

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

- TABLE OF CONTENTS -

MANA	AGEMENT'S DISCUSSION AND ANALYSIS	Page 1 – 9
FINA	NCIAL STATEMENTS:	
*	Statement of Net Position	Page 10 – 11
*	Combined Statement of Financial Position – Component Units	Page 12
*	Statement of Revenues, Expenses, and Changes in Net Position	Page 13
*	Combined Statement of Activities – Component Units	Page 14
*	Statement of Cash Flows	Page 15 – 16
*	Notes to Financial Statements	Page 17 – 99
*	Required Supplementary Information	Page 100 – 109
*	Notes to the Required Supplementary Information	Page 110 – 117
INDE	PENDENT AUDITOR'S REPORT:	
*	Report on Financial Statements	Page 118 – 120
INSTI	TUTE OFFICIALS	Page 121



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) For the Year Ended 30 June 2018

Overview

The Virginia Military Institute (VMI or Institute) is pleased to present its financial statements for the fiscal year ended 30 June 2018, 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 2018 (or 2018) 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 2018 financial statements were significantly impacted by implementation of Governmental Accounting Standards Board Statement 75 (GASB 75), Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. GASB 75 was issued in June 2015, became effective for fiscal years beginning after 15 June 2017, and establishes new accounting and financial reporting requirements for other post-employment benefits (non-pension related), also known as OPEB. It relays standards for recognizing and measuring OPEB liabilities, deferred inflows and outflows of resources, and related expenditures. GASB 75 identifies requisite methods and assumptions for projecting defined benefit payments, discounting projected benefit payments to their actuarial present value, and attributing that present value to periods of employee service.

VMI participates in five OPEB programs sponsored by the Commonwealth and administered through either the Virginia Retirement System (VRS) or the Department of Human Resources Management (DHRM). VRS administered plans include: the Health Insurance Credit (HIC), Group Life Insurance (GLI), Line of Duty Act (LODA), and Virginia Sickness and Disability (VSDP) programs. DHRM administers the Pre-Medicare Retiree Healthcare Plan (PMRH). As a result of GASB 75 reporting requirements, in 2018 the Institute recognized its proportionate share of overall Commonwealth OPEB financial obligations with a net asset of \$0.7 million for VSDP and a \$15.0 million net liability for HIC, GLI, LODA and PMRH OPEB activity, collectively. Additionally, 2018 beginning (or 30 June 2017 ending) net position was restated by \$15.6 million as depicted in the incorporated statement of revenues, expenses and changes in net position as well as the corresponding restatement of net position note to the financial statements. Prior to the implementation of GASB 75, VRS and DHRM did not measure OPEB assets and liabilities separately for, nor where they recorded by, individual agencies of the Commonwealth. Therefore, for the purposes of this MD&A, 2017 comparative numbers have not been restated.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) For the Year Ended 30 June 2018

VMI's financial condition continued to remain strong during 2018 as total net position (the residual interest in assets after liabilities are deducted) measured \$316.1 million as of 30 June 2018. Over a fiveyear period, the Institute's total net position increased \$68.0 million or 27.4% (5.5% annualized). Compared to 2017, total net position (unadjusted for GASB 75) decreased \$14 million or 4%, due to current year recognition of \$14.4 million of the Institute's net proportionate share of projected Commonwealth-wide OPEB assets and obligations as required by GASB. In contrast to 2017 balances restated for GASB 75, there was a continued increase in net position of \$1.5 million or 0.5%. VMI's operating revenues rose \$1.0 million or 1.9%, while a corresponding increase in operating costs was contained to \$0.8 million or 0.9%. An increase in tuition and fees of 3.7% (in-state) and 4.7% (out-ofstate) contributed to the overall growth in operating revenues. Opening fall enrollment of the corps of Cadets was 1,722 in 2018, relatively consistent with the 1,713 in 2017 and continuing an upward trend experienced over the past several years. Enrolled Cadets' academic credentials remain significantly above average, with the fall 2018 new Cadet class consisting of 45% in the top quarter and 82% in the top half of their high school cohort. Non-capital related Commonwealth appropriations (State support) remained relatively flat at \$14.7 in 2018 (\$15,000 less than 2017), exceeding for the second year the \$14.6 million received from the Commonwealth in 2008.

VMI's significant private support, further solidified by \$344.1 million in immediate gifts and commitments raised through the VMI Alumni Agencies' *An Uncommon Purpose Campaign* as of 30 June 2017, positions the Institute well for the continued provision of excellent Cadet programs and services through the ongoing execution of its unique mission.

Statement of Net Position

The Statement of Net Position presents the assets, deferred outflows, liabilities, deferred inflows and net position of the Institute as of the end of the fiscal year. The difference between total assets and total liabilities (Net Position) is one indicator of the current financial condition of VMI. The purpose of the statement is to present readers with a fiscal snapshot as of 30 June 2018. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) For the Year Ended 30 June 2018

Statement	of Net	Position
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	30 June 2018	30 June 2017	Varianc	e
Assets: Current assets Capital assets, net Other noncurrent assets	\$ 41,014,441 334,169,710 19,177,292	\$ 35,099,268 337,659,809 21,801,123	\$ 5,915,173 (3,490,099) (2,623,831)	16.9% -1.0% -12.0%
Total assets	394,361,443	394,560,200	(198,757)	-0.1%
Deferred outflows	4,097,559	4,576,115	(478,556)	-10.5%
Total assets and deferred outflows	\$ 398,459,002	\$ 399,136,315	\$ (677,313)	-0.2%
Liabilities: Current liabilities Noncurrent liabilities	\$ 13,200,396 64,047,532	\$ 13,672,045 53,809,938	\$ (471,649) 10,237,594	-3.4% 19.0%
Total liabilities	77,247,928	67,481,983	9,765,945	14.5%
Deferred Inflows	5,113,320	1,478,000	3,635,320	246.0%
Total liabilities and deferred inflows	\$ 82,361,248	\$ 68,959,983	\$ 13,401,265	19.4%
Net position: Net investment in capital assets Restricted - expendable Restricted - nonexpendable Unrestricted	\$ 312,807,720 15,534,467 1,256,115 (13,500,548)	\$ 318,119,310 11,425,257 1,256,116 (624,351)	\$ (5,311,590) 4,109,210 (1) (12,876,197)	-1.7% 36.0% 0.0% -2062.3%
Total net position	\$ 316,097,754	\$ 330,176,332	\$ (14,078,578)	-4.3%

As of 30 June 2018, VMI's total assets and deferred outflows remained relatively consistent, decreasing slightly by \$0.7 million or 0.2% from the prior year to \$398.5 million. The change was primarily due to the following attributes: an increase of \$5.3 million in nondepreciable assets (specifically constructionin-progress) due to various ongoing capital improvement initiatives, an additional \$1.5 million of total cash and equivalents held at year-end, and \$1.0 million in appreciation of investments held with (or in custody of) trustees. These three elements were offset by a \$9.1 million decrease in total depreciable capital assets due to \$12.2 million in current year depreciation expense (a non-cash expenditure), against \$3.1 million in capital asset additions (\$2.0 million and \$0.9 million in equipment and building improvements, respectively). At inception of the Corps Physical Training Facilities (CPTF) multiphase \$118 million capital project, 2015 depreciation expense totaled \$9.2 million. Cash balances, particularly auxiliary funds, continue to be earmarked for capital improvement projects currently underway and for those expected to take place during the next thirty-six months. The Institute recognized a \$0.7 million asset as its proportionate share of the Commonwealth's VSDP OPEB plan's funding status and an additional \$1.1 million in deferred outflows of resources related to OPEB financial recognition as of yearend due to implementation of GASB 75. Deferred outflows of resources represent a consumption of net assets applicable to future reporting periods. Per GASB requirements, current year pension and OPEB expense must be reclassified as a deferred outflow and subsequently recognized as a reduction in the related liability the following year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) For the Year Ended 30 June 2018

The overall change of \$13.4 million or 19.4% in total liabilities and deferred inflows of resources (an acquisition of net assets applicable to future periods) was largely due to recognition of the Commonwealth sponsored OPEB plans' net obligation. Within current liabilities, accounts payable and accrued expenses decreased \$2.4 million or 24.5% due to prior year CPTF culmination, Crozet Hall floor replacement completion and Richardson Hall payables for mechanical replacement not applicable at year-end. Noncurrent liabilities experienced a drop of \$1.7 million in long-term debt due to current year principal repayments and a decrease of \$3.5 million of the Institute's proportionate share of overall Commonwealth net pension obligations, initially recorded in 2015 as a result of GASB Pronouncement 68/71 reporting requirements. This collective \$5.2 million decrease was more than offset by the \$15.0 million OPEB liability accrued in the current year. Deferred inflows of resources related to pensions increased \$1.0 million due to the actual investment experience of underlying plan assets, while an additional \$2.6 million in deferred inflows related to OPEB was recorded, driving the collective increase of \$3.6 million.

The change in total net position of \$14.1 million or 4.3% was due to a decrease of \$5.3 million in capital asset investments (contributing factors previously denoted), an increase of \$3.4 million in restricted-expendable assets due to additional scholarship monies received and Post improvement projects completed, and a decrease of \$12.9 million in unrestricted assets resulting from the current year \$15.0 million OPEB liability. A negative unrestricted fund balance initially occurred in 2015 due to first year recognition of the Institute's proportionate share of the Commonwealth's overall net pension liability, recorded in accordance with GASB Statements 68/71 as previously mentioned.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) For the Year Ended 30 June 2018

Statement of Revenues, Expenses, and Ch		0 June 2018		30 June 2017		Variance	
Operating revenues:		10 Julie 2018	-	50 Julie 2017		v arrance	
Tuition and fees	\$	25,391,710	\$	24,629,351	\$	762,359	3.1%
Grants and contracts	-	91,286	*	92,286	-	(1,000)	-1.1%
Auxiliary enterprises		23,228,528		23,094,994		133,534	0.6%
Unique military activities		3,458,061		3,296,785		161,276	4.9%
Other sources		1,628,980		1,700,244		(71,264)	-4.2%
Total operating revenues		53,798,565		52,813,660		984,905	1.9%
Operating expenses:							
Educational and general		50,949,341		52,139,290		(1,189,949)	-2.3%
Auxiliary enterprises		28,316,746		26,110,524		2,206,222	8.4%
Unique military activity		10,693,224		10,911,024		(217,800)	-2.0%
Other expense		30,783		-		30,783	#DIV/0!
Total operating expenses		89,990,094		89,160,838		829,256	0.9%
Operating loss		(36,191,529)		(36,347,178)		155,649	-0.4%
Nonoperating revenues (expenses):							
State appropriations		14,725,387		14,740,692		(15,305)	-0.1%
Gifts, grants and contributions		17,178,787		16,263,641		915,146	5.6%
Investments		1,592,538		1,777,289		(184,751)	-10.4%
Other		(1,094,604)		(1,128,064)		33,460	3.0%
Net nonoperating revenues		32,402,108		31,653,558		748,550	2.4%
Income (loss) before other revenues		(3,789,421)		(4,693,620)		904,199	19.3%
Other revenues/reductions		5,308,753		19,536,026		(14,227,273)	-72.8%
Increase (decrease) in net position		1,519,332		14,842,406		(13,323,074)	-89.8%
Net position - beginning of year, restated		314,578,422		315,333,926		(755,504)	-0.2%
Net position - end of year	\$	316,097,754	\$	330,176,332	\$	(14,078,578)	-4.3%

As of 30 June 2018, total operating revenues rose by \$1.0 million or 1.9%, while the increase in total operating expenses was contained to \$0.8 million or 0.9%. Opening fall enrollment remained relatively flat in 2018 at 1,722 Cadets compared to 1,713 in 2017. Total mandatory fees (tuition, auxiliary enterprises and unique military activity charges) per Cadet increased as approved by the Institute's Board of Visitors by 3.7% and 4.7% for in-state and out-of-state Cadets, respectively, leading to a combined \$1.1 million in additional revenues.

The net \$0.8 million change in operating expenditures was due to the confluence of an additional \$2.2 million in auxiliary enterprise costs and \$1.0 million greater educational instruction charges, offset by a combined \$1.4 million in lower Physical Plant Post-wide operation and maintenance fees and institutional support costs (\$0.9 million and \$0.5 million, respectively). The cost increases resulted from greater current year indirect cost recoveries between education and general and auxiliary enterprise operations, the fulfillment of multiple positions within auxiliary enterprises, and significant 2017 equipment purchases related to CPTF project completion (not applicable to 2018). The prior year procurement of these items, on an individual basis, fell under established capitalization thresholds and were thereby expensed in full as incurred in the year of purchase.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) For the Year Ended 30 June 2018

Net non-operating revenues increased \$0.7 million or 2.4%, largely driven by additional, external athletic support received in the current year (\$0.4 million) as reflected in the gifts and contributions line item, coupled with a prior year \$0.8 million accounting loss on disposal of plant assets not fully depreciated but replaced through CPTF capital construction renovation efforts (primarily Phase II Cocke Hall activity). State appropriations remained relatively stagnant between the two periods at \$14.7 million, decreasing slightly by \$15,300 and representing approximately 17% of VMI's total budgeted sources of revenue.

The \$14.2 million or 72.8% decline in other revenues and reductions is directly correlated to cyclical capital construction project phasing, specifically, the aforementioned 2017 completion of the multi-year CPTF initiative and reduction of capital expenditure activity thereof. Historically, net CPTF grants and contributions recognized were \$17.4 million and \$56.3 million in 2017 and 2016, respectively.

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 2018	30 June 2017	Variano	ee
Net cash used by operating activities Net cash provided by noncapital financing activities	\$ (25,143,97 31,717,06	, , , , ,	\$ 188,269 219,809	-0.7% 0.7%
Net cash used/provided by capital and financing activities Net cash provided by investing activities	(7,745,40 2,654,76	5) 1,767,363	(9,512,768) 1,722,015	-538.2% 184.6%
Net increase (decrease) in cash	1,482,45	7 8,865,132	(7,382,675)	-83.3%
Cash - beginning of year	30,768,08	3 21,902,951	8,865,132	40.5%
Cash - end of year	\$ 32,250,54	0 \$ 30,768,083	\$ 1,482,457	4.8%

Cash flows from operating activities will always result in a net use for the Institute as State appropriations and private gifts are treated as cash sources for noncapital or capital financing activities as opposed to operating funds. Collective Institute cash balances increased \$1.5 million in 2018 and \$8.9 million in 2017.

Tuition and fees (\$25.6 million), auxiliary charges (\$23.3 million), and unique military activity charges (\$3.5 million) represent the most significant sources of operating cash, while compensation and benefits (\$49.1 million) and supplies and services payments (\$29.4 million) account for the most significant use of operating funds. Overall, net cash utilized in operating activities remained relatively consistent (0.7% difference) in 2018 compared to 2017. A net increase in cash flows provided by mandatory tuition and fee related charges of \$1.1 million, coupled with a \$1.5 million decrease in outlays for supplies and services, was almost entirely offset by an additional \$2.7 million towards salaries and benefits costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) For the Year Ended 30 June 2018

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 (\$5.7 million total). Inversely, net cash utilized in capital and financing activities is primarily related to the purchase and construction of capital assets (\$11.1 million), as well as principal and interest payments on capital debt (\$2.4 million). The \$9.5 million overall capital and related financing fluctuation is attributable to a \$23.9 million decrease in the receipt of capital gifts and contributions (cash inflow), which was partially offset by a \$14.6 million decrease in the purchase and construction of capital assets (cash outflow). Culmination of the Corps Physical Training Facility (CPTF) capital project (\$118 million total cost), during 2017 substantially drove the decline in construction related receipts and disbursements. CPTF total project cost was funded through Virginia College Building Authority's (VCBA) 21st Century bond issuance and is an obligation of the Commonwealth. Related costs were incurred by the Institute prior to VCBA reimbursement.

The increase in cash provided by investing activities of \$1.7 million is predominantly the result of \$1.4 million in 2017 year-end securities lending transactions as directed by the Virginia Department of the Treasury. The Virginia Department of the Treasury oversees the program and suspended activity during 2016 due to unfavorable market conditions in terms of potential program profitability. The Commonwealth's securities lending program is managed by Deutsche Bank and requires that a corresponding collateral receipt of at least 100% be maintained throughout the loan term.

