

Virginia Economic Development Partnership
Audited Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

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INTRODUCTORY SECTION

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
Richmond, Virginia

APPOINTED OFFICIALS
As of June 30, 2015

Board of Directors

Chris A. Lumsden, Chair
C. Daniel Clemente, Vice Chair

Stephen R. Adkins	Vincent J. Mastracco
Edie M. Bowles	David Oliver
Russell B. Clark	Dan M. Pleasant
The Honorable Lee Coburn	John G. Rocovich, Jr.
Mark D. Heath	Samuel A. Schreiber
David Hudgins	Donald W. Seale
Ned W. Massee	James E. Ukrop

The Honorable Ralph S. Northam, Ex-Officio
The Honorable Richard D. Brown, Ex-Officio
The Honorable Maurice Jones, Ex-Officio
The Honorable Todd P. Haymore, Ex-Officio
The Honorable Karen Jackson, Ex-Officio
Dr. Glenn DuBois, Ex-Officio

President and Chief Executive Officer

Martin J. Briley

FINANCIAL SECTION

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF JUNE 30, 2015

The Virginia Economic Development Partnership (Partnership) management offers the readers of the Partnership's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended June 30, 2015. We encourage the reader to consider this information presented here in conjunction with the financial statements and accompanying notes.

Overview of the Financial Statements

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Partnership in a manner similar to a private sector business.

The Statement of Net Position presents information on all of the Partnership's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Partnership is improving or deteriorating.

The Statement of Activities presents information showing how the Partnership's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. For example, expenses that are accrued for the net pension liability in the current period are expected to be paid with future funding appropriations from the Commonwealth of Virginia (COV).

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Partnership, like other political subdivisions of the COV, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The financial activities of the Partnership are reported in *governmental funds*.

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

Reconciliations between Government-Wide and Fund Financial Statements

There are two reconciliations between the government-wide and the fund financial statements. The first is found on the Balance Sheet and explains the difference between the *fund balance* on the Balance Sheet and *net position* on the Statement of Net Position. The second is found on the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities, which reconciles the difference between the *net change in fund balances* on the fund-based statement and the *change in net position* on the government-wide based statement. Both statements describe in sufficient detail the amounts and the reasons for those differences.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of an organization's financial position. At the close of the fiscal year ended June 30, 2015, the Partnership had a net position of (\$11,061,822) compared to a net position of (\$3,623,081) as of June 30, 2014. Following is an analysis of the changes in the net position of the Partnership.

	Net Position		
	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Current and other assets	\$ 3,696,305	\$ 3,124,822	\$ 571,483
Capital assets, net of depreciation	<u>616,235</u>	<u>785,919</u>	<u>(169,684)</u>
Total assets	4,312,540	3,910,741	401,799
Deferred outflows of resources	<u>955,080</u>	<u>-</u>	<u>955,080</u>
Total assets and deferred outflows	<u>5,267,620</u>	<u>3,910,741</u>	<u>1,356,879</u>
Non-current liabilities	13,549,642	7,016,486	6,533,156
Other liabilities	<u>360,800</u>	<u>517,336</u>	<u>(156,536)</u>
Total liabilities	13,910,442	7,533,822	6,376,620
Deferred inflows of resources	<u>2,419,000</u>	<u>-</u>	<u>2,419,000</u>
Total liabilities and deferred inflows	<u>16,329,442</u>	<u>7,533,822</u>	<u>8,795,620</u>
Net position:			
Net investment in capital assets	616,235	785,919	(169,684)
Unrestricted	<u>(11,678,057)</u>	<u>(4,409,000)</u>	<u>(7,269,057)</u>
Total net position	<u>\$(11,061,822)</u>	<u>\$ (3,623,081)</u>	<u>\$(7,438,741)</u>

Total assets increased this fiscal year by \$401,799 when compared to last year. The principal causes of this increase were an increase in the Current asset, cash of \$1,267,288 due primarily to \$1,000,000 received from the COV related to the Virtual World Trade Center program carried over to FY2016, offset by a decrease of \$300,000 in the Current asset, due from primary government, a decrease of \$336,561 in the Current asset, operating grants receivable due to the timing of reimbursements from the federal government, and a decrease in other current assets of \$59,244. Capital assets, net of depreciation decreased \$169,684.

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Deferred outflows of resources increased by \$955,080. This amount represents employer pension contributions for the fiscal year ended June 30, 2015 recorded due to the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68).

Total liabilities increased by \$6,376,620 due to an increase in the Non-current liabilities of the Partnership's net pension liability of \$6,202,820 as a result of the implementation of GASB 68, as well as an increase in net other post-employment obligation of \$333,993, offset by a decrease in compensated absences liability of \$3,657. Other liabilities decreased by \$156,356 primarily due to a decrease in deferred revenue of \$30,695 related to the timing of participation fees collected for events in the subsequent fiscal year, as well as a reduction in other current liabilities of \$125,841 due to the timing of accounts payable transactions and a reduction in the amount due to the Virginia National Defense Industrial Authority.

