Annual Financial Report

For Fiscal Year Ended
June 30, 2018

VIRGINIA STATE UNIVERSITY
ANNUAL FINANCIAL REPORT 2017 - 2018

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MANAGEMENT'S RESPONSIBILITY FOR REPORTING AND INTERNAL CONTROLS

The information in this Annual Financial Report, including the accompanying basic financial statements, notes, management's discussion and analysis, and other information is the responsibility of Virginia State University executive management. Responsibility for the accuracy of the financial information and fairness of its presentation, including all disclosures, rests with the management of the University. Management believes the information is accurate in all material respects and fairly presents the University's revenues, expenses, and changes in net position, as well as its overall financial position. This report was prepared in accordance with generally accepted accounting principles for public colleges and universities in the United States of America as prescribed by the Governmental Accounting Standards Board. Management is responsible for the objectivity and integrity of all representations herein. The Annual Financial Report includes all disclosures necessary for the reader of this report to gain a broad understanding of the University's operations for the year ended June 30, 2018.

The administration is responsible for establishing and maintaining the University's system of internal controls. Key elements of the University's system of internal controls include: careful selection and training of administrative personnel; organizational structure that provides appropriate division of duties; thorough and continuous monitoring, control, and reporting of operating budgets versus actual operating results; well communicated written policies and procedures; annual self-assessments led by the Controller's Office; and an internal audit function. Although there are inherent limitations to the effectiveness of any system of accounting controls, management believes that the University's system provides reasonable, but not absolute, assurances that assets are safeguarded from unauthorized use or disposition, and accounting records are sufficiently reliable to permit preparation of financial statements and appropriate accountability for assets and liabilities.

The Finance, Audit and Facilities Committee of the Virginia State University Board of Visitors reviews the University's accounting practices. The Board meets with external independent auditors annually to review the Annual Financial Report and results of audit examinations. The Committee also meets with internal auditors and University financial officers quarterly. These meetings include a review of the scope, quality, and results of the internal audit program.

The Auditor of Public Accounts (APA), the office of the Commonwealth of Virginia's auditors, has audited these annual financial statements and their report appears on pages 107-109. Additionally, the APA has issued a separate report on internal control over financial reporting and on compliance and other matters resulting in the issuance of internal control and compliance findings they consider worthy of management's attention. The University has implemented policies and procedures for the adequate and timely resolution of such issues. No material weaknesses were found on internal control matters by the APA for the fiscal year ended June 30, 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

(Unaudited)

INTRODUCTION

Virginia State University (VSU) is an agency of the Commonwealth of Virginia and is governed by a fifteen member Board of Visitors. The Commonwealth has the authority to exercise oversight over the University. The University has two major divisions, the Academic Colleges and the Cooperative Extension and Agricultural Research Services. The University is a component unit of the Commonwealth and is included in the Commonwealth's Comprehensive Annual Financial Report (CAFR).

Dr. James H. Johnston, Sr.

James Hugo Johnston, Sr. was born in Richmond, Virginia July 29, 1858. He graduated from the Richmond Normal School in 1876 and was elected a teacher in the public school system of his native city. Mr. Johnston began teaching in the lowest grade of the system and worked his way upward until he was elected principal of the Baker Street group of schools. Because of his work at the Baker Street Schools he earned the title of conductor, and later became president of the Peabody Institute in Lynchburg, Virginia. Dr. Johnston earned a Ph.D. in 1882 from Shaw University in North Carolina. In 1886, Virginia's Governor Lee appointed Dr. Johnston to the Board of Visitors of the ***Virginia Normal and Collegiate Institute***. He became president of Virginia Normal and Collegiate Institute in 1887, and served until 1914. After nearly one hundred years of progress, ***Virginia State College*** became ***Virginia State University*** in 1979. Today, the University continues as one of two land grant institutions in the Commonwealth. As a land grant institution, the University engages in natural resource related research projects and agriculture extension services. Its mission is to promote and sustain academic programs that integrate instruction, research, and extension/public service in a design most responsive to the needs and endeavors of individuals and groups within its scope of influence. The University consists of seven colleges, namely: the College of Agriculture, the Reginald F. Lewis College of Business, the College of Engineering and Technology, the College of Education, the College of Graduate Studies, the College of Humanities and Social Sciences, and the College of Natural and Health Sciences. These colleges provide 32 undergraduate degree programs, 15 master's degree programs, two doctoral degree programs, and three certificate programs. Students in the engineering programs conduct research on robotics and unmanned vehicles that will eventually enhance the Commonwealth of Virginia's economy by creating jobs in those areas. In addition, the University has partnerships with Fort Lee, Commonwealth Center for Advanced Manufacturing, and numerous other articulation agreements with industry, institutions of higher education, and other international entities. Virginia State University offers services through its land grant programs to small farmers across the Commonwealth of Virginia.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis provides an overview of the financial position and results of activities of Virginia State University for the fiscal year ended June 30, 2018. Prepared by management, the overview should be read in conjunction with the financial statements and footnotes that follow this section. Comparative information for the fiscal year ended June 30, 2017 has been provided where applicable. The financial statements were prepared in accordance with applicable pronouncements and statements of the Governmental Accounting Standards Board (GASB), which establishes principles and standards for external reporting for colleges and universities.

