

VIRGINIA MILITARY INSTITUTE



AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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MANAGEMENT'S DISCUSSION AND ANALYSIS

VIRGINIA MILITARY INSTITUTE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended 30 June 2020

Overview

The Virginia Military Institute (VMI or Institute) is pleased to present its financial statements for the fiscal year ended 30 June 2020, 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 2020 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 and deferred outflows after deduction of liabilities and deferred inflows) grew \$39 million or 12% to \$360 million as measured at 30 June 2020. Over the most recent five-year period, the Institute's total net position increased \$45 million or 14% (3% annualized), despite 2018 recognition of VMI's proportionate share of the Commonwealth's total other non-pension postemployment benefits (a \$14.4 million liability incurred in accordance with GASB 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*). VMI's 2020 operating revenues decreased \$2 million or 3.8%, and operating expenses increased \$3 million or 3.3%. Current year operations (receipts and disbursements) were impacted by COVID-19 pandemic disruptions, to include \$3.6 million in refunds to Cadets for room, board, laundry and haircut fees due to second semester transition to remote instruction. The net decrease in operating funds was partially offset through certain cost avoidance measures and other savings. Annualized over the most recent five year period and inclusive of all current year pandemic implications, operating revenues grew an average of 1.2%, with net expansion per year in operating expenses of 2.8%. Furthermore, increases in current year Cadet tuition and fees (1.9% and 1.0% for in-state and out-of-state cadets, respectively), were significantly and intentionally lower compared to prior year increases of 3.3% for in-state and 3.9% for out-of-state cadets as reviewed and approved by the Institute's governing Board of Visitors.

Opening fall 2019 semester enrollment was 1,698 according to VMI Registrar census data, slightly above the 1,685 experienced in fall 2018. Average enrollment for the current year was 1,646 based upon both fall and spring semester census information (marginally above the Superintendent's long-term targeted average enrollment of 1,625). Enrolled Cadets' academic credentials remain significantly above average, with the fall 2020 incoming class consisting of 40% in the top quartile and 76% in the top half of their high school cohort. Non-capital related Commonwealth appropriations (i.e. state support) increased substantially (25%) to \$20 million from \$15 million, while current year capital construction grants and

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contributions increased \$35 million due to several major projects underway ensuring the continued capability, longevity, and attractiveness of VMI Post facilities (e.g. Post Infrastructure Improvements, Preston Library Renovations, and the Scott Shipp Hall Expansion and Renovation). VMI's significant private support, solidified by the VMI Alumni Agencies' \$503 million endowment coupled with continuously successful development campaigns, reinforces the Institute's position for ongoing provision of excellent Cadet programs and services through the 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 deferred outflows and total liabilities and deferred inflows (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 2020. 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.

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Statement of Net Position

| | 30 June 2020 | 30 June 2019 as restated | Variance | |
|--|----------------|-----------------------------|---------------|--------|
| Assets: | | | | |
| Current assets | \$ 47,240,009 | \$ 44,008,763 | \$ 3,231,246 | 7.3% |
| Capital assets, net | 380,904,804 | 337,459,115 | 43,445,689 | 12.9% |
| Other noncurrent assets | 23,422,799 | 24,268,495 | (845,696) | -3.5% |
| Total assets | 451,567,612 | 405,736,373 | 45,831,239 | 11.3% |
| Deferred outflows | 7,391,350 | 4,209,125 | 3,182,225 | 75.6% |
| Total assets and deferred outflows | \$ 458,958,962 | \$ 409,945,498 | \$ 49,013,464 | 12.0% |
| Liabilities: | | | | |
| Current liabilities | \$ 23,188,801 | \$ 19,023,773 | \$ 4,165,028 | 21.9% |
| Noncurrent liabilities | 67,868,618 | 62,982,141 | 4,886,477 | 7.8% |
| Total liabilities | 91,057,419 | 82,005,914 | 9,051,505 | 11.0% |
| Deferred Inflows | 7,412,939 | 6,748,881 | 664,058 | 9.8% |
| Total liabilities and deferred inflows | \$ 98,470,358 | \$ 88,754,795 | \$ 9,715,563 | 10.9% |
| Net position: | | | | |
| Net investment in capital assets | \$ 357,813,465 | \$ 314,863,304 | \$ 42,950,161 | 13.6% |
| Restricted - expendable | 13,170,427 | 16,105,475 | (2,935,048) | -18.2% |
| Restricted - nonexpendable | 1,273,047 | 1,258,697 | 14,350 | 0.0% |
| Unrestricted | (11,768,335) | (11,036,772) | (731,563) | -6.6% |
| Total net position | \$ 360,488,604 | \$ 321,190,704 | \$ 39,297,900 | 12.2% |

As of 30 June 2020, VMI's total assets and deferred outflows rose \$49 million or 12% to \$459 million from the prior year balance of \$410 million. The expansion was primarily due to the net financial effect of the following conditions: an increase of \$48.7 million in nondepreciable capital assets (specifically construction-in-progress) encompassing outlays of \$17.8 million, \$13.3 million \$12.4 million, and \$2.2 million associated with the Post Infrastructure Improvements, Scott Shipp Hall Expansion and Renovation, Preston Library Renovation, and Corps Physical Training Facility Phase III (Aquatic Center) initiatives, respectively; an additional \$6.3 million due to VMI from the Commonwealth resultant from outstanding construction reimbursements (\$5.8 million of which related to receivable increases over the prior year amongst Scott Shipp, Post Infrastructure, and Preston Library project costs in descending order of change); \$3.3 million more deferred outflows (a consumption of net assets applicable to future reporting periods) as related to the Institute's proportionate share of accrued pension and non-pension postemployment benefits recorded as directed by applicable Commonwealth agencies; and, finally, a decline of \$5.3 million in total depreciable capital assets due to \$10.1 million additional accumulated depreciation less \$5.9 million in net capital asset additions, coupled with \$4.9 million lower current cash on hand at year end with the Treasurer of Virginia. Cash balances, particularly auxiliary funds, continue to be appropriately earmarked for capital improvement projects underway and for those expected to take place in forthcoming fiscal periods.

The overall change of \$9.7 million or 10.9% in total liabilities and deferred inflows of resources (an acquisition of net assets applicable to future periods) was substantially due to: \$4.7 million additional accounts payable and accrued expenses at year end (\$4.2 million of which was from aforementioned major capital improvement project retainage balances and related obligations); \$2.9 million total net

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pension and non-pension postemployment commitment increases, again recorded as measured, audited, and provided by applicable Commonwealth agencies; \$1.7 million expansion of long-term indebtedness due to Lackey Park Parking current year debt issuance offset by opportunistic Crozet Bond refunding,

The change in total net position of \$39.3 million or 12.2% was primarily due to the following factors: an increase of \$43 million in net capital asset investment due to \$48.7 growth in construction-in-progress (contributing details of major capital project activity previously denoted), offset by the Institute's incurrence of \$3.8 million in combined expenditures for Corps Physical Training Facility Phase III (Aquatic Center) and Clarkson-McKenna initiatives occurring without offsetting reimbursement within the same period.

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.

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Statement of Revenues, Expenses, and Changes in Net Position

| | 30 June 2020 | 30 June 2019 | Variance | |
|--|----------------|----------------|---------------|--------|
| Operating revenues: | | | | |
| Tuition and fees | \$ 26,117,189 | \$ 26,138,544 | \$ (21,355) | -0.1% |
| Grants and contracts | 255,861 | 91,286 | 164,575 | 180.3% |
| Auxiliary enterprises | 21,395,879 | 23,611,925 | (2,216,046) | -9.4% |
| Unique military activities | 3,602,162 | 3,470,626 | 131,536 | 3.8% |
| Other sources | 1,384,883 | 1,499,867 | (114,984) | -7.7% |
| Total operating revenues | 52,755,974 | 54,812,248 | (2,056,274) | -3.8% |
| Operating expenses: | | | | |
| Educational and general | 60,050,648 | 53,137,071 | 6,913,577 | 13.0% |
| Auxiliary enterprises | 24,874,155 | 28,826,504 | (3,952,349) | -13.7% |
| Unique military activity | 11,641,968 | 11,482,714 | 159,254 | 1.4% |
| Other expense | - | - | - | - |
| Total operating expenses | 96,566,771 | 93,446,289 | 3,120,482 | 3.3% |
| Operating loss | (43,810,797) | (38,634,041) | (5,176,756) | -13.4% |
| Nonoperating revenues (expenses): | | | | |
| State appropriations | 18,904,149 | 15,092,678 | 3,811,471 | 25.3% |
| Gifts, grants and contributions | 19,812,000 | 18,037,602 | 1,774,398 | 9.8% |
| Investments | 433,213 | 1,674,401 | (1,241,188) | -74.1% |
| Other | (1,135,720) | (787,997) | (347,723) | -44.1% |
| Net nonoperating revenues | 38,013,642 | 34,016,684 | 3,996,958 | 11.7% |
| Income (loss) before other revenues | (5,797,155) | (4,617,357) | (1,179,798) | -25.6% |
| Other revenues/reductions | 45,095,055 | 9,710,306 | 35,384,749 | 364.4% |
| Increase (decrease) in net position | 39,297,900 | 5,092,949 | 34,204,951 | 671.6% |
| Net position - beginning of year, restated | 321,190,704 | 316,097,755 | 5,092,949 | 1.6% |
| Net position - end of year | \$ 360,488,604 | \$ 321,190,704 | \$ 39,297,900 | 12.2% |

As of 30 June 2020, total operating revenues decreased and total operating expenses increased by \$2.1 million (3.8%) and \$3.1 million (3.3%), respectively. Opening fall 2019 enrollment grew slightly to 1,698 Cadets from 1,685 Cadets for fall semester 2018, while tuition and fee charges for the current year remained relatively flat as intended (within 2% of prior year fees). The overwhelming driver for the 3.8% net decrease in total operating revenues was \$3.6 million in refunds processed to Cadets for foregone room, board, laundry and haircut costs as a result of the COVID-19 pandemic necessity of Cadet departure from Post for remote instruction.

The \$3.1 million or 3.3% change in annual operating expenditures, driven by \$6.9 million of additional education and general costs offset by a \$4.0 million reduction in auxiliary enterprise fees, was specifically due to the confluence of: \$2.7 million added facilities operating and maintenance expenditures (renovation costs below capitalization thresholds); \$1.4 million more instruction fees largely driven by a 5% employee compensation increase; \$1.2 million expansion of institutional support costs (indirect costs born initially within the educational and general program were not fully recovered from athletic and auxiliary accounts due to COVID-19 pandemic impacts and under General Assembly approval); \$0.9 million increased academic support costs; collectively and substantially offset by \$4.0 million or 13.7% lower auxiliary enterprise expenditures resulting from the movement to online instruction during spring 2020 and the concurrent halting of many auxiliary services (e.g. \$1.9 million less than expected food service fees).

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Net non-operating revenues increased \$4.0 million or 11.7%, primarily driven by \$3.8 million additional state appropriations (a 25.3% increase from prior year; unique military activities being the most impacted subcategory with an additional \$1.4 million allocated by the Commonwealth). Historically, current year state appropriations (non-capital related) were \$5.2 million greater than the \$13.7 million received during 2016 (a 7.6% annualized increase over the five year period). Gifts and contributions grew \$0.6 million due to greater private gift recognition, while net investment income (loss) grew by \$1.2 million due to spring 2020 semester market volatility and the impacts on endowed investment holding valuations.

The \$35.4 million increase in other revenues and reductions is directly correlated to cyclical capital construction project phasing (substantial activity incurring during 2020), specifically, the necessity of costs being born by the Institute prior to reimbursement from the Commonwealth. The Post Infrastructure Improvements project, Scott Shipp Hall Expansion and Renovation, and Preston Library Renovation collectively accounted for \$32.5 million of the balance and have the following respective completion dates (estimated): fall 2020, September 2021, and October 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 2020 | 30 June 2019 | Variance | |
|--|-----------------|-----------------|----------------|---------|
| Net cash used by operating activities | \$ (34,277,839) | \$ (25,622,617) | \$ (8,655,222) | 33.8% |
| Net cash provided by noncapital financing activities | 38,980,249 | 32,523,288 | 6,456,961 | 19.9% |
| Net cash used/provided by capital and financing activities | (10,307,238) | (4,410,662) | (5,896,576) | 133.7% |
| Net cash provided by investing activities | 803,046 | 507,383 | 295,663 | 58.3% |
| Net increase (decrease) in cash | (4,801,782) | 2,997,392 | (7,799,174) | -260.2% |
| Cash - beginning of year | 35,247,932 | 32,250,540 | 2,997,392 | 9.3% |
| Cash - end of year | \$ 30,446,150 | \$ 35,247,932 | \$ (4,801,782) | -13.6% |

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. In summary, collective Institute cash balances decreased \$4.8 million or 13.6% during 2020 for the following reasons, while maintaining 131% coverage of total year-end current liabilities.