Deferred inflows of resources increased by \$2,419,000. This amount represents the net difference between projected and actual earnings on pension plan investments, as well as changes in proportion and differences between employer pension contributions and proportionate share of pension plan contributions recorded due to the implementation of GASB 68.

Net investment in capital assets consists primarily of leasehold improvements, computers and peripheral technology equipment used by the organization to deliver program services to its clients. The Partnership considers technology a vital asset in its efforts to market Virginia and will continue to invest in technology to ensure that its equipment and software are updated to take advantage of greater data handling capabilities and increased processing speeds.

The remaining *Net position* balance of (\$11,678,057) is classified as *unrestricted*. The Partnership has recorded \$12,629,360 of net pension and other post retirement obligations which are expected to be paid with future appropriations from the COV. The Partnership's Current and other assets exceed its Other liabilities by \$3,335,505.

	Changes in Net Position		
	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Revenues:			
Program revenues:			
Charges for services	\$ 462,636	\$ 420,075	\$ 42,561
Operating grants	1,824,666	1,942,888	(118,222)
General revenues:			
General Fund appropriations	21,504,351	18,385,023	3,119,328
Other	191,154	114,634	76,520
Total revenues	<u>23,982,807</u>	<u>20,862,620</u>	<u>3,120,187</u>
Expenses:			
Business Expansion	2,570,890	2,134,788	436,102
Business Attraction	3,174,080	3,169,551	4,529
International Trade	5,660,438	6,305,797	(645,359)
Research	2,316,166	2,234,496	81,670
Communications and Promotions	3,092,559	3,236,661	(144,102)
Information Technology	1,425,711	1,533,536	(107,825)
Administration	3,591,884	3,327,834	264,050
Pass-Through Payments	1,500,000	44,987	1,455,013
Total expenses	<u>23,331,728</u>	<u>21,987,650</u>	<u>1,344,078</u>

Increase (Decrease) in net position	651,079	(1,125,030)	1,776,109
Beginning net position	<u>(11,712,901)</u>	<u>(2,498,051)</u>	<u>(9,214,850)</u>
Ending net position	<u><u>\$(11,061,822)</u></u>	<u><u>\$(3,623,081)</u></u>	<u><u>\$ (7,438,741)</u></u>

Net position for the Partnership increased by \$651,079 during the current fiscal year. The total revenues increase of \$3,120,187 is due primarily to an increase in general fund appropriations provided by the COV related to the Virtual World Trade Center program, Marketing and Branding Campaign and a pass-through payment to the CCAM Apprentice Academy.

Total expenses for the Partnership increased by \$1,344,078. The overall increase in expenses is due primarily to increased spending in Business Expansion for the Virginia Jobs Investment Program, increased Administration spending for the newly created Chief Operating Officer position, and a \$1,500,000 pass-through payment to the CCAM Apprentice Academy, offset by reduced spending in International Trade for marketing expenses and Federal grant programs.

General and Special Revenue Fund Budgetary Highlights

The *Statement of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual-Cash Basis* is presented to provide information on the budget as originally prepared and the final budget on which the Partnership operated for the fiscal year. Also, the final budget is compared to the cash basis actual results by revenue source and expenditure activity. The Partnership's budget, as originally prepared, included revenue provided by the COV of approximately \$18.9 million. This amount was adjusted by a \$3.8 million increase related to the CCAM Apprentice Academy pass-through payment (\$1.5 million), Virtual World Trade Center (\$1.0 million), Marketing and Branding Campaign (\$1.0 million) and Employee Benefits Adjustments (\$.3 million) offset by decreases in Marketing and other budget reductions of approximately \$1.2 million. Actual COV revenue received exceeded the final budget by \$.3 million due to the timing of an FY2014 payment received in FY2015 related to Rolls Royce Project Management. Operating grants revenues exceeded budget due to the timing of reimbursement payments for a federal grant program received after June 30, 2014. Actual expenditures were below the final budget by approximately \$1.8 million for the fiscal year. This included \$1.0 million in the International Trade division carried over to FY2016 for the Virtual World Trade Center program, as well as underspending in the Business Attraction, Communications and Promotions and Administration divisions.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes describe the nature of the Partnership's reporting entity and the relationship to the COV as a whole, the basis on which the financial statements were prepared, and the methods used for presentation. Further, the notes provide explanations of specific accounts with significant balances.