The University's financial report includes three financial statements and related notes:

1. The Statement of Net Position (SNP)
2. The Statement of Revenues, Expenses, and Changes in Net Position (SRECNP)
3. The Statement of Cash Flows (SCF)

These principles require the financial statements be prepared with resources classified for accounting and reporting purposes into the following net position categories: Current Assets, Noncurrent Assets, and Deferred Outflows of Resources; Current Liabilities, Noncurrent Liabilities and Deferred Inflows of Resources.

During fiscal year 2018, the University implemented GASB 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard requires the recording of the University's share of the Commonwealth's net postemployment benefits other than pensions' liability (also see Footnote 1.P.). The University's full financial statements, which follow MD&A, include a restatement of beginning net position that reduces net position as of July 1, 2017 by $20.2 million compared to the previously reported net position as of June 30, 2017. Normally, the prior year in a comparative presentation is restated to conform to the current year presentation. Fiscal year 2017 amounts have not been restated to conform to the fiscal year 2018 presentation due to the lack of information needed to reflect properly the impact of GASB 75 on fiscal year 2017.

Please note, the University's foundations identified as discrete component units under GASB Statement 39, *Determining Whether Certain Organizations are Component Units* and GASB 61 *The Financial Reporting Entity: Omnibus*, are reported in the component unit column of the financial statements, and this Management Discussion and Analysis excludes reference to the discrete foundations, except where specifically noted. Alternately, the amounts reported by the foundation identified as blended are included with the amounts reported by the University. GASB 80 *Blending Requirements for Certain Component Units* was used to reevaluate the University's blended foundation. See Note 1.A. for details regarding the University's foundations.

STATEMENT OF NET POSITION

The Statement of Net Position (SNP) presents the financial position of the University at the end of the fiscal year and includes all assets, deferred outflows of resources, liabilities and deferred inflows of resources of the University. Net position is the difference between the total assets and deferred outflows of resources less liabilities and deferred inflows of resources. It is one indicator of the current financial condition of the University, while the changes in net position suggest whether the overall financial condition of the University has improved or worsened during the year. Categories of the SNP are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation. For FY2018, the University's total net position decreased by $17.5 million or 8.3% over the previous fiscal year.

Total assets and deferred outflows of resources decreased by $2.0 million or 0.5% when compared to last year. Currents assets increased by $4.3 million during FY2018 or 12.7 %. Current assets are comprised of cash and cash equivalents, short term investments, accounts, notes and loans receivable, due from the commonwealth and affiliates, prepaid expenses, and securities lending. This was due to increases of $1.8 million in cash, $1.8 million in accounts receivable, and $1.6 million in securities lending. These increase were offset by a $1.3 million decrease in prepaid expenses.