Tuition and fees (\$25.9 million), auxiliary charges (\$21.2 million), and unique military activity charges (\$3.6 million) continue to represent the most significant sources of operating cash (\$50.7 million total), while compensation and benefits (\$53.6 million) and supplies and services payments (\$31.1 million)

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account for the most substantial use of operating funds (\$84.7 million total). The primary influences on the overall increase in net operating cash utilization are: the \$3.6 million refund for room, board, laundry and haircuts due to pandemic driven remote instruction; \$3.3 million in additional salary and benefit outlays (primarily due to an all-inclusive 5% employee compensation increase); and a collective \$2.4 million in higher year-end inventory balances and accrued expenses.

The \$6.5 million in additional cash provided by noncapital financing activities was predominantly due to the \$3.8 million (or 25.3%) increase in general funds derived primarily from state income and sales taxes appropriated to VMI by the Commonwealth's General Assembly (i.e. state appropriations), coupled with \$1.8 million greater non-capital gifts and contributions (largely due to CARES Act grant funds and increased private support).

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 (\$38.9 million total). Inversely, net cash utilized within this categorization is primarily related to the purchase and construction of capital assets (\$50.6 million), as well as principal and interest payments on capital debt (\$4.6 million). Related capital construction costs, particularly driven by Post Infrastructure Improvements, Preston Library Renovations, and the Scott Shipp Hall Expansion and Renovation (\$43.6 million combined construction-in-progress accumulation), are incurred by the Institute prior to VCBA reimbursement.

Capital Asset and Debt Administration

30 June 2020 represents the eighteenth 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 \$375 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), renovations to the Davidson-Tucker House 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 2020 planning and construction continued on a number of projects, including repairs to Barracks parapets, stoops, and windows. These projects are financed through VCBA pooled bonds that were sold in 2013, 2014, 2015 and 2018. 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 continued 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. Construction began on the Chessie Trail Bridge, with a majority of funding provided by the Federal Highway Administration (FHWA). Additionally, planning continued 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

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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 2020, the debt outstanding on these projects totaled \$25.1 million with annual debt service payments of \$2.7 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 \$4.2 million of bonds and \$20.9 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. Lackey Parking project was financed through \$3.34 million VCBA pooled bonds sold in FY 20. Bonds were issued with an average coupon rate of 4.3% payable over 20 years with final payment in FY2040.

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. VMI placed highly in *Washington Monthly's* recently released college rankings, taking the No. 1 spot for promotion of public service. The Institute ranked 35th out of 218 liberal arts colleges nationwide, the top-ranked public liberal arts college in Virginia. 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. 29 nationally among colleges whose highest degree is a bachelor's or master's. *Money* magazine ranks VMI as No. 26 among colleges and universities nationwide, a jump of more than 20 placings from 2019's rankings. PayScale.com ranks VMI as No. 6 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 2020 new Cadet class resulting in an average for the past three years of 1,720 applications. VMI accepted 59% of the applicants for fall 2020 with a yield of 54% or 519 new Cadets. VMI accepted 58% of the applicants for fall 2019 with a yield of 54% or 515

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new Cadets. The academic credentials of the Cadets enrolled continue to be significantly above average with the fall 2020 new Cadet class consisting of 40% in the top quarter and 76% 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 62% of the Corps for fiscal 2019 and 63% for fiscal 2020. 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 \$52.8 million or 58% of total revenues and support in fiscal 2020 with this percentage expected to increase in the future.

State support provided \$18.9 million or 21% of VMI's total revenues and support for operations in fiscal 2020 excluding funding for capital projects. State support provided \$44.9 million for capital projects consisting primarily of CPTF Phase III-Aquatic Center, Post Infrastructure, Scott Shipp Renovation, Preston Renovation, and Maintenance Reserve. State support for operations is expected to total about \$19.4 million in fiscal 2021 for an increase of 3% over fiscal 2020. State support for capital projects for fiscal 2021 is estimated to total about \$43.6 million and consists primarily of construction funding for Maintenance Reserve, CPTF Phase III-Aquatic Center, 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. Despite the impacts of the COVID-19 pandemic, the Commonwealth ended FY 2020 in a much better financial position than anticipated. Because of this, VMI received an additional \$1.0 million in Educational and General operating funds in FY 2021 and expects these funds to be added to the base budget in FY 2022 and beyond.

Private support provided \$17.3 million or 19.3% of VMI's total revenues and support for operations in fiscal 2020. Private support provided \$187,831 for capital project debt service plus an additional \$27,542 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 \$503 million as of 30 June 2020 reflecting a decrease of about 1.7% over fiscal 2019. 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 both State and Private support over the next few years. 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 were negatively impacted, and additional expenses were incurred related to the transition to remote education and other activities. The Institute issued approximately \$3.6 million in fee refunds in FY 2020 and incurred approximately \$750,000 in COVID-19 related expenses in FY20, with a significant increase in COVID-19 related expenses expected in FY21.



FINANCIAL STATEMENTS

VIRGINIA MILITARY INSTITUTE
Statement of Net Position
As of 30 June 2020

| ASSETS | |
|---|--------------------|
| Current assets | |
| Cash and cash equivalents (Note 2) | \$ 24,809,367 |
| Cash equivalent held by Treasurer of Virginia (Note 2) | 1,361,819 |
| Accounts receivable, <i>Net of allowance for doubtful accounts of \$31,209</i> (Note 3) | 1,281,822 |
| Due from the Commonwealth (Note 4) | 10,012,058 |
| Due from federal government | 42,769 |
| Prepaid expenditures | 1,124,975 |
| Inventories (Note 5) | 8,423,939 |
| Loans receivable | 183,260 |
| Total current assets | 47,240,009 |
| Noncurrent assets | |
| Cash and cash equivalents (Note 2) | 383,423 |
| Cash equivalent-restricted (Note 2) | 3,891,540 |
| Investments held with trustees (Note 2) | 17,675,224 |
| Appropriations Available | 137,058 |
| Accounts receivable (Note 3) | 47,193 |
| Loans receivable, <i>Net of allowance for doubtful accounts of \$24,435</i> | 642,154 |
| Nondepreciable capital assets (Note 6) | 71,779,936 |
| Depreciable capital assets, <i>Net of accumulated depreciation</i> (Note 6) | 309,124,868 |
| Net OPEB Asset (Note 13) | 646,207 |
| Total noncurrent assets | 404,327,603 |
| Total assets | 451,567,612 |
| DEFERRED OUTFLOW OF RESOURCES | |
| Loss on refunding | 225,152 |
| Deferred outflows related to OPEB | 1,974,612 |
| Deferred outflows related to pensions | 5,191,586 |
| Total deferred outflow of resources | 7,391,350 |
| Total assets and deferred outflows | 458,958,962 |
| LIABILITIES | |
| Current liabilities | |
| Accounts payable and accrued expenses (Note 7) | 17,543,843 |
| Unearned revenue | 1,042,120 |
| Obligations under securities lending | 1,361,819 |
| Deposits held for others | 708,130 |
| Long-term liabilities-current portion (Note 8) | 642,850 |
| Long-term debt-current portion: (Note 8, Note 9) | 1,695,000 |
| OPEB Liability-current portion: (Note 13) | 195,039 |
| Total current liabilities | 23,188,801 |
| Noncurrent liabilities | |
| Accrued liabilities (Note 7) | 4,955,720 |
| Federal loan program contributions refundable | 849,424 |
| Long-term liabilities-noncurrent portion (Note 8) | 929,270 |
| Long-term debt-noncurrent portion: (Note 8, Note 9) | 23,399,995 |
| Net Pension Liability (Note 12) | 26,268,057 |
| OPEB Liability (Note 13) | 11,466,152 |
| Total noncurrent liabilities | 67,868,618 |
| Total liabilities | 91,057,419 |
| DEFERRED INFLOWS OF RESOURCES | |
| Gain on refunding | 159,215 |
| Deferred inflows related to OPEB | 5,792,920 |
| Deferred inflows related to pensions | 1,460,804 |
| Total deferred inflow of resources | 7,412,939 |

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

VIRGINIA MILITARY INSTITUTE
Statement of Net Position
As of 30 June 2020

| NET POSITION | |
|---|------------------------------|
| Net investment in capital assets | 357,813,465 |
| Restricted-nonexpendable | |
| Endowment | 1,273,047 |
| Restricted-expendable | |
| Scholarships and other | 2,126,366 |
| Loan funds | 602,488 |
| Quasi-endowment-restricted | 9,795,236 |
| VSDP OPEB | 646,337 |
| | <u>13,170,427</u> |
| Unrestricted | (11,768,335) |
| Total net position | <u>360,488,604</u> |
| Total liabilities, deferred inflows and net position | <u><u>\$ 458,958,962</u></u> |

COMBINED STATEMENT OF FINANCIAL POSITION
Component Units of Virginia Military Institute
As of 30 June 2020

ASSETS

Current assets:

| | |
|------------------------------------|-------------------|
| Cash and cash equivalents | \$ 27,636,917 |
| Contributions receivable (Note 19) | 7,101,542 |
| Accounts receivable | 144,036 |
| Note receivable | 9,966 |
| Other | 195,995 |
| Total current assets | <u>35,088,456</u> |

Noncurrent assets:

| | |
|---|--------------------|
| Contributions receivable (Note 19) | 9,450,540 |
| Note receivable | 332,433 |
| Investments held by trustees (Note 19) | 484,229,509 |
| Investments, other (Note 19) | 19,826,618 |
| Investment securities | 292,433 |
| Cash surrender of life insurance | 5,339,278 |
| Property and equipment, net of accumulated depreciation | 220,621 |
| Total noncurrent assets | <u>519,691,432</u> |

| | |
|---------------------|---------------------------|
| Total assets | <u><u>554,779,888</u></u> |
|---------------------|---------------------------|

LIABILITIES

Current liabilities:

| | |
|--|-------------------|
| Accounts payable and accrued expenses | 999,859 |
| Long-term liabilities-current portion: | |
| Long-term debt-current portion | 10,184,359 |
| Trust and annuity obligations | 608,449 |
| Total current liabilities | <u>11,792,667</u> |

Noncurrent liabilities:

| | |
|---|-------------------|
| Long-term liabilities-noncurrent portion: | |
| Long-term debt-noncurrent portion (Note 19) | 37,017,728 |
| Trust and annuity obligations | 4,272,387 |
| Total noncurrent liabilities | <u>41,290,115</u> |

| | |
|--------------------------|-------------------|
| Total liabilities | <u>53,082,782</u> |
|--------------------------|-------------------|

NET ASSETS

| | |
|----------------------------|--------------------|
| Without donor restrictions | 62,943,575 |
| With donor restrictions | 438,753,531 |
| Total net assets | <u>501,697,106</u> |

| | |
|---|------------------------------|
| Total liabilities and net assets | <u><u>\$ 554,779,888</u></u> |
|---|------------------------------|

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

Operating revenues:

| | |
|--|-------------------|
| Tuition and fees, <i>Net of scholarships allowances of \$7,090,368</i> | \$ 26,117,189 |
| Federal grants and contracts | 255,861 |
| Sales and services of educational departments | 460,717 |
| Auxiliary enterprise, <i>Net of scholarship allowances of \$5,414,168</i> | 21,395,879 |
| Unique military activities, <i>Net of scholarships allowances of \$1,024,119</i> | 3,602,162 |
| Other sources: | |
| Museum programs | 312,868 |
| Rents and commissions | 445,121 |
| Miscellaneous | 166,177 |
| Total operating revenues | <u>52,755,974</u> |

Operating expenses:

| | |
|---|---------------------|
| Educational and general | |
| Instruction | 26,024,380 |
| Research | 165,147 |
| Public service | 1,599,746 |
| Academic support | 7,566,308 |
| Student services | 3,950,095 |
| Institutional support | 7,570,872 |
| Operation and maintenance of physical plant | 11,271,552 |
| Scholarships and related expense | 1,902,547 |
| Auxiliary enterprises | 24,874,157 |
| Unique military activities | 11,641,967 |
| Total operating expenses (Note 10) | <u>96,566,771</u> |
| Net operating income (loss) | <u>(43,810,797)</u> |

Nonoperating revenues/(expenses):

| | |
|---|--------------------|
| State appropriations (Note 11) | 18,904,149 |
| Gifts and contributions | 17,464,552 |
| Federal student financial aid (Pell) | 1,105,870 |
| Federal stabilization funds (Build American Bonds Subsidy) | 33,190 |
| Federal Grant-CARES ACT | 1,208,388 |
| Investment income (loss) | 433,213 |
| Interest on capital asset - related debt | (907,144) |
| Gain/(loss) on disposal of plant assets | (228,576) |
| Net nonoperating revenues | <u>38,013,642</u> |
| Income (loss) before other revenues and extraordinary items | <u>(5,797,155)</u> |

Other revenues and reductions:

| | |
|--|-----------------------|
| Grants and contributions-capital | 45,028,440 |
| Investment income-capital | 66,615 |
| Total other revenues and reductions | <u>45,095,055</u> |
| Increase/(Decrease) in net position | 39,297,900 |
| Net position beginning of the year as restated | <u>321,190,704</u> |
| Net position end of year | <u>\$ 360,488,604</u> |