Requests for Information

This financial report is designed to provide a general overview of the Partnership's finances for all those with an interest in the Partnership's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the President and Chief Executive Officer, Virginia Economic Development Partnership, P.O. Box 798, Richmond, Virginia, 23218-0798.

Basic Financial Statements

Fiscal Year 2015 Annual Report

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP STATEMENT OF NET POSITION As of June 30, 2015

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents (Note 3)	\$ 2,568,294
Operating grants receivable	717,349
Prepaid expenses	391,773
Lease deposits (Note 6)	18,889
Capital assets, net of accumulated depreciation (Note 7)	
Leasehold improvements, furniture, and equipment	<u>616,235</u>
Total assets	4,312,540
Deferred outflows of resources (Note 10)	<u>955,080</u>
Total assets and deferred outflows of resources	<u>5,267,620</u>
Liabilities	
Accounts payable	135,000
Accrued payroll	174,050
Unearned revenue	51,750
Noncurrent liabilities due within one year	
Compensated absences (Note 9)	584,585
Noncurrent liabilities due in more than one year	
Compensated absences (Note 9)	335,697
Net pension liability (Note 10)	10,646,000
Net other post-employment obligation (Note 11)	<u>1,983,360</u>
Total liabilities	13,910,442
Deferred inflows of resources (Note 10)	<u>2,419,000</u>
Total liabilities and deferred inflows of resources	<u>16,329,442</u>
Net position	
Net investment in capital assets	616,235
Unrestricted	<u>(11,678,057)</u>
Total net position	<u><u>\$ (11,061,822)</u></u>

The accompanying notes are an integral part of the financial statements.

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VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP STATEMENT OF ACTIVITIES For the Fiscal Year Ended June 30, 2015

		Program Revenues		Net (Expense)
	Expenses	Charges for Services	Operating Grants	Revenue and Changes in Net Position
Governmental Activities				
Business Expansion	\$ 2,570,890	\$ 72,613	\$	\$ (2,498,277)
Business Attraction	3,174,080	60,605		(3,113,475)
International Trade	5,660,438	192,953	1,824,666	(3,642,819)
Research	2,316,166	140		(2,316,026)
Communications and Promotions	3,092,559	132,325		(2,960,234)
Information Technology	1,425,711	-		(1,425,711)
Administration	3,591,884	4,000		(3,587,884)
Pass-through Payments	1,500,000	-		(1,500,000)
Total governmental activities	23,331,728	462,636	1,824,666	(21,044,426)
General Revenues				
Revenue provided by the General Fund of the Commonwealth (Note 5)				21,504,351
Interest revenue				4,549
Other revenue				197,791
Loss on disposal of capital assets				(11,186)
Total general revenues				21,695,505
Increase in net position				651,079
Net position, July 1, 2014 as restated (Note 2)				(11,712,901)
Net position, June 30, 2015				<u>\$ (11,061,822)</u>

The accompanying notes are an integral part of the financial statements.

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VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP BALANCE SHEET GOVERNMENTAL FUNDS As of June 30, 2015

	General Fund	Special Revenue Fund	Total Governmental Funds
Assets			
Cash and cash equivalents (Note 3)	\$ 2,568,294	\$	\$ 2,568,294
Due from the special revenue funds	717,349		
Operating grants receivable		717,349	717,349
Prepaid expenses	391,773		391,773
Lease deposits (Note 6)	18,889		18,889
Total assets	\$ 3,696,305	\$ 717,349	\$ 3,696,305
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 135,000		\$ 135,000
Accrued payroll	174,050		174,050
Compensated absences	10,994		10,994
Due to the general fund		717,349	
Unearned revenue	51,750		51,750
Total liabilities	371,794	717,349	371,794
Fund Balances:			
Nonspendable	410,662	-	410,662
Committed	-	-	-
Unassigned fund balance	2,913,849	-	2,913,849
Total fund balances	3,324,511	-	3,324,511
Total liabilities and fund balances	\$ 3,696,305	\$ 717,349	\$ 3,696,305

Amounts reported for governmental activities in the statement of net position are different because:

Fund balances, Governmental Funds	\$ 3,324,511
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	616,235
Noncurrent liabilities (compensated absences, net pension liability and net other post employment obligation) are not due and payable with current financial resources and, therefore, are not reported in the funds.	(15,002,568)
Total net position of governmental activities	\$ (11,061,822)

The accompanying notes are an integral part of the financial statements.