Noncurrent assets decreased by $3.7 million during FY2018, or 1.1%. Noncurrent assets are comprised of restricted cash and cash equivalents, state appropriations available, investments, notes receivable, other postemployment benefits (OPEB), capital assets net of depreciation, and other noncurrent assets. Investments increased by $2.5 million due to market performance. The University also recorded $1.8 million for other postemployment benefits per the new GASB 75 standard. These were offset by a net decrease in capital assets of $5.3 million and a $2.0 million decline in restricted cash.

The University also had a decrease of $2.6 million in deferred outflows of resources. This was primarily the result of a drop in costs related to unfunded pension liability of $3.6 million, offset by an increase of $1.3 million for the new OPEB standard.

During FY2018, total liabilities and deferred inflows of resources increased by $15.5 million or 8.4%. Total liabilities are comprised of current and noncurrent liabilities. Current liabilities increased by $6.1 million. Current liabilities include accounts payable and other accrued liabilities, due to federal government, unearned revenues, obligations under securities lending, deposits held in custody, the current portion of long-term liabilities, and retainage payable. The change was mainly attributable to an increase of $1.3 million increase in unearned revenue related to State and local grants and contracts, $3.3 million increase in payables mostly related to construction in progress, and a $1.7 million addition for obligations related to securities lending.

Noncurrent liabilities increased by $4.6 million or 2.9% during FY2018. Noncurrent liabilities consist of noncurrent portion of long-term liabilities (bonds, notes payable, installment purchase obligations, pension, OPEB, compensated absences, federal Perkins loans, and software license agreements). The increase in noncurrent liabilities was the result of recording $19.6 million for OPEB liability, offset by scheduled debt payments of $7.4 million and a $7.3 million decline in the unfunded pension liability. Total deferred inflows of resources increased by $4.7 million as a result of recording $3.6 million related to OPEB and an increase in the pension related inflow of $1.1 million.

A summary of the University's assets, deferred outflows of resources, liabilities, and deferred inflows of resources and net position at June 30, 2018 and 2017 follows:

Summary of the Statement of Net Position	Year Ended June 30,		Increase/(Decrease)	
	2018	2017	Amount	Percent
Assets:				
Current assets	$ 37,987,545	$ 33,700,252	$ 4,287,293	12.7%
Noncurrent assets:				
Restricted cash and cash equivalents	5,716,863	7,722,150	(2,005,287)	(26.0)%
State appropriations available	104,558	494,993	(390,435)	(78.9)%
Investments	38,739,809	36,209,548	2,530,261	7.0%
Other postemployment benefits (OPEB)	1,771,000	-	1,771,000	100.0%
Capital assets, net	297,276,237	302,547,406	(5,271,169)	(1.7)%
Other	1,724,246	2,036,630	(312,384)	(15.3)%
Total noncurrent assets	345,332,713	349,010,727	(3,678,014)	(1.1)%
Total assets	383,320,258	382,710,979	609,279	0.2%
Deferred outflows of resources	9,545,765	12,191,571	(2,645,806)	(21.7)%
Total assets & deferred outflows of resources	392,866,023	394,902,550	(2,036,527)	(0.5)%
Liabilities:				
Current liabilities	26,203,570	20,055,960	6,147,610	30.7%
Noncurrent liabilities	163,478,149	158,815,019	4,663,130	2.9%
Total liabilities	189,681,719	178,870,979	10,810,740	6.0%
Deferred inflows of resources	9,868,746	5,185,524	4,683,222	90.3%
Total liabilities & deferred inflows of resources	199,550,465	184,056,503	15,493,962	8.4%
Net position:				
Net investment in capital assets	213,525,016	214,244,379	(719,363)	(0.3)%
Restricted:				
Nonexpendable	9,288,368	8,922,946	365,422	4.1%
Expendable	30,644,809	28,079,737	2,565,072	9.1%
Unrestricted	(60,142,635)	(40,401,015)	(19,741,620)	(48.9)%
Total net position	$ 193,315,558	$ 210,846,047	$ (17,530,489)	(8.3)%