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 2020

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|---------------------------------------|------------------------------------|-----------------------|
| REVENUES | | | |
| Amounts raised on behalf of VMI | \$ 11,202,311 | \$ 20,362,285 | \$ 31,564,596 |
| Grants, contributions and contracts | 375,699 | 7,950 | 383,649 |
| Investment income | 3,821,666 | 2,942 | 3,824,608 |
| Actuarial gain/(loss) on trust and annuity obligations | 63,543 | 422,790 | 486,333 |
| Other income | 844 | - | 844 |
| Net assets released from restrictions and reclassifications | 14,631,042 | (14,631,042) | - |
| Total revenues | <u>30,095,105</u> | <u>6,164,925</u> | <u>36,260,030</u> |
| EXPENSES | | | |
| Amounts remitted directly to or on behalf of VMI: | | | |
| Unrestricted | 6,005,170 | - | 6,005,170 |
| Designated | 14,610,082 | - | 14,610,082 |
| Cost of operations | 7,281,461 | - | 7,281,461 |
| Conference, research and education | 451,096 | - | 451,096 |
| Total expenses | <u>28,347,809</u> | <u>-</u> | <u>28,347,809</u> |
| Change in net assets before net realized and unrealized gain/(loss) on investments | 1,747,296 | 6,164,925 | 7,912,221 |
| Net realized and unrealized gain/(loss) on investments | <u>(1,871,517)</u> | <u>(5,397,314)</u> | <u>(7,268,831)</u> |
| Change in net assets | (124,221) | 767,611 | 643,390 |
| NET ASSETS | | | |
| Beginning | <u>63,067,796</u> | <u>437,985,920</u> | <u>501,053,716</u> |
| Ending | <u>\$ 62,943,575</u> | <u>\$ 438,753,531</u> | <u>\$ 501,697,106</u> |

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 2020****Cash provided/(used) by operating activities:**

| | |
|---|---------------------|
| Tuition and fees | \$ 25,949,986 |
| Federal grants and contracts | 255,861 |
| Sales and services-educational and general | 516,950 |
| Auxiliary charges | 21,227,993 |
| Unique military activity charges | 3,597,867 |
| Other operating receipts | 840,794 |
| Payments to employees for salaries and benefits | (53,563,168) |
| Payments for supplies and services | (31,132,448) |
| Payments for scholarships and fellowships | (1,936,715) |
| Loan funds issued to students | (5,873) |
| Collections of loans from students | (64,698) |
| Scholarship, student, and other custodial receipts | 6,555,423 |
| Scholarship, student, and other custodial disbursements | (6,519,811) |
| Net cash provided/(used) by operating activities | <u>(34,277,839)</u> |

Cash provided/(used) by noncapital financing activities:

| | |
|---|-------------------|
| State appropriations | 18,904,149 |
| Nonoperating grants and contracts | 2,234,921 |
| Gifts and contributions for other than capital purposes | 17,841,179 |
| Federal Direct Lending Program-receipts | 7,770,835 |
| Federal Direct Lending Program-disbursements | (7,770,835) |
| Net cash provided/(used) by noncapital financing activities | <u>38,980,249</u> |

Cash provided/(used) by capital and related financing activities:

| | |
|---|---------------------|
| Capital gifts and contributions | 38,937,562 |
| Proceeds from capital assets | 31,135 |
| Purchase and construction of capital assets | (50,564,994) |
| Proceeds from capital debt | 5,808,944 |
| Principal paid on capital debt | (3,551,724) |
| Interest paid on capital debt | (1,034,776) |
| Investment income-capital | 66,615 |
| Net cash provided/(used) by capital and relating financing activities | <u>(10,307,238)</u> |

Cash provided/(used) by investing activities:

| | |
|--|----------------|
| Interest on investments | 21,932 |
| Investment/Endowment income | 600,976 |
| Purchase of investments | 180,138 |
| Net cash provided/(used) by investing activities | <u>803,046</u> |

| | |
|---|----------------------|
| Net increase/(decrease) in cash | (4,801,782) |
| Cash and cash equivalents-beginning of year as restated | 35,247,932 |
| Cash and cash equivalents -end of year | <u>\$ 30,446,150</u> |

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 2020

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

| | |
|---|-------------------------------|
| Operating loss | \$ (43,810,797) |
| Adjustments to reconcile net operating expenses to cash used by operating activities: | |
| Depreciation expense | 12,585,813 |
| Changes in assets, liabilities, deferred outflows, and deferred inflows: | |
| Accounts receivable | (64,303) |
| Inventories | (1,245,052) |
| Prepaid expenditures | (48,368) |
| Loans receivable | 262,830 |
| Deferred outflows of resources related to pensions | (2,732,574) |
| Deferred outflows of resources related to OPEB | (569,372) |
| Accounts payable and accrued liabilities | (1,142,136) |
| Unearned revenue | (326,685) |
| Compensated absences | 115,895 |
| Federal loan program contributions refundable | (323,890) |
| Scholarship, student, and other custodial receipts | 6,555,423 |
| Scholarship, student, and other custodial disbursements | (6,519,811) |
| Net OPEB Asset | 92,793 |
| Net OPEB Liability | (1,644,505) |
| Net Pension Liability | 4,032,057 |
| Deferred infows related to OPEB | 1,361,039 |
| Deferred inflows related to pensions | (856,196) |
| Net cash used in operating activities | <u><u>\$ (34,277,839)</u></u> |

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

| | |
|--|--------------|
| Change in fair value of investments recognized as a component of investment income | \$ (460,801) |
| Amortization of bond premium/discount and gain/loss on debt refinancing | (115,712) |
| Loss on disposal of capital assets | (228,569) |
| Retainage payable | 2,175,999 |

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

| | |
|---|-----------------------------|
| Cash and cash equivalents classified as current assets | \$ 26,171,186 |
| Cash and cash equivalents classified as noncurrent assets | 4,274,964 |
| | <u><u>\$ 30,446,150</u></u> |

- NOTES TO FINANCIAL STATEMENTS -

| | | |
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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. An Annual Comprehensive Financial Report (ACFR) 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, 2020. Payments of expenses that extend beyond fiscal year 2020 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 2020. 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 was previously 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 capital related interest expense totaling \$907,144 for the fiscal year ended 30 June 2020. However, none of the respective interest expense incurred was capitalized during the period per GASB Statement No. 89 implementation.

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 2020, 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 Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 2020, the following GASB statements of standards became effective: Statement 84, *Fiduciary Activities*; Statement 90, *Majority Equity Interests*; and Statement 92, *Omnibus 2020*. VMI early implemented Statement 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. Statement 84, not deemed materially impactful to VMI, establishes criteria for identifying fiduciary activities and requires a statement of fiduciary net position and a statement of changes in fiduciary net position for activities that meet those criteria. Statement 90 covers reporting of a government's majority equity interest in a legally separate organization. The Institute does not own any such interests and was not affected by implementation of this statement.

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 2020. 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 2020.

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 investments, which may be 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 2020:

| | Current | Noncurrent | Total |
|--|---------------|--------------|---------------|
| Cash with Treasurer of Virginia | \$ 18,172,633 | \$ (10,553) | \$ 18,162,080 |
| State Non-Arbitrage Program (SNAP) | - | 3,891,540 | 3,891,540 |
| BB&T public fund checking | 6,629,709 | 393,976 | 7,023,685 |
| Securities under Securities Lending/Treasurer VA | 1,361,819 | - | 1,361,819 |
| Petty cash | 7,025 | - | 7,025 |
| Total cash and cash equivalents | \$ 26,171,186 | \$ 4,274,963 | \$ 30,446,149 |

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 2020:

| | Current | Noncurrent | Total |
|---|---------|---------------|---------------|
| Investments with trustees: | | | |
| Investments pooled with VMI affiliates | \$ - | \$ 12,819,504 | \$ 12,819,504 |
| Mutual fund investments (retirement accounts) | - | 4,855,720 | 4,855,720 |
| Total investments | \$ - | \$ 17,675,224 | \$ 17,675,224 |

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 2020. 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 Position.

| | Balance at 30 June 2020 | 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 | \$ 18,162,080 | | | \$ - | \$ - | \$ 18,162,080 |
| State Non-Arbitrage Program (SNAP) | 3,891,540 | AAAm | < 1 year | - | - | \$ 3,891,540 |
| BB&T public fund checking | 7,023,685 | | | - | - | 7,023,685 |
| Securities under Securities Lending/Treasurer VA | 1,361,819 | | | - | - | 1,361,819 |
| Petty Cash | 7,025 | | | - | - | 7,025 |
| Investments held with trustees: | | | | | | |
| Mutual fund investments (retirement accounts) | 4,855,720 | | | 4,855,720 | - | - |
| Investments pooled with VMI affiliates* | 12,819,504 | | | - | 12,819,504 | - |
| Total cash, cash equivalents and investments | \$ 48,121,373 | | | \$ 4,855,720 | \$ 12,819,504 | \$ 30,446,149 |

INVESTMENTS MEASURED AT NET ASSET VALUE (NAV)

| | Fair Value at 30 June 2020 | Redemption Frequency (If Currently Eligible) | Redemption Notice Period |
|--|-------------------------------|---|--------------------------------|
| Investments pooled with VMI affiliates | 12,819,504 | (a) | (a) |
| | \$ 12,819,504 | | |

(a) See * and Note 19 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 2020 was \$503.2 million, of which, VMI owned \$12.8 million or 2.5 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 \$56.7 million in debt securities with an average maturity of 11.3 years. The average quality rating was BBB (Moody's). The Fund held \$143.22 million in US equity investments. The Fund held \$61 million in developed markets international funds with equities denominated primarily in the Euro, the Pound, and the Yen, and \$44.9 million in emerging markets international funds with equities denominated in a variety of currencies. The Fund held \$61.6 million in absolute return fund investments, which may also hold fixed income and equity securities. The Fund held \$108.2 million in private investments. 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 \$81,972 for fiscal year 2020 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 2020:

| | Current | Noncurrent | Total |
|---------------------------------------|---------------------|------------------|---------------------|
| Student tuition and fees | \$ 791,091 | \$ - | \$ 791,091 |
| Other educational and general | (22,649) | - | (22,649) |
| Auxiliary enterprises | 7,000 | - | 7,000 |
| Unique military activity | 8,495 | - | 8,495 |
| Private gifts | 327,828 | - | 327,828 |
| Custodial funds | 50,433 | - | 50,433 |
| Other operating | 142,000 | 47,193 | 189,193 |
| Retirement of indebtedness | 8,833 | - | 8,833 |
| | <u>\$ 1,313,031</u> | <u>\$ 47,193</u> | <u>\$ 1,360,224</u> |
| Less: Allowance for doubtful accounts | (31,209) | - | (31,209) |
| Total accounts receivable, net | <u>\$ 1,281,822</u> | <u>\$ 47,193</u> | <u>\$ 1,329,015</u> |

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 2020 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 2020 represents pending reimbursements from the following programs:

| | |
|-----------------------------------|----------------------|
| VCBA Equipment Trust Fund program | \$ 663,829 |
| VCBA 21st Century program | <u>9,348,229</u> |
| Total Due from Commonwealth | <u>\$ 10,012,058</u> |

NOTE 5: INVENTORIES

Inventories consisted of the following balances at 30 June 2020:

| | |
|----------------|---------------------|
| Military Store | \$ 7,781,449 |
| Physical Plant | 392,617 |
| Museums | 229,118 |
| VMI Hospital | 20,755 |
| | <hr/> |
| Total | <u>\$ 8,423,939</u> |

NOTE 6: CAPITAL ASSETS

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

| | Beginning Balance 1 July 2019 | Additions | Reductions | Ending Balance 30 June 2020 |
|---|--|----------------------|-----------------------|--|
| Nondepreciable capital assets: | | | | |
| Land | \$ 3,742,372 | \$ - | \$ - | \$ 3,742,372 |
| Construction in progress | 19,311,144 | 54,611,966 | (5,885,546) | 68,037,564 |
| | <hr/> | | | |
| Total nondepreciable capital assets | 23,053,516 | 54,611,966 | (5,885,546) | 71,779,936 |
| Depreciable capital assets: | | | | |
| Buildings | 410,121,348 | 5,501,193 | (3,478) | 415,619,063 |
| Improvements other than buildings | 31,089,205 | 384,354 | (1,446,944) | 30,026,615 |
| Equipment | 19,456,107 | 1,519,063 | (1,137,156) | 19,838,014 |
| Library books | 12,000,242 | 160,184 | (148,205) | 12,012,221 |
| | <hr/> | | | |
| Total depreciable capital assets | 472,666,902 | 7,564,794 | (2,735,783) | 477,495,913 |
| Less accumulated depreciation for: | | | | |
| Buildings | 118,968,753 | 9,536,377 | (2,972) | 128,502,158 |
| Improvements other than buildings | 14,869,481 | 1,401,176 | (1,265,485) | 15,005,172 |
| Equipment | 14,659,875 | 1,298,225 | (1,059,409) | 14,898,691 |
| Library books | 9,763,194 | 350,035 | (148,205) | 9,965,024 |
| | <hr/> | | | |
| Total accumulated depreciation | 158,261,303 | 12,585,813 | (2,476,071) | 168,371,045 |
| | <hr/> | | | |
| Depreciable capital assets, net | 314,405,599 | (5,021,019) | (259,712) | 309,124,868 |
| | <hr/> | | | |
| Total capital assets, net | <u>\$ 337,459,115</u> | <u>\$ 49,590,947</u> | <u>\$ (6,145,258)</u> | <u>\$ 380,904,804</u> |