Capital Asset and Debt Administration

30 June 2018 represents the sixteenth 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 \$361.7 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, 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 2018 renovation and construction continued on a number of projects, including repairs to Barracks parapets, stoops, and windows, Cameron Hall roof, and Carroll Hall Psychology laboratories. These projects were financed through VCBA pooled bonds that were sold in 2013, 2014, and 2015. The pooled bond funds are an obligation of the Institute and are reflected as a liability in the Institute's Statement of Net Position. In addition, planning continued on the renovation and construction of Preston Library, Scott Shipp Hall, and Improving Post Infrastructure, which includes the construction of a new Post Police Building. Construction also began on the JM Hall exterior renovation. These projects are funded by capital contributions from the Commonwealth of Virginia through the VCBA 21st Century bond funds.

All of the improvements noted above provide the most modernized and technologically advanced facilities in the long history of VMI. Since VMI began its Vision 2039 capital program, the Institute has incurred long-term debt only on Jackson Memorial Hall, the Cocke Hall Annex, Crozet Hall, South Institute Hill Parking, and several small repair and improvement projects. The remaining projects have been financed with State funds, auxiliary funds, or private gifts and contributions resulting in no debt obligations for the Institute. As of 30 June 2018, the debt outstanding on these projects totaled \$21.4

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) For the Year Ended 30 June 2018

million with annual debt service payments of \$2.4 million. VMI's Board of Visitors adopted debt guidelines in August 2005 to help ensure sound management and control of debt and annually monitors the Institute's position relative to those guidelines.

The Institute's long-term debt consists of \$5.8 million of bonds and \$15.6 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. The Cocke Hall Annex, South Institute Hill Parking and Post Improvements project notes will be paid from Auxiliary Enterprises Program reserve funds, which consist primarily of Cadet fees. The Jackson Memorial Hall note is secured by funds paid by the VMI Foundation, Inc. on a year-to-year basis as a gift to the Institute. Should the gift be discontinued, repayment will be made from the general revenues of the Institute.

Economic Outlook

The Institute's economic outlook is generally favorable due to its continuing strong Cadet demand and national reputation especially for its engineering programs. The Institute has consistently ranked high on the *U.S. News and World Report* list of public liberal arts colleges with a current ranking of #4 behind the three federal service academies. The magazine also ranks VMI's engineering programs as No. 26 nationally among colleges whose highest degree is a bachelor's or master's. *Money* magazine ranks VMI as No. 14 in its listing of the best small colleges in the United States. PayScale.com ranks VMI as No. 5 among all liberal arts colleges nationally on return on investment, which is based on tuition costs, student debt, and on post-graduation salaries. As a public institution with significant private support, the Institute continues to be well positioned to provide excellent programs and services to its Cadets as it maintains a clear educational focus and a well-established niche in the higher education marketplace.

VMI received 1,896 Cadet applications for its fall 2018 new Cadet class resulting in an average for the past three years of 1,902 applications. VMI accepted 51% of the applicants for fall 2018 with a yield of 54% or 518 new Cadets. VMI accepted 52% of the applicants for fall 2017 with a yield of 52% or 504 new Cadets. The academic credentials of the Cadets enrolled continue to be significantly above average with the fall 2018 new Cadet class consisting of 45% in the top quarter and 82% 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 instate and out-of-state Cadets to help maintain financial stability. In-state Cadets totaled 61% of the Corps for fiscal 2017 and 63% for fiscal 2018. 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 \$53.8 million or 62% of total revenues and support in fiscal 2018 with this percentage expected to increase in the future.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) For the Year Ended 30 June 2018

State support provided \$14.7 million or 17% of VMI's total revenues and support for operations in fiscal 2018 excluding funding for capital projects. State support provided \$4.3 million for capital projects consisting primarily of Corps Physical Training Facilities. State support for operations is expected to total about \$15.4 million in fiscal 2019 for an increase of 4.4% over fiscal 2018. State support for capital projects for fiscal 2019 is estimated to total about \$12.55 million and consists primarily of construction funding for Maintenance Reserve, Corps Physical Training Facilities, Post Infrastructure, and planning funds for the 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. FY 2018 State revenue growth was strong. VMI received only minor increases in State operating funds for FY 2019; however, the current biennial budget provides an additional \$935,000 in Educational and General operating funds in FY 2020. In addition, in FY 2020 the Institute will receive additional one-time funding of \$1.4 million in the Unique Military Activities program to support uniform conversions.

Private support provided \$16.7 million or 18% of VMI's total revenues and support for operations in fiscal 2018 excluding funding for capital projects. Private support provided \$187,000 for capital project debt service plus an additional \$751,000 for the Stonewall Jackson House/Davidson Tucker House renovation/expansion project. Private support is derived mostly from VMI's alumni agencies and continues to remain strong due to ongoing fundraising efforts and the professional management of their diversified portfolio of endowment assets. The endowment had a market value of \$492 million as of 30 June 2018 reflecting an increase of about 13.1% over fiscal 2017. The alumni agencies completed a fundraising campaign on 30 June 2017 that significantly increased endowments in support of new and existing programs.

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



VIRGINIA MILITARY INSTITUTE Statement of Net Position As of 30 June 2018

ASSETS		
Current assets	_	
Cash and cash equivalents (Note 2)	\$	28,934,166
Cash equivalent held by Treasurer of Virginia (Note 2)		1,427,890
Accounts receivable, Net of allowance for doubtful accounts of \$75,063 (Note 3)		1,012,462
Due from the Commonwealth (Note 4)		1,022,785
Due from federal government		27,154
Prepaid expenditures		1,286,773
Inventories (Note 5)		7,101,658
Loans receivable Total current assets		201,553 41,014,441
Total current assets		41,014,441
Noncurrent assets		
Cash and cash equivalents (Note 2)		1,021,377
Cash equivalent-restricted (Note 2)		867,107
Investments held with trustees (Note 2)		15,395,433
Appropriations Available		137,057
Accounts receivable (Note 3)		12,033
Loans receivable, Net of allowance for doubtful accounts of \$39,462		1,078,285
Nondepreciable capital assets (Note 6)		17,198,265
Depreciable capital assets, Net of accumulated depreciation (Note 6)		316,971,445
Net OPEB Asset (Note 13)		666,000
Total noncurrent assets		353,347,002
Total assets		394,361,443
DEFEDDED OUTEL OW OF DESCUDOES		
Loss on refunding	-	421,425
Deferred outflows related to OPEB		1,107,821
Deferred outflows related to pensions		2,568,313
Total deferred outflow of resources		4,097,559
T		200 450 002
Total assets and deferred outflows	_	398,459,002
LIABILITIES		
Current liabilities	_	
Accounts payable and accrued expenses (Note 7)		7,483,413
Unearned revenue		1,254,561
Obligations under securities lending		1,427,890
Deposits held for others		705,880
Long-term liabilities-current portion (Note 8)		613,138
Long-term debt-current portion: (Note 8, Note 9)		1,495,000
OPEB Liability-current portion: (Note 13)		220,514
Total current liabilities		13,200,396
Noncurrent liabilities		
Accrued liabilities (Note 7)		3,368,710
Federal loan program contributions refundable		1,160,426
Long-term liabilities-noncurrent portion (Note 8)		777,060
Long-term debt-noncurrent portion: (Note 8, Note 9)		19,891,492
Net Pension Liability (Note 12)		24,023,000
OPEB Liability (Note 13)		14,826,844
Total noncurrent liabilities		64,047,532
Total liabilities		77,247,928
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to OPEB	-	2,635,320
Deferred inflows related to pensions	_	2,478,000
Total deferred inflow of resources		5,113,320

VIRGINIA MILITARY INSTITUTE Statement of Net Position As of 30 June 2018

NET POSITION	
Net investment in capital assets	312,807,720
Restricted-nonexpendable	
Endowment	1,256,115
Restricted-expendable	
Scholarships and other	3,544,619
Loan funds	569,073
Quasi-endowment-restricted	9,017,632
Capital projects	1,737,143
VSDP OPEB	666,000
	15,534,467
Unrestricted	(13,500,548)
Total net position	316,097,754
Total liabilities, deffered inflows and net position	\$ 398,459,002

COMBINED STATEMENT OF FINANCIAL POSITION Component Units of Virginia Military Institute As of 30 June 2018

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 12,018,324
Contributions receivable (Note 19)	10,098,477
Accounts receivable	215,598
Note receivable	106,672
Other	181,419
Total current assets	22,620,490
Noncurrent assets:	
Contributions receivable (Note 19)	11,184,660
Investments held by trustees (Note 19)	473,341,310
Investments, other (Note 19)	18,232,960
Investment securities	246,943
Cash surrender of life insurance	5,352,716
Property and equipment, net of accumulated depreciation	458,129
Total noncurrent assets	508,816,718
Total assets	531,437,208
LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses	889,663
Unearned revenue	1,558
Long-term liabilities-current portion:	
Trust and annuity obligations	630,339
Total current liabilities	1,521,560
Noncurrent liabilities:	
Other liabilities	12,033
Long-term liabilities-noncurrent portion:	ŕ
Bonds payable (Note 19)	46,741,112
Trust and annuity obligations	4,694,199
Total noncurrent liabilities	51,447,344
Total liabilities	52,968,904
NET ASSETS	
Unrestricted	63,459,638
Temporarily restricted	203,192,634
Permanently restricted	211,816,032
Total net assets	478,468,304
Total liabilities and net assets	\$ 531,437,208

VIRGINIA MILITARY INSTITUTE Statement of Revenues, Expenses, and Changes in Net Position For the Year Ended 30 June 2018