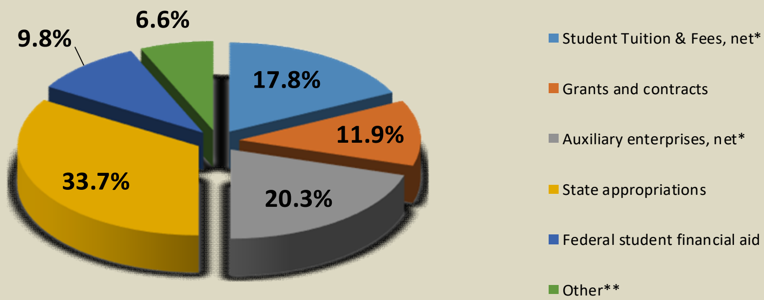
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses, and Changes in Net Position present the University's results of activities for the fiscal year. Presented below is a summarized statement of the University's Revenues, Expenses, and Changes in Net Position for the years ended June 30, 2018 and 2017.

Summary of the Statement of Revenues, Expenses and Changes in Net Position	Year Ended June 30, 2018	2017	Increase/(Decrease) Amount	Percent
Operating revenues	$ 73,132,912	$ 74,005,051	$ (872,139)	(1.2)%
Operating expenses	142,127,251	135,610,024	6,517,227	4.8%
Operating income/(loss)	(68,994,339)	(61,604,973)	(7,389,366)	(12.0)%
Nonoperating revenues/(expenses):				
State appropriations	48,587,822	47,001,221	1,586,601	3.4%
Federal student aid	14,121,106	13,323,441	797,665	6.0%
Other nonoperating revenues/(expenses)	674,097	2,479,450	(1,805,353)	(72.8)%
Net nonoperating revenues/(expenses)	63,383,025	62,804,112	578,913	0.9%
Income/(loss) before other revenues and reductions	(5,611,314)	1,199,139	(6,810,453)	(567.9)%
Other revenues:				
Capital grants and gifts	827,548	1,079,474	(251,926)	(23.3)%
Additions/(reductions) to permanent endowments	1,053,827	667,015	386,812	58.0%
VCBA 21st Century bond reimbursement program	5,960,529	11,135,124	(5,174,595)	(46.5)%
Total other revenues	7,841,904	12,881,613	(5,039,709)	(39.1)%
Total increase/(decrease) in net position	2,230,590	14,080,752	(11,850,162)	(84.2)%
Net position, beginning of year	191,084,968	196,765,295	(5,680,327)	(2.9)%
Net position, end of year	$ 193,315,558	$ 210,846,047	$ (17,530,489)	(8.3)%

As shown in the table above, there was a decrease in net position of $17.5 million or 8.3% in FY2018 as opposed to an increase of $14.1 million in the previous year's statement. This was primarily caused by the new accounting standard related to OPEB resulting in a $20.2 million decrease in the beginning net position. The net operating loss increased by $7.4 million or 12.0% over FY2017. Net non-operating revenues and expenses increased by $579 thousand or 0.9% and total other revenues decreased by $5.0 million or 39.1%, in FY2018. Revenues and expenses will be discussed in further detail in the following sections.

A summary of the University's revenues for the years ended June 30, 2018 and 2017 appears below:



Summary of Revenues
For the years ended June 30, 2018 and 2017

	2018	2017	Increase/(Decrease) Amount	Percent
Operating revenues:				
Student tuition and fees, net*	$ 25,648,467	$ 25,210,716	$ 437,751	1.7%
Grants and contracts	17,195,794	19,656,544	(2,460,750)	(12.5)%
Auxiliary enterprises, net*	29,346,609	27,759,938	1,586,671	5.7%
Other operating revenue**	942,042	1,377,853	(435,811)	(31.6)%
Total operating revenues	73,132,912	74,005,051	(872,139)	(1.2)%
Nonoperating revenues/(expenses):				
State appropriations	48,587,822	47,001,221	1,586,601	3.4%
Federal student financial aid	14,121,106	13,323,441	797,665	6.0%
Other revenues/(expenses) net**	674,097	2,479,450	(1,805,353)	(72.8)%
Total nonoperating revenues	63,383,025	62,804,112	578,913	0.9%
Other revenues/(expenses):				
Capital grants and gifts**	827,548	1,079,474	(251,926)	(23.3)%
Additions to permanent endowment**	1,053,827	667,015	386,812	58.0%
Other capital revenues**	5,960,529	11,135,124	(5,174,595)	(46.5)%
Total other revenues/(expenses)	7,841,904	12,881,613	(5,039,709)	(39.1)%
Total revenues	$ 144,357,841	$ 149,690,776	$ (5,332,935)	(3.6)%

* Net of scholarship allowance
** Other includes: other operating revenues; other non-operating revenues, net of non-operating expenses; capital grants and gifts; state appropriations capital projects; additions to permanent endowment; other capital revenues.