NOTE 7: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at 30 June 2020:

| | Current | Noncurrent | Total |
|---|----------------|-------------------|---------------|
| Employee salaries, wages and benefits payable | \$ 4,422,096 | \$ - | \$ 4,422,096 |
| Vendors and supplies accounts payable | 10,386,586 | - | 10,386,586 |
| Accrued interest payable | 295,673 | - | 295,673 |
| Retainage payable | 2,379,488 | - | 2,379,488 |
| Contractual liability | 60,000 | 100,000 | 160,000 |
| Retirement annuities* | - | 4,855,720 | 4,855,720 |
| | | | |
| Total accounts payable and accrued expenses | \$ 17,543,843 | \$ 4,955,720 | \$ 22,499,563 |

*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 2020 is presented as follows:

| | Beginning Balance 1 July 2019 | Additions | Reductions | Ending Balance 30 June 2020 | Current Portion 30 June 2020 |
|-------------------------------------|--|------------------|-------------------|--|---|
| Long-term debt: | | | | | |
| Bonds payable | \$ 5,040,855 | \$ 2,141,332 | \$ (3,027,659) | \$ 4,154,528 | \$ 660,000 |
| Notes payable | 18,231,062 | 3,710,626 | (1,001,221) | 20,940,467 | 1,035,000 |
| Total long-term debt | \$ 23,271,917 | \$ 5,851,958 | \$ (4,028,880) | \$ 25,094,995 | \$ 1,695,000 |
| Accrued compensated absences | 1,456,225 | 897,516 | (781,621) | 1,572,120 | 642,850 |
| Total long-term liabilities | \$ 24,728,142 | \$ 6,749,474 | \$ (4,810,501) | \$ 26,667,115 | \$ 2,337,850 |

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.

VIRGINIA MILITARY INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS AS OF 30 JUNE 2020

| Bonds Payable: | Interest Rates (%) | Maturity Fiscal Year | Balance 30 June 2020 |
|---|-------------------------------|---------------------------------|---------------------------------|
| Crozet Hall: | | | |
| Series 2012A, issued \$3,018,620 - refunding Series 2004A | 2.00 - 5.00 | 2025 | 2,701,210 |
| Series 2019B, issued \$2,000,000 - refunding Series 2009D | 5.00 | 2022 | 1,453,318 |
| | | | <u>\$ 4,154,528</u> |

Notes payable:

| Notes Payable: | Interest Rates (%) | Maturity Fiscal Year | Balance 30 June 2020 |
|---|-------------------------------|---------------------------------|---------------------------------|
| Cocke Hall Annex: | | | |
| Series 2010B, issued \$555,000 - refunding Series 2002A | 5.00 | 2023 | 471,936 |
| Jackson Memorial Hall Renovation: | | | |
| Series 2010B, issued \$650,000 - refunding Series 2002A | 5.00 | 2023 | 549,798 |
| South Institute Hill Parking: | | | |
| Series 2010A1/2, issued \$2,850,000 | 4.00 - 5.50 | 2031 | 1,952,000 |
| Improve Post Facilities I: | | | |
| Series 2013A, issued \$4,085,000 | 2.00 - 5.00 | 2034 | 3,405,111 |
| Improve Post Facilities II: | | | |
| Series 2014A, issued \$3,565,000 | 5.00 | 2035 | 3,567,016 |
| Improve Post Facilities III: | | | |
| Series 2015A, issued \$3,915,000 | 3.00 - 5.00 | 2036 | 3,739,854 |
| Improve Post Infrastructure I, II, III: | | | |
| Series 2018A, issued \$3,240,000 | 4.00 - 5.00 | 2039 | 3,554,936 |
| Lackey Parking: | | | |
| Series 2019A, issued \$3,340,000 | 2.25 - 5.00 | 2040 | 3,699,817 |
| | | | <u>\$ 20,940,468</u> |

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 2020 are as follows:

| Year | Bonds Payable | Notes Payable | Total |
|---------------------------|--------------------------|--------------------------|---------------|
| 2021 | \$ 660,000 | \$ 1,035,000 | \$ 1,695,000 |
| 2022 | 695,000 | 1,200,000 | 1,895,000 |
| 2023 | 792,290 | 1,250,000 | 2,042,290 |
| 2024 | 831,324 | 960,000 | 1,791,324 |
| 2025 | 865,000 | 1,000,000 | 1,865,000 |
| 2026-2030 | - | 5,695,000 | 5,695,000 |
| 2031-2035 | - | 5,820,000 | 5,820,000 |
| 2036-2040 | - | 2,330,000 | 2,330,000 |
| Total principal payments | 3,843,614 | 19,290,000 | 23,133,614 |
| Unamortized premium | 310,914 | 1,650,468 | 1,961,382 |
| Total long-term debt, net | \$ 4,154,528 | \$ 20,940,468 | \$ 25,094,996 |

A summary of future interest commitments for fiscal years subsequent to 30 June 2020 is presented as follows:

| Year | Bonds Payable | Notes Payable | Total |
|------------------------------------|--------------------------|--------------------------|--------------|
| 2021 | \$ 177,407 | \$ 819,266 | \$ 996,673 |
| 2022 | 144,406 | 766,504 | 910,910 |
| 2023 | 98,481 | 706,395 | 804,876 |
| 2024 | 58,866 | 652,009 | 710,875 |
| 2025 | 17,300 | 605,725 | 623,025 |
| 2026-2030 | - | 2,276,762 | 2,276,762 |
| 2031-2035 | - | 956,266 | 956,266 |
| 2036-2040 | - | 160,456 | 160,456 |
| Total future interest requirements | \$ 496,460 | \$ 6,943,383 | \$ 7,439,843 |

Long-term Debt Defeasance

In August 2019, the Treasury Board, on behalf of the Institute, issued \$2,000,000 of General Obligation Refunding Bonds, Series 2019B to refund \$2,115,000 of Series 2009D bonds. The resulting net gain of \$44,977 will be amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The detail of the bond issue refunded is below.

| Bond Title | Bonds Refunded | Interest Rate (Bonds Refunded) | Refunding Bonds Issued | Interest Rate (Refunding Bonds) | Accounting Gain (Loss) | Reduction in Debt Service | Economic Gain (Loss) |
|--|-------------------|--------------------------------------|---------------------------|--|---------------------------|------------------------------|-------------------------|
| Crozet Hall, 2019BA refunding 2009D | \$ 2,115,000 | 5.00% | \$ 2,000,000 | 5.00% | \$ 44,977 | \$ 147,778 | \$ 145,160 |

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, 2020 no defeased debt is considered outstanding.

Capital Improvement Commitments

As of 30 June 2020, the Institute had outstanding construction contract commitments of \$34,693,532. 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.

NOTE 10: EXPENSES BY NATURAL CLASSIFICATION

The Institute’s operating expenses by natural classification were as follows for the year ended 30 June 2020:

| Program | Compensation and benefits | Supplies, Equipment, Utilities and Other Services | Student Aid | Other Expenses | Depreciation | Total |
|-------------------------------------|------------------------------|--|---------------------|---------------------|----------------------|----------------------|
| Instruction | \$ 21,670,999 | \$ 895,770 | \$ - | \$ 3,879 | \$ 3,453,732 | \$ 26,024,380 |
| Research | 77,126 | 5,521 | - | 82,500 | - | 165,147 |
| Public service | 740,411 | 434,365 | - | - | 424,970 | 1,599,746 |
| Academic support | 4,738,045 | 1,564,922 | - | 47,309 | 1,216,032 | 7,566,308 |
| Student services | 2,777,484 | 862,582 | - | 39,523 | 270,506 | 3,950,095 |
| Institutional support | 5,061,553 | 1,875,497 | - | 467,198 | 166,624 | 7,570,872 |
| Operation of plant | 4,725,008 | 5,507,764 | - | 468,307 | 570,473 | 11,271,552 |
| Scholarships and related expense | 15,666 | 28,624 | 1,858,257 | - | - | 1,902,547 |
| Auxiliary enterprises | 7,668,977 | 9,749,364 | 78,458 | 3,654,010 | 3,723,348 | 24,874,157 |
| Unique military activities | 5,860,641 | 2,164,282 | - | 856,916 | 2,760,128 | 11,641,967 |
| TOTAL | \$ 53,335,910 | \$ 23,088,691 | \$ 1,936,715 | \$ 5,619,642 | \$ 12,585,813 | \$ 96,566,771 |

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 2020 ended the previous biennium.

During the fiscal year ended 30 June 2020, the Institute received the following supplemental appropriations and reversions in accordance with the Appropriation Act:

Original legislative appropriation:

| | |
|--|---------------|
| Educational and general (E&G) programs | \$ 11,540,864 |
| Unique military activity (UMA) | 5,610,058 |
| Student financial assistance | 1,118,218 |

Adjustments:

| | |
|--|-----------|
| Tuition Moderation Fund | 661,000 |
| Adjustments-GF portion | 297,794 |
| ETF lease payment – NGF portion | (88,844) |
| Student financial assistance | 20,900 |
| Interest and credit card rebate | 140,975 |
| Debt service fee – Non-Virginia Cadets | (400,470) |

Appropriation transfers:

| | |
|-------------------------------|---------|
| SCHEV programs | 6,246 |
| Educational and general (E&G) | (2,592) |

| | |
|------------------------|----------------------|
| Adjusted appropriation | <u>\$ 18,904,149</u> |
|------------------------|----------------------|

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 criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

| Retirement Plan Provisions by Plan Structure | | |
|--|--------------|------------------------|
| Plan 1 | Plan 2 | Hybrid Retirement Plan |
| About Plan 1 | About Plan 2 | About the Hybrid |

| | | |
|--|--|---|
| <p>Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, service credit and average final compensation at retirement using a formula.</p> | <p>Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, service credit and average final compensation at retirement using a formula.</p> | <p>Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</p> <ul style="list-style-type: none"> • The defined benefit is based on a member's age, service credit and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees. |
| <p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010 and they were vested as of January 1, 2013, and they have not taken a refund.</p> <p>Hybrid Opt-In Election VRS Plan 1 members were allowed to make an irrevocable decision to opt</p> | <p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an</p> | <p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • State employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January |

| | | |
|--|---|--|
| <p>into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> | <p>irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> | <p>1 – April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.</p> <p>*Non Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Members of the Virginia Law Officers' Retirement System (VaLORS) <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p> |
| <p>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.</p> | <p>Retirement Contributions Same as Plan 1.</p> | <p>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.</p> |

| | | |
|---|--|--|
| <p>Service Credit Service Credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> | <p>Service Credit Same as Plan 1.</p> | <p>Service Credit <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contributions Component:</u> Under the defined contribution component, service credit is used to determine vesting for the employer contribution portion of the plan.</p> |
| <p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of service credit. 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.</p> | <p>Vesting Same as Plan 1.</p> | <p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of service credit. Plan 1 or Plan 2 members with at least five years (60 months) of service credit who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> |

| | | |
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| <p>Members are always 100% vested in the contributions that they make.</p> | | <p><u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required, except as governed by law.</p> |
| <p>Calculating the Benefit The Basic Benefit is calculated using the average final compensation, service credit and plan multiplier. An early retirement reduction is applied to this amount if the member is retiring with a</p> | <p>Calculating the Benefit See definition under Plan 1.</p> | <p><u>Calculating the Benefit Defined Benefit Component:</u> See definition under Plan 1</p> <p><u>Defined Contribution</u></p> |

| | | |
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| reduced benefit. In cases where the member has elected an optional form of retirement payment, an option factor specific to the option chosen is then applied. | | <u>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 multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70% VaLORS: The retirement multiplier for VaLORS employees is 1.70% or 2.00% | Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for service credit earned, purchased or granted on or after January 1, 2013. VaLORS: The retirement multiplier for VaLORS employees is 2.00%. | Service Retirement Multiplier <u>Defined Benefit Component:</u> 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 service credit or at age 50 with at least 30 years of service credit. 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 service credit or when their age and service equal 90. VaLORS: Same as Plan 1. | Earliest Unreduced Retirement Eligibility Defined Benefit Component: VRS: Normal Social Security retirement age and have at least five years (60 months) of service credit or when their age and service equal 90. VaLORS: Not applicable. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions. |
| Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of service credit or age 50 with at least 10 years of creditable service. VaLORS: Age 50 with at least five years of service credit. | Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of service credit. VaLORS: Same as Plan 1. | Earliest Reduced Retirement Eligibility Defined Benefit Component: VRS: Age 60 with at least five years (60 months) of service credit. VaLORS: Not applicable. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions. |
| 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%. | 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%. | Cost-of-Living Adjustment (COLA) in Retirement Defined Benefit Component: Same as Plan 2. Defined Contribution Component: Not applicable. |

| | | |
|---|--|--|
| <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><u>Exceptions to COLA</u> <u>Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability. • 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 | <p><u>Eligibility:</u> Same as Plan 1.</p> <p><u>Exceptions to COLA</u> <u>Effective Dates:</u> Same as Plan 1.</p> | <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p> <p><u>Exceptions to COLA</u> <u>Effective Dates:</u> Same as Plan 1 and Plan 2.</p> |
|---|--|--|

| | | |
|--|---|---|
| <p>Transitional Benefits Program.</p> <ul style="list-style-type: none"> The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. <p>The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.</p> | | |
| <p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p> | <p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p> | <p>Disability Coverage State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p> |
| <p>Purchase of Prior Service 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</p> | <p>Purchase of Prior Service Same as Plan 1.</p> | <p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exception:</p> <ul style="list-style-type: none"> Hybrid Retirement Plan members are ineligible for ported service. <p><u>Defined Contribution Component:</u> Not applicable.</p> |

| | | |
|--|--|--|
| members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay. | | |
|--|--|--|

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, 2020 was 13.52% of covered employee compensation for employees in the VRS State Employee Retirement Plan. For employees in the VaLORS Retirement Plan, the contribution rate was 21.61% of covered employee compensation. These rates were based on an actuarially determined rate 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 \$2,260,725 and \$2,161,609 for the years ended June 30, 2020 and June 30, 2019, respectively. Contributions from the Institute to the VaLORS Retirement Plan were \$119,914 and \$114,404 for the years ended June 30, 2020 and June 30, 2019, respectively.