Tuition and fees, Net of scholarships allowances of \$6,921,739 \$25,391,710 Federal grants and contracts \$91,286 \$3 les and services of educational departments 470,531 Auxiliary enterprise, Net of scholarship allowances of \$6,009,043 23,228,528 Unique military activities, Net of scholarships allowances of \$982,261 3,458,661 Other sources:	Operating revenues:	_	
Sales and services of educational departments 470,531 Auxiliary enterprise, Net of scholarship allowances of \$8,009,043 23,228,528 Unique military activities, Net of scholarships allowances of \$992,261 3,458,061 Other sources: 553,255 Museum programs 553,255 Rents and commissions 453,571 Miscellaneous 151,623 Total operating revenues 53,798,565 Operating expenses: Educational and general 1 Instruction 23,814,726 Research 183,313 Public service 1,460,724 Academic support 5,951,856 Operation and maintenance of physical plant 5,951,856 Operation and maintenance of physical plant 7,506,824 Scholarships and related expense 23,625 Auxiliary entireprises 28,316,746 Unique military activities 10,693,224 Loan cancellations and write-offs bad debt expense 30,783 Total operating expenses (Note 10) 89,990,094 Net operating income (loss) (36,191,529) State approp	Tuition and fees, Net of scholarships allowances of \$6,921,739	\$	25,391,710
Auxiliary enterprise, Net of scholarship allowances of \$6,009,043 Unique military activities, Net of scholarships allowances of \$982,261 Other sources: Museum programs Rents and commissions A53,255 Rents and commissions A53,571 Miscellaneous Total operating revenues S3,798,565 Operating expenses: Educational and general Instruction Research Research Academic support Academ	Federal grants and contracts		91,286
Unique military activities, Net of scholarships allowances of \$982,261 Other sources: Muscum programs Rents and commissions Miscellaneous Total operating revenues Sayr98,565 Operating expenses: Educational and general Instruction Research Research Research Research Research Student services Institutional support Scholarships and related expense Scholarships and related expense Coperating expenses: Student services Student services Institutional support Scholarships and related expense Scholarships	Sales and services of educational departments		470,531
Other sources: Museum programs 553,255 Rents and commissions 453,571 Miscellaneous 151,623 Total operating revenues 53,798,565 Operating expenses: Educational and general 183,313 Instruction 23,814,726 Research 183,313 Public service 1,460,724 Academic support 7,510,825 Student services 3,897,418 Institutional support 5,951,856 Operation and maintenance of physical plant 7,506,854 Scholarships and related expense 623,625 Auxiliary enterprises 28,316,746 Unique military activities 10,693,224 Loan cancellations and write-offs bad debt expense 30,783 Total operating expenses (Note 10) 89,990,094 Net operating income (loss) (36,191,529) Nonoperating revenues/(expenses): 3 State appropriations (Note 11) 14,725,387 Gifts and contributions 15,997,550 Federal student financial aid (Pell) 1,188,530	Auxiliary enterprise, Net of scholarship allowances of \$6,009,043		23,228,528
Museum programs 553,255 Rents and commissions 453,771 Miscellaneous 151,623 Total operating revenues 53,798,565 Operating expenses: Educational and general 1 Instruction 23,814,726 Research 183,113 Public service 1,460,724 Academic support 7,510,825 Student services 3,897,418 Institutional support 5,951,856 Operation and maintenance of physical plant 7,506,854 Scholarships and related expense 623,625 Auxiliary enterprises 28,316,746 Unique military activities 10,693,224 Loan cancellations and write-offs bad debt expense 30,783 Total operating expenses (Note 10) 89,990,094 Net operating income (loss) (36,191,529) Nonoperating revenues/(expenses): 32,207 State approgrations (Note 11) 14,725,387 Gifts and contributions 15,957,550 Federal student financial aid (Pell) 1,188,530 Federal student financial	Unique military activities, Net of scholarships allowances of \$982,261		3,458,061
Rents and commissions 453,571 Miscellaneous 151,623 Total operating revenues 53,798,565 Operating expenses: Educational and general 183,313 Instruction 23,814,726 Research 183,313 Public service 1,460,724 Academic support 7,510,825 Student services 3,897,418 Institutional support 5,951,856 Operation and maintenance of physical plant 7,506,854 Scholarships and related expense 623,625 Auxiliary enterprises 28,316,746 Unique military activities 10,693,224 Loan cancellations and write-offs bad debt expense 30,783 Total operating expenses (Note 10) 89,990,094 Net operating income (loss) 36,191,529 Nonoperating revenues/(expenses): 23,240 State appropriations (Note 11) 14,725,387 Gifts and contributions 15,957,550 Federal student financial aid (Pell) 1,188,530 Federal student financial aid (Pell) 1,188,530 <	Other sources:		
Miscellaneous 151,623 Total operating revenues 53,798,565 Operating expenses: Educational and general 1 Instruction 23,814,726 Research 183,313 Public service 1,460,724 Academic support 5,951,856 Student services 3,897,418 Institutional support 5,951,856 Operation and maintenance of physical plant 7,506,854 Scholarships and related expense 623,625 Auxiliary enterprises 28,316,746 Unique military activities 10,693,224 Loan cancellations and write-offs bad debt expense 30,783 Total operating expenses (Note 10) 89,990,094 Net operating income (loss) (36,191,529) Nonoperating revenues/(expenses): 30,783 State appropriations (Note 11) 14,725,387 Gifs and contributions 15,997,550 Federal student financial aid (Pell) 1,885,30 Federal student financial aid (Pell) 1,885,30 Federal studient financial aid pasets (100,009) <tr< td=""><td>Museum programs</td><td></td><td>553,255</td></tr<>	Museum programs		553,255
Total operating revenues 53,798,565	Rents and commissions		453,571
Departing expenses Educational and general Instruction	Miscellaneous		151,623
Educational and general Instruction 23,814,726 Research 183,313 Public service 1,460,724 Academic support 7,510,825 Student services 3,897,418 Institutional support 5,951,856 Operation and maintenance of physical plant 7,506,854 Scholarships and related expense 623,625 Auxiliary enterprises 28,316,746 Unique military activities 10,693,224 Loan cancellations and write-offs bad debt expense 30,783 Total operating expenses (Note 10) 89,990,094 Net operating income (loss) (36,191,529) Nonoperating revenues/(expenses): State appropriations (Note 11) 14,725,387 Gifts and contributions 15,957,550 Federal student financial aid (Pell) 1,188,530 Federal stabilization funds (ARRA) 32,707 Investment income (loss) 1,592,538 Interest on capital asset - related debt (802,238) Gain/(loss) on disposal of plant assets (100,009) Other nonoperating expense (192,357) Net nonoperating expense (192,357) Other revenues and reductions: Grants and contributions-capital 5,285,414 Investment income-capital 23,339 Total other revenues and reductions 5,308,753 Increase/(Decrease) in net position 1,519,332 Net position beginning of the year, restated (Note 17) 314,578,422	Total operating revenues		53,798,565
Instruction 23,814,726 Research 183,313 Public service 1,460,724 Academic support 7,510,825 Student services 3,897,418 Institutional support 5,951,856 Operation and maintenance of physical plant 7,506,854 Scholarships and related expense 623,625 Auxiliary enterprises 28,316,746 Unique military activities 10,693,224 Loan cancellations and write-offs bad debt expense 30,783 Total operating expenses (Note 10) 89,990,094 Net operating income (loss) (36,191,529) Nonoperating revenues/(expenses): 14,725,387 Gifts and contributions 15,957,550 Federal student financial aid (Pell) 1,188,530 Federal stabilization funds (ARRA) 32,707 Investment income (loss) 1,592,538 Interest on capital asset - related debt (802,238) Gain/(loss) on disposal of plant assets (100,000) Other nonoperating expense (192,357) Net nonoperating revenues 32,402,108 Income (loss) be	Operating expenses:	_	
Research 183,313 Public service 1,460,724 Academic support 7,510,825 Student services 3,897,418 Institutional support 5,951,856 Operation and maintenance of physical plant 7,506,854 Scholarships and related expense 623,625 Auxiliary enterprises 28,316,746 Unique military activities 10,693,224 Loan cancellations and write-offs bad debt expense 30,783 Total operating expenses (Note 10) 89,990,094 Net operating income (loss) (36,191,529) Nonoperating revenues/(expenses): 3 State appropriations (Note 11) 14,725,387 Gifts and contributions 15,927,550 Federal student financial aid (Pell) 1,188,530 Federal stabilization funds (ARRA) 32,707 Investment income (loss) 1,592,538 Interest on capital asset - related debt (802,238) Gain/(loss) on disposal of plant assets (100,009) Other nonoperating expense (192,357) Net nonoperating revenues 32,402,108 Income	Educational and general	-	
Public service 1,460,724 Academic support 7,510,825 Student services 3,897,418 Institutional support 5,951,856 Operation and maintenance of physical plant 7,506,854 Scholarships and related expense 623,625 Auxiliary enterprises 28,316,746 Unique military activities 10,693,224 Loan cancellations and write-offs bad debt expense 30,783 Total operating expenses (Note 10) 89,990,094 Net operating income (loss) (36,191,529) Nonoperating revenues/(expenses): 30,783 State appropriations (Note 11) 14,725,387 Gifts and contributions 15,957,550 Federal student financial aid (Pell) 1,188,530 Federal student financial aid (Pell) 1,188,530 Federal stabilization funds (ARRA) 32,707 Investment income (loss) 1,592,538 Interest on capital asset - related debt (802,238) Gain/(loss) on disposal of plant assets (100,009) Other nonoperating expense (192,357) Net nonoperating expense 32,402,108	Instruction		23,814,726
Academic support 7,510,825 Student services 3,897,418 Institutional support 5,951,856 Operation and maintenance of physical plant 7,506,854 Scholarships and related expense 623,625 Auxiliary enterprises 28,316,746 Unique military activities 10,693,224 Loan cancellations and write-offs bad debt expense 30,783 Total operating expenses (Note 10) 89,990,094 Net operating income (loss) (36,191,529) Nonoperating revenues/(expenses): 30,783 State appropriations (Note 11) 14,725,387 Gifts and contributions 15,957,550 Federal student financial aid (Pell) 1,188,530 Federal stabilization funds (ARRA) 32,707 Investment income (loss) 1,592,538 Interest on capital asset - related debt (802,238) Gain/(loss) on disposal of plant assets (100,009) Other nonoperating expense (192,357) Net nonoperating expense (3,789,421) Other revenues and reductions: (3,789,421) Grants and contributions-capital 5,2	Research		183,313
Student services 3,897,418 Institutional support 5,951,856 Operation and maintenance of physical plant 7,506,854 Scholarships and related expense 623,625 Auxiliary enterprises 28,316,746 Unique military activities 10,693,224 Loan cancellations and write-offs bad debt expense 30,783 Total operating expenses (Note 10) 89,990,094 Net operating income (loss) (36,191,529) Nonoperating revenues/(expenses): 30,783 State appropriations (Note 11) 14,725,387 Gifts and contributions 15,957,550 Federal student financial aid (Pell) 1,188,530 Federal stabilization funds (ARRA) 32,707 Investment income (loss) 1,592,538 Interest on capital asset - related debt (802,238) Gain/(loss) on disposal of plant assets (100,009) Other nonoperating expense (192,357) Net nonoperating revenues 32,402,108 Income (loss) before other revenues and extraordinary items (3,789,421) Other revenues and reductions: 5,308,753 Increase/(Public service		1,460,724
Institutional support 5,951,856 Operation and maintenance of physical plant 7,506,854 Scholarships and related expense 623,625 Auxiliary enterprises 28,316,746 Unique military activities 10,693,224 Loan cancellations and write-offs bad debt expense 30,783 Total operating expenses (Note 10) 89,990,094 Net operating income (loss) (36,191,529) Nonoperating revenues/(expenses): 30,783 State appropriations (Note 11) 14,725,387 Gifts and contributions 15,957,550 Federal student financial aid (Pell) 1,188,530 Federal stabilization funds (ARRA) 32,707 Investment income (loss) 1,592,538 Interest on capital asset - related debt (802,238) Gain/(loss) on disposal of plant assets (100,009) Other nonoperating expense (192,357) Net nonoperating revenues 32,402,108 Income (loss) before other revenues and extraordinary items (3,789,421) Other revenues and reductions: 5,285,414 Investment income-capital 5,285,414 I	Academic support		7,510,825
Institutional support 5,951,856 Operation and maintenance of physical plant 7,506,854 Scholarships and related expense 623,625 Auxiliary enterprises 28,316,746 Unique military activities 10,693,224 Loan cancellations and write-offs bad debt expense 30,783 Total operating expenses (Note 10) 89,990,094 Net operating income (loss) (36,191,529) Nonoperating revenues/(expenses): 30,783 State appropriations (Note 11) 14,725,387 Gifts and contributions 15,957,550 Federal student financial aid (Pell) 1,188,530 Federal stabilization funds (ARRA) 32,707 Investment income (loss) 1,592,538 Interest on capital asset - related debt (802,238) Gain/(loss) on disposal of plant assets (100,009) Other nonoperating expense (192,357) Net nonoperating revenues 32,402,108 Income (loss) before other revenues and extraordinary items (3,789,421) Other revenues and reductions: 5,285,414 Investment income-capital 5,285,414 I	Student services		3,897,418
Operation and maintenance of physical plant 7,506,854 Scholarships and related expense 623,625 Auxiliary enterprises 28,316,746 Unique military activities 10,693,224 Loan cancellations and write-offs bad debt expense 30,783 Total operating expenses (Note 10) 89,990,094 Net operating income (loss) (36,191,529) Nonoperating revenues/(expenses): 30,783 State appropriations (Note 11) 14,725,387 Gifts and contributions 15,957,550 Federal student financial aid (Pell) 1,188,530 Federal stabilization funds (ARRA) 32,707 Investment income (loss) 1,592,538 Interest on capital asset - related debt (802,238) Gain/(loss) on disposal of plant assets (100,009) Other nonoperating expense (192,357) Net nonoperating revenues 32,402,108 Income (loss) before other revenues and extraordinary items (3,789,421) Other revenues and reductions: 5,285,414 Investment income-capital 5,308,753 Increase/(Decrease) in net position 1,519,332	Institutional support		
Scholarships and related expense 623,625 Auxiliary enterprises 28,316,746 Unique military activities 10,693,224 Loan cancellations and write-offs bad debt expense 30,783 Total operating expenses (Note 10) 89,990,094 Net operating income (loss) (36,191,529) Nonoperating revenues/(expenses): 30,783 State appropriations (Note 11) 14,725,387 Gifts and contributions 15,957,550 Federal student financial aid (Pell) 1,188,530 Federal student financial aid (Pell) 1,188,530 Federal stabilization funds (ARRA) 32,707 Investment income (loss) 1,592,538 Interest on capital asset - related debt (802,238) Gain/(loss) on disposal of plant assets (100,009) Other nonoperating expense (192,357) Net nonoperating revenues 32,402,108 Income (loss) before other revenues and extraordinary items (3,789,421) Other revenues and reductions: 5,285,414 Investment income-capital 5,238,753 Increase/(Decrease) in net position 1,519,332	**		
Auxiliary enterprises 28,316,746 Unique military activities 10,693,224 Loan cancellations and write-offs bad debt expense 30,783 Total operating expenses (Note 10) 89,990,094 Net operating income (loss) (36,191,529) Nonoperating revenues/(expenses): 14,725,387 Gifts and contributions 15,957,550 Federal student financial aid (Pell) 1,188,530 Federal student financial aid (Pell) 1,592,538 Investment income (loss) 1,592,538 Interest on capital asset - related debt (802,238) Gain/(loss) on disposal of plant assets (100,009) Other nonoperating expense (192,357) Net nonoperating revenues 32,402,108 Income (loss) before other revenues and extraordinary items (3,789,421) Other revenues and reductions: 5,285,414 Investment income-capital 5,285,414 Investment income-capital 5,308,753 Increase/(Decrease) in net position 1,519,332 Net position beginning of the year, restated (Note 17) 314,578,422	1 1 1 1		
Unique military activities 10,693,224 Loan cancellations and write-offs bad debt expense 30,783 Total operating expenses (Note 10) 89,990,094 Net operating income (loss) (36,191,529) Nonoperating revenues/(expenses): 14,725,387 Gifts and contributions 15,957,550 Federal student financial aid (Pell) 1,188,530 Federal student financial aid (Pell) 1,592,538 Investment income (loss) 1,592,538 Interest on capital asset - related debt (802,238) Gain/(loss) on disposal of plant assets (100,009) Other nonoperating expense (192,357) Net nonoperating revenues 32,402,108 Income (loss) before other revenues and extraordinary items (3,789,421) Other revenues and reductions: 5,285,414 Investment income-capital 5,285,414 Investment income-capital 5,308,753 Increase/(Decrease) in net position 1,519,332 Net position beginning of the year, restated (Note 17) 314,578,422	1 1		
Loan cancellations and write-offs bad debt expense 30,783 Total operating expenses (Note 10) 89,990,094 Net operating income (loss) (36,191,529) Nonoperating revenues/(expenses): *** State appropriations (Note 11) 14,725,387 Gifts and contributions 15,957,550 Federal student financial aid (Pell) 1,188,530 Federal stabilization funds (ARRA) 32,707 Investment income (loss) 1,592,538 Interest on capital asset - related debt (802,238) Gain/(loss) on disposal of plant assets (100,009) Other nonoperating expense (192,357) Net nonoperating revenues 32,402,108 Income (loss) before other revenues and extraordinary items (3,789,421) Other revenues and reductions: (3789,421) Other revenues and reductions: 5,285,414 Investment income-capital 5,308,753 Increase/(Decrease) in net position 1,519,332 Net position beginning of the year, restated (Note 17) 314,578,422	•		
Total operating expenses (Note 10) 89,990,094 Net operating income (loss) (36,191,529) Nonoperating revenues/(expenses): 30,000 State appropriations (Note 11) 14,725,387 Gifts and contributions 15,957,550 Federal student financial aid (Pell) 1,188,530 Federal stabilization funds (ARRA) 32,707 Investment income (loss) 1,592,538 Interest on capital asset - related debt (802,238) Gain/(loss) on disposal of plant assets (100,009) Other nonoperating expense (192,357) Net nonoperating revenues 32,402,108 Income (loss) before other revenues and extraordinary items (3,789,421) Other revenues and reductions: 5,285,414 Investment income-capital 5,285,414 Investment income-capital 5,308,753 Increase/(Decrease) in net position 1,519,332 Net position beginning of the year, restated (Note 17) 314,578,422			
Net operating income (loss) (36,191,529) Nonoperating revenues/(expenses): 14,725,387 State appropriations (Note 11) 14,725,387 Gifts and contributions 15,957,550 Federal student financial aid (Pell) 1,188,530 Federal stabilization funds (ARRA) 32,707 Investment income (loss) 1,592,538 Interest on capital asset - related debt (802,238) Gain/(loss) on disposal of plant assets (100,009) Other nonoperating expense (192,357) Net nonoperating revenues 32,402,108 Income (loss) before other revenues and extraordinary items (3,789,421) Other revenues and reductions: 5,285,414 Investment income-capital 5,285,414 Investment income-capital 5,308,753 Increase/(Decrease) in net position 1,519,332 Net position beginning of the year, restated (Note 17) 314,578,422	•		
Nonoperating revenues/(expenses):State appropriations (Note 11)14,725,387Gifts and contributions15,957,550Federal student financial aid (Pell)1,188,530Federal stabilization funds (ARRA)32,707Investment income (loss)1,592,538Interest on capital asset - related debt(802,238)Gain/(loss) on disposal of plant assets(100,009)Other nonoperating expense(192,357)Net nonoperating revenues32,402,108Income (loss) before other revenues and extraordinary items(3,789,421)Other revenues and reductions:5,285,414Grants and contributions-capital5,285,414Investment income-capital23,339Total other revenues and reductions5,308,753Increase/(Decrease) in net position1,519,332Net position beginning of the year, restated (Note 17)314,578,422			
State appropriations (Note 11) 14,725,387 Gifts and contributions 15,957,550 Federal student financial aid (Pell) 1,188,530 Federal stabilization funds (ARRA) 32,707 Investment income (loss) 1,592,538 Interest on capital asset - related debt (802,238) Gain/(loss) on disposal of plant assets (100,009) Other nonoperating expense (192,357) Net nonoperating revenues 32,402,108 Income (loss) before other revenues and extraordinary items (3,789,421) Other revenues and reductions: 5,285,414 Investment income-capital 5,285,414 Investment income-capital 5,308,753 Increase/(Decrease) in net position 1,519,332 Net position beginning of the year, restated (Note 17) 314,578,422	. , ,	-	(= 0, = > = , = = >)
Gifts and contributions 15,957,550 Federal student financial aid (Pell) 1,188,530 Federal stabilization funds (ARRA) 32,707 Investment income (loss) 1,592,538 Interest on capital asset - related debt (802,238) Gain/(loss) on disposal of plant assets (100,009) Other nonoperating expense (192,357) Net nonoperating revenues 32,402,108 Income (loss) before other revenues and extraordinary items (3,789,421) Other revenues and reductions: 5,285,414 Investment income-capital 5,285,414 Investment income-capital 5,308,753 Increase/(Decrease) in net position 1,519,332 Net position beginning of the year, restated (Note 17) 314,578,422		_	14.725.207
Federal student financial aid (Pell) 1,188,530 Federal stabilization funds (ARRA) 32,707 Investment income (loss) 1,592,538 Interest on capital asset - related debt (802,238) Gain/(loss) on disposal of plant assets (100,009) Other nonoperating expense (192,357) Net nonoperating revenues 32,402,108 Income (loss) before other revenues and extraordinary items (3,789,421) Other revenues and reductions: 5,285,414 Investment income-capital 5,285,414 Investment income-capital 5,308,753 Increase/(Decrease) in net position 1,519,332 Net position beginning of the year, restated (Note 17) 314,578,422			
Federal stabilization funds (ARRA) 32,707 Investment income (loss) 1,592,538 Interest on capital asset - related debt (802,238) Gain/(loss) on disposal of plant assets (100,009) Other nonoperating expense (192,357) Net nonoperating revenues 32,402,108 Income (loss) before other revenues and extraordinary items (3,789,421) Other revenues and reductions: 5,285,414 Investment income-capital 5,308,753 Total other revenues and reductions 5,308,753 Increase/(Decrease) in net position 1,519,332 Net position beginning of the year, restated (Note 17) 314,578,422			
Investment income (loss) 1,592,538 Interest on capital asset - related debt (802,238) Gain/(loss) on disposal of plant assets (100,009) Other nonoperating expense (192,357) Net nonoperating revenues 32,402,108 Income (loss) before other revenues and extraordinary items (3,789,421) Other revenues and reductions: 5,285,414 Investment income-capital 5,285,414 Investment income-capital 5,308,753 Increase/(Decrease) in net position 1,519,332 Net position beginning of the year, restated (Note 17) 314,578,422			
Interest on capital asset - related debt Gain/(loss) on disposal of plant assets (100,009) Other nonoperating expense (192,357) Net nonoperating revenues Income (loss) before other revenues and extraordinary items (3,789,421) Other revenues and reductions: Grants and contributions-capital Investment income-capital Total other revenues and reductions Increase/(Decrease) in net position 1,519,332 Net position beginning of the year, restated (Note 17) 314,578,422			
Gain/(loss) on disposal of plant assets Other nonoperating expense Net nonoperating revenues Income (loss) before other revenues and extraordinary items Other revenues and reductions: Grants and contributions-capital Investment income-capital Total other revenues and reductions Increase/(Decrease) in net position Net position beginning of the year, restated (Note 17) (100,009) (192,357) 32,402,108 (3,789,421) 5,285,414 1,528,414 1,539,339 Total other revenues and reductions 1,519,332 Net position beginning of the year, restated (Note 17) 314,578,422			
Other nonoperating expense (192,357) Net nonoperating revenues 32,402,108 Income (loss) before other revenues and extraordinary items (3,789,421) Other revenues and reductions: Grants and contributions-capital 5,285,414 Investment income-capital 23,339 Total other revenues and reductions 5,308,753 Increase/(Decrease) in net position 1,519,332 Net position beginning of the year, restated (Note 17) 314,578,422	•		
Net nonoperating revenues 32,402,108 Income (loss) before other revenues and extraordinary items (3,789,421) Other revenues and reductions: Grants and contributions-capital 5,285,414 Investment income-capital 23,339 Total other revenues and reductions 5,308,753 Increase/(Decrease) in net position 1,519,332 Net position beginning of the year, restated (Note 17) 314,578,422			
Income (loss) before other revenues and extraordinary items Other revenues and reductions: Grants and contributions-capital 5,285,414 Investment income-capital 23,339 Total other revenues and reductions 5,308,753 Increase/(Decrease) in net position 1,519,332 Net position beginning of the year, restated (Note 17) 314,578,422	Other nonoperating expense		(192,357)
Other revenues and reductions: Grants and contributions-capital 5,285,414 Investment income-capital 23,339 Total other revenues and reductions 5,308,753 Increase/(Decrease) in net position 1,519,332 Net position beginning of the year, restated (Note 17) 314,578,422	Net nonoperating revenues		32,402,108
Grants and contributions-capital 5,285,414 Investment income-capital 23,339 Total other revenues and reductions 5,308,753 Increase/(Decrease) in net position 1,519,332 Net position beginning of the year, restated (Note 17) 314,578,422	Income (loss) before other revenues and extraordinary items		(3,789,421)
Investment income-capital 23,339 Total other revenues and reductions 5,308,753 Increase/(Decrease) in net position 1,519,332 Net position beginning of the year, restated (Note 17) 314,578,422	Other revenues and reductions:		
Total other revenues and reductions 5,308,753 Increase/(Decrease) in net position 1,519,332 Net position beginning of the year, restated (Note 17) 314,578,422	Grants and contributions-capital	_	5,285,414
Increase/(Decrease) in net position 1,519,332 Net position beginning of the year, restated (Note 17) 314,578,422	Investment income-capital		
Net position beginning of the year, restated (Note 17) 314,578,422	Total other revenues and reductions		5,308,753
	Increase/(Decrease) in net position		1,519,332
Net position end of year \$ 316,097,754	Net position beginning of the year, restated (Note 17)		314,578,422
	Net position end of year	\$	316,097,754