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2015

	General Fund	Special Revenue Fund	Total Governmental Funds
Revenues			
Revenue provided by the General Fund of the Commonwealth (Note 5)	\$ 21,504,351	\$	\$ 21,504,351
Participation fees	205,841		205,841
Sponsorship fees	173,362		173,362
Operating grants		1,824,666	1,824,666
Interest revenue	4,549		4,549
Other revenue	281,225		281,225
Total revenues	22,169,328	1,824,666	23,993,994
Expenditures			
Business Expansion	2,579,482		2,579,482
Business Attraction	3,180,318		3,180,318
International Trade	3,892,914	1,824,666	5,717,580
Research	2,313,309		2,313,309
Communications and Promotions	3,083,863		3,083,863
Information Technology	1,574,901		1,574,901
Administration	3,327,516		3,327,516
Pass-through Payments	1,500,000		1,500,000
Total expenditures	21,452,303	1,824,666	23,276,969
Revenues over expenditures	717,025	-	717,025
Fund balance, July 1, 2014	2,607,486	-	2,607,486
Fund balance, June 30, 2015	\$ 3,324,511	\$ -	\$ 3,324,511

The accompanying notes are an integral part of the financial statements.

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VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2015

Amounts reported for governmental activities in the statement of activities are different because:

Net increase (decrease) in fund balance of the governmental funds	\$	717,025
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.		(169,684)
Some expenses reported in the statement of activities (compensated absences, net pension liability and net other post employment obligation) do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		<u>103,738</u>
Increase in net position of governmental activities	\$	<u><u>651,079</u></u>

The accompanying notes are an integral part of the financial statements.

Fiscal Year 2015 Annual Report

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CASH BASIS
GENERAL AND SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2015

	Budgeted Amounts		General	Special	Variances with
	Original	Final	Fund	Revenue	Final Budget-
			Actual	Fund	Positive
				Actual	(Negative)
Revenues					
Revenue provided by the General Fund of the Commonwealth (Note 5)	\$ 18,590,173	\$ 21,504,351	\$ 21,804,351	\$ -	\$ 300,000
Participation fees	150,000	223,587	205,841		(17,746)
Sponsorship fees	25,000	191,550	173,362		(18,188)
Operating grants	1,500,000	1,865,000		2,161,227	296,227
Interest revenue	5,000	5,000	4,549		(451)
Other revenue	108,000	259,319	281,225		21,906
Total revenues	20,378,173	24,048,807	22,469,328	2,161,227	581,748
Expenditures					
Business Expansion	2,767,018	2,585,729	2,577,330		8,399
Business Attraction	3,299,622	3,448,645	3,155,825		292,820
International Trade	5,545,142	6,820,786	3,968,107	1,824,666	1,028,013
Research	2,246,557	2,398,821	2,306,194		92,627
Communications and Promotions	2,512,659	3,213,070	3,017,094		195,976
Information Technology	1,508,642	1,623,967	1,600,344		23,623
Administration	3,178,610	3,478,999	3,306,594		172,405
Pass-through Payments	-	1,500,000	1,500,000		-
Total expenditures	21,058,250	25,070,017	21,431,488	1,824,666	1,813,863
Revenues over (under) expenditures	(680,077)	(1,021,210)	1,037,840	336,561	2,395,611
Fund balance, July 1, 2014	680,077	1,021,210	1,160,944	-	139,734
Fund balance, June 30, 2015 (Note 3)	\$ -	\$ -	\$ 2,198,784	\$ 336,561	\$ 2,535,345

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Economic Development Partnership (the Partnership) was established on July 1, 1996, by Chapter 638 of the 1995 Acts of Assembly and operates as an authority in accordance with the provisions of Chapter 22 of Title 2.2 of the Code of Virginia. The Partnership's major activities are to encourage, stimulate, and support the development and expansion of the economy of the Commonwealth.

The Partnership is a component unit of the Commonwealth of Virginia. A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Partnership is an integral part of the reporting entity of the Commonwealth of Virginia; accordingly, the Partnership's financial statements are included in the financial statements of the Commonwealth as a discretely presented component unit.

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

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles. The Statement of Net Position and the Statement of Activities are referred to as "government-wide" financial statements and are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Program revenues include charges for services and operating grants. Charges for services are comprised primarily of participation fees and shared mission reimbursements. Operating grants are grants awarded to the Partnership from the federal government.

The Balance Sheet and the Statement of Revenue, Expenditures, and Changes in Fund Balances are referred to as "governmental fund" financial statements and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Partnership considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as in accrual accounting. However, debt service payments and expenditures related to compensated absences are only recorded when payment is due. The Partnership reports its activities in governmental funds. The general fund is used for its primary operating fund and accounts for all financial transactions not accounted for in the special revenue funds. The special revenue funds are used to account for federal grant revenues and related expenditures for operating grants awarded to the Partnership by the federal government. Both the General Fund and Special Revenue Fund are considered major governmental funds.

Fund balances for the Partnership's governmental funds financial statements are classified in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." Fund balances are classified as restricted, committed or assigned if the related resources reported in governmental funds have either externally or internally imposed restrictions on their usage. Nonspendable fund balances represent assets such as prepaid expenses and lease deposits that are unavailable to be spent on future operations. The unassigned fund balances represents the remainder of the fund balances funds.