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

At June 30, 2020, the Virginia Military Institute reported a liability of \$25,218,261 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability and a liability of \$1,049,796 for its proportionate share of the VaLORS Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2019 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation performed as of June 30, 2018 and rolled forward to the measurement date of June 30, 2019. 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, 2019 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, VMI's proportion of the VRS State Employee Retirement Plan was 0.399% as compared to 0.396% at June 30, 2018. At June 30, 2019, the Institute's proportion of the VaLORS Retirement Plan was 0.151% as compared to 0.124% at June 30, 2018.

For the year ended June 30, 2020, Virginia Military Institute recognized pension expense of \$2,657,478 for the VRS State Employee Retirement Plan and \$182,180 for the VaLORS Retirement Plan. Since there was a change in proportionate share between June 30, 2018 and June 30, 2019, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2020, the 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 | \$ 525,474 | \$ 678,404 |
| Change in assumptions | 1,987,796 | - |
| Net difference between projected and actual earnings on pension plan investments | - | 630,503 |
| Changes in proportion and differences between Employer contributions and proportionate share of contributions | 110,043 | 98,169 |
| Employer contributions subsequent to the measurement date | 2,260,725 | - |
| Total | \$ 4,884,038 | \$ 1,407,076 |

VaLORS Retirement Plan

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Difference between expected and actual experience | \$ 10,609 | \$ 12,106 |
| Change in assumptions | 59,515 | 1,573 |
| Net difference between projected and actual earnings on pension plan investments | - | 16,645 |
| Changes in proportion and differences between Employer contributions and proportionate share of contributions | 117,510 | 23,404 |
| Employer contributions subsequent to the measurement date | 119,914 | - |
| Total | \$ 307,548 | \$ 53,728 |

\$2,380,639 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30,

| | VRS Plan | VaLORS Plan |
|-------------|---------------------|--------------------|
| 2021 | \$ 523,463 | \$ 72,485 |
| 2022 | 17,865 | 59,820 |
| 2023 | 624,910 | 77 |
| 2024 | 49,999 | 1,524 |
| 2025 | - | - |
| | \$ 1,216,237 | \$ 133,906 |

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2018, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019.

| | |
|--|--|
| Inflation | 2.5% |
| Salary increases, including Inflation | 3.5% – 5.35% |
| Investment rate of return | 6.75%, 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

| | |
|---|---|
| Mortality Rates (Pre-retirement, post retirement healthy, and disabled) | Updated to a more current mortality table-RP-2014 projected to 2020 |
| Retirement Rates | Lowered Rates at older ages and changed final retirement from 70 to 75 |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Adjusted rates to better match experience |
| Salary Scale | No change |
| Line of Duty Disability | Increase rate from 14% to 25% |
| Discount Rate | Decrease rate from 7.00% to 6.75% |

The total pension liability for the VaLORS Retirement Plan was based on an actuarial valuation as of June 30, 2018, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019.

| | |
|---------------------------------------|---|
| Inflation | 2.5 % |
| Salary increases, including Inflation | 3.5% – 4.75% |
| Investment rate of return | 6.75%, 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2019, NPL amounts for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan are as follows (amounts expressed in thousands):

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

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in

accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

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

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

*The above allocation provides a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the 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, 2019 on, all agencies are assumed to

contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the 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 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

| | 1.00% Decrease (5.75%) | Current Discount Rate (6.75%) | 1.00% Increase (7.75%) |
|---|-----------------------------------|--|-----------------------------------|
| Virginia Military Institute's proportionate share of the VRS State Employee Retirement Plan Net Pension Liability | \$37,045,411 | \$25,218,261 | \$15,275,903 |

The following presents VMI's proportionate share of the VaLORS Retirement Plan net pension liability using the discount rate of 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

| | 1.00% Decrease (5.75%) | Current Discount Rate (6.75%) | 1.00% Increase (7.75%) |
|---|-----------------------------------|--|-----------------------------------|
| Virginia Military Institute's proportionate share of the VaLORS Retirement Plan Net Pension Liability | \$1,474,282 | \$1,049,796 | \$699,100 |

Pension Plan Fiduciary Net Position

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

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 \$1,535,145 for the year ended 30 June 2020. Contributions to the optional retirement plans were calculated using the base salary amount of approximately \$16,486,324 for fiscal year 2020.

Included in Accounts Payable and Accrued Expenses at June 30, 2020 are accrued expenses of \$4,855,720 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 \$149,290 for the fiscal year 2020.

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

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

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

| GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS |
|---|
| <p>Eligible Employees</p> <p>The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:</p> <ul style="list-style-type: none"> • City of Richmond • City of Portsmouth • City of Roanoke • City of Norfolk • Roanoke City School Board <p>Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.</p> |
| <p>Benefit Amounts</p> <p>The benefits payable under the Group Life Insurance Program have several components.</p> <ul style="list-style-type: none"> • <u>Natural Death Benefit</u> – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. • <u>Accidental Death Benefit</u> – The accidental death benefit is double the natural death benefit. • <u>Other Benefit Provisions</u> – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include: <ul style="list-style-type: none"> ○ Accidental dismemberment benefit ○ Safety belt benefit ○ Repatriation benefit ○ Felonious assault benefit ○ Accelerated death benefit option |
| <p>Reduction in benefit Amounts</p> <p>The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.</p> |
| <p>Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)</p> |

For covered members with at least 30 years of service credit, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$8,463 as of June 30, 2020.

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, 2020 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Program from the Institute were \$180,809 and \$169,521 for the years ended June 30, 2020 and June 30, 2019, 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, 2020, the Institute reported a liability of \$2,661,230 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2019 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. 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, 2019 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, VMI's proportion of the VRS GLI OPEB liability was 0.16354% as compared to 0.16332% at June 30, 2018.

For the year ended June 30, 2020, VMI recognized GLI OPEB expense of \$62,750. 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, 2020, 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 | \$ 176,988 | \$ 34,520 |
| Net difference between projected and actual earnings on GLI OPEB program investments | - | 54,663 |
| Change in assumptions | 168,015 | 80,248 |
| Changes in proportion | 39,986 | 28,635 |
| Employer contributions subsequent to the measurement date | 180,809 | - |
| Total | \$ 565,798 | \$ 198,066 |

\$180,809 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, 2021. 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 |
|---------------------------|-----------------|
| 2021 | \$ 10,667 |
| 2022 | 10,669 |
| 2023 | 33,822 |
| 2024 | 58,417 |
| 2025 | 57,922 |
| Thereafter | 15,426 |

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2018, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019.

| | |
|--|---|
| Inflation | 2.50% |
| Salary Increases, Including inflation: | |
| General state employees | 3.50% - 5.35% |
| Teachers | 3.50% - 5.95% |
| SPORS employees | 3.50% - 4.75% |
| VaLORS employees | 3.50% - 4.75% |
| JRS employees | 4.50% |
| Locality-General employees | 3.50% - 5.35% |
| Locality-Hazardous Duty employees | 3.50% - 4.75% |
| Investment rate of return | 6.75%, net of investment expenses, including inflation* |

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of the OPEB liabilities.

Mortality rates – General State Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

| | |
|---|---|
| Mortality Rates (Pre-retirement, post retirement healthy, and disabled) | Updated to a more current mortality table-RP-2014 projected to 2020 |
| Retirement Rates | Lowered rates at older ages and changed final retirement from 70 to 75 |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Adjusted rates to better match experience |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 14% to 25% |
| Discount Rate | Decrease rate from 7.00% to 6.75% |

Mortality rates – Teachers

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

| | |
|---|---|
| Mortality Rates (Pre-retirement, post retirement healthy, and disabled) | Updated to a more current mortality table-RP-2014 projected to 2020 |
| Retirement Rates | Lowered Rates at older ages and changed final retirement from 70 to 75 |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Adjusted rates to better match experience |
| Salary Scale | No change |
| Discount Rate | Decrease rate from 7.00% to 6.75% |

Mortality rates – SPORS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

| | |
|---|---|
| Mortality Rates (Pre-retirement, post retirement healthy, and disabled) | Updated to a more current mortality table-RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience |
| Retirement Rates | Increased age 50 rates and lowered rates at older ages |
| Withdrawal Rates | Adjusted rates to better fit experience |
| Disability Rates | Adjusted rates to better match experience |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 60% to 85% |
| Discount Rate | Decrease rate from 7.00% to 6.75% |

Mortality rates – VaLORS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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

Mortality rates – JRS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

| | |
|---|---|
| Mortality Rates (Pre-retirement, post retirement healthy, and disabled) | Updated to a more current mortality table-RP-2014 projected to 2020 |
| Retirement Rates | Decreased rates at first retirement eligibility |
| Withdrawal Rates | No change |
| Disability Rates | Removed disability rates |
| Salary Scale | No change |
| Discount Rate | Decrease rate from 7.00% to 6.75% |

Mortality rates – Largest Ten Locality Employers - General Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

Mortality rates – Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

| | |
|---|--|
| Mortality Rates (Pre-retirement, post retirement healthy, and disabled) | Updated to a more current mortality table-RP-2014 projected to 2020 |
| Retirement Rates | Lowered retirement rates at older ages |
| Withdrawal Rates | Adjusted termination rates to better fit experience at each age and service year |
| Disability Rates | Increased disability rates |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 60% to 70% |
| Discount Rate | Decrease rate from 7.00% to 6.75% |

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

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, 2019, NOL amounts for the Group Life Insurance Program are as follows (amounts expressed in thousands):

| | |
|--|--|
| | Group Life Insurance OPEB Program |
| Total GLI OPEB Liability | \$ 3,390,238 |
| Plan Fiduciary Net Position | <u>1,762,972</u> |
| GLI Net OPEB Liability (Asset) | <u>\$ 1,627,266</u> |
| Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability | 52.00% |

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

* The above allocation provides a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending

June 30, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2019 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

Sensitivity of the Institute'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 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

| | 1.00% Decrease (5.75%) | Current Discount Rate (6.75%) | 1.00% Increase (7.75%) |
|---|-----------------------------------|--|-----------------------------------|
| Virginia Military Institute's proportionate share of the Group Life Insurance Program Net OPEB Liability | \$3,496,121 | \$2,661,230 | \$1,984,158 |

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

General Information about the State Employee Health Insurance Credit Program

Plan Description

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

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

| STATE EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM (HIC) PLAN PROVISIONS |
|---|
| <p>Eligible Employees</p> <p>The State Employee Retiree Health Insurance Credit Program was established January 1, 1990 for retired state employees covered under VRS, SPORS, VaLORS and JRS who retire with at least 15 years of service credit.</p> <p>Eligible employees are enrolled automatically upon employment. They include:</p> <ul style="list-style-type: none"> • Full-time and part-time permanent salaried state employees covered under VRS, SPORS, VaLORS and JRS. |
| <p>Benefit Amounts</p> <p>The State Employee Retiree Health Insurance Credit Program provides the following benefits for eligible employees:</p> <ul style="list-style-type: none"> • At Retirement – For State employees who retire with at least 15 years of service credit, the monthly benefit is \$4.00 per year of service per month with no cap on the benefit amount. • Disability Retirement – For State employees, other than state police officers, who retire on disability or go on long-term disability under the Virginia Sickness and Disability Program (VSDP), the monthly benefit is \$120.00 or \$4.00 per year of service, whichever is higher. <p>For State police officer employees with a non-work-related disability who retire on disability or go on long-term disability under the Virginia Sickness and Disability Program (VSDP) the monthly benefit is \$120.00 or \$4.00 per year of service, whichever is higher.</p> <p>For State police officers with a work-related disability, there is no benefit provided under the State Employee Retiree Health Insurance Credit Program if the premiums are being paid under the Virginia Line of Duty Act. However, they may receive the credit for premiums paid for other qualified health plans.</p> |
| <p>Health Insurance Credit Program Notes:</p> <ul style="list-style-type: none"> • The monthly Health Insurance Credit benefit cannot exceed the individual premium amount. • Employees who retire after being on long-term disability under VSDP must have at least 15 years of service credit to qualify for the Health Insurance Credit as a retiree. |

Contributions

The contribution requirement for active employees is governed by §51.1-1400(D) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each state agency's contractually required employer contribution rate for the year ended June 30, 2020 was 1.17% of covered employee compensation for employees in the VRS State Employee Health Insurance Credit Program. This rate was based

on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from VMI to the VRS State Employee Health Insurance Credit Program were \$402,445 and \$377,684 for the years ended June 30, 2020 and June 30, 2019, respectively.