COMBINED STATEMENT OF ACTIVITIES Component Units of Virginia Military Institute For the Year Ended 30 June 2018

	U	nrestricted	 Temporarily Restricted	P	Permanently Restricted	 Total
REVENUES						
Amounts raised on behalf of VMI	\$	9,170,661	\$ 3,796,154	\$	11,657,591	\$ 24,624,406
Grants, contributions and contracts		319,472	9,960		-	329,432
Investment income		1,552,523	3,399		-	1,555,922
Actuarial gain/(loss) on trust and annuity obligations		(128,014)	(259,522)		(15,630)	(403,166)
Administrative fees		27,500	-		-	27,500
Other income		3,945	-		-	3,945
Net assets released from restrictions and reclassifications		13,774,825	 (13,774,825)		-	
Total revenues		24,720,912	 (10,224,834)		11,641,961	 26,138,039
EXPENSES						
Amounts remitted directly to or on behalf of VMI:						
Unrestricted		4,932,493	-		-	4,932,493
Designated		13,920,104	-		-	13,920,104
Cost of operations		7,068,831	-		-	7,068,831
Conference, research and education		291,431	-		-	291,431
Total expenses		26,212,859	 -			 26,212,859
Change in net assets before net realized and unrealized						
gain/(loss) on investments		(1,491,947)	(10,224,834)		11,641,961	(74,820)
Net realized and unrealized gain/(loss) on		10.454.000	24 202 555			24.520.055
investments		10,454,282	 24,283,775		<u> </u>	 34,738,057
Change in net assets		8,962,335	14,058,941		11,641,961	34,663,237
NET ASSETS						
Beginning		54,497,303	 189,133,693		200,174,071	 443,805,067
Ending	\$	63,459,638	\$ 203,192,634	\$	211,816,032	\$ 478,468,304

Statement of Cash Flows For the Year Ended 30 June 2018

Cash provided/(used) by operating activities:		
Tuition and fees	\$	25,551,276
Federal grants and contracts		91,286
Sales and services-educational and general		523,017
Auxiliary charges		23,308,009
Unique military activity charges		3,456,212
Other operating receipts		1,198,282
Payments to employees for salaries and benefits		(49,095,259)
Payments for supplies and services		(29,425,986)
Payments for scholarships and fellowships		(697,737)
Loan funds issued to students		(150,194)
Collections of loans from students		97,123
Net cash provided/(used) by operating activities		(25,143,971)
Cash provided/(used) by noncapital financing activities:		
State appropriations		14,725,388
Nonoperating grants and contracts		1,148,139
Gifts and contributions for other than capital purposes		16,029,550
Other non-operating disbursements		(192,357)
Federal Direct Lending Program-receipts		8,253,102
Federal Direct Lending Program-disbursements		(8,253,102)
Agency receipts		1,469,718
Agency disbursements		(1,463,372)
Net cash provided/(used) by noncapital financing activities	_	31,717,066
Cash provided/(used) by capital and related financing activities:		
Capital gifts and contributions		5,722,530
Proceeds from capital assets		6,825
Purchase and construction of capital assets		(11,145,436)
Principal paid on capital debt, leases and installments		(1,343,447)
Interest paid on capital debt, leases and installments		(1,009,216)
Investment income-capital		23,339
Net cash provided/(used) by capital and relating financing activities		(7,745,405)
Cash provided/(used) by investing activities:		
Interest on investments		223,350
Investment/Endowment income		1,972,306
Sale of investments		459,111
Net cash provided/(used) by investing activities		2,654,767
Net increase/(decrease) in cash		1,482,457
Cash and cash equivalents-beginning of year		30,768,083
Cash and cash equivalents -end of year	\$	32,250,540

Statement of Cash Flows For the Year Ended 30 June 2018

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

Operating loss	\$	(36,191,529)
Adjustments to reconcile net operating expenses to cash used by		
operating activities:		
Depreciation expense		12,188,917
Changes in assets, liabilities, deferred outflows, and deferred inflows:		
Accounts receivable		89,739
Inventories		(656,852)
Prepaid expenditures		(33,584)
Loans receivable		83,956
Deferred outflows of resources related to pensions		1,509,825
Deferred outflows of resources related to OPEB		(1,107,821)
Accounts payable and accrued liabilities		(126,413)
Unearned revenue		238,360
Compensated absences		28,555
Federal loan program contributions refundable		(107,889)
Net OPEB Asset		(126,000)
OPEB Liability		(1,090,555)
Net Pension Liability		(3,478,000)
Deferred infows related to OPEB		2,635,320
Deferred inflows related to pensions		1,000,000
Net cash used in operating activities	\$	(25,143,971)
Change in fair value of investments recognized as a component of investment income Amoritzation of bond premium/discount and gain/loss on debt refinancing Loss on disposal of capital assets	\$	544,698 (268,164) (100,009)
econciliation of cash and cash equivalents to the Statement of Net Position: Cash and cash equivalents classified as current assets		30,362,056

- NOTES TO FINANCIAL STATEMENTS -

Note 1	Summary of significant accounting policies	Page 17
Note 2	Cash and cash equivalents and investments	Page 25
Note 3	Accounts receivable	Page 29
Note 4	Commonwealth reimbursement programs	Page 29
Note 5	Inventories	Page 29
Note 6	Capital assets	Page 30
Note 7	Accounts payable and accrued expenses	Page 30
Note 8	Long-term liabilities summary	Page 31
Note 9	Long-term indebtedness detail	Page 31
Note 10	Expenses by natural classification	Page 34
Note 11	State appropriations	Page 34
Note 12	Retirement and pension systems	Page 35
Note 13	Postemployment benefits	Page 51
Note 14	Risk management	Page 92
Note 15	Contingencies	Page 93
Note 16	Subsequent Events	Page 93
Note 17	Restatement of Net Position	Page 93
Note 18	VMI Alumni Agencies	Page 94
Note 19	Component Units	Page 98

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

The Institute is part of the Commonwealth of Virginia's statewide system of public higher education. The VMI Board of Visitors, appointed by the Governor, is responsible for overseeing the Institute's governance. A Comprehensive Annual Financial Report (CAFR) is prepared for the Commonwealth of Virginia which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Institute, as a component unit of the Commonwealth of Virginia, is included in the general purpose financial statements of the Commonwealth.

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

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

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

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

financial statements for the VMI Research Laboratories, Inc., may be obtained by writing the Treasurer, VMI Research Laboratories, Inc., Virginia Military Institute, Lexington, Virginia 24450.

B. Reporting Basis

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

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

C. Basis of Accounting

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

D. Cash, Cash Equivalents and Investments

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

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

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

E. Capital Assets

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

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

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

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

The Institute does not capitalize works of art, historical treasures and similar assets. Such items are held for public exhibition, education or research in the furtherance of public service rather than financial gain. Institute collections may be sold but the proceeds must be used for the acquisition of similar type Institute collections. Exceptions to this requirement must be preapproved 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, 2018. Payments of expenses that extend beyond fiscal year 2018 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 2018. This is primarily composed of revenue for Cadet tuition and fees received in advance of the semester or term.

K. Interest Capitalization

Interest expense incurred during the construction of capital assets is capitalized for the first two years following the issuance of the respective bond, if material, net of interest income earned on resources set aside for this purpose. The Institute incurred interest expense totaling \$802,238 for the fiscal year ended 30 June 2018. However, none of the respective interest expense incurred met the above capitalization criteria.

L. Accrued Compensated Absences

The amount of leave earned, but not taken by classified salaried employees is recorded as a liability on the Statement of Net Position. The amount reflects, as of 30 June 2018, all unused vacation leave, overtime leave, compensatory leave, and the amount payable upon termination under the Commonwealth's sick leave payout policy. The applicable share of employer related taxes payable on the eventual termination payments is also included.

M. Federal Financial Assistance Programs

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

N. Deferred Inflows of Resources

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

O. Net Position

The Institute's net position is classified as follows:

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

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

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

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

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

P. Classification of Revenues

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

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

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

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

Q. Pensions

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

R. Other Post Employment Benefits (OPEB)

The Institute participates in postemployement 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 open 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

The Department of Human Resource Management (DHRM) is an agency of the Commonwealth of Virginia. DHRM is the administrator of the Commonwealth's employee health insurance program. The Commonwealth provides a healthcare plan established by Title 2.2, Chapter 28 of the *Code of Virginia* for retirees who are not yet eligible to participate in Medicare. 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.

S. Recently Adopted Accounting Pronouncements

In fiscal year 2018, the following GASB statements of standards became effective: Statement 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions, Statement 81, Irrevocable Split-Interest Agreements, Statement 85, Omnibus 2017, and Statement 86, Certain Debt Extinguishment Issues.

Statement 81 establishes accounting and financial reporting standards for irrevocable split-interest agreements created through trusts, or other legally enforceable agreements with characteristics that are equivalent to irrevocable split-interest agreements, in which a donor irrevocably transfers resources to an intermediary. This statement supersedes Implementation Guide No. 2015-1, Question 7.72.11 and amends Statement No. 31, Account and Financial Reporting for Certain Investments and for External Investment Pools, paragraph 13, Statement No.33, Accounting and Financial Reporting for Nonexchange Transactions, paragraph 5, Statement No. 34 Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, paragraphs 16, 18, 22, 92, and 107, and Statement No. 67, Financial Reporting for Pension Plans, paragraph 24. Statement 85 establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other post-employment benefits). The provisions of this Statement only apply to state and local governments. Statement 86 establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the purpose of extinguishing debt. This Statement also amends requirements for prepaid insurance associated with debt that is extinguished, whether through legal extinguishment or through an in-substance defeasance, regardless of how the cash and other assets were acquired. This Statement also establishes an additional disclosure requirement related to debt that is defeased in substance, regardless of how cash and other assets were acquired. The GASB Statements listed above did not have an effect on the Institute's financial statements for the current fiscal year.

For fiscal year 2018, the Institute adopted GASB Statement 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which was effective for fiscal years beginning after June 15, 2017. This Statement replaces the requirements of Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than

Pensions, as well as the requirements of Statement 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, as they relate to the legal obligation to provide financial support for OPEB of the employees of another entity by making contributions directly to an OPEB plan that are administered as trusts that meet certain criteria or making benefit payments directly as the OPEB comes due when the OPEB is provided through a plan that is not administered through a trust that meets a certain criteria. Statement 75 requires the Institute to recognize an OPEB liability, OPEB expense and report deferred outflows and inflows of resources for its proportionate share of the overall OPEB liability, collective OPEB expense and collective deferred outflows and inflows of resources, respectively, as related to the VRS and VaLORS Plans. The related mandatory note disclosures and required supplementary information will improve the consistency and transparency of OPEB transactions and related OPEB plan information.

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 2018. 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 2018.

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 2018:

	Current	No	oncurrent		Total
Cash with Treasurer of Virginia	\$ 21,971,598	\$	732,065	\$	22,703,663
State Non-Arbitrage Program (SNAP)	-		867,107		867,107
BB&T public fund checking	6,927,518		289,312		7,216,830
Securities under Securities Lending/Treasurer VA	1,427,890		-		1,427,890
Petty cash	7,050		-		7,050
Wells Fargo time deposit	28,000		-		28,000
	20.262.076	•		•	
Total cash and cash equivalents	\$ 30,362,056	\$	1,888,484	\$	32,250,540

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 2018:

	Current			Noncurrent	Total	
Investments with trustees:						
Investments pooled with VMI affiliates	\$	-	\$	12,088,390	\$ 12,088,390	
Mutual fund investments (retirement accounts)		-		3,307,043	3,307,043	
Total investments	\$	-	\$	15,395,433	\$ 15,395,433	

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 2018. Certain investments that are measured at fair value using the net asset value per share (or its equivalent) have not been categorized in the fair value hierarchy. The amounts presented are intended to permit reconciliation of the fair value hierarchy to the Statement of Net Positon.

		Balance at 30 June 2018	Credit Rating	Investment Maturity	active ide	ted prices in e markets for ntical assets Level 1)	esta	Fair value ablished using t Asset Value (NAV)	mounts not sured at fair value
	_	30 June 2016	Credit Rading	Maturity		Level 1)		(IVAY)	value
Cash with Treasurer of Virginia	\$	22,703,663			\$	-	\$	-	\$ 22,703,663
State Non-Arbitrage Program (SNAP)		867,107	AAAm	< 1 year		-		-	\$ 867,107
BB&T public fund checking		7,216,830				-		-	7,216,830
Securities under Securities Lending/Treasurer VA		1,427,890				-		-	1,427,890
Petty Cash		7,050				-		-	7,050
Wells Fargo time deposit		28,000				-		-	28,000
Investments held with trustees:									
Mutual fund investments (retirement accounts)		3,307,043				3,307,043		-	-
Investments pooled with VMI affiliates*		12,088,390				-		12,088,390	-
Total cash, cash equivalents and investments	\$	47,645,973			\$	3,307,043	\$	12,088,390	\$ 32,250,540

INVESTMENTS MEASURED AT NET ASSET VALUE (NAV)

			Redemption	
			Frequency	Redemption
	Fair	Value at	(If Currently	Notice
	30 J	une 2018	Eligible)	Period
Investments pooled with VMI affiliates		12,088,390	(a)	(a)
	\$	12,088,390	_	
			='	

(a) See * and Note 15 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 2018 was \$491.8 million, of which, VMI owned \$12.1 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 \$62.5 million in debt securities with an average maturity of 12.7 years. The average quality rating was BBB (Moody's). The Fund held \$117 million in US equity investments. The Fund held \$51.9 million in developed markets international funds with equities denominated primarily in the Euro, the Pound, and the Yen, and \$46.9 million in emerging markets international funds with equities denominated in a variety of currencies. The Fund held \$85.2 million in absolute return fund investments, which may also hold fixed income and equity securities. The Fund held \$78.8 million in private investments and \$19.4 million in master limited partnerships. The remaining investments are held in cash and other diversifying instruments. The custodians for the Fund are independently audited annually.