C. Operating Grants Receivable

Operating grants receivable represents the amount due from the federal government for a grant that is funded based on reimbursement of expenses paid by the Partnership.

D. Prepaid Expenses

The Partnership's prepaid expenses include amounts paid for promotional activities, other services and portions of insurance premiums for which the economic benefits had not been received as of June 30, 2015.

E. Capital Assets

Capital assets are defined by the Partnership as those assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are valued at estimated market value at the date of donation. Capital assets are comprised of leasehold improvements, furniture, and equipment. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over useful lives of five to ten years.

F. Unearned Revenue

Unearned revenue includes amounts received for sponsorship and participation fees at June 30, 2015, for various events to be held in the next fiscal period.

G. Compensated Absences

Compensated absences represent the amounts of vacation, sick, and compensatory leave earned by the Partnership employees, but not taken at June 30, 2015. Compensated absences were calculated in accordance with GASB Statement No. 16, "Accounting for Compensated Absences." This statement requires the accrual of Social Security and Medicare taxes to be paid by the Partnership on all accrued compensated absences.

H. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the

fiduciary net position of the Virginia Retirement System (VRS) State Employee Retirement Plan and the additions to/deductions from the VRS State Employee Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments held by VRS are reported at fair value.

I. Budgets and Budgetary Accounting

The Partnership's budget was primarily established by the Appropriation Act as enacted by the General Assembly of Virginia for the fiscal year ended June 30, 2015, which is the first year of the biennium ended June 30, 2016. No payments were made to the Partnership out of the state treasury except in pursuance of appropriations made by law. Payments from the state treasury were deposited into Partnership bank accounts in accordance with the provisions of Chapter 22 of Title 2.2 of the Code of Virginia and expended for purposes as stated in those provisions. The budget is prepared on the cash basis. The budget is prepared collectively to include both the General Fund and Special Revenue Fund.

2. CHANGE IN ACCOUNTING PRINCIPLE

Net position as of July 1, 2014 has been restated as follows for the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date:

Net Position as previously reported at June 30, 2014	\$ (3,623,081)
Net Position restatement:	
Net Pension Liability – June 30, 2013 measurement date	(13,185,000)
Less: Deferred outflows – fiscal year 2014 contributions	652,000
Less: Net Pension Obligation reported at June 30, 2014	4,443,180
Total Net Position restatement	<u>(8,089,820)</u>
Net Position as restated, July 1, 2014	<u><u>\$(11,712,901)</u></u>

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent deposits not with the Treasurer of Virginia and cash in the Local Government Investment Pool (LGIP) with the Treasurer of Virginia. Cash on deposit is held in demand deposit accounts maintained for operating and payroll costs and is covered by federal depository insurance and carry no significant risk. Cash on deposit includes a deposit in Chinese RMB used to pay the Partnership's international vendors and is valued in U.S. dollars at cost. As of June 30, 2015, the Partnership's holding in this currency was valued at \$4,392. The LGIP funds are held in pooled accounts, are considered cash equivalents and, accordingly, also carry no significant risk as defined by Statement 40 of the Governmental Accounting Standards Board. VEDP deposits are secured in accordance with the provisions of the Virginia Security for Public Deposit Act § 2.2-4400 of the Code of Virginia.

4. RECONCILIATION OF BUDGETARY FUND BALANCE TO GAAP FUND BALANCE

The accompanying Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Cash Basis – General and Special Revenue Funds presents comparisons of the legally adopted budget prepared on the cash basis with actual data prepared on the cash basis. To enhance this comparison, actual data on the cash basis is reconciled to actual data on the GAAP basis as follows:

	<u>Total all Funds</u>
Fund balance, cash basis, June 30, 2015	\$ 2,535,345
Add: Prepaid expenses and other accrued receivables	1,109,122
Deduct: Accrued expenses and unearned revenues	<u>(319,956)</u>
Fund balance, GAAP basis, June 30, 2015	<u><u>\$ 3,324,511</u></u>

5. REVENUE PROVIDED BY THE GENERAL FUND OF THE COMMONWEALTH

The original appropriation from the General Fund of the Commonwealth has been adjusted as follows:

Original appropriation, Chapter 3	\$ 18,887,705
Add: CCAM Apprentice Academy	1,500,000
Virtual World Trade Center	1,000,000
Marketing and Branding Campaign	1,000,000
Central Appropriations Adjustments	304,508
Deduct: Marketing Budget Reductions	(929,509)
FY2015 Other Budget Reductions	<u>(258,353)</u>
Revenue provided by the General Fund of the Commonwealth	<u><u>\$ 21,504,351</u></u>

6. LEASE DEPOSITS

The Partnership maintains offices in Tokyo, Japan and Shanghai, China. Each landlord requires a lease deposit as part of the lease agreement for those locations. The Tokyo lease deposit is held in a non-interest bearing account in the amount of 991,800 Japanese Yen and was valued at \$9,450 at June 30, 2015. The Shanghai lease deposit is held in a non-interest bearing account in the amount of 58,776 Chinese RMB and was valued at \$9,439 at June 30, 2015.

7. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

<u>Capital Assets Being Depreciated</u>	<u>Balance June 30, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2015</u>
Leasehold improvements, furniture and equipment	\$ 2,190,910	\$ 246,268	\$ (330,331)	\$ 2,106,847
Less: accumulated depreciation	<u>1,404,991</u>	<u>404,766</u>	<u>(319,145)</u>	<u>1,490,612</u>
Leasehold improvements, furniture and equipment, net of accumulated depreciation	<u>\$ 785,919</u>	<u>\$ (158,498)</u>	<u>\$ (11,186)</u>	<u>\$ 616,235</u>

8. COMMITMENTS

The Partnership is committed under various operating leases and office use agreements for office facilities and equipment through August 2016. Expense under these agreements for the fiscal year ended June 30, 2015, amounted to \$1,553,221. A summary of minimum future obligations under these agreements as of June 30, 2015, follows:

<u>Year Ending June 30</u>	<u>Obligations</u>
2016	\$ 812,153
2017	<u>4,134</u>
Total future minimum rental payments	<u>\$ 816,287</u>

9. COMPENSATED ABSENCES

Compensated absences activity for the fiscal year ended June 30, 2015, was as follows:

Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
\$ 923,939	\$ 620,723	\$ 624,380	\$ 920,282
	Due Within One Year		(584,585)
	Due in More Than One Year		\$ 335,697

10. PENSION PLAN

General Information about the Pension Plan

Plan Description

All Partnership full-time, salaried permanent employees are automatically covered by the VRS State Employee Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. The State Employee Retirement Plan is a single employer plan treated as a cost-sharing employer plan for financial reporting purposes. 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. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN

About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for 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.	About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	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.	Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • State employees* • Members in Plan 1 or Plan 2

Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 *Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions 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	Retirement Contributions State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.	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

contributions to provide funding for the future benefit payment.		contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	Creditable Service Same as Plan 1.	Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. <u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least	Vesting Same as Plan 1.	Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit.

five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.		Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. <u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
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Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	Calculating the Benefit See definition under Plan 1.	Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1 <u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier 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%.	Service Retirement Multiplier Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.	Service Retirement Multiplier <u>Defined Benefit Component:</u> 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.

		<u>Defined Contribution Component:</u> Not applicable.
Normal Retirement Age VRS: Age 65.	Normal Retirement Age VRS: Normal Social Security retirement age.	Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.	Earliest Unreduced Retirement Eligibility Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.	Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	Earliest Reduced Retirement Eligibility Age 60 with at least five years (60 months) of creditable service.	Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable

		service. <u>Defined Contribution Component:</u> 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%. <u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date. <u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following	Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. <u>Eligibility:</u> Same as Plan 1 <u>Exceptions to COLA Effective Dates:</u> Same as Plan 1	Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2. <u>Defined Contribution Component:</u> Not applicable. <u>Eligibility:</u> Same as Plan 1 and Plan 2. <u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.

circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member Is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.		
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. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.	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. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.	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. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting

VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	Purchase of Prior Service Same as Plan 1.	Purchase of Prior Service Defined Benefit <u>Component:</u> Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost./ After that on-year period, the rate for most categories of service will change to actuarial cost. <u>Defined Contribution</u> <u>Component:</u> Not applicable.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to the Partnership by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, the 5.00% member contribution was paid by the employer. Beginning July 1, 2012 Partnership employees were required to pay the 5.00% member contribution and the Partnership was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. The Partnership's contractually required contribution rate for the year ended June 30, 2015 was 12.33% of covered employee compensation for employees in the VRS State Employee Retirement Plan.

This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. The actuarial rate for the VRS State Employee Retirement Plan was 15.80%. 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. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions for the VRS State Employee Retirement Plan were funded at 78.02% of the actuarial rate for the year ended June 30, 2015. Contributions from the Partnership to the VRS State Employee Retirement Plan were \$955,080 and \$643,805 for the years ended June 30, 2015 and June 30, 2014, respectively.

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

At June 30, 2015, the Partnership reported a liability of \$10,646,000 for its proportionate share of the VRS State Employee Retirement Pension Liability. The Net Pension Liability was measured as of June 30, 2014 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The Partnership's proportion of the Net Pension Liability was based on the Partnership's actuarially determined employer contributions to the pension plan for the year ended June 30, 2014 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2014 the Partnership's proportion of the VRS State Employee Retirement Plan was 0.19015% as compared to 0.20080% at June 30, 2013.