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

At June 30, 2020, VMI reported a liability of \$4,331,050 for its proportionate share of the VRS State Employee Health Insurance Credit Program Net OPEB Liability. The Net VRS State Employee Health Insurance Credit Program OPEB Liability was measured as of June 30, 2019, and the total VRS State Employee Health Insurance Credit Program OPEB liability used to calculate the Net VRS State Employee Health Insurance Credit Program OPEB Liability was determined by an actuarial valuation as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. 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, 2019, relative to the total of the actuarially determined employer contributions for all participating state employers. At June 30, 2019, VMI's proportion of the VRS State Employee Health Insurance Credit Program was 0.4692% as compared to 0.46036% at June 30, 2018.

For the year ended June 30, 2020, VMI recognized VRS State Employee Health Insurance Credit Program OPEB expense of \$381,232. Since there was a change in proportionate share between measurement dates, a portion of the VRS State Employee Health Insurance Credit Program Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2020, 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 | \$ 2,360 | \$ 52,621 |
| Net difference between projected and actual earnings on State HIC OPEB plan investments | - | 1,701 |
| Change in assumptions | 89,131 | 29,658 |
| Changes in proportion | 87,341 | 39,911 |
| Employer contributions subsequent to the measurement date | 402,445 | - |
| Total | \$ 581,277 | \$ 123,891 |

\$402,445 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, 2021. 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 |
| 2021 | \$ 2,789 |
| 2022 | 2,786 |
| 2023 | 5,408 |
| 2024 | 20,370 |
| 2025 | 20,930 |
| Thereafter | 2,658 |

Actuarial Assumptions

The total State Employee HIC OPEB liability for the VRS State Employee Health Insurance Credit Program was based on an actuarial valuation as of June 30, 2018, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019.

| | |
|--|---|
| Inflation | 2.50% |
| Salary Increases, Including inflation: | |
| General state employees | 3.50% - 5.35% |
| SPORS employees | 3.50% - 4.75% |
| VaLORS employees | 3.50% - 4.75% |
| JRS employees | 4.50% |
| | 6.75%, net of plan investment expenses, including inflation* |
| Investment rate of return | |

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of the OPEB liabilities.

Mortality rates – General State Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

| | |
|---|---|
| Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table – RP-2014 projected to 2020 |
| Retirement Rates | Lowered rates at older ages and changed final retirement from 70 to 75 |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Adjusted rates to better match experience |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 14% to 25% |
| Discount Rate | Decrease rate from 7.00% to 6.75% |

Mortality rates – SPORS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

| | |
|---|--|
| Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in |
|---|--|

| | |
|-------------------------|--|
| | accordance with experience |
| Retirement Rates | Increased age 50 rates and lowered rates at older ages |
| Withdrawal Rates | Adjusted rates to better fit experience |
| Disability Rates | Adjusted rates to better match experience |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 60% to 85% |
| Discount Rate | Decrease rate from 7.00% to 6.75% |

Mortality rates – VaLORS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

Mortality rates – JRS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

| | |
|---|---|
| Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table – RP-2014 projected to 2020 |
| Retirement Rates | Decreased rates at first retirement eligibility |
| Withdrawal Rates | No change |
| Disability Rates | Removed disability rates |
| Salary Scale | No change |
| Discount Rate | Decrease rate from 7.00% to 6.75% |

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, 2019, 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 | \$ 1,032,094 |
| Plan Fiduciary Net Position | <u>109,023</u> |
| State Employee net HIC OPEB Liability (Asset) | <u>\$ 923,071</u> |
| Plan Fiduciary Net Position as a Percentage of the Total State Employee HIC OPEB Liability | 10.56% |

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

* The above allocation provides a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Discount Rate

The discount rate used to measure the total State Employee HIC OPEB was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by the Institute for the VRS State Employee Health Insurance Credit Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2019 on, 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 Institute'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 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

| | 1.00% Decrease (5.75%) | Current Discount Rate (6.75%) | 1.00% Increase (7.75%) |
|---|-----------------------------------|--|-----------------------------------|
| Virginia Military Institute's proportionate share of the VRS State Employee HIC Net OPEB Liability | \$4,800,231 | \$4,331,050 | \$3,927,829 |

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

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, 2020 was 0.62% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate was expected to finance the costs of benefits payable during the year, with an adjustment to amortize the accrued OPEB assets. Contributions to the Disability Insurance Program (VSDP) from VMI were \$88,653 and \$82,947 for the years ended June 30, 2020 and June 30, 2019, 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, 2020, VMI reported a liability (asset) of (\$646,207) for its proportionate share of the Net VSDP OPEB Liability (Asset). The Net VSDP OPEB Liability (Asset) was measured as of June 30, 2019 and the total VSDP OPEB liability used to calculate the Net VSDP OPEB Liability (Asset) was determined by an actuarial valuation as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. 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, 2019 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the Institute's proportion was 0.32937% as compared to 0.32837% at June 30, 2018.

For the year ended June 30, 2020, VMI recognized VSDP OPEB expense of \$51,765. Since there was a change in proportionate share between measurement dates, a portion of the VSDP OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2020, 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 | \$ 82,738 | \$ 26,014 |
| Net difference between projected and actual earnings on VSDP OPEB plan investments | - | 24,955 |
| Change in assumptions | 11,729 | 36,803 |
| Changes in proportion | 2,013 | 8,578 |
| Employer contributions subsequent to the measurement date | 88,653 | - |
| Total | \$ 185,133 | \$ 96,350 |

\$88,653 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, 2021. 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 |
|---------------------------|------------------|
| 2021 | \$ (10,477) |
| 2022 | (10,472) |
| 2023 | 2,790 |
| 2024 | 3,785 |
| 2025 | 4,410 |
| Thereafter | 10,094 |

Actuarial Assumptions

The total VSDP OPEB liability was based on an actuarial valuation as of June 30, 2018, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all

periods included in the measurement and rolled forward to the measurement date of June 30, 2019.

| | |
|--|--|
| Inflation | 2.50% |
| Salary Increases, Including inflation: | |
| General state employees | 3.50% - 5.35% |
| SPORS employees | 3.50% - 4.75% |
| VaLORS employees | 3.50% - 4.75% |
| | 6.75%, net of OPEB plan investment expenses, including inflation* |
| Investment rate of return | |

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of OPEB liabilities.

Mortality rates – General State Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

| | |
|-------------------------|-----------------------------------|
| Salary Scale | No change |
| Line of Duty Disability | Increase rate from 14% to 25% |
| Discount Rate | Decrease rate from 7.00% to 6.75% |

Mortality rates – SPORS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

| | |
|---|---|
| Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience |
| Retirement Rates | Increased age 50 rates and lowered rates at older ages |
| Withdrawal Rates | Adjusted rates to better fit experience |
| Disability Rates | Adjusted rates to better match experience |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 60% to 85% |
| Discount Rate | Decrease rate from 7.00% to 6.75% |

Mortality rates – VaLORS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

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, 2019, NOA amounts for the Disability Insurance Program (VSDP) are as follows (amounts expressed in thousands):

| | Virginia Sickness Disability Insurance Program |
|---|---|
| Total VSDP OPEB Liability | \$ 292,046 |
| Plan Fiduciary Net Position | <u>488,241</u> |
| VSDP Net OPEB Liability (Asset) | <u>(\$ 196,195)</u> |
| Plan Fiduciary Net Position as a Percentage of the Total VSDP OPEB Liability | 167.18% |

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

* The above allocation provides a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75%, which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Discount Rate

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

Sensitivity of the Institute'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 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

| | 1.00% Decrease (5.75%) | Current Discount Rate (6.75%) | 1.00% Increase (7.75%) |
|--|-----------------------------------|--|-----------------------------------|
| Virginia Military Institute's proportionate share of the total VSDP Net OPEB Liability (Asset) | (\$586,751) | (\$646,207) | (\$698,886) |

VSDP OPEB Fiduciary Net Position

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

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 |
|--|
| <p>Eligible Employees</p> <p>The eligible employees of the Line of Duty Act Program (LODA) are paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers' Retirement System (VaLORS).</p> |
| <p>Benefit Amounts</p> <p>The Line of Duty Act Program (LODA) provides death and health insurance benefits for eligible individuals:</p> <ul style="list-style-type: none"> • Death – The Line of Duty Act program death benefit is a one-time payment made to the beneficiary or beneficiaries of a covered individual. Amounts vary as follows: <ul style="list-style-type: none"> ○ \$100,000 when a death occurs as the direct or proximate result of performing duty as of January 1, 2006, or after. ○ \$25,000 when the cause of death is attributed to one of the applicable |

- presumptions and occurred earlier than five years after the retirement date.
- An additional \$20,000 benefit is payable when certain members of the National Guard and U.S. military reserves are killed in action in any armed conflict on or after October 7, 2001.
- **Health Insurance** – The Line of Duty Act program provides health insurance benefits.
 - 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, 2020 was \$705.77 per covered full-time-equivalent employee. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017 and represents the pay-as-you-go funding rate and not the full actuarial cost of the benefits under the program. The actuarially determined pay-as-you-go rate was expected to finance the costs and related expenses of benefits payable during the year. Contributions to the Line of Duty Act Program (LODA) from the Institute were \$7,763 and \$8,469 for the years ended June 30, 2020 and June 30, 2019, 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, 2020 the Institute reported a liability of \$226,394 for its proportionate share of the Net LODA OPEB Liability. The Net LODA OPEB Liability was measured as of June 30, 2019 and the total LODA OPEB liability used to calculate the Net LODA OPEB Liability was determined by an actuarial valuation as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. 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, 2019 relative to the total of the actuarially determined pay-as-you-go employer contributions for all participating employers. At June 30, 2019, the Institute's proportion was 0.06310% as compared to 0.04261% at June 30, 2018.

For the year ended June 30, 2020, VMI recognized LODA OPEB expense of \$25,239. 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, 2020, 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 | \$ 32,906 | \$ - |
| Net difference between projected and actual earnings on LODA OPEB plan investments | - | 448 |
| Change in assumptions | 10,623 | 19,626 |
| Changes in proportion | 74,517 | 22,510 |
| Employer contributions subsequent to the measurement date | 7,763 | - |
| Total | \$ 125,809 | \$ 42,584 |

\$7,763 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, 2021. 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 |
|-------------------------|-------------------------|
| 2021 | \$ 9,429 |
| 2022 | 9,430 |
| 2023 | 9,500 |
| 2024 | 9,573 |
| 2025 | 9,595 |
| Total Thereafter | 27,935 |

Actuarial Assumptions

The total LODA OPEB liability was based on an actuarial valuation as of June 30, 2018, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019.

| | |
|---|-------|
| Inflation | 2.50% |
| Salary increases, including Inflation – | |
| General state employees | N/A |
| SPORS employees | N/A |

| | |
|---------------------------------------|----------------------------|
| VaLORS employees | N/A |
| Locality employees | N/A |
| Medical cost trend rates assumption – | |
| Under age 65 | 7.25% – 4.75% |
| Ages 65 and older | 5.50% – 4.75% |
| Year of ultimate trend rate – | |
| Post-65 | Fiscal year ended 2023 |
| Pre-65 | Fiscal year ended 2028 |
| Investment rate of return | 3.50% including inflation* |

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 3.50%. However, since the difference was minimal, a more conservative 3.50% investment return assumption has been used. Since LODA is funded on a current-disbursement basis, the assumed annual rate of return of 3.50% was used since it approximates the risk-free rate of return.

Mortality rates – General State Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

Mortality rates – SPORS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

Mortality rates – VaLORS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

| | |
|---|---|
| Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience |
|---|---|

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

Mortality rates – Largest Ten Locality Employers With Public Safety Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

| | |
|---|---|
| Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table – RP-2014 projected to 2020 |
| Retirement Rates | Increased age 50 rates and lowered rates at older ages |
| Withdrawal Rates | Adjusted rates to better fit experience at each 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 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, 2019, NOL amounts for the Line of Duty Act Program (LODA) are as follows (amounts expressed in thousands):

| | <u>Line of Duty Act Program</u> |
|--|--|
| Total LODA OPEB Liability | \$ 361,626 |
| Plan Fiduciary Net Position | 2,839 |
| LODA Net OPEB Liability (Asset) | <u>\$ 358,787</u> |
| Plan Fiduciary Net Position as a Percentage of Total LODA OPEB Liability | 0.79% |

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 3.50% for this valuation. Since LODA is funded on a current-disbursement basis, it is not able to use the VRS Pooled Investments 6.75% assumption. Instead, the assumed annual rate of return of 3.50% was used since it approximates the risk-free rate of return. This Single Equivalent Interest Rate (SEIR) is the applicable municipal bond index rate based on the Bond Buyer General Obligation 20-year Municipal Bond Index as of the measurement date of June 30, 2019.