Funds Held In Trust By Others

Individual assets of funds held by trustees for the benefit of the Institute are not reflected in the accompanying Statement of Net Position. The Institute has irrevocable rights to all or a portion of the income of these funds. However, individual assets of the funds are not under the management discretion of the Institute according to the trust agreements. Income from funds held by trustees for the benefit of the Institute totaled \$79,944 for fiscal year 2018 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 2018:

	Current		N	oncurrent	Total
Student tuition and fees	\$	729,440	\$	-	\$ 729,440
Other educational and general		40,796		-	40,796
Auxiliary enterprises		169,097		-	169,097
Unique military activity		4,998		-	4,998
Agency funds		59,282		-	59,282
Other operating		70,717		12,033	82,750
Retirement of indebtedness		13,195			13,195
	\$	1,087,525	\$	12,033	\$ 1,099,558
Less: Allowance for doubtful accounts		(75,063)		-	(75,063)
Total accounts receivable, net	\$	1,012,462	\$	12,033	\$ 1,024,495

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 2018 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 2018 represents pending reimbursements from the following programs:

VCBA Equipment Trust Fund program	\$	334,803
VCBA 21st Century program		687,982
	·	
Total Due from Commonwealth	\$	1,022,785

NOTE 5: INVENTORIES

Inventories consisted of the following balances at 30 June 2018:

Military Store	\$ 6,494,601
Physical Plant Museums	370,147 214,089
VMI Hospital	22,821
Total	\$ 7,101,658

NOTE 6: CAPITAL ASSETS

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

	Beginning Balance 1 July 2017		Additions			Reductions	Ending Balance 30 June 2018		
Nondepreciable capital assets:									
Land	\$	3,445,091	\$	297,281	\$	-	\$ 3,742,	,372	
Construction in progress		8,152,465		6,336,275		(1,032,847)	13,455,	,893	
Total nondepreciable capital assets		11,597,556		6,633,556		(1,032,847)	17,198,	,265	
Depreciable capital assets:									
Buildings		402,428,452		941,180		-	403,369	,632	
Improvements other than buildings		30,545,269		-		-	30,545,	269	
Equipment		18,890,056		1,981,118	1,981,118		19,938,	,521	
Library books		11,780,989		190,977		(163,367)	11,808.	,599	
Total depreciable capital assets		463,644,766		3,113,275		(1,096,020)	465,662,	,021	
Less accumulated depreciation for:									
Buildings		100,576,254		9,139,689		(2,763)	109,713,	180	
Improvements other than buildings		11,967,226		1,443,573		_	13,410,	799	
Equipment		14,797,276		1,334,969		(914,724)	15,217,	,521	
Library books		10,241,757		270,686		(163,367)	10,349	,076	
Total accumulated depreciation		137,582,513		12,188,917		(1,080,854)	148,690,	,576	
Depreciable capital assets, net		326,062,253		(9,075,642)		(15,166)	316,971,	445	
Total capital assets, net	\$	337,659,809	\$	(2,442,086)	\$	(1,048,013)	\$ 334,169,	,710	

NOTE 7: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at 30 June 2018:

	Current	Noncurrent	Total
Employee salaries, wages and benefits payable	\$ 4,161,100	\$ -	\$ 4,161,100
Vendors and supplies accounts payable	3,016,233	-	3,016,233
Accrued interest payable	232,548	-	232,548
Retainage payable	13,532	-	13,532
Contractual liability	60,000	61,667	121,667
Retirement annuities*	-	3,307,043	3,307,043
Total accounts payable and accrued expenses	\$ 7,483,413	\$ 3,368,710	\$ 10,852,123

^{*}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 2018 is presented as follows:

	Beginning Balance 1 July 2017	Additions	I	Reductions	Ending Balance 30 June 2018	Current Portion June 2018
Long-term debt: Bonds payable Notes payable	\$ 6,502,707 16,495,396	\$ -	\$	(715,926) (895,685)	\$ 5,786,781 15,599,711	\$ 640,000 855,000
Total long-term debt	\$ 22,998,103	\$ -	\$	(1,611,611)	\$ 21,386,492	\$ 1,495,000
Accrued compensated absences	1,361,643	865,375		(836,820)	1,390,198	613,138
Total long-term liabilities	\$ 24,359,746	\$ 865,375	\$	(2,448,431)	\$ 22,776,690	\$ 2,108,138

NOTE 9: LONG-TERM INDEBTEDNESS DETAIL

Bonds payable:

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

Bonds Payable:	Interest Rates (%)	Maturity Fiscal Year	Balance 30 June 2018
Crozet Hall: Series 2009D, issued \$4,241,860 - refunding Series 2004A	5.00	2022	\$ 2,997,600
Series 2012A, issued \$3,018,620 - refunding Series 2004A	2.00 - 5.00	2025	2,789,181 \$ 5,786,781

Notes payable:

Notes Payable:	Interest Rates (%)	Maturity Fiscal Year	Balance 30 June 2018
	` `		
Cocke Hall Annex:			
Series 2007B, issued \$735,000 - refunding Series 2002A	4.00 - 4.50	2020	\$ 268,170
Series 2010B, issued \$555,000 - refunding Series 2002A	5.00	2023	486,990
Jackson Memorial Hall Renovation:			
Series 2007B, issued \$850,000 - refunding Series 2002A	4.00 - 4.50	2020	310,155
Series 2010B, issued \$650,000 - refunding Series 2002A	5.00	2023	567,396
South Institute Hill Parking:			•
Series 2010A1/2, issued \$2,850,000	3.75 - 5.50	2031	2,239,864
Improve Post Facilities I:			
Series 2013A, issued \$4,085,000	2.00 - 5.00	2034	3,769,506
Improve Post Facilities II:			
Series 2014A, issued \$3,565,000	5.00	2035	3,901,660
Improve Post Facilities III:			
Series 2015A, issued \$3,915,000	3.00 - 5.00	2036	4,055,970
		•	\$ 15,599,711
		;	Ψ 10,000,711

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 2018 are as follows:

Year	Bonds Payable	Notes Payable	Total
2019	\$ 640,000	\$ 855,000	\$ 1,495,000
2020	670,000	890,000	1,560,000
2021	705,000	930,000	1,635,000
2022	740,000	975,000	1,715,000
2023	792,290	1,015,000	1,807,290
2024-2028	1,696,324	3,845,000	5,541,324
2029-2033	-	4,275,000	4,275,000
2034-2036	-	1,670,000	1,670,000
Total principal payments	 5,243,614	14,455,000	19,698,614
Unamortized premium	543,167	1,144,711	1,687,878
	·		
Total long-term debt, net	\$ 5,786,781	\$ 15,599,711	\$ 21,386,492

A summary of future interest commitments for fiscal years subsequent to 30 June 2018 is presented as follows:

Year]	Bonds Payable	Notes Payable	Total
2019	\$	247,407	\$ 616,816	\$ 864,223
2020 2021		215,407 181,907	580,566 542,516	795,973 724,423
2022 2023		146,656 98,480	498,004 449,395	644,660 547,875
2024-2028 2029-2033		76,166 -	1,693,197 768,869	1,769,363 768,869
2034-2036 Total future interest		-	76,753	76,753
requirements	\$	966,023	\$ 5,226,116	\$ 6,192,139

Long-term Debt Defeasance

In prior years, in accordance with GASB Statement 7, Advance Refundings Resulting in the Defeasance of Debt, the Institute excluded from its financial statements the assets in escrow and the Section 9(c) or 9(d) bonds payable that were defeased "in-substance." As of June 30, 2018 no defeased debt is considered outstanding.

Operating Leases

VMI is committed under operating leases for equipment. Operating leases do not give rise to property rights and are not reflected as obligations in the Institute's Statement of Net Position. In

general, the leases have a three-year term and the Institute has renewal options. In most cases, the Institute expects that these leases will be replaced by similar leases in the normal course of business. Rental expense was approximately \$1,317 for the year ended 30 June 2018. As of 30 June, 2018, the Institute did not replace the current lease with similar leases.

Capital Improvement Commitments

As of 30 June 2018, the Institute had outstanding construction contract commitments of \$738,602. 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 2018:

<u>Program</u>	Coi	mpensation and benefits	1	Supplies, Equipment, Utilities and ther Services	Student Aid	Ot	her Expenses]	Depreciation	Total
Instruction	\$	19,313,787	\$	1,097,912	\$ _	\$	51,557	\$	3,351,470	\$ 23,814,726
Research		67,386		25,402	-		90,525		-	183,313
Public service		693,250		402,145	-		6,063		359,266	1,460,724
Academic support		4,472,817		1,876,736	3,000		31,678		1,126,594	7,510,825
Student services		2,592,471		996,865	-		50,163		257,919	3,897,418
Institutional support		3,890,627		1,574,550	-		326,647		160,032	5,951,856
Operation of plant		3,735,052		2,726,734	-		471,974		573,094	7,506,854
Student aid		11,030		37,436	575,159		-		-	623,625
Auxiliary enterprises		7,699,208		11,105,372	119,579		5,750,603		3,641,984	28,316,746
Unique military activities		5,779,634		1,726,754	-		468,278		2,718,558	10,693,224
Other		-		-	-		30,783		-	30,783
TOTAL	\$	48,255,262	\$	21,569,906	\$ 697,738	\$	7,278,271	\$	12,188,917	\$ 89,990,094

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 2016 ended the previous biennium.

During the fiscal year ended 30 June 2018, the Institute received the following supplemental appropriations and reversions in accordance with the Appropriation Act:

Original legislative appropriation:	
Educational and general (E&G) programs	\$ 9,430,394
Unique military activity (UMA)	4,210,058
Student financial assistance	1,016,240
Adjustments:	
Adjustments-GF portion	539,421
ETF lease payment – NGF portion	(88,844)
Student financial assistance	11,700
Debt service fee – Non-Virginia Cadets	(400,470)
Appropriation transfers:	
SCHEV programs	6,888
Adjusted appropriation	\$ 14,725,387

NOTE 12: RETIREMENT AND PENSION SYSTEMS

General Information about the Pension Plan

Plan Description

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

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

Retirement Plan Provisions by Plan Structure					
Plan 1	Plan 2	Hybrid Retirement Plan			
About Plan 1	About Plan 2	About the Hybrid			
Plan 1 is a defined benefit	Plan 2 is a defined benefit	Retirement Plan			
plan. The retirement benefit is	plan. The retirement benefit is	The Hybrid Retirement Plan			
based on a member's age,	based on a member's age,	combines the features of a			
creditable service and average	creditable service and average	defined benefit plan and a			
final compensation at	final compensation at	defined contribution plan.			
retirement using a formula.	retirement using a formula.	• 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, and they have not taken a refund.

Hybrid Opt-In Election

VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible Plan

Eligible Members

Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

Hybrid Opt-In Election

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

The Hybrid Retirement Plan's effective date for eligible Plan

Eligible Members

Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

- State employees*
- Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

*Non Eligible Members Some employees are not eligible to participate in the

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.

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.

Hybrid Retirement Plan. They include:

 Members of the Virginia Law Officers' Retirement System (VaLORS)

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

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 taxdeferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

Retirement Contributions

State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.

Retirement Contributions

A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

Creditable Service

Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service

Creditable Service Same as Plan 1.

Under the defined benefit component of the plan, creditable service includes active service. Members earn

Creditable Service <u>Defined Benefit Component</u>:

creditable service for each

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.

month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Defined Contributions Component:

Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Vesting

Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution balance if they leave employment and request a refund.

Members are always 100% vested in the contributions that they make.

Vesting

Same as Plan 1.

Vesting

Defined Benefit Component:

Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contributions Component:

Defined contribution vesting refers to the minimum length of service a member needs to

		_
		be eligible to withdraw the employer contributions from the defined contribution component of the plan. 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 75% of employer contributions. • Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a	Calculating the Benefit See definition under Plan 1.	Calculating the Benefit Defined Benefit Component: See definition under Plan 1
retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.		Defined Contribution Component: The benefit is based on contributions made by the
An early retirement reduction factor is applied to the Basic		member and any matching contributions made by the

Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit 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.	employer, plus net investment earnings on those contributions. 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 creditable service earned, purchased or granted on or after January 1, 2013. VaLORS: The retirement multiplier for VaLORS employees is 2.00%.	Service Retirement Multiplier Defined Benefit Component: 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. Defined Contribution Component: 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 Defined Benefit Component: VRS: Same as Plan 2 VaLORS: Not applicable.
		Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. VaLORS: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. VaLORS: Same as Plan 1.	Earliest Unreduced Retirement Eligibility Defined Benefit Component: VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. 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 creditable service or age 50 with at least 10 years of creditable service. VaLORS: 50 with at least five years of creditable service.	Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service. VaLORS: Same as Plan 1.	Earliest Reduced Retirement Eligibility Defined Benefit Component: VRS: Age 60 with at least five years (60 months) of creditable service. 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.
Eligibility: For members who retire with	Eligibility: Same as Plan 1.	Eligibility: Same as Plan 1 and Plan 2.

Transitional Benefits

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.		
Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the	Exceptions to COLA Effective Dates: Same as Plan 1.	Exceptions to COLA Effective Dates: Same as Plan 1 and Plan 2.

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.	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.	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.
Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service 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	Purchase of Prior Service Same as Plan 1.	Purchase of Prior Service Defined Benefit Component: Same as Plan 1, with the following exception: • Hybrid Retirement Plan members are ineligible for ported service. Defined Contribution Component: Not applicable.

insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.	to e. e eligible	
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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. Prior to July 1, 2012, the 5.00% member contribution was paid by the employer. Beginning July 1, 2012 state employees were required to pay the 5.00% member contribution and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each state agency's contractually required contribution rate for the year June 30, 2018 was 13.49% of covered employee compensation for employees in the VRS State Employee Retirement Plan. For employees in the VaLORS Retirement Plan, the contribution rate was 21.05% of covered employee compensation. These rates were based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The contribution rate for the VRS State Employee Retirement Plan also reflects the transfer in June 2016 of \$162,406,273 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The contribution rate for the VaLORS Retirement Plan also reflects the transfer in June 2016 of \$16,491,559 as an accelerated payback of the deferred contribution in the 2010-12 biennium. 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 \$2,139,901 and \$2,123,826 for the years ended June 30, 2018 and June 30, 2017, respectively. Contributions from the Institute to the VaLORS Retirement Plan were \$76,412 and \$97,605 for the years ended June 30, 2018 and June 30, 2017, respectively.

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

At June 30, 2018, the Virginia Military Institute reported a liability of \$23,140,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability and a liability of \$883,000 for its proportionate share of the VaLORS Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2017 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. VMI's proportion of the Net Pension Liability was based on the Institute's actuarially determined employer contributions to the pension plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, VMI's proportion of the VRS State Employee Retirement Plan was 0.397% as compared to 0.403% at June 30, 2016. At June 30, 2017, the Institute's proportion of the VaLORS Retirement Plan was 0.135% compared to 0.120% at June 30, 2016.

For the year ended June 30, 2018, the Virginia Military Institute recognized pension expense of \$1,151,0000 for the VRS State Employee Retirement Plan and \$93,000 for the VaLORS Retirement Plan. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017, 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, 2018, the Institute reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

VRS Retirement Plan

	De	ferred Outflows of Resources	D	eferred Inflows of Resources
Difference between expected and actual experience	\$	49,000	\$	702,000
Change in assumptions		225,000		-
Net difference between projected and actual earnings on pension plan investments		-		988,000
Changes in proportion and differences between Employer contributions and proportionate share of				
contributions		-		694,000
Employer contributions subsequent to the measurement date		2,139,901		-
Total	\$	2,413,901	\$	2,384,000

VaLORS Retirement Plan

	De	ferred Outflows of Resources	D	eferred Inflows of Resources
Difference between expected and actual experience	\$	3,000	\$	4,000
Change in assumptions		-		57,000
Net difference between projected and actual earnings on pension plan investments		-		24,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions				
contributions		75,000		9,000
Employer contributions subsequent to the measurement date		76,412		-
Total	\$	154,412	\$	94,000

\$2,216,313 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, 2019. 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	Va	LORS Plan
2019	\$ (1,268,000)	\$	(14,000)
2020	(108,000)		14,000
2021	(68,000)		2,000
2022	(666,000)		(18,000)
2023	-		-
	\$ (2,110,000)	\$	(16,000)

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2016, 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, 2017.

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

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

Mortality rates:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2016 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
	Lowered Rates at older ages and changed final
Retirement Rates	retirement rates from 70 to 75
	Adjusted rates to better fit experience at each year
Withdrawal Rates	age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 25%

The total pension liability for the VaLORS Retirement Plan was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.5 percent
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Salary increases, including

Inflation 3.5 percent - 4.75 percent

Investment rate of return 7.0 percent, net of pension plan investment

expense, including inflation*

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

Mortality rates:

Pre-Retirement:

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

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB; 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, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2017, 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 Plan Fiduciary Net Position Employers' Net Pension Liability (Asset)	\$ 23,617,412 17,789,888 \$ 5,827,524	\$ 2,002,184 <u>1,345,887</u> <u>\$ 656,297</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.33%	67.22%

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:

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

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

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 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. 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 7.00%, as well as what the Institute's proportionate

share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Virginia Military Institute's proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	\$34,181,000	\$23,140,000	\$13,868,000

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Virginia Military Institute's proportionate share of the VaLORS Retirement Plan Net Pension Liability	\$1,232,000	\$883,000	\$595,000

Pension Plan Fiduciary Net Position

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position or the VaLORS Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-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 \$1,348,525 for the year ended 30 June 2018. Contributions to the optional retirement plans were calculated using the base salary amount of approximately \$14,385,658 for fiscal year 2018.

