit value. Each depositor is entitled to its pro rata share of the value, taking into account aggregate investment returns. Deposits to and withdrawals from the pool by the other agencies will be made through the Foundation. A separate board of directors was established to manage the LLC.

Investments, Other

Investments, other as of 30 June 2019 consist of the following:

	Held by Agent	Held by Foundation	Held in Irrevocable Trusts*	Total at Fair Value**
Equities	$ 1,170,454	$ 9	$ 9,830,825	$ 11,001,288
Fixed income	4,434	5,891	3,309,563	3,319,888
Real estate	-	3,151,064	-	3,151,064
Alternative investments	-	-	871,333	871,333
Cash and cash equivalents	172,330	792	400,405	573,527
Limited partnerships	-	17,128	-	17,128
	$ 1,347,218	$ 3,174,884	$ 14,412,126	$ 18,934,228

*Investments held in irrevocable trusts are not available for use until the occurrence of a future event as noted in the applicable trust agreements.

**For certain components of these investments, primarily real estate, limited partnerships, and common stocks of closely held companies where fair values were not readily determinable, cost was used.

Long-term Debt

Long-term debt consists of the following at 30 June 2019:

Fixed Rate Educational Facilities Revenue Bonds, Series 2006, payable in varying installments from $5,000,000 to $22,475,000, commencing 2021 through 2037	$ 10,000,000
Fixed Rate Educational Facilities Revenue Bonds, Series 2016, payable in varying installments from $4,370,000 to $25,860,000, commencing 2031 through 2037	36,230,000
Bond premiums, net	326,473
	$ 46,556,473

Debt matures as follows for future years ending 30 June:

2020	$ -
2021	10,000,000
2022	-
2023	-
2024	-
Thereafter	36,230,000
	$ 46,230,000

Effective 15 July 2010, the Industrial Development Authority of the City of Lexington, Virginia approved a request by the Agencies to remarket Variable Rate Educational Facilities Revenue Bonds, Series 2006. This remarketing superseded the original issuance, dated 13 July 2006. The bonds were initially issued in a single series bearing interest at a variable rate. The bonds were remarketed in three series, Series 2006A-1 ($5,000,000) and 2006A-2 ($5,000,000), 2006B ($10,000,000), and 2006C ($22,475,000), and interest was converted to a fixed rate on each series.

Series 2006A-1 bears interest of 4.25%; Series 2006A-2 bears interest at 5.00%. The 2016 bonds bear fixed interest of 3.0% (on $30,230,000 of principal) and 4.0% (on $6,000,000 of principal). Interest payments are due each June 1 and December 1.

The principal payment of $10,000,000 on Series 2006A-1 and 2006A-2 is due in fiscal year 2021. Upon this conversion, the bonds are no longer collateralized by any credit or liquidity facility, nor are the bonds collateralized by any of the Agencies' assets. Management believes the fair value of long-term debt at June 30, 2019 and 2018 approximated carrying value, in all material respects.

Bond premiums, net of expenses, totaling $1,132,290 at June 30, 2019 and 2018, are being amortized over the life of the loan using the effective interest method.

Endowment Funds

The Agencies employ a total return spending policy that establishes the amount of investment return that is available to support current needs and restricted purposes. This policy is designed to insulate program spending from capital market fluctuations and increase the amount of return that is reinvested in the corpus of the fund in order to enhance its long-term value. For 2019 and 2018, the Board approved spending formula for the endowment provided for an annual spending rate of 4.75% and 4.8%, respectively of the average of the prior twelve quarters' market values adjusting these market values upward to reflect subsequent receipt of gifts, or downward to reflect extraordinary withdrawals. If cash yield (interest and dividends) is less than the spending rate, realized gains can be used to make up the deficiency. Any income in excess of the spending rate is to be reinvested in the endowment. The primary investment objective is long-term capital appreciation and total return. The Agencies utilize diversified investment classes that provide the opportunity to achieve the return objective without exposing the funds to unnecessary risk.

NOTE 18: COMPONENT UNITS

Condensed financial statements for the component units of the Institute are as follows:

CONDENSED STATEMENTS OF NET ASSETS As of 30 June 2019	**VMI Research Laboratories Inc.**	**VMI Alumni Agencies**	**TOTAL**
Assets:			
Current assets	$ 347,040	$ 27,661,685	$ 28,008,725
Noncurrent assets	356,932	526,148,011	526,504,943
Total assets	703,972	553,809,696	554,513,668
Liabilities:			
Current liabilities	49,788	2,107,423	2,157,211
Noncurrent liabilities	-	51,302,741	51,302,741
Total liabilities	49,788	53,410,164	53,459,952
Net Assets:			
Without donor restrictions	564,560	62,503,236	63,067,796
Permanently restricted	89,624	437,896,296	437,985,920
Total net assets	654,184	500,399,532	501,053,716
Total net assets and liabilities	$ 703,972	$ 553,809,696	$ 554,513,668