For the year ended June 30, 2015, the Partnership recognized pension expense of \$532,000 for the VRS State Employee Retirement Plan. Since there was a change in proportionate share between June 30, 2013 and June 30, 2014, 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, 2015 the Partnership reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows</u> <u>of Resources</u>	<u>Deferred Inflows</u> <u>of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	1,900,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	519,000
Employer contributions subsequent to the measurement date	955,080	-
Total	<u>\$ 955,080</u>	<u>\$ 2,419,000</u>

\$955,080 reported as deferred outflows of resources related to pensions resulting from the Partnership's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension

Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30

2016	\$ (655,000)
2017	\$ (655,000)
2018	\$ (634,000)
2019	\$ (475,000)

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2013, 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, 2014.

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

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

Mortality rates:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 2 years and females were set back 3 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with females set back 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of withdrawals for less than 10 years of service
- Decrease in rates of male disability retirement
- Reduce rates of salary increase by 0.25% per year

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, 2014, NPL for the VRS State Employee Retirement Plan is as follows (amounts expressed in thousands):

	<u>State Employee Retirement Plan</u>
Total Pension Liability	\$ 21,766,933
Plan Fiduciary Net Position	<u>16,168,535</u>
Employers' Net Pension Liability (Asset)	<u><u>\$ 5,598,398</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.28%

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 weighing 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
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
	Inflation		2.50%
	* Expected arithmetic nominal return		8.33%

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

Discount Rate

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

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

	1.00% Decrease <u>(6.00%)</u>	Current Discount Rate <u>(7.00%)</u>	1.00% Increase <u>(8.00%)</u>
Partnership's proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	\$ 15,594,000	\$ 10,646,000	\$ 6,495,000

Pension Plan Fiduciary Net Position

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2014 Comprehensive Annual Financial Report (CAFR). A copy of the 2014 VRS CAFR may be downloaded from the VRS website at: <http://www.varetire.org/Pdf/Publications/2014-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

11. OTHER EMPLOYMENT AND OTHER POST-EMPLOYMENT BENEFITS

The Partnership is a participating employer in other employment and post-employment benefit plans. The Group Life Insurance plan, Virginia Sickness and Disability Program (VSDP) and the Retiree Health Insurance Credit fund are administered by the VRS. The VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for these plans. A copy of that report may be obtained by writing to the system at P.O. Box 2500, Richmond, Virginia 23218-2500. The Partnership is also a participating employer in the Health Benefits Program for Retirees, Survivors and Long Term Disability (LTD) Participants administered by the Commonwealth's Department of Human Resource Management (DHRM). The Commonwealth issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for this plan and a copy of that report may be obtained by writing Financial Reporting, 101 N. 14th Street, Richmond, VA 23219. As of June 30, 2015, the Partnership's combined net other post-employment benefit obligation for these plans was \$1,983,360.

GROUP LIFE INSURANCE

The Group Life Insurance plan provides life insurance benefits to full time employees of the Partnership. As a part of the plan, life insurance benefits are provided to retired employees in accordance with Title 51.1 of the Code of Virginia (1950), as amended. To be eligible for the retired employee portion of the plan, the employee must have retired or terminated employment after age 50 and have had at least 10 years of service (including 5 years of continuous service) or at age 55 and have had 5 years of continuous service or retired because of disability. At retirement or termination, natural death coverage starts to reduce by 25 percent each year until coverage reaches 25 percent of its value at retirement or termination.

Post-employment life insurance benefits are advance funded on an actuarially determined basis using the aggregate cost actuarial method with the same actuarial assumptions used for determining pension plan contribution rates. All contributions to the plan are made by the Partnership. The Partnership's actuarially determined rate for the current year was 1.19% of creditable compensation of \$7,745,983 resulting in a contribution of \$92,177. This contribution covers premiums for active employees and actual death claims for retirees. As of June 30, 2015, the Partnership had no net post-employment benefit obligation for this plan.

HEALTH INSURANCE CREDIT PROGRAM

The Retiree Health Insurance Credit fund was established on January 1, 1990, and provides benefits to employees with at least 15 years of service credit under the VRS retirement plan. The program provides a maximum credit reimbursement of \$4 per month per year of service credit against the monthly health insurance premiums of eligible retirees.

The amount required to fund all credits is financed on a current disbursement basis by the employers participating in the plan and is based on contribution rates determined by the VRS actuary. The Partnership's actuarially determined rate for the current year was 1.05% of creditable compensation of \$7,745,983 resulting in a contribution of \$81,333. As of June 30, 2015, the Partnership's net post-employment benefit obligation for this plan was \$229,901.