Included in Accounts Payable and Accrued Expenses at June 30, 2018 are accrued expenses of \$3,307,043 for the 457(F) Institute Executive defined contribution plan as voted on and approved by the VMI Board of Visitors.

Deferred Compensation Plan

Employees of the Institute, as employees of the Commonwealth, may participate in Virginia's Deferred Compensation Plan (the Plan). Participating employees can contribute to the Plan each pay period, with the Commonwealth matching up to \$20 per pay period (\$40 per month). The dollar amount match may change depending on the funding available in the Commonwealth's budget. The Plan is a qualified defined contribution plan under Section 401(a) of the *Internal Revenue Code*. Employer contributions under the Plan were approximately \$150,183 for the fiscal year 2018.

NOTE 13: POSTEMPLOYMENT BENEFITS

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

General Information about the Group Life Insurance Program

Plan Description

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

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

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

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS

Eligible Employees

The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:

- City of Richmond
- City of Portsmouth
- City of Roanoke
- City of Norfolk
- Roanoke City Schools Board

Basic group life insurance coverage is automatic upon employment. Coverage end for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.

Benefit Amounts

The benefits payable under the Group Life Insurance Program have several components.

- <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.
- Accidental Death Benefit The accidental death benefit is double the natural death benefit.
- Other Benefit Provisions In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:
 - o Accidental dismemberment benefit
 - o Safety belt benefit
 - o Repatriation benefit
 - o Felonious assault benefit
 - o Accelerated death benefit option

Reduction in benefit Amounts

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

Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)

For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently \$8,111.

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, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. 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 \$162,824 and \$152,974 for the years ended June 30, 2018 and June 30, 2017, 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, 2018, the Institute reported a liability of \$2,381,000 for its proportionate share of the Net GLI OPEB Liability and liability of \$38,000 for its proportionate share of VaLORS GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. VMI's proportion of the Net GLI OPEB Liability was based on the Institute's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, VMI's proportion of the VRS GLI OPEB liability for Non-VaLORS employees was 0.15825% as compared to 0.16076% at June 30, 2016. At June 30, 2017 the Institute's proportion of the VaLORS GLI program was 0.00251% as compared to 0.00230% at June 30, 2016.

For the year ended June 30, 2018, VMI recognized GLI OPEB expense of \$20,000 for Non-VaLORS and \$1,000 for VaLORS. 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, 2018, 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-Non VaLORS		red Outflows Resources		erred Inflows f Resources
	UI I	ixesources	U1	Resources
Difference between expected and actual experience	\$	_	\$	52,000
Net difference between projected and actual earnings on GLI OPEB program investments		-		90,000
Change in assumptions		-		123,000
Changes in proportion				27,000
		-		37,000
Employer contributions subsequent to the measurement date		160,577		-
Total	\$	160,577	\$	302,000

Group Life Insurance OPEB-VaLORS

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 1,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	1,000
Change in assumptions	-	2,000
Changes in proportion	3,000	-
Employer contributions subsequent to the measurement date	2,247	-
Total	\$ 5,247	\$ 4,000

\$162,824 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, 2019. 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		
	LI OPEB 1-VaLORS	GLI OPEB aLORS
2019	\$ (62,000)	\$ (1,000)
2020	(62,000)	-
2021	(62,000)	-
2022	(62,000)	-
2023	(39,000)	-
Thereafter	(15,000)	-

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, 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, 2017.

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

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

Mortality rates – General State Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2016 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
	Lowered Rates at older ages and changed final
Retirement Rates	retirement rates from 70 to 75
	Adjusted rates to better fit experience at each year
Withdrawal Rates	age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 25%

Mortality rates – Teachers

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

Mortality rates - SPORS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Mortality Rates (Pre-retirement, post retirement healthy, and disabled)	Update to a more current mortality table-RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
	Increased age 50 rates and lowered rates at older
Retirement Rates	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, 2016 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:

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

Mortality rates – JRS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

Mortality rates – Largest Ten Locality Employers - General Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2016 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	Updated to a more current mortality table-RP-2014
retirement healthy, and disabled)	projected to 2020
	Lowered Rates at older ages and changed final
Retirement Rates	retirement rates from 70 to 75
	Adjusted termination rates to better fit experience at
Withdrawal Rates	each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2016 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	Updated to a more current mortality table-RP-2014
retirement healthy, and disabled)	projected to 2020
	Lowered retirement rates at older ages and extended
Retirement Rates	final retirement age from 70 to 75
	Adjusted termination rates to better fit experience at
Withdrawal Rates	each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Mortality rates – Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2016 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	Updated to a more current mortality table-RP-2014
retirement healthy, and disabled)	projected to 2020
Retirement Rates	Lowered retirement rates at older ages
	Adjusted termination rates to better fit experience at
Withdrawal Rates	each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2016 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	Updated to a more current mortality table-RP-2014
retirement healthy, and disabled)	projected to 2020
	Increased age 50 rates and lowered rates at older
Retirement Rates	ages
	Adjusted termination rates to better fit experience at
Withdrawal Rates	each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Net GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

Group Life
Insurance
OPEB Program

Total GLI OPEB Liability	\$ 2,942,426
Plan Fiduciary Net Position	<u>1,437,586</u>
Employers' Net GLI OPEB Liability (Asset)	<u>\$ 1,504,840</u>

Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability

48.86%

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

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

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

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 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. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

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

The following presents VMI's proportionate share of the net GLI OPEB liability for Non-VaLORS employees using the discount rate of 7.00%, as well as what the Institute's

proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Current		
	1.00% Decrease (6.00%)	Discount Rate (7.00%)	1.00% Increase (8.00%)
Virginia Military Institute's proportionate share of the Non-VaLORS Group Life Insurance Program Net OPEB Liability	\$3,080,000	\$2,381,000	\$1,815,000

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

	Current		
	1.00% Decrease (6.00%)	Discount Rate (7.00%)	1.00% Increase (8.00%)
Virginia Military Institute's proportionate share of the VaLORS Group Life Insurance Program Net OPEB Liability	\$49,000	\$38,000	\$29,000

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

General Information about the State Employee Health Insurance Credit Program

Plan Description

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

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

STATE EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM (HIC) PLAN PROVISIONS

Eligible Employees

The State Employee Retiree Health Insurance Credit Program was established January 1, 1990 for retired state employees covered under VRS, SPORS, VaLORS and JRS who retire with at least 15 years of service credit.

Eligible employees are enrolled automatically upon employment. They include:

• Full-time and part-time permanent salaried state employees covered under VRS, SPORS, VaLORS and JRS.

Benefit Amounts

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

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

For State police officers 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.

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

Health Insurance Credit Program Notes:

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

Contributions

The contribution requirement for active employees is governed by §51.1-1400(D) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each state agency's contractually required employer contribution rate for the year ended June 30, 2018 was 1.18% 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, 2015. 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 \$365,735 and \$344,045 for the years ended June 30, 2018 and June 30, 2017, 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, 2018, VMI reported a liability of \$4,110,000 for its proportionate share of the VRS State Employee Health Insurance Credit Program Net OPEB Liability and a liability of \$65,000 for its proportionate share of the VaLORS Health Insurance Credit Program Net OPEB Liability. The Net VRS State Employee Health Insurance Credit Program OPEB Liability was measured as of June 30, 2017 and the total VRS State Employee Health Insurance Credit Program OPEB liability used to calculate the Net VRS State Employee Health Insurance Credit Program OPEB Liability was determined by an actuarial valuation as of that date. VMI's proportion of the Net VRS State Employee Health Insurance Credit Program OPEB Liability was based on the Institute's actuarially determined employer contributions to the VRS State Employee Health Insurance Credit Program OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, VMI's proportion of the Non-VaLORS State Employee Health Insurance Credit Program was 0.45140% as compared to 0.45884% at June 30, 2016. At June 30, 2017, the Institute's proportion of the VaLORS State Employee Health Insurance Credit Program was 0.00718% as compare to 0.00657% on June 30, 2016.

For the year ended June 30, 2018, VMI recognized Non-VaLORS State Employee Health Insurance Credit Program OPEB expense of \$346,000 and \$7,000 for VaLORS. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017 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, 2018, 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-Non-VaLORS

	 ed Outflows esources	 erred Inflows Resources
Difference between expected and actual experience	\$ _	\$ _
Net difference between projected and actual earnings on State HIC OPEB program investments	-	10,000
Change in assumptions	-	46,000
Changes in proportion	-	57,000
Employer contributions subsequent to the measurement date	360,674	-
Total	\$ 360,674	\$ 113,000

State Employee Health Insurance Credit OPEB-VaLORS

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -
Net difference between projected and actual earnings on State HIC OPEB program investments	-	-
Change in assumptions	-	1,000
Changes in proportion	5,000	-
Employer contributions subsequent to the measurement date	5,061	-
Total	\$ 10,061	\$ 1,000

\$365,735 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, 2019. 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		
	 IC OPEB n-VaLORS	HIC OPEB VaLORS
2019	\$ (22,000)	\$ 1,000
2020	(22,000)	1,000
2021	(22,000)	1,000
2022	(22,000)	1,000
2023	(20,000)	-
Thereafter	(5,000)	-

Actuarial Assumptions

The total State Employee HIC OPEB liability for the VRS State Employee Health Insurance Credit Program was based on an actuarial valuation as of June 30, 2016, 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, 2017.

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

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

Mortality rates – General State Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2016 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, 2016 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-	Updated to a more current mortality table – RP-2014
retirement healthy, and disabled)	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, 2016 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-	Updated to a more current mortality table - RP-2014
retirement healthy, and disabled)	projected to 2020 and reduced margin for future
	improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age
	and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

Mortality rates – JRS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

Net State Employee HIC OPEB Liability

The net OPEB liability (NOL) for the State Employee Health Insurance Credit Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the VRS State Employee Health Insurance Credit Program is as follows (amounts expressed in thousands):

inas).	State Employee HIC OPEB <u>Plan</u>
Total State Employee HIC OPEB Liability Plan Fiduciary Net Position State Employee net HIC OPEB Liability (Asset)	\$ 990,028
Plan Fiduciary Net Position as a Percentage of the Total State Employee HIC OPEB Liability	8.03%

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

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

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

Discount Rate

The discount rate used to measure the total State Employee HIC OPEB was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by the state agency for the VRS State Employee Health Insurance Credit Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the State Employee HIC OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total State Employee HIC OPEB liability.

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Virginia Military Institute's proportionate share of the Non-VaLORS VRS State Employee HIC Net OPEB Liability	\$4,545,000	\$4,110,000	\$3,736,000

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

	Current		
	1.00% Decrease (6.00%)	Discount Rate (7.00%)	1.00% Increase (8.00%)
Virginia Military Institute's proportionate share of the VaLORS State Employee HIC Program Net OPEB Liability	\$72,000	\$65,000	\$59,000

State Employee HIC OPEB Fiduciary Net Position

Detailed information about the VRS State Employee Health Insurance Credit Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-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.
- <u>Short-Term Disability</u> The program provides a short-term disability benefit beginning after a seven-calendar-day waiting period from the first day of disability. The benefit provides income replacement beginning at 100% of the employee's pre-disability income, reducing to 80% and then 60% based on the period of the disability and the length of service of the employee. Short-term disability benefits are paid by the employer.
- <u>Long-Term Disability</u> The program provides a long-term disability benefit beginning after 125 workdays of short-term disability and continuing until the employee reaches his or her normal retirement age. The benefit provides income replacement of 60% of the employee's predisability income. If an employee becomes disabled within five years of his or her normal retirement age, the employee will receive up to five years of VSDP benefits, provided he or she remains medically eligible. Long-term disability benefits are paid for by the Virginia Disability Insurance Program (VSDP) OPEB Plan.
- <u>Income Replacement Adjustment</u> The program provides for an income replacement adjustment to 80% for catastrophic conditions.
- <u>VSDP Long-Term Care Plan</u> The program also includes a self-funded long-term care plan that assists with the cost of covered long-term care services.

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 incomereplacement 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.
 - O 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%).
 - O 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.
 - 0 100% 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
 - 0 100% 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, 2018 was 0.66% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. 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 \$85,359 and \$78,488 for the years ended June 30, 2018 and June 30, 2017, 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, 2018, VMI reported a liability (asset) of (\$648,000) for its proportionate share of the Non-VaLORS Net VSDP OPEB Liability (Asset) and a liability (asset) of (\$18,000) for its proportionate VaLORS Net VSDP OPEB Liability (Asset). The Net VSDP OPEB Liability (Asset) was measured as of June 30, 2017 and the total VSDP OPEB liability used to calculate the Net VSDP OPEB Liability (Asset) was determined by an actuarial valuation as of that date. The Institute's proportion of the Net VSDP OPEB Liability (Asset) was based on the Institute's

actuarially determined employer contributions to the VSDP OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, Institute's Non-VaLORS proportion was 0.31585% as compared to 0.31599% at June 30, 2016. At June 30, 2017, the Institute's VaLORS proportion of the VSDP OPEB plan was 0.00887% as compared to 0.00733% on June 30, 2016.

For the year ended June 30, 2018, VMI recognized Non-VaLORS VSDP OPEB expense of \$55,000 and (\$1,000) for VaLORS. 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, 2018, 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 Non-VaLORS

·		Outflows sources	ed Inflows esources
Difference between expected and actual experience	\$	_	\$ _
Net difference between projected and actual earnings on VSDP OPEB program investments	·	-	51,000
Change in assumptions		-	49,000
Changes in proportion			-
Employer contributions subsequent to the measurement date		83,111	-
Total	\$	83,111	\$ 100,000

Virginia Sickness and Disability OPEB VaLORS

	Deferred Out of Resource		Deferred of Reso	
Difference between expected and actual experience	\$	_	\$	-
Net difference between projected and actual earnings on VSDP OPEB program investments		-		1,000
Change in assumptions		-		2,000
Changes in proportion				_
Employer contributions subsequent to the measurement date	,	2,248		-
Total	\$	2,248	\$	3,000

\$85,359 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, 2019. 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 Non-VaLORS		•	VSDP OPEB aLORS
2019	\$	(19,000)	\$	(1,000)
2020		(19,000)		(1,000)
2021		(19,000)		(1,000)
2022		(19,000)		-
2023		(7,000)		-
Thereafter		(17,000)		-

Actuarial Assumptions

The total VSDP OPEB liability was based on an actuarial valuation as of June 30, 2016, 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, 2017.