EXPENSES AND CHANGES IN NET ASSETS As of 30 June 2019	**VMI Research Laboratories Inc.**	**VMI Alumni Agencies**	**TOTAL**
Total revenues	$ 372,737	$ 25,816,661	$ 26,189,398
Total expenses	(417,258)	(26,609,695)	(27,026,953)
Total net realized and unrealized losses on investments	-	23,422,967	23,422,967
Total change in net assets	(44,521)	22,629,933	22,585,412
Total beginning net assets	698,705	477,769,599	478,468,304
Total ending net assets	$ 654,184	$ 500,399,532	$ 501,053,716

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Virginia Military Institute's (VMI) Share of Net Pension Liability
VRS State Employee Retirement Plan
For the Years Ended June 30, 2019, 2018, 2017, 2016 and 2015*

	2019	2018	2017	2016	2015
VMI's Proportion of the Net Pension Liability (Asset)	0.3965%	0.3971%	0.4032%	0.4140%	0.4176%
VMI's Proportionate Share of the Net Pension Liability (Asset)	$21,462,000	$23,140,000	$26,574,000	$25,348,000	$23,380,000
VMI's Covered Payroll	$16,228,090	$15,765,510	$15,913,493	$15,953,744	$16,126,899
VMI's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	132.25%	146.78%	166.99%	158.94%	145.10%
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, there are only five years available. However, additional years will be included as they become available.

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

Schedule of Virginia Military Institute's (VMI) Share of Net Pension Liability
VaLORS State Employee Retirement Plan
For the Years Ended June 30, 2019, 2018, 2017, 2016 and 2015*

	2019	2018	2017	2016	2015
VMI's Proportion of the Net Pension Liability (Asset)	0.12410%	0.1346%	0.1197%	0.1216%	0.1236%
VMI's Proportionate Share of the Net Pension Liability (Asset)	774,000	$883,000	$927,000	$864,000	$833,000
VMI's Covered Payroll	$428,862	$463,682	$413,573	$411,648	$435,721
VMI's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	180.48%	190.43%	224.14%	209.89%	191.18%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.56%	67.22%	61.01%	62.64%	63.05%

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

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

Schedule of Employer Contributions
VRS State Employee Retirement Plan
For the Years Ended June 30, 2010 through 2019

Year	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2019	$ 2,164,054	$ 2,164,054	$ -	$ 16,436,260	13.17%
2018	$ 2,189,169	$ 2,189,169	$ -	$ 16,228,090	13.49%
2017	$ 2,126,767	$ 2,126,767	$ -	$ 15,765,510	13.49%
2016	$ 2,231,534	$ 2,231,534	$ -	$ 15,913,493	14.02%
2015	$ 1,967,097	$ 1,967,097	$ -	$ 15,953,744	12.33%
2014	$ 1,412,716	$ 1,412,716	$ -	$ 16,126,899	8.76%
2013	$ 1,365,002	$ 1,365,002	$ -	$ 15,582,212	8.76%
2012	$ 484,495	$ 484,495	$ -	$ 14,967,368	3.24%
2011	$ 304,565	$ 304,565	$ -	$ 14,298,827	2.13%
2010	$ 706,052	$ 706,052	$ -	$ 14,306,918	4.94%

Schedule of Employer Contributions
VaLORS Retirement Plan
For the Years Ended June 30, 2010 through 2019

Year	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2019	$ 114,404	$ 114,404	$ -	$ 529,407	21.61%
2018	$ 90,275	$ 90,275	$ -	$ 428,862	21.05%
2017	$ 97,605	$ 97,605	$ -	$ 463,682	21.05%
2016	$ 77,936	$ 77,936	$ -	$ 413,573	18.84%
2015	$ 72,738	$ 72,738	$ -	$ 411,648	17.67%
2014	$ 64,487	$ 64,487	$ -	$ 435,721	14.80%
2013	$ 62,619	$ 62,619	$ -	$ 423,099	14.80%
2012	$ 25,207	$ 25,207	$ -	$ 348,333	7.24%
2011	$ 19,494	$ 19,494	$ -	$ 380,751	5.12%
2010	$ 34,853	$ 34,853	$ -	$ 311,848	11.18%

Schedule of Virginia Military Institute's (VMI) Share of Net OPEB Liability
Group Life Insurance OPEB Plan
For the Years Ended June 30, 2019 and 2018*

	2019	**2018**
VMI's Proportion of the Net GLI OPEB Liability (Asset)	0.1633%	0.1608%
VMI's Proportionate Share of the Net GLI OPEB Liability (Asset)	$2,480,000	$2,419,000
VMI's Covered Payroll	$31,044,729	$29,616,765
VMI's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of its Covered Payroll	7.99%	8.17%
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 of the previous fiscal year end.