Discount Rate

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

Sensitivity of the Institute'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 3.50%, 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 (2.50%) or one percentage point higher (4.50%) than the current rate:

| | 1.00% Decrease (2.50%) | Current Discount Rate (3.50%) | 1.00% Increase (4.50%) |
|---|-----------------------------------|--|-----------------------------------|
| Virginia Military Institute's proportionate share of the total LODA Net OPEB Liability | \$262,633 | \$226,394 | \$197,731 |

Sensitivity of the Institute'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 4.75%, 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 3.75%) or one percentage point higher (8.75% decreasing to 5.75%) than the current rate:

| | 1.00% Decrease (6.75% decreasing to 3.75%) | Health Care Trend Rates (7.75% decreasing to 4.75%) | 1.00% Increase (8.75% decreasing to 5.75%) |
|---|---|--|---|
| Virginia Military Institute's proportionate share of the total LODA Net OPEB Liability | \$191,414 | \$226,394 | \$270,508 |

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

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 4,800 retirees and 89,000 active employees in the program in fiscal year 2019. There are no inactive employees entitled to future benefits who are not currently receiving benefits. There are no assets accumulated in a trust to pay benefits.

Actuarial Assumptions and Methods

The total Pre-Medicare Retiree Healthcare OPEB liability was based on an actuarial valuation with a valuation date of June 30, 2019. The Department of Human Resource Management selected the economic, demographic and healthcare claim cost assumptions. The actuary provided guidance with respect to these assumptions. Initial healthcare costs trend rates used were 7.00 percent for medical and pharmacy and 4.0 percent for dental. The ultimate trend rates used were 4.5 percent for medical and pharmacy and 4.0 percent for dental.

| | |
|-------------------------------|---|
| Valuation Date | Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported. |
| Measurement Date | June 30, 2019 (one year prior to the end of the fiscal year) |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level dollar, Closed |
| Effective Amortization Period | 6.25 years |
| Discount Rate | 3.51% |
| Projected Salary Increases | 4.00% |
| Medical Trend Under 65 | Medical & Rx: 7.00% to 4.50% Dental: 4.00% before reflecting Excise tax |
| Year of Ultimate Trend | 2029 |
| Mortality | Mortality rates vary by participant status |
| Pre-Retirement: | RP-2014 Employee Rates; males setback 1 year, 85% of rates; females setback 1 year |
| Post-Retirement: | RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females setback 1 year. |
| Post-Disablement: | RP-2014 Disabled Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates |

The discount rate was based on the Bond Buyers GO 20 Municipal Bond Index as of the measurement date which is June 30, 2019.

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

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

Spousal coverage and retiree participation were both reduced based on a blend of recent experience and the prior year assumptions. The mortality assumption was modified slightly to reflect modified pre-retirement Mortality base rates to exclude age over 65 instead of apply mortality improvement projection scale BB. The excise tax was modified to reflect updated projection of the tax thresholds. Trend rates were updated based on economic conditions as of 6/30/2019. Additionally, the discount rate was decreased from 3.87% to 3.51% based on the Bond Buyers GO 20 Municipal Bond Index.

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

At June 30, 2020, the Institute reported a liability of \$4,442,517 for its proportionate share of the collective total Pre-Medicare Retiree Healthcare OPEB liability of \$678.9 million. The Pre-Medicare Retiree Healthcare OPEB liability was measured as of June 30, 2019 and was determined by an actuarial valuation as of June 30, 2019. 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, 2019, the Institute's proportion was 0.65439% as compared to 0.64563% at June 30, 2018. For the year ended June 30, 2020, VMI's recognized Pre-Medicare Retiree Healthcare OPEB expense of \$414,247.

At June 30, 2020, 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 | \$ - | \$ 2,254,189 |
| Change in assumptions | - | 3,077,840 |
| Changes in proportion | 327,456 | - |
| Sub Total | 327,456 | 5,332,029 |
| Amounts associated with transactions subsequent to the measurement date | 189,138 | - |
| Total | \$ 516,594 | \$ 5,332,029 |

\$189,138 reported as deferred outflows of resources related to the Pre-Medicare Retiree Healthcare OPEB resulting from amounts associated with transactions subsequent to the measurement date will be recognized as a reduction of the total OPEB Liability in the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pre-Medicare Retiree Healthcare OPEB will be recognized in the Pre-Medicare Retiree Healthcare OPEB expense as follows:

Year ended June 30

| | Pre-Medicare Retiree Healthcare Plan |
|-------------------------|---|
| 2021 | \$ (1,158,143) |
| 2022 | (1,158,143) |
| 2023 | (1,158,143) |
| 2024 | (957,857) |
| 2025 | (473,464) |
| Total Thereafter | (98,823) |

Sensitivity of the Institute'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 3.51%, 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 (2.51%) or one percentage point higher (4.51%) than the current rate:

| | 1.00% Decrease (2.51%) | Current Discount Rate (3.51%) | 1.00% Increase (4.51%) |
|---|-----------------------------------|--|-----------------------------------|
| Virginia Military Institute's proportionate share of the Pre-Medicare Retiree Healthcare OPEB Liability | \$4,751,944 | \$4,442,517 | \$4,152,330 |

Sensitivity of the Institute'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 7.00% decreasing to 4.50%, 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 (6.00% decreasing to 3.50%) or one percentage point higher (8.00% decreasing to 5.50%) than the current rate:

| | 1.00% Decrease (6.00% decreasing to 3.50%) | Current Trend Rate (7.00% decreasing to 4.50%) | 1.00% Increase (8.00% decreasing to 5.50%) |
|---|---|---|---|
| Virginia Military Institute's proportionate share of the Pre-Medicare Retiree Healthcare OPEB Liability | \$3,967,353 | \$4,442,517 | \$5,004,873 |

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 Virginia's Annual Comprehensive Financial Report (ACFR).

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 2020, 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.

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

In February 2021, the Institute entered into several promissory notes with the Virginia College Building Authority (VCBA) to participate in the Educational Facilities Revenue Refunding Bonds, Series 2021 issued by the VCBA under its Pooled Bond Program. The total principal amount of these notes is \$6.4 million. The proceeds of these notes were used to refund \$5.7 million of outstanding notes. Interest payments on the notes will be made semi-annually, with coupons ranging from 0.48 to 5.00 percent. Principal payments are made annually with the final payment due September 1, 2034. The refunding generated \$559,000 in net present value savings.

NOTE 17: RESTATEMENT OF NET POSITION

The following prior period adjustments were made to the beginning net position previously reported in the Institute's financial statements at June 30, 2019.

| | |
|---|------------------------------|
| Net position as originally stated at June 30, 2019 | \$ 321,183,360 |
| <i>Correction for SNAP funds</i> | |
| Cash equivalent-restricted | 7,344 |
| Total prior period adjustment | <u>7,344</u> |
| Net position restated at June 30, 2019 | <u><u>\$ 321,190,704</u></u> |

NOTE 18: CORONAVIRUS RELIEF FUNDING

During fiscal year 2020, the Institute was awarded \$1.13 million from the CARES Act for the Higher Education Emergency Relief Fund (HEERF). Half of said funds were utilized to provide cadets with emergency hardship support related to the disruption of on-Post operations due to the COVID-19 pandemic. The remainder was allocated towards costs associated with refunding room and board in the Spring 2020 semester due to remote learning transition. The Institute's total refunds for room and board charges were in excess of the awarded HEERF amount.

The University was also awarded approximately \$76,000 in Coronavirus Relief Funding (CRF) as federal pass-through funds from the Commonwealth of Virginia during the fiscal year. The funds will primarily be used to reimburse computer and peripheral equipment purchases made in support of distance learning and teleworking necessity, personal protective equipment, and preparing VMI facilities for social distancing requirements.

NOTE 19: 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 ("Foundation") 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 and Neikirk Holdings, LLC.

VMI Alumni Agencies Board, Incorporated (formerly VMI Development Board, Incorporated)

The purpose of the VMI Alumni Agencies Board, Incorporated is to receive, hold, and manage assets for any purpose on behalf of the Agencies and VMI.

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 2020:

| | |
|--|----------------------|
| Unconditional promises to give | \$ 16,552,082 |
| Current portion | (7,101,542) |
| Contributions receivable | <u>\$ 9,450,540</u> |
| Gross amounts expected to be collected in: | |
| Less than one year | \$ 8,016,027 |
| One to five years | 10,644,199 |
| More than five years | <u>228,556</u> |
| | 18,888,782 |
| Less: | |
| Discount | (447,822) |
| Allowance for uncollectible contributions | <u>(1,888,878)</u> |
| Fair value | <u>\$ 16,552,082</u> |

The distribution of contributions receivable for each class of net assets as of 30 June 2020 is as follows:

| | |
|---|----------------------|
| Gross contributions receivable, beginning of year | \$ 20,696,384 |
| New contributions receivable | 7,543,249 |
| Payments received | (8,154,254) |
| Write-offs and other adjustments | <u>(1,196,597)</u> |
| Gross contributions receivable, end of year | <u>\$ 18,888,782</u> |

At 30 June 2020, the Agencies had also received bequest and other intentions of approximately \$159 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 2020, 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 2020:

| | | | | |
|---------------------------|----|-------------|-------|---|
| Equities | \$ | 259,983,413 | 53.7 | % |
| Private equities | | 104,147,294 | 21.5 | |
| Absolute return funds | | 59,313,522 | 12.2 | |
| Fixed income | | 54,523,185 | 11.3 | |
| Cash and cash equivalents | | 6,262,095 | 1.3 | |
| | \$ | 484,229,509 | 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 2020 is reflected in the table below:

| | | |
|--|----|---------------------|
| Investments, beginning of year | \$ | 492,262,136 |
| Gifts and amounts available for investments | | 8,000,000 |
| | | <u>500,262,136</u> |
| Investments returns: | | |
| Dividends and interest | | 5,816,324 |
| Net realized and unrealized losses | | (7,384,419) |
| Investment fees | | (2,415,311) |
| Total return on investments held by trustee, net | | <u>(3,983,406)</u> |
| Net disbursements used to fund operations | | <u>(12,049,221)</u> |
| Investments, ending of year | \$ | <u>484,229,509</u> |

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 2020 consist of the following:

VIRGINIA MILITARY INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS AS OF 30 JUNE 2020

| | Held by Agent | Held by Foundation | Held in Irrevocable Trusts* | Total at Fair Value** |
|---------------------------|---------------------|-----------------------|-----------------------------------|--------------------------|
| Equities | \$ 1,130,646 | \$ 9 | \$ 9,271,377 | \$ 10,402,032 |
| Fixed income | 4,596 | 5,891 | 2,969,704 | 2,980,191 |
| Real estate | - | 5,127,048 | - | 5,127,048 |
| Alternative investments | - | - | 820,257 | 820,257 |
| Cash and cash equivalents | 68,677 | 792 | 410,493 | 479,962 |
| Limited partnerships | - | 17,128 | - | 17,128 |
| | <u>\$ 1,203,919</u> | <u>\$ 5,150,868</u> | <u>\$ 13,471,831</u> | <u>\$ 19,826,618</u> |

*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 2020:

| | |
|--|----------------------|
| Fixed Rate Educational Facilities Revenue Bonds, Series 2006, payable in installments of \$5,000,000 in 2021. | \$ 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 |
| Unsecured note payable at 1%, payable in monthly installments of \$46,724, due April, 2022 | 830,253 |
| Bond premiums, net | 141,834 |
| | <u>47,202,087</u> |
| Current maturities | <u>(10,184,359)</u> |
| | <u>\$ 37,017,728</u> |

Debt matures as follows for future years ending 30 June:

| | |
|------------|----------------------|
| 2021 | \$ 10,000,000 |
| 2022 | 830,253 |
| 2023 | - |
| 2024 | - |
| 2025 | - |
| Thereafter | <u>36,230,000</u> |
| | <u>\$ 47,060,253</u> |

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 2006B and 2006C were redeemed in exchange for the 2016 Fixed Rate Educational Facilities Revenue Refunding Bonds.

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, 2020 approximated carrying value, in all material respects.