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

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

Mortality rates – General State Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2016 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-	Updated to a more current mortality table - RP-2014
retirement healthy, and disabled)	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, 2016 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, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

Net VSDP OPEB Liability (Asset)

The net OPEB asset (NOA) for the Disability Insurance Program (VSDP) represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOA amounts for the Disability Insurance Program (VSDP) is as follows (amounts expressed in thousands):

	Disability Insurance <u>Program</u>
Total VSDP OPEB Liability	\$ 237,013
Plan Fiduciary Net Position	442,334
Employers' Net OPEB Liability (Asset)	<u>(\$ 205,321)</u>

Plan Fiduciary Net Position as a Percentage

of the Total VSDP OPEB Liability

186.63%

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

Long-Term Expected Rate of Return

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

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

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

Discount Rate

The discount rate used to measure the total VSDP OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 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. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the VSDP OPEB Program's fiduciary net position was projected to

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

Sensitivity of the State Agency's Proportionate Share of the Net VSDP OPEB Liability (Asset) to Changes in the Discount Rate

The following presents VMI's proportionate share of the Net VSDP OPEB Liability (Asset) for Non-VaLORS employees using the discount rate of 7.00%, as well as what the Institute's proportionate share of the Net VSDP OPEB Liability (Asset) would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Virginia Military Institute's proportionate share of the total Non-VaLORS VSDP Net OPEB Liability (Asset)	(\$617,000)	(\$648,000)	(\$703,000)

The following presents VMI's proportionate share of the VaLORS Net VSDP OPEB Liability (Asset) using the discount rate of 7.00% as well as what the Institute's proportionate share of the Net VSDP OPEB Liability (Asset) would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Current		
	1.00% Decrease (6.00%)	Discount Rate (7.00%)	1.00% Increase (8.00%)
Virginia Military Institute's proportionate share of the VaLORS total VSDP Net OPEB Liability	(\$17,000)	(\$18,000)	(\$19,000)

VSDP OPEB Fiduciary Net Position

Detailed information about the Disability Insurance Program (VSDP) Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

General Plan 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 Disability Insurance Program OPEB, including eligibility, coverage and benefits is set out in the table below:

LINE OF DUTY ACT PROGRAM (LODA) PLAN PROVISIONS

Eligible Employees

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

Benefit Amounts

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

- <u>Death</u> The Line of Duty Act program death benefit is a one-time payment made to the beneficiary or beneficiaries of a covered individual. Amounts vary as follows:
 - \$100,000 when a death occurs as the direct or proximate result of performing duty as of January 1, 2006, or after.
 - o \$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.
 - O An additional \$20,000 benefit is payable when certain members of the National Guard and U.S. military reserves are killed in action in any armed conflict on or after October 7, 2001.
- <u>Health Insurance</u> The Line of Duty Act program provides health insurance benefits.
 - 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.
 - O 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, 2018 was \$567.37 per covered full-time-equivalent employee. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 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 entity were \$4,539 and \$5,674 for the years ended June 30, 2018 and June 30, 2017, 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, 2018 the Institute reported a liability of \$138,000 for its proportionate share of the Net LODA OPEB Liability. The Net LODA OPEB Liability was measured as of June 30, 2017 and the total LODA OPEB liability used to calculate the Net LODA Liability was determined by an actuarial valuation as of that date. VMI's proportion of the Net LODA OPEB Liability was based on the Institute's actuarially determined pay-as-you-go employer contributions to the LODA OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined pay-as-you-go employer contributions for all participating employers. At June 30, 2017, the entity's proportion was 0.05261% as compared to 0.04254% at June 30, 2016.

For the year ended June 30, 2018 VMI recognized LODA OPEB expense of \$15,000. Since there was a change in proportionate share between measurement dates, a portion of the LODA OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, 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

·	red Outflows Resources	_	erred Inflows Resources
Difference between expected and actual experience	\$ _	\$	-
Net difference between projected and actual earnings on LODA OPEB plan investments	-		-
Change in assumptions	-		15,000
Changes in proportion	25,000		-
Employer contributions subsequent to the measurement date	4,539		-
Total	\$ 29,539	\$	15,000

\$4,539 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, 2019. 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 o	f Duty Act
2019	\$	1,000
2020		1,000
2021		1,000
2022		1,000
2023		1,000
Total Thereafter		5,000

Actuarial Assumptions

The total LODA OPEB liability was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.50 percent
Salary increases, including Inflation –	
General state employees	3.50 percent - 5.35 percent
SPORS employees	3.50 percent – 4.75 percent
VaLORS employees	3.50 percent - 4.75 percent
Locality employees	3.50 percent – 4.75 percent
Medical cost trend rates assumption –	
Under age 65	7.75 percent - 5.00 percent
Ages 65 and older	5.75 percent -5.00 percent
Investment rate of return	3.56 Percent, net of OPEB plan
	Investment expenses, including inflation*

^{*} Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 3.56%. However, since the difference was minimal, a more conservative 3.56% investment return assumption has been used. Since LODA is funded on a current-disbursement basis, the assumed annual rate of return of 3.56% 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, 2016 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-	Updated to a more current mortality table - RP-2014
retirement healthy, and disabled)	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, 2016 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-	Updated to a more current mortality table - RP-2014
retirement healthy, and disabled)	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, 2016 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, 2016 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-	Updated to a more current mortality table - RP-2014	
retirement healthy, and disabled)	projected to 2020	
Retirement Rates	Lowered retirement rates at older ages	
Withdrawal Rates	Adjusted termination rates to better fit experience at	
	each year 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, 2016 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-	Updated to a more current mortality table - RP-2014		
retirement healthy, and disabled)	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%		

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

The following changes were made to the LODA Program as a result of legislation in 2016 and 2017, but were specifically not considered in the June 30, 2016 actuarial valuation results which

were rolled forward to the measurement date of June 30, 2017. There was no current actuarial experience on which to base the adjustments and the combined impact of the changes was not considered to be material to the final results. These changes will be factored into future actuarial valuations for the LODA Program.

- The discontinuance of spouse health care coverage, if a covered spouse divorces a disabled employee or a covered surviving spouse remarries.
- The potential for VRS's periodic review of the disability status of a disabled employee.
- For those beneficiaries who become eligible for health care benefits as the result of a
 disability occurring after June 30, 2017, the suspension of health care benefits in years
 when VRS certifies current income exceeds salary at the time of the disability, indexed
 for inflation.
- The extension of health care benefits for dependent children to age 26.
- The expansion of the definition of presumption of death or disability to include infectious diseases.

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 June 30, 2017, NOL amounts for the Line of Duty Act Program (LODA) is as follows (amounts expressed in thousands):

	Line Duty Act <u>Program</u>
Total LODA OPEB Liability	\$ 266,252
Plan Fiduciary Net Position	<u>3,461</u>
Employers' Net OPEB Liability (Asset)	<u>\$ 262,791</u>
Plan Fiduciary Net Position as a Percentage	
of the Total LODA OPEB Liability	1.30%

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 3.56% for this valuation. Since LODA is funded on a current-disbursement basis, it is not able to use the VRS Pooled Investments 7.00% assumption. Instead, the assumed annual rate of return of 3.56% 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 published monthly by the Board of Governors of the Federal Reserve System as of the measurement date of June 30, 2017.

Discount Rate

The discount rate used to measure the total LODA OPEB liability was 3.56%. 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 Covered Employer's Proportionate Share of the Net LODA OPEB Liability to Changes in the Discount Rate

The following presents the Institute's proportionate share of the net LODA OPEB liability using the discount rate of 3.56%, 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 (2.56%) or one percentage point higher (4.56%) than the current rate:

	Current		
	1.00% Decrease (2.56%)	Discount Rate (3.56%)	1.00% Increase (4.56%)
Virginia Military Institute's proportionate share of the LODA Net OPEB Liability	\$157,000	\$138,000	\$123,000

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

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

	1.00% Decrease (6.75% decreasing to 4.00%)	Health Care Trend Rates (7.75% decreasing to 5.00%)	1.00% Increase (8.75% decreasing to 6.00%)
Virginia Military Institute's proportionate share of the LODA Net OPEB Liability	\$117,000	\$138,000	\$164,000

LODA OPEB Plan Fiduciary Net Position

Detailed information about the Line of Duty Act Program (LODA) Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/pdf/publications/2017-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. For a retiree to participate in the Plan, the participant must be eligible for a monthly annuity from the VRS or a periodic benefit from one of the qualified Optional Retirement Plan (ORP) vendors, and:

- Be receiving (not deferring) the annuity or periodic benefit immediately upon retirement;
- Have his or her last employer before retirement be the state;
- Be eligible for coverage as an active employee in the State Health Benefits Program until his or her retirement date (not including Extended Coverage); and,
- Have submitted within 31 days of his or her retirement date an Enrollment Form to his or Benefits Administrator to enroll

The Institute does not pay a portion of the retirees' healthcare premium; however since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, this generally results in a higher rate for active employees. Therefore, the Institute effectively subsidizes the costs of the participating retirees' healthcare through payment of the employer's portion of the premiums for active employees.

This fund is reported as part of the Commonwealth's Healthcare Internal Service Fund. Benefit payments are recognized when due and payable in accordance with the benefit terms. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes, and is administered by the Department of Human Resource Management. There were approximately 5,600 retirees and 91,000 active employees in the program in fiscal year 2017. 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, 2017. The Department of Human Resource Management selected the economic, demographic and healthcare claim cost assumptions. The actuary provided guidance with respect to these assumptions. Initial healthcare costs trend rates used were 8.62 percent for medical and pharmacy and 4.0 percent for dental. The ultimate trend rates used were 5.0 percent for medical and pharmacy and 4.0 percent for dental.

Actuarially determined contribution rates are calculated as of June 30, one

Valuation year prior to the end of the fiscal year in which contributions are reported.

Measurement Date June 30, 2017 (one year prior to the end of the fiscal year)

Actuarial Cost Method Entry Age Normal

Amortization Method Level dollar, Closed

Effective Amortization Period 6.43 years

Discount Rate 3.58%

Projected Salary Increases 4.00%

Medical Trend Under 65 Medical & Rx: 8.62% to 5.00% Dental: 4.00% before reflecting Excise tax

Year of Ultimate Trend 2025

Pre-Retirement:

Mortality Mortality rates vary by participant status

RP-2014 Employee Rates to age 80, Healthy Annuitant Rate at ages 81 and older projected with Scale BB to 2020; males setback 1 year, 85% of rates;

females setback 1 year

RP-2014 Employee Rates to age 49, Health Annuitant Rates at ages 50 and

older projected with Scale BB to 2020; males set forward 1 year; females

Post-Retirement: setback 1 year with 1.5% increase compounded from ages 70 to 85

RP-2014 Disabled Mortality Rates projected with Scale BB to 2020; males

Post-Disablement: 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, 2017.

Changes of Assumptions: The following assumptions were updated since the July 1, 2016 valuation based on the results of a Virginia Retirement System actuarial experience study performed for the period of July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

The discount rate was increased from 2.85% to 3.58% based on the Bond Buyers GO 20 Municipal Bond Index. Spousal coverage was reduced from 70% to 50% based on a blend of recent spousal coverage election rates and the prior year assumption. Based on the 2017 census, new retirees since 1/1/2015 have chosen to cover their spouses approximately 20% of the time. However, active employees cover their spouses at a rate close to 53%.

<u>Pre-Medicare Retiree Healthcare OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources</u>

At June 30, 2018, the Institute reported a liability of \$8,315,358 for its proportionate share of the collective total Pre-Medicare Retiree Healthcare OPEB liability of \$1.3 billion. The Pre-Medicare Retiree Healthcare OPEB liability was measured as of June 30, 2017 and was determined by an actuarial valuation as of June 30, 2017. 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, 2017, the Institute's portion was 0.64018% as compared to 0.62235% at June 30, 2016. For the year ended June 30, 2018, VMI's recognized Pre-Medicare Retiree Healthcare OPEB expense of \$706,915.

At June 30, 2018, 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

	De	ferred Outflows of	De	ferred Inflows of
		Resources		Resources
Difference between expected and actual experience	\$	-	\$	334,456
Change in assumptions		-		1,762,864
Changes in proportion		235,850		-
Sub Total		235,850		2,097,320
Amounts associated with transactions subsequent to the measurement date		220,514		-
Total	\$	456,364	\$	2,097,320

\$220,514 reported as deferred outflows of resources related to the Pre-Medicare Retiree Healthcare OPEB resulting from amounts associated with transactions subsequent to the measurement date will be recognized as a reduction of the total OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pre-Medicare Retiree Healthcare OPEB will be recognized in the Pre-Medicare Retiree Healthcare OPEB expense as follows:

Year ended June 30	
	 edicare Retiree Ithcare Plan
2019	\$ (342,812)
2020	(342,812)
2021	(342,812)
2022	(342,812)
2023	(342,812)
Total Thereafter	(147,410)

<u>Sensitivity of the Employer's Proportionate Share of the OPEB Liability to Changes in the Discount Rate</u>

The following presents the Institute's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using the discount rate of 3.58%, 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 (2.58%) or one percentage point higher (4.58%) than the current rate:

	1.00% Decrease (2.58%)	Current Discount Rate (3.58%)	1.00% Increase (4.58%)
Virginia Military Institute's			
proportionate share of the	\$8,907,647	\$8,315,358	\$7,747,882
Pre-Medicare Retiree Healthcare			
OPEB Liability			

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

The following presents the Institute's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using healthcare cost trend rate of 8.62% decreasing to 5%, as well as what VMI's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (7.62% decreasing to 4.0%) or one percentage point higher (9.62% decreasing to 6.0%) than the current rate:

	1.00% Decrease (7.62% decreasing to 4.00%)	Current Trend Rate (8.62% decreasing to 5.00%)	1.00% Increase (9.62% decreasing to 6.00%)
Virginia Military Institute's proportionate share of the	\$7,398,560	\$8,315,358	\$9,390,123
Pre-Medicare Retiree Healthcare OPEB Liability			

NOTE 14: RISK MANAGEMENT

The Institute is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Institute participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans are administered

by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The Institute pays premiums to each of these departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR).

NOTE 15: CONTINGENCIES

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

In addition, the Institute is required to comply with various federal regulations issued by the Office of Management and Budget. Failure to comply with certain systems requirements of these regulations may result in questions concerning the allowance of related direct and indirect charges pursuant to such agreements. As of 30 June 2018, the Institute estimates that no material liabilities will result from such audits or questions.

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

NOTE 16: SUBSEQUENT EVENTS

The 2017 General Assembly of the Commonwealth of Virginia approved VMI's request for \$3.38 million of VCBA bond financing to make improvements to Post infrastructure. The bonds to support this project were issued by the Commonwealth of Virginia on December 4, 2018, and resulted in a note payable between VCBA and the Institute. Bond financing for this project total \$3.38 million, plus bond issue costs and interest. The bonds will be repaid over 20 years with an expected interest rate of approximately 3.5%. This new debt increases the book value of VMI's total outstanding debt, including unamortized premiums and refunding losses, to approximately \$25 million.

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, 2017.

Net position as orginally stated at June 30, 2017	\$ 330,176,332
Change in reporting for the implementation of GASB No. 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions	
OPEB liability (asset) (measurement date) Deferred outflows-Institute's contributions made during FY17	 (16,454,753) 856,843
Total prior period adjustment	(15,597,910)
Net position restated at June 30, 2017	\$ 314,578,422

NOTE 18: VMI ALUMNI AGENCIES

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

The VMI Alumni Association

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

VMI Foundation, Incorporated and Subsidiary

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

VMI Development Board, Incorporated

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

VMI Keydet Club, Incorporated

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

Contributions receivable

Contributions receivable consist of the following as of 30 June 2018:

Unconditional promises to give Charitable trusts held by others	\$ 21,283,137
Total contributions receivable	21,283,137
Less: current portion	(10,098,477)
Noncurrent contributions receivable	\$ 11,184,660
Gross amounts expected to be collected in:	
Less than one year	\$ 11,377,121
One to five years	12,645,276
More than five years	586,418
	24,608,815
Less:	
Discount	(864,797)
Allowance for uncollectible contributions	(2,460,881)
Fair value	\$ 21,283,137

The distribution of contributions receivable for each class of net assets as of 30 June 2018 is as follows:

Temporarily restricted Permanently restricted	\$ 12,373,243 8,909,894
	\$ 21,283,137

At 30 June 2018, the Agencies had also received bequest and other intentions of approximately \$164 million. These intentions to give are not recognized as assets and, if they are received, they will generally be restricted for specific purposes stipulated by the donors.

For 2018, approximately 37% 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 2018:

Equities	\$ 226,116,297	47.8	%
Absolute return funds	81,998,507	17.3	
Private equities	75,868,338	16.0	
Fixed income	60,130,001	12.7	
Cash and cash equivalents	10,561,444	4.0	
Master limited partnerships	 18,666,723	2.2	_
	\$ 473,341,310	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

Investments held by trustees activity for the year ended 30 June 2018 is reflected in the table below:

Investments, beginning of year	\$ 417,552,460
Gifts and amounts available for investments	31,000,000
	448,552,460
Investments returns:	
Dividends and interest	4,583,228
Net realized and unrealized losses	33,451,315
Investment fees	 (3,705,693)
Total return on investments held by trustee, net	34,328,850
Net disbursements used to fund operations	 (9,540,000)
Investments, ending of year	\$ 473,341,310

VMI Investment Holdings, LLC

market risk.