VIRGINIA SICKNESS AND DISABILITY PROGRAM

The VSDP was established on January 1, 1999, and covers salaried employees who work at least 20 hours per week. The VSDP provides income protection to employees for absences due to sickness or disability from the first day on the job. After a 7 calendar-day waiting period following the first incident of disability, eligible employees receive short-term benefits ranging from 60 to 100 percent of compensation up to a maximum of 125 working days, based upon months of qualified service. If the disability continues after the short-term disability period, the employee becomes eligible to receive long-term disability benefits equal to 60 percent of compensation until they return to work, reach normal retirement age, or death, whichever is sooner.

The Partnership is required to make contributions to the VRS for the cost of providing long-term disability under the VSDP. The Partnership's actuarially determined rate for the current year was 0.66% of creditable compensation of \$7,410,796 resulting in a contribution of \$48,911. As of June 30, 2015, the Partnership's net post-employment benefit obligation for this plan was \$388,892.

HEALTH BENEFITS PROGRAM FOR RETIREES, SURVIVORS AND LTD PARTICIPANTS

The Health Benefits Program for Retirees, Survivors and LTD Participants was established to allow eligible employees who retire before age 65 to continue healthcare coverage under the same healthcare plans offered to active employees. This continuation is also available to LTD participants and the spouses of retired employees and LTD participants.

The Partnership's actuarially determined liability under this program arises from the implicit rate subsidies that occur when retirees, LTD participants, and surviving spouses are insured in a group with current employees. The liability is determined by computing expected future benefit pay out cost, less expected future participant contributions. All participants are required to pay the total subsidized contributions for benefits coverage. As of June 30, 2015, the Partnership's net post-employment benefit obligation for this plan was \$1,364,567.

12. DEFERRED COMPENSATION PLAN

Employees of the Partnership may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Partnership matching up to \$20 per pay period. The dollar amount of the match can change depending on the funding available in the Partnership's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were \$34,010 for the fiscal year 2015.

13. RISK MANAGEMENT

The Partnership is exposed to various risks of loss related to torts; theft, damage, or destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Partnership is insured for these risks through commercial insurance policies. Further, the Partnership is insured for workers compensation and for loss from employee actions by an insurance policy issued by the Chubb Group and the Great Northern Insurance Company. Policy coverage for loss from employee actions is \$50,000 per year with a \$1,000 deductible for each loss.

The Partnership participates in the state health care insurance plan maintained by the Commonwealth of Virginia, which is administered by DHRM. The Partnership pays premiums to DHRM for health insurance coverage. Information relating to the Commonwealth's insurance plan is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

Required Supplementary Information

Required Supplementary Information

**Schedule of Employer's Share of Net Pension Liability
VRS State Employee Retirement Plan
For the Year Ended June 30, 2015 ***

	<u>2015</u>
Employer's Proportion of the Net Pension Liability (Asset)	0.19015%
Employer's Proportionate Share of the Net Pension Liability (Asset)	\$10,646,000
Employer's Covered-Employee Payroll	\$7,349,371
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	144.86%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.28%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

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

Required Supplementary Information

**Schedule of Employer Contributions
For The Year Ended June 30, 2015**

Plan	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
State Employee	\$955,080	\$955,080	\$ -	\$7,745,983	12.33%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

Notes to Required Supplemental Information For The Year Ended June 30, 2015

Changes of benefit terms – There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013 and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

Changes of assumptions – The following changes in actuarial assumptions were made for the VRS - State Employee Retirement Plan effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of withdrawals for less than 10 years of service
- Decrease in rates of male disability retirement
- Reduce rates of salary increase by 0.25% per year



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

October 29, 2015

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
And Review Commission

Board of Directors
Virginia Economic Development Partnership

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Virginia Economic Development Partnership, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Partnership's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing

Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Virginia Economic Development Partnership as of June 30, 2015, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund and the Special Revenue Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 2 and 10 to the financial statements, the net position as of July 1, 2014, has been restated to implement Governmental Accounting Standards Board (GASB) Statements No. 68 and No. 71, related to pension accounting and financial reporting for employers. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages three through six, the Schedule of Employer's Share of Net Pension Liability - VRS State Employee Retirement Plan on page 35, the Schedule of Employer Contributions on page 36, and the Notes to Required Supplementary Information on page 36 be presented to supplement the basic financial statements. 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 October 29, 2015, on our consideration of the Virginia Economic Development Partnership's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Partnership's internal control over financial reporting and compliance.

A handwritten signature in dark ink, appearing to read "Matthew S. Maxwell".

AUDITOR OF PUBLIC ACCOUNTS

MSM/clj