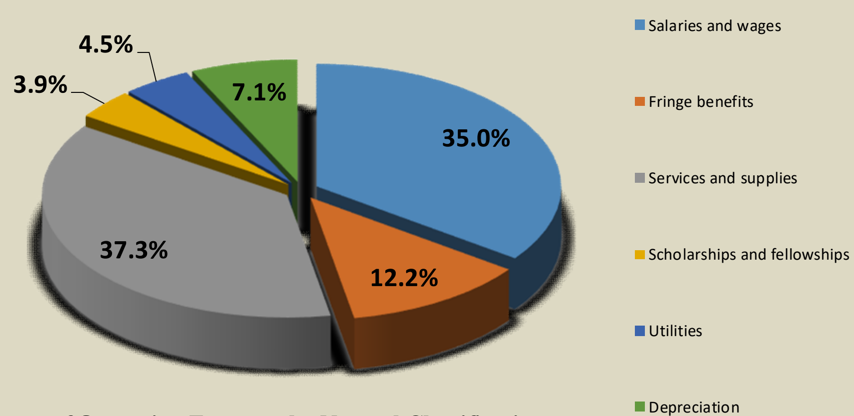
Total operating revenues decreased by $872 thousand in FY2018 to $73.1 million from $74.0 million in the previous year, a decrease of 1.2%. As shown in the chart above, there were increases in student tuition and fees of $438 thousand and auxiliary enterprises of $1.6 million. Operating revenues from grants and contracts declined by $2.5 million, other operating revenues dropped $436 thousand.

For the fiscal year, total non-operating revenues increased by $579 thousand. This was due to increases of $1.6 million in state appropriations and $798 thousand for Federal student financial aid, offset by a net decrease of $1.8 million in other revenues and expenses.

Other revenues decreased by $5.0 million. This was almost entirely due to a $5.2 million decline in revenue from 21st Century bond program reimbursements.

SUMMARY OF EXPENSES

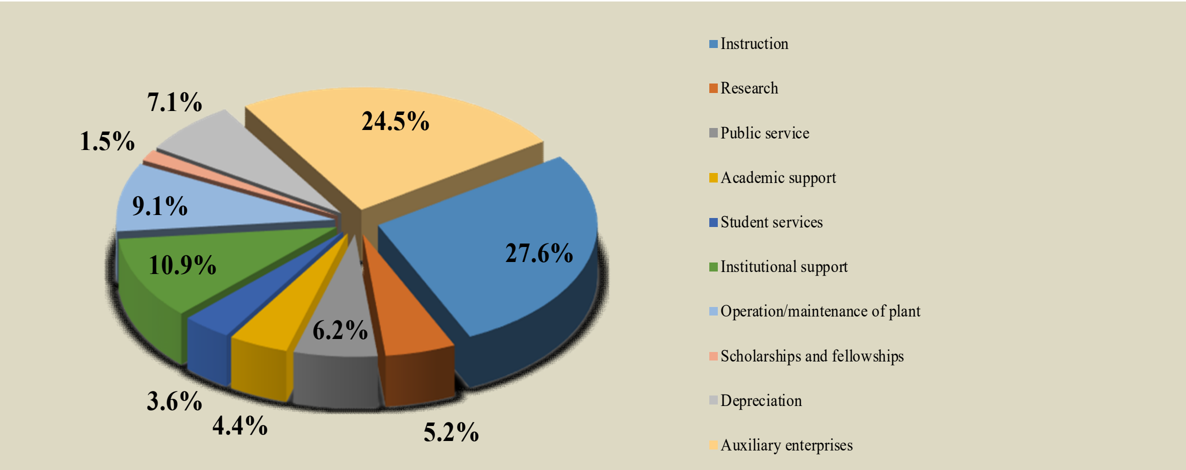
Total operating expenses rose by $6.5 million in FY2018 compared to the previous fiscal year. This represents a 4.8% increase. Comparative summaries of the University's operating expenses by both natural classification and function for the years ended June 30, 2018 and 2017 appear below.