Schedule of Employer Contributions
Group Life Insurance OPEB Plan
For the Years Ended June 30, 2019 and 2018*

Year	**Contractually Required Contribution**	**Contributions in Relation to Contractually Required Contribution**	**Contribution Deficiency (Excess)**	**Employer's Covered Payroll**	**Contributions as a % of Covered Payroll**
2019	$ 169,521	$ 169,521	$ -	$32,058,567	0.53%
2018	$ 162,824	$ 162,824	$ -	$31,044,729	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 are available. However, additional years will be included as they become available.

Schedule of Virginia Military Institute's (VMI) Share of Net OPEB Liability
Health Insurance Credit Program (HIC)
For the Years Ended June 30, 2019 and 2018*

	2019	**2018**
VMI's Proportion of the Net HIC OPEB Liability (Asset)	0.4604%	0.4586%
VMI's Proportionate Share of the Net HIC OPEB Liability (Asset)	$4,200,000	$4,175,000
VMI's Covered Payroll	$31,044,729	$29,616,765
VMI's Proportionate Share of the Net HIC OPEB Liability (Asset) as a Percentage of its Covered Payroll	13.53%	14.10%
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 of the previous fiscal year end.

Schedule of Employer Contributions
State Employee Health Insurance Credit OPEB Plan
For the Years Ended June 30, 2019 and 2018*

Year	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2019	$ 377,684	$ 377,684	$ -	$31,973,247	1.18%
2018	$ 365,735	$ 365,735	$ -	$31,044,729	1.18%

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

Schedule of Virginia Military Institute's (VMI) Share of Net OPEB Liability (Asset)
VRS Disability Insurance Program (VSDP)
For the Years Ended June 30, 2019 and 2018*

	2019	2018
VMI's Proportion of the Net VSDP OPEB Liability (Asset)	0.3284%	0.3248%
VMI's Proportionate Share of the Net VSDP OPEB Liability (Asset)	($739,000)	($666,000)
VMI's Covered Payroll	$13,117,989	$12,650,438
VMI's Proportionate Share of the Net VSDP OPEB Liability (Asset) as a Percentage of its Covered Payroll	-5.63%	-5.26%
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 are available. However, additional years will be included as they become available.

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

Schedule of Employer Contributions
VRS Disability Insurance Program OPEB Plan
For the Years Ended June 30, 2019 and 2018*

Year	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2019	$ 82,947	$ 82,947	$ -	$13,332,109	0.62%
2018	$ 86,579	$ 86,579	$ -	$13,117,989	0.66%

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

Schedule of Virginia Military Institute's (VMI) Share of Net OPEB Liability
Line of Duty Act (LODA) OPEB
For the Years Ended June 30, 2019 and 2018*

	2019	2018
VMI's Proportion of the Net LODA OPEB Liability (Asset)	0.0426%	0.0526%
VMI's Proportionate Share of the Net LODA OPEB Liability (Asset)	$133,000	$138,000
VMI's Covered-Employee Payroll**	$433,008	$513,301
VMI's Proportionate Share of the Net LODA OPEB Liability (Asset) as a Percentage of its Covered-Employee Payroll	30.72%	26.88%
Plan Fiduciary Net Position as a Percentage of the Total LODA OPEB Liability	0.60%	1.30%

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 of the previous fiscal year end.

Schedule of Employer Contributions
Line of Duty Act Program OPEB Plan
For the Years Ended June 30, 2019 and 2018*

Year	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2019	$ 8,469	$ 8,469	$ -	$530,829	1.60%
2018	$ 4,539	$ 4,539	$ -	$433,008	1.05%