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 2018 consist of the following:

					Held in		
	Held by		Held by	I	rrevocable	Τ	otal at Fair
	Agent	F	oundation		Trusts*		Value**
Equities	\$ 1,151,838	\$	9	\$	10,003,496	\$	11,155,343
Fixed income	4,273		5,891		2,320,133		2,330,297
Real estate	-		2,468,138		-		2,468,138
Alternative investments	-		-		1,309,065		1,309,065
Cash and cash equivalents	175,377		783		776,829		952,989
Limited partnerships	 _		17,128		-		17,128
	\$ 1,331,488	\$	2,491,949	\$	14,409,523	\$	18,232,960

Long-term Debt

Long-term debt consists of the following at 30 June 2018:

Fixed Rate Educational Facilities Revenue Bonds, Series 2006, payable in varying installments from \$5,000,000 to \$22,475,000, commencing 2021 through 2037	\$ 10,000,000
Fixed Rate Educational Facilities Revenue Bonds, Series 2016, payable in varying installments from \$4,370,000 to \$25,860,000, commencing 2031	
through 2037	36,230,000
Bond premiums, net	511,112
	\$ 46,741,112

Debt matures as follows for future years ending 30 June:

2019	\$ -
2020	-
2021	10,000,000
2022	-
2023	-
Thereafter	 36,230,000
	\$ 46,230,000

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

Effective June 1, 2016, the Industrial Development Authority of the City of Lexington, Virginia approved a request by the Agencies to issue and sell Educational Facilities Revenue Refunding Bonds, Series 2016. The proceeds of the Bonds were used to establish an escrow account which will refund and defease the Series 2006B and 2006C bonds, including the redemption premium, accrued interest thereon, and to finance the costs of issuance of the 2016 Series bonds. The 2006B and 2006C bonds will be redeemed on June 1, 2019. In connection with the refunding and defeasance, the Agencies recognized a loss on extinguishment of debt totaling \$2,856,240 for the year ended June 30, 2016, comprised primarily of the interest that will be paid from the escrow account on the 2006B and 2006C bonds until their redemption.

^{*}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.

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, 2018 and 2017 approximated carrying value, in all material respects.

Bond premiums, net of expenses, totaling \$1,132,290 at June 30, 2018 and 2017, are being amortized over the life of the loan. Amortization of the premiums totaled \$187,772 and \$182,982 for 2018 and 2017, respectively.

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 2018 and 2017, the Board approved spending formula for the endowment provided for an annual spending rate of 4.8% 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 19: COMPONENT UNITS

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

CONDENSED STATEMENTS OF NET ASSETS As of 30 June 2018	VMI Ro Laborato		V	MI Alumni Agencies		TOTAL
Assets:						
Current assets	\$	460,972	\$	22,159,518	\$	22,620,490
Noncurrent assets		381,171		508,435,547		508,816,718
Total assets		842,143		530,595,065		531,437,208
Liabilities:						
Current liabilities		131,405		1,390,155		1,521,560
Noncurrent liabilities		12,033		51,435,311		51,447,344
Total liabilities		143,438		52,825,466		52,968,904
Net Assets:						
Unrestricted		631,923		62,827,715		63,459,638
Temporarily restricted		56,782		203,135,852		203,192,634
Permanently restricted		10,000		211,806,032		211,816,032
Total net assets		698,705		477,769,599		478,468,304
Total net assets and liabilities	\$	842,143	\$	530,595,065	\$	531,437,208
CONDENSED STATEMENTS OF REVENUES EXPENSES AND CHANGES IN NET ASSETS As of 30 June 2018		desearch ories Inc.	,	VMI Alumni Agencies		TOTAL
Total revenues	\$	357,926	\$	25,780,113	\$	26,138,039
Total expenses		(291,431))	(25,921,428)	(26,212,859)
Total net realized and unrealized losses on investments		-		34,738,057		34,738,057
Total change in net assets		66,495		34,596,742		34,663,237
Total beginning net assets		632,210		443,172,857		443,805,067
					\$	



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, 2018, 2017, 2016 and 2015*

_	2018	2017	2016	2015
VMI's Proportion of the Net Pension Liability (Asset)	0.3971%	0.4032%	0.4140%	0.4176%
VMI's Proportionate Share of Net Pension Liability (Asset)	\$23,140,000	\$26,574,000	\$25,348,000	\$23,380,000
VMI's Covered Payroll	\$15,765,510	\$15,913,493	\$15,953,744	\$16,126,899
VMI's Proportionate Share of Net Pension Liability (Asset) as a Percentage of its Covered Payroll	146.78%	166.99%	158.94%	145.10%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.33%	71.29%	72.81%	74.28%

Schedule is intended to show information for 10 years. Since 2018 is the fourth year for this presentation, there are only four years available. However, additional years will be included as they become available.

Schedule of Virginia Military Institute's (VMI) Share of Net Pension Liability VaLORS State Employee Retirement Plan

For the Years Ended June 30, 2018, 2017, 2016 and 2015*

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

Schedule is intended to show information for 10 years. Since 2018 is the fourth year for this presentation, there are only four 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.

^{*}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, 2009 through 2018

		ntractually Required	in Co	ntributions Relation to ontractually Required		ribution iciency	E	imployer's Covered	Contributions as a % of Covered
Year	Co	ntribution	Co	ontribution	(E	xcess)		Payroll	Payroll
2018	\$	2,189,169	\$	2,189,169	\$	-	\$	16,228,090	13.49%
2017	\$	2,126,767	\$	2,126,767	\$	-	\$	15,765,510	13.49%
2016	\$	2,231,534	\$	2,231,534	\$	-	\$	15,913,493	14.02%
2015	\$	1,967,097	\$	1,967,097	\$	-	\$	15,953,744	12.33%
2014	\$	1,412,716	\$	1,412,716	\$	-	\$	16,126,899	8.76%
2013	\$	1,365,002	\$	1,365,002	\$	-	\$	15,582,212	8.76%
2012	\$	484,495	\$	484,495	\$	-	\$	14,967,368	3.24%
2011	\$	304,565	\$	304,565	\$	-	\$	14,298,827	2.13%
2010	\$	706,052	\$	706,052	\$	-	\$	14,306,918	4.94%
2009	\$	863,468	\$	863,468	\$	-	\$	13,859,845	6.23%

Schedule of Employer Contributions VaLORS Retirement Plan For the Years Ended June 30, 2009 through 2018

		tractually equired	Contributions in Relation to Contractually Required		Contribution Deficiency		Employer's Covered		Contributions as a % of Covered
Year	Con	tribution	Cor	ntribution	(E	xcess)]	Payroll	Payroll
2018	\$	90,275	\$	90,275	\$	-	\$	428,862	21.05%
2017	\$	97,605	\$	97,605	\$	-	\$	463,682	21.05%
2016	\$	77,936	\$	77,936	\$	-	\$	413,573	18.84%
2015	\$	72,738	\$	72,738	\$	-	\$	411,648	17.67%
2014	\$	64,487	\$	64,487	\$	-	\$	435,721	14.80%
2013	\$	62,619	\$	62,619	\$	-	\$	423,099	14.80%
2012	\$	25,207	\$	25,207	\$	-	\$	348,333	7.24%
2011	\$	19,494	\$	19,494	\$	_	\$	380,751	5.12%
2010	\$	34,853	\$	34,853	\$	_	\$	311,848	11.18%
2009	\$	38,925	\$	38,925	\$	_	\$	273,540	14.23%

Schedule of Virginia Military Institute's (VMI) Share of Net OPEB Liability Group Life Insurance OPEB Plan-Non-VaLORS Employees For the Year Ended June 30, 2018*

	2018
VMI's Proportion of the Net GLI OPEB Liability (Asset)	0.1583%
VMI's Proportionate Share of Net GLI OPEB Liability (Asset)	\$2,381,000
VMI's Covered Payroll	\$29,153,083
VMI's Proportionate Share of Net GLI OPEB Liability (Asset)	
as a Percentage of its Covered Payroll	8.17%
Plan Fiduciary Net Position as a Percentage of the Total	
Pension Liability	48.86%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

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

	2018
VMI's Proportion of the Net GLI OPEB Liability (Asset)	0.0025%
VMI's Proportionate Share of Net GLI OPEB Liability (Asset)	\$38,000
VMI's Covered Payroll	\$463,682
VMI's Proportionate Share of Net GLI OPEB Liability (Asset) as a Percentage of its Covered Payroll	8.20%
Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability	48.86%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year 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 amounts presented have a measurement date of the previous fiscal year end.

Schedule of Employer Contributions Group Life Insurance OPEB Plan-Non-VaLORS Employees For the Year Ended June 30, 2018*

		Contributions in Relation to			Contributions
	Contractually	Contractually	Contribution	Employer's	as a % of
	Required	Required	Deficiency	Covered	Covered
Year	Contribution	Contribution	(Excess)	Payroll	Payroll
2018	\$ 160,577	\$ 160,577	\$ -	\$30,615,867	0.52%

Schedule of Employer Contributions Group Life Insurance OPEB Plan-VaLORS Employees For the Year Ended June 30, 2018*

		Contributions			
		in Relation to			Contributions
	Contractually	Contractually	Contribution	Employer's	as a % of
	Required	Required	Deficiency	Covered	Covered
Year	Contribution	Contribution	(Excess)	Payroll	Payroll
2018	\$ 2,247	\$ 2,247	\$ -	\$ 428,862	0.52%

^{*}Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, no other data is 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) - Non-VaLORS Employees For the Year Ended June 30, 2018*

	2018
VMI's Proportion of the Net HIC OPEB Liability (Asset)	0.4514%
VMI's Proportionate Share of Net HIC OPEB Liability (Asset)	\$4,110,000
VMI's Covered Payroll	\$29,153,083
VMI's Proportionate Share of Net HIC OPEB Liability (Asset) as a Percentage of its Covered Payroll	14.10%
Plan Fiduciary Net Position as a Percentage of the Total HIC OPEB Liability	8.03%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is 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) - VaLORS Employees For the Year Ended June 30, 2018*

	2018
VMI's Proportion of the Net HIC OPEB Liability (Asset)	0.0072%
VMI's Proportionate Share of Net HIC OPEB Liability (Asset)	\$65,000
VMI's Covered Payroll	\$463,682
VMI's Proportionate Share of Net HIC OPEB Liability (Asset) as a Percentage of its Covered Payroll	14.02%
Plan Fiduciary Net Position as a Percentage of Total HIC OPEB Liability	8.03%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year 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 amounts presented have a measurement date of the previous fiscal year end.

Schedule of Employer Contributions State Employee Health Insurance Credit OPEB Plan-Non-VaLORS Employees For the Year Ended June 30, 2018*

		Contributions			
		in Relation to			Contributions
	Contractually	Contractually	Contribution	Employer's	as a % of
	Required	Required	Deficiency	Covered	Covered
Year	Contribution	Contribution	(Excess)	Payroll	Payroll
2018	\$ 360,674	\$ 360,674	\$ -	\$30,615,867	1.18%

Schedule of Employer Contributions State Employee Health Insurance Credit OPEB Plan-VaLORS Employees For the Year Ended June 30, 2018*

		Contributions			
		in Relation to			Contributions
	Contractually	Contractually	Contribution	Employer's	as a % of
	Required	Required	Deficiency	Covered	Covered
Year	Contribution	Contribution	(Excess)	Payroll	Payroll
2018	\$ 5,061	\$ 5,061	\$ -	\$ 428,862	1.18%

^{*}Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, no other data is 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)-Non-VaLORS Employees For the Year Ended June 30, 2018*

	2018
VMI's Proportion of the Net VSDP OPEB Liability (Asset)	0.3159%
VMI's Proportionate Share of Net VSDP OPEB Liability (Asset)	(\$648,000)
VMI's Covered Payroll	\$12,315,857
VMI's Proportionate Share of Net VSDP OPEB Liability (Asset)	
as a Percentage of its Covered Payroll	-5.26%
Plan Fiduciary Net Position as a Percentage of the Total VSDP	
OPEB Liability	186.63%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is 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)-VaLORS Employees For the Year Ended June 30, 2018*

	2018
VMI's Proportion of the Net VSDP OPEB Liability (Asset)	0.0089%
VMI's Proportionate Share of Net VSDP OPEB Liability (Asset)	(\$18,000)
VMI's Covered Payroll	\$334,581
VMI's Proportionate Share of Net VSDP OPEB Liability (Asset) as a Percentage of its Covered Payroll	-5.38%
Plan Fiduciary Net Position as a Percentage of Total VSDP OPEB Liability	186.63%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year 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 amounts presented have a measurement date of the previous fiscal year end.

Schedule of Employer Contributions VRS Disability Insurance Program OPEB Plan-Non-VaLORS Employees For the Year Ended June 30, 2018*

			Contr	ibutions			
			in Re	lation to			Contributions
	Cont	ractually	Contr	actually	Contributio	on Employer's	as a % of
	Re	quired	Required		Deficiency	y Covered	Covered
Year		14	Contribution		(T)	T. 11	D 11
Year	Cont	tribution	Conti	ribution	(Excess)	Payroll	Payroll

Schedule of Employer Contributions VRS Disability Insurance Program OPEB Plan - VaLORS Employees For the Year Ended June 30, 2018*

		Contributions			
		in Relation to			Contributions
	Contractually	Contractually	Contribution	Employer's	as a % of
	Required	Required	Deficiency	Covered	Covered
Year	Contribution	Contribution	(Excess)	Payroll	Payroll
2018	\$ 2,248	\$ 2,248	\$ -	\$ 340,630	0.66%

^{*}Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, no other data is 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 Year Ended June 30, 2018*

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

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

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

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

^{*}Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentatic 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.

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

	2018
VMI's Proportion of the collective total OPEB Liability	0.6402%
VMI's Proportionate Share of the collective total OPEB Liability	\$8,315,358
VMI's Covered-Employee Payroll	\$29,053,361
VMI's Proportionate Share of the collective total OPEB liability	
as a Percentage of its Covered-Employee Payroll	28.62%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year 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.



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. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is still a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

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

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

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

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

POST EMPLOYMENT BENEFITS

Group Life Insurance

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

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

General State Employees

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

Teachers

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

SPORS Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020 and reduced margin for future
D. diamage D. de a	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-	Updated to a more current mortality table – RP-2014
retirement healthy, and disabled)	projected to 2020 and reduced margin for future
	improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages

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

JRS Employees

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

Largest Ten Locality Employers - General Employees

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

Non-Largest Ten Locality Employers - General Employees

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

Largest Ten Locality Employers – Hazardous Duty Employees

Mortality Rates (Pre-retirement, post-	Updated to a more current mortality table – RP-2014
retirement healthy, and disabled)	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

No change

Increased rate from 60% to 70%

Non-Largest Ten Locality Employers – Hazardous Duty Employees

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

State Employee Health Insurance Credit Program

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

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

General State Employees:

Salary Scale

Line of Duty Disability

Mortality Rates (Pre-retirement, post-	Updated to a more current mortality table – RP-2014
retirement healthy, and disabled)	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-	Updated to a more current mortality table – RP-2014
retirement healthy, and disabled)	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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION AS OF 30 JUNE 2016

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

VaLORS Employees:

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

JRS Employees:

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

Virginia Sickness and Disability Plan

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

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

General State Employees:

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

VaLORS Employees:

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

Line of Duty Act Program

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

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

General State Employees:

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

TOTES TO THE REQUIRED SOFT ELMENTANT INFORMATION AS OF 30 JUNE 2010

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-	Updated to a more current mortality table - RP-2014
retirement healthy, and disabled)	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 assumptions were updated since the July 1, 2016 valuation based on the results of a Virginia Retirement System actuarial experience study

performed for the period of July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

The discount rate was increased from 2.85% to 3.58% based on the Bond Buyers GO 20 Municipal Bond Index and spousal coverage was reduced from 70% to 50% based on a blend of recent spousal coverage election rates and the prior year assumption. Based on the 2017 census, new retirees since 1/1/2015 have chosen to cover their spouses approximately 20% of the time. However, active employees cover their spouses at a rate close to 53%.

Martha S. Mavredes, CPA Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295 Richmond, Virginia 23218

May 6, 2019

The Honorable Ralph S. Northam Governor of Virginia

The Honorable Thomas K. Norment, Jr. Chairman, Joint Legislative Audit and Review Commission

Board of Visitors Virginia Military Institute

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the Virginia Military Institute, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2018, 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, 18, and 19. 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 <u>Government Auditing Standards</u>, 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 <u>Government Auditing Standards</u>.

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

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

Opinion

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of the Virginia Military Institute as of June 30, 2018, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Notes 1 and 17 of the accompanying financial statements, the Virginia Military Institute implemented Governmental Accounting Standards Board Statement No. 75, related to accounting and financial reporting for postemployment benefits other than pensions. Our opinion is not modified with respect to this matter.

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 Schedules of VMI's Share of Net Pension Liability, the Schedules of Employer Contributions for the retirement plans, the Schedules of VMI's Share of Net OPEB Liability, the Schedules of Employer Contributions for the OPEB plans, the Schedule of VMI's Share of Net OPEB Liability (Asset), the Schedule of VMI's Share of OPEB Liability, and the Notes to the Required Supplementary Information on pages 100 through 117. 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 <u>Government Auditing Standards</u>, we have also issued our report dated May 6, 2019, on our consideration of the Virginia Military Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with <u>Government Auditing Standards</u> in considering the Institute's internal control over financial reporting and compliance.

AUDITOR OF PUBLIC ACCOUNTS

Martha S. Markeder

JRQ/vks

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