Summary of Operating Expenses by Natural Classification
For the years ended June 30, 2018 and 2017

	2018	2017	Increase/(Decrease) Amount	Percent
Salaries and wages	$ 49,712,458	$ 49,896,595	$ (184,137)	(0.4)%
Fringe benefits	17,287,869	17,431,513	(143,644)	(0.8)%
Services and supplies	53,081,213	45,688,605	7,392,608	0.16)
Scholarships and fellowships	5,550,739	5,522,084	28,655	0.5%
Utilities	6,452,239	6,555,474	(103,235)	(1.6)%
Depreciation	10,042,733	10,515,753	(473,020)	(4.5)%
Total operating expenses	$ 142,127,251	135,610,024	6,517,227	4.8%

The total increase in operating expenses was mostly attributable to a rise in services and supplies of $7.4 million. This was offset by a decrease in depreciation of $473 thousand.



Summary of Operating Expenses by Function
For the years ended June 30, 2018 and 2017

			Increase/(Decrease)	
	2018	2017	Amount	Percent
Operating expenses:				
Instruction	$ 39,184,491	$ 39,810,869	$ (626,378)	(1.6)%
Research	7,402,496	7,687,826	(285,330)	(3.7)%
Public service	8,789,360	8,370,073	419,287	5.0%
Academic support	6,245,149	5,846,516	398,633	6.8%
Student services	5,167,943	4,653,109	514,834	11.1%
Institutional support	15,518,891	14,902,461	616,430	4.1%
Operation/maintenance of plant	12,865,116	9,793,455	3,071,661	31.4%
Scholarships and fellowships	2,105,526	2,410,658	(305,132)	(12.7)%
Depreciation	10,042,733	10,515,753	(473,020)	(4.5)%
Auxiliary enterprises	34,805,546	31,619,304	3,186,242	10.1%
Total operating expenses	$ 142,127,251	$ 135,610,024	$ 6,517,227	4.8%

By function, expenses rose by $3.2 million for auxiliary enterprises primarily due to an increase for Food Services of $800 thousand, Residential Facilities of $462 thousand, Copier and Graphics Services of $154 thousand, Course Materials Funds of $146 thousand, Police and Public Safety of $144 thousand, and Other Auxiliary Enterprises of $119 thousand. There was also an increase in expenditures for operation and maintenance of plant of $3.1 million. $737 thousand more was spent for maintenance reserve. There was also a $1.2 million dollar decrease in indirect cost recoveries.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows (SCF) is concerned with the flow of cash in and out of the University. The SCF shows changes in the Statement of Net Position (SNP) accounts and the income affect for cash and cash equivalents. GASB principles define four major categories of cash flows: cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing activities, and cash flows from investing activities. In addition, it captures both the current operating results and the accompanying changes in the SNP. These cash flows are crucial to funding the operation of the University. From FY17 to FY18 the University's SCF shows a $225 thousand decrease in cash and cash equivalents.

Statement of Cash Flows	Year Ended June 30, 2018	2017	Increase/(Decrease) Amount	Percent
Cash flows from:				
Operating activities	$ (57,024,705)	$ (53,974,385)	$ (3,050,320)	(5.7)%
Noncapital financing activities	64,952,802	62,947,337	2,005,465	3.2%
Capital and related financing activities	(8,515,595)	(6,329,812)	(2,185,783)	(34.5)%
Investing activities	362,913	716,344	(353,431)	(49.3)%
Net increase/(decrease) in cash and cash equivalents	(224,585)	3,359,484	(3,584,069)	(106.7)%
Cash and cash equivalents, beginning of year	33,229,019	29,869,535	3,359,484	11.2%
Cash and cash equivalents, end of year	$ 33,004,434	$ 33,229,019	$ (224,585)	(0.7)%

Overall, there was a $3.1 million increase in net cash used by operating activities in FY2018. This mainly resulted from a $2.8 million increase in cash used for services and supplies.