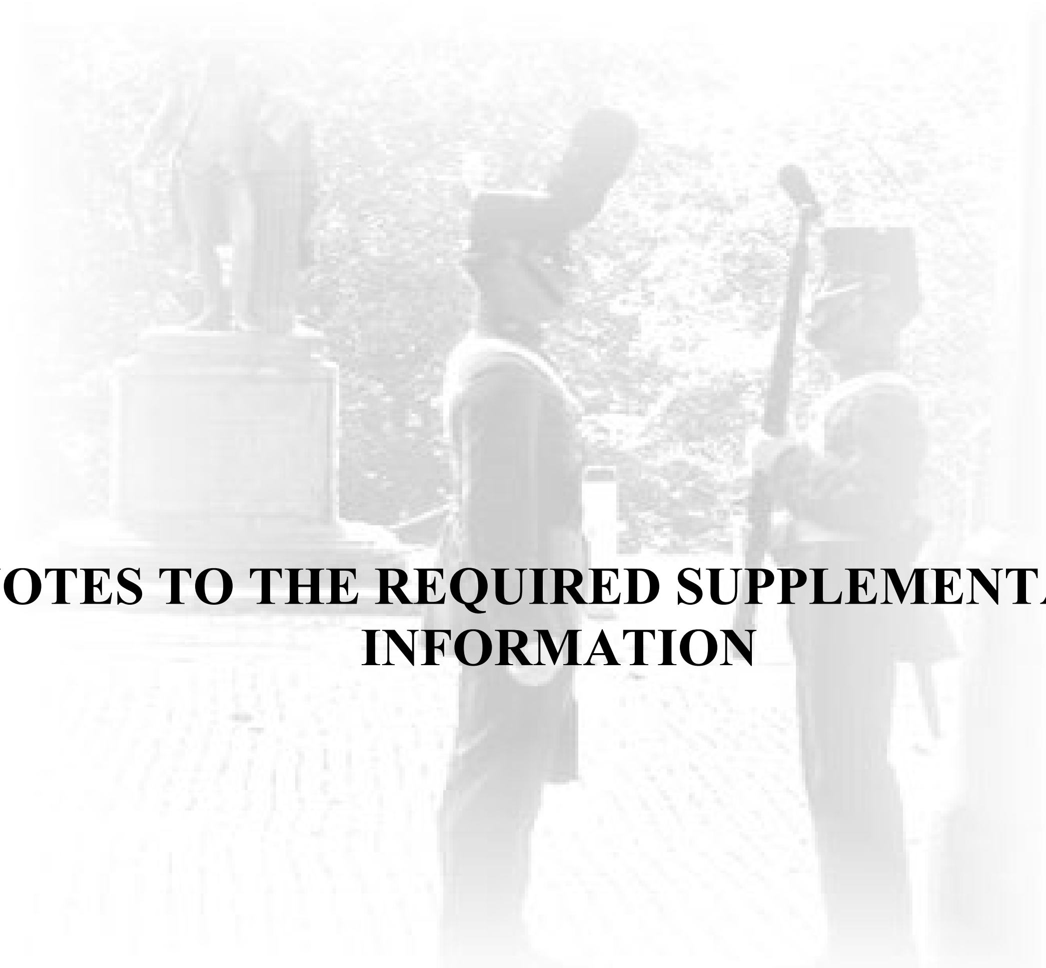
*Schedule is intended to show information for 10 years. Since 2019 is the second year for this presentation, only two years of data are available. However, additional years will be included as they become available.

Schedule of Virginia Military Institute's (VMI) Share of Total OPEB Liability
Pre-Medicare Retiree Healthcare OPEB Plan
For the Years Ended June 30, 2019 and 2018*

	2019	**2018**
VMI's Proportion of the collective total OPEB Liability	0.6456%	0.6402%
VMI's Proportionate Share of the collective total OPEB Liability	$6,492,695	$8,315,358
VMI's Covered-Employee Payroll	$28,176,703	$29,053,361
VMI's Proportionate Share of the collective total OPEB liability as a Percentage of its Covered-Employee Payroll	23.04%	28.62%

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

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



NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

PENSIONS

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

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

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

POST-EMPLOYMENT BENEFITS

Group Life Insurance

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%

State Employee Health Insurance Credit Program

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 Sickness and Disability Plan

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%

Line of Duty Act Program

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

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

General State Employees:

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

SPORS Employees:

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

VaLORS Employees:

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

Employees In The Largest Ten Locality Employers With Public Safety Employees

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

Employees In The Non- Largest Ten Locality Employers With Public Safety Employees

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

<u>Pre-Medicare Retiree Healthcare</u>

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%
- 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.

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 9, 2020

The Honorable Ralph S. Northam
Governor of Virginia

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

Board of Visitors
Virginia Military Institute

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the Virginia Military Institute, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Institute's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units of the Institute, which are discussed in Notes 1, 17, and 18. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the Institute, is based on the reports of the other auditors.

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

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

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

Opinion

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of Virginia Military Institute as of June 30, 2019, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the following be presented to supplement the basic financial statements: Management's Discussion and Analysis on pages 1 through 10; 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 98, 99 and 105; the Schedules of Virginia Military Institute'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 Act programs on pages 100 through 103 and 105 through 111; the Schedule of Virginia Military Institute's Share of Total OPEB Liability and the Notes to the Required Supplementary Information for the Pre-Medicare Retiree Healthcare program on pages 104 and 111. 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 9, 2020, on our consideration of the Virginia Military Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Institute's internal control over financial reporting and compliance.

Martha S. Mavredes
AUDITOR OF PUBLIC ACCOUNTS

JRQ/clj

VIRGINIA MILITARY INSTITUTE