Bond premiums, net of expenses, totaling \$1,132,290 at June 30, 2020, 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 2020, the Board approved spending formula for the endowment provided for an annual spending rate of 4.6% 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 20: COMPONENT UNITS

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

VIRGINIA MILITARY INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS AS OF 30 JUNE 2020

| CONDENSED STATEMENTS OF NET ASSETS As of 30 June 2020 | VMI Research Laboratories Inc. | VMI Alumni Agencies | TOTAL |
|--|---|--------------------------------|----------------|
| Assets: | | | |
| Current assets | \$ 341,552 | \$ 34,746,904 | \$ 35,088,456 |
| Noncurrent assets | 356,176 | 519,335,256 | 519,691,432 |
| Total assets | 697,728 | 554,082,160 | 554,779,888 |
| Liabilities: | | | |
| Current liabilities | 88,953 | 11,703,714 | 11,792,667 |
| Noncurrent liabilities | - | 41,290,115 | 41,290,115 |
| Total liabilities | 88,953 | 52,993,829 | 53,082,782 |
| Net Assets: | | | |
| Without donor restrictions | 529,219 | 62,414,356 | 62,943,575 |
| With donor restrictions | 79,556 | 438,673,975 | 438,753,531 |
| Total net assets | 608,775 | 501,088,331 | 501,697,106 |
| Total net assets and liabilities | \$ 697,728 | \$ 554,082,160 | \$ 554,779,888 |

| EXPENSES AND CHANGES IN NET ASSETS As of 30 June 2020 | VMI Research Laboratories Inc. | VMI Alumni Agencies | TOTAL |
|--|---|--------------------------------|----------------|
| Total revenues | \$ 405,687 | \$ 35,854,343 | \$ 36,260,030 |
| Total expenses | (451,096) | (27,896,713) | (28,347,809) |
| Total net realized and unrealized losses on investments | - | (7,268,831) | (7,268,831) |
| Total change in net assets | (45,409) | 688,799 | 643,390 |
| Total beginning net assets | 654,184 | 500,399,532 | 501,053,716 |
| Total ending net assets | \$ 608,775 | \$ 501,088,331 | \$ 501,697,106 |

A faded, grayscale background image showing two guards in uniform standing in front of a statue. The guard on the left is facing the statue, and the guard on the right is facing the camera, holding a rifle. The statue is on a pedestal to the left. The scene is outdoors with trees in the background.

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, 2020 2019, 2018, 2017, 2016 and 2015*

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
| VMI's Proportion of the Net Pension Liability (Asset) | 0.3990% | 0.3965% | 0.3971% | 0.4032% | 0.4140% | 0.4176% |
| VMI's Proportionate Share of the Net Pension Liability (Asset) | \$25,218,261 | \$21,462,000 | \$23,140,000 | \$26,574,000 | \$25,348,000 | \$23,380,000 |
| VMI's Covered Payroll | \$16,436,290 | \$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 | 153.43% | 132.25% | 146.78% | 166.99% | 158.94% | 145.10% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 75.13% | 77.39% | 75.33% | 71.29% | 72.81% | 74.28% |

Schedule is intended to show information for 10 years. Since 2020 is the sixth year for this presentation, there are only six 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, 2020, 2019, 2018, 2017, 2016 and 2015***

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| VMI's Proportion of the Net Pension Liability (Asset) | 0.1513% | 0.1241% | 0.1346% | 0.1197% | 0.1216% | 0.1236% |
| VMI's Proportionate Share of the Net Pension Liability (Asset) | 1,049,796 | 774,000 | \$883,000 | \$927,000 | \$864,000 | \$833,000 |
| VMI's Covered Payroll | \$529,407 | \$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 | 198.30% | 180.48% | 190.43% | 224.14% | 209.89% | 191.18% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 68.31% | 69.56% | 67.22% | 61.01% | 62.64% | 63.05% |

Schedule is intended to show information for 10 years. Since 2020 is the sixth year for this presentation, there are only six 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, 2011 through 2020**

| Year | Contractually Required Contribution | Contributions in Relation to Contractually Required Contribution | Contribution Deficiency (Excess) | Employer's Covered Payroll | Contributions as a % of Covered Payroll |
|-------------|--|---|---|---|--|
| 2020 | \$ 2,260,725 | \$ 2,260,725 | \$ - | \$ 16,721,339 | 13.52% |
| 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% |

**Schedule of Employer Contributions
VaLORS Retirement Plan
For the Years Ended June 30, 2011 through 2020**

| Year | Contractually Required Contribution | Contributions in Relation to Contractually Required Contribution | Contribution Deficiency (Excess) | Employer's Covered Payroll | Contributions as a % of Covered Payroll |
|-------------|--|---|---|---|--|
| 2020 | \$ 119,914 | \$ 119,914 | \$ - | \$ 554,901 | 21.61% |
| 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% |

**Schedule of Virginia Military Institute's (VMI) Share of Net OPEB Liability
Group Life Insurance OPEB Plan
For the Years Ended June 30, 2020, 2019 and 2018***

| | 2020 | 2019 | 2018 |
|--|--------------|--------------|--------------|
| VMI's Proportion of the Net GLI OPEB Liability (Asset) | 0.1635% | 0.1633% | 0.1608% |
| VMI's Proportionate Share of the Net GLI OPEB Liability (Asset) | \$2,661,230 | \$2,480,000 | \$2,419,000 |
| VMI's Covered Payroll | \$32,058,567 | \$31,044,729 | \$29,616,765 |
| VMI's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of its Covered Payroll | 8.30% | 7.99% | 8.17% |
| Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability | 52.00% | 51.22% | 48.86% |

Schedule is intended to show information for 10 years. Since 2020 is the third year for this presentation, only three years of data is available. However, additional years will be 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, 2020, 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 |
|-------------|--|---|---|---|--|
| 2020 | \$ 180,809 | \$ 180,809 | \$ - | \$34,565,607 | 0.52% |
| 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 2020 is the third year for this presentation, only three 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, 2020, 2019 and 2018***

| | 2020 | 2019 | 2018 |
|--|--------------|--------------|--------------|
| VMI's Proportion of the Net HIC OPEB Liability (Asset) | 0.4692% | 0.4604% | 0.4586% |
| VMI's Proportionate Share of the Net HIC OPEB Liability (Asset) | \$4,331,050 | \$4,200,000 | \$4,175,000 |
| VMI's Covered Payroll | \$31,973,247 | \$31,044,729 | \$29,616,765 |
| VMI's Proportionate Share of the Net HIC OPEB Liability (Asset) as a Percentage of its Covered Payroll | 13.55% | 13.53% | 14.10% |
| Plan Fiduciary Net Position as a Percentage of the Total HIC OPEB Liability | 10.56% | 9.51% | 8.03% |

Schedule is intended to show information for 10 years. Since 2020 is the third year for this presentation, only three years of data is available. However, additional years will be 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, 2020, 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 |
|-------------|--|---|---|---|--|
| 2020 | \$ 402,445 | \$ 402,445 | \$ - | \$34,450,243 | 1.17% |
| 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 2020 is the third year for this presentation, only three 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, 2020, 2019 and 2018***

| | 2020 | 2019 | 2018 |
|---|--------------|--------------|--------------|
| VMI's Proportion of the Net VSDP OPEB Liability (Asset) | 0.3294% | 0.3284% | 0.3248% |
| VMI's Proportionate Share of the Net VSDP OPEB Liability (Asset) | (\$646,207) | (\$739,000) | (\$666,000) |
| VMI's Covered Payroll | \$13,332,109 | \$13,117,989 | \$12,650,438 |
| VMI's Proportionate Share of the Net VSDP OPEB Liability (Asset) as a Percentage of its Covered Payroll | (4.85%) | (5.63%) | (5.26%) |
| Plan Fiduciary Net Position as a Percentage of the Total VSDP OPEB Liability | 167.18% | 194.74% | 186.63% |

Schedule is intended to show information for 10 years. Since 2020 is the third year for this presentation, only three years of data 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, 2020, 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 |
|-------------|--|---|---|---|--|
| 2020 | \$ 88,653 | \$ 88,653 | \$ - | \$14,345,127 | 0.62% |
| 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 2020 is the third year for this presentation, only three 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, 2020, 2019 and 2018***

| | 2020 | 2019 | 2018 |
|--|-------------|-------------|-------------|
| VMI's Proportion of the Net LODA OPEB Liability (Asset) | 0.0631% | 0.0426% | 0.0526% |
| VMI's Proportionate Share of the Net LODA OPEB Liability (Asset) | \$226,394 | \$133,000 | \$138,000 |
| VMI's Covered-Employee Payroll** | \$530,829 | \$433,008 | \$513,301 |
| VMI's Proportionate Share of the Net LODA OPEB Liability (Asset) as a Percentage of its Covered-Employee Payroll | 42.65% | 30.72% | 26.88% |
| Plan Fiduciary Net Position as a Percentage of the Total LODA OPEB Liability | 0.79% | 0.60% | 1.30% |

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

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

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

**Schedule of Employer Contributions
Line of Duty Act Program OPEB Plan
For the Years Ended June 30, 2020, 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 |
|-------------|--|---|---|--|--|
| 2020 | \$ 7,763 | \$ 7,763 | \$ - | \$554,901 | 1.40% |
| 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 2020 is the third year for this presentation, only three years of data are available. However, additional years will be included as they become available.

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

**Schedule of Virginia Military Institute's (VMI) Share of Total OPEB Liability
Pre-Medicare Retiree Healthcare OPEB Plan
For the Years Ended June 30, 2020, 2019 and 2018***

| | 2020 | 2019 | 2018 |
|---|--------------|--------------|--------------|
| VMI's Proportion of the collective total OPEB Liability | 0.6544% | 0.6456% | 0.6402% |
| VMI's Proportionate Share of the collective total OPEB Liability | \$4,442,517 | \$6,492,695 | \$8,315,358 |
| VMI's Covered-Employee Payroll | \$28,231,936 | \$28,176,703 | \$29,053,361 |
| VMI's Proportionate Share of the collective total OPEB liability as a Percentage of its Covered-Employee Payroll | 15.74% | 23.04% | 28.62% |

Schedule is intended to show information for 10 years. Since 2020 is the third year for this presentation, only three 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.

A faded, grayscale background image showing a statue on a pedestal to the left and two figures in uniform, possibly guards or soldiers, standing in the center. The figures are wearing tall hats and holding rifles. The scene is set outdoors with trees in the background.

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

| | |
|---|---|
| Mortality Rates (Pre-retirement, post-retirement 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% |
| Discount Rate | Decrease rate from 7.00% to 6.75% |

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

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

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

General State Employees

| | |
|---|---|
| Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table – RP-2014 projected to 2020 |
| Retirement Rates | Lowered rates at older ages and changed final retirement from 70 to 75 |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Adjusted rates to better match experience |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 14% to 25% |
| Discount Rate | Decrease rate from 7.00% to 6.75% |

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 |
| Discount Rate | Decrease rate from 7.00% to 6.75% |

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% |
| Discount Rate | Decrease rate from 7.00% to 6.75% |

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% |
| Discount Rate | Decrease rate from 7.00% to 6.75% |

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 |
| Discount Rate | Decrease rate from 7.00% to 6.75% |

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% |
| Discount Rate | Decrease rate from 7.00% to 6.75% |

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% |
| Discount Rate | Decreased rate from 7.00% to 6.75% |

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% |
| Discount Rate | Decrease rate from 7.00% to 6.75% |

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% |
| Discount Rate | Decrease rate from 7.00% to 6.75% |

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

General State Employees:

| | |
|---|---|
| Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table – RP-2014 projected to 2020 |
| Retirement Rates | Lowered rates at older ages and changed final retirement from 70 to 75 |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Adjusted rates to better match experience |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 14% to 25% |
| Discount Rate | Decrease rate from 7.0% to 6.75% |

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% |
| Discount Rate | Decrease rate from 7.00% to 6.75% |

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% |
| Discount Rate | Decrease rate from 7.00% to 6.75% |

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 |
| Discount Rate | Decrease rate from 7.00% to 6.75% |

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

General State Employees:

| | |
|---|---|
| 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% |
| Discount Rate | Decrease rate from 7.00% to 6.75% |

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% |
| Discount Rate | Decrease rate from 7.00% to 6.75% |

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% |
| Discount Rate | Decrease rate from 7.00% to 6.75% |

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 actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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% |

Pre-Medicare Retiree Healthcare

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

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

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

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

Spousal coverage and retiree participation were both reduced based on a blend of recent experience and the prior year assumptions. The mortality assumption was modified slightly to reflect modified pre-retirement Mortality base rates to exclude age over 65 instead of apply mortality improvement projection scale BB. The excise tax was modified to reflect updated projection of the tax thresholds. Trend rates were updated based on economic conditions as of 6/30/2019. Additionally, the discount rate was decreased from 3.87% to 3.51% based on the Bond Buyers GO 20 Municipal Bond Index.



Staci A. Henshaw, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 10, 2021

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 Virginia Military Institute, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the 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, 19, and 20. 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 presentation of the financial statements.

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

Opinion

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

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 9; the Schedule of Virginia Military Institute's (VMI) Share of Net Pension Liability, the Schedule of Employer Contributions, and the Notes to the Required Supplementary Information on pages 98 through 100 and 106; the Schedule of Virginia Military Institute's (VMI) Share of Net OPEB Liability, the Schedule of Employer Contributions, and the Notes to the Required Supplementary Information for the Health Insurance Credit, Group Life Insurance, Disability Insurance and Line of Duty programs on pages 101 through 105 and 106 through 113; the

Schedule of Virginia Military Institute's (VMI) Share of Total OPEB Liability and the Notes to the Required Supplementary Information for the Pre-Medicare Retiree Healthcare OPEB Plan on pages 105 and 113. 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 10, 2021, on our consideration of 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 effectiveness of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Institute's internal control over financial reporting and compliance.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

DBC/vks

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