Cash provided by noncapital financing activities grew by $2.0 million. The largest factor was a $1.7 million increase in state appropriations.

There was a $2.2 million increase in cash used for capital and related financing activities in FY2018. This was primarily the result of decreases in cash used for the purchase of capital assets of $4.9 million, offset by $7.3 million decline in cash received for the 21st Century Bond program.

The last major category on the statement of cash flow is investing activities. In total, net cash provided by investing activities went down by $353 thousand. Investment income declined by $923 thousand and there was also a decrease in the purchase of investments of $305 thousand. This was offset by an increase in proceeds from sales and maturities of investments of $874 thousand.

CAPITAL AND DEBT ACTIVITIES

The University continues to invest in capital assets in accordance with its master plan, modernizing its current and older facilities, purchasing new equipment and building new facilities.

Capital assets, net of depreciation, decreased by $5.2 million in FY2018. VSU had a $1.7 million net increase in construction in progress mostly due to work on Lockett Hall and Whiting Hall. There was a net decrease in buildings of $7.4 million as a result of accumulated depreciation. Infrastructure increased by $2.2 million due to the Erosion and Sediment Control project. Equipment purchases were $952 thousand. Depreciation expense for the year totaled $10.0 million.

Proper management of University resources and the replacement and renewal of capital assets requires the prudent use of debt to finance projects. University bonds are issued pursuant to Section 9(c) of Article X of the Constitution of Virginia. These bonds are backed by the full faith, credit and taxing power of the Commonwealth. The use of debt to finance capital projects is managed in accordance with the University's debt policy.

As of June 30, 2018, the University had $88.5 million in outstanding long-term debt. This debt consists of $82.6 million of general obligation bonds, $5.0 million of notes payable, and $985 thousand of installment purchase obligations. Long-term debt decreased by $7.4 million. This is the result of making debt payments throughout the year while not issuing any new debt in FY2018.

FUTURE ECONOMIC OUTLOOK:

The continued success and viability of the University first and foremost depends on its ability to recruit and retain students. A large percentage of the University's students rely on some form of financial aid such as scholarships, grants or student loans, to be able to attend. As a result of less aid being available, it is increasingly difficult for these students to be able to afford a college education. The University plans to continue its efforts towards making college affordable for its students by continuing to hold its tuition and fee increases to a minimum. The 4% tuition increase approved in FY18 is among the lowest at four-year institutions in Virginia. Furthermore, the University has the lowest tuition and mandatory E&G fees for both full-time, in-state and out-of-state undergraduate students at four-year institutions in Virginia.

The University is taking proactive steps to improve in a number of areas including: student retention, first-year experience, advising, teaching pedagogy, and technology among others. Specifically, the University has invested significant resources into the establishment of the Academic Center for Excellence (ACE). An expanded staff of full-time advisors works directly with students in this uniquely designed space to provide needed resources and guidance to students in order to assist them in attaining their academic and professional objectives. Furthermore, the University has established a new Welcome Center in its new state of the art Multi-purpose Center. The new Welcome Center is intended to help the University with its existing recruitment efforts. Current plans to further improve recruitment and retention involve the establishment of a new "One-Stop Shop" to streamline all onboarding processes for new students and the development of adaptable financial aid analytical tools to maximize the impact of its student financial aid dollars.

Public financial support is an essential revenue source of the University. However, due to uncertainties regarding the exact extent to which public support will continue to be available, the University continues to take proactive measures in searching for additional private financial support to help VSU take the next steps toward success. This additional financial assistance will help provide the competitive edge that assists in attracting quality faculty, recruiting the brightest students, and in developing mutually beneficial relationships with business and industry. Since the needs of the University change frequently, VSU will actively seek unrestricted gifts which provide the greatest flexibility in channeling resources to the areas of greatest need.

Prudent financial practices also play a key role in the continued success and viability of the University. During FY17, the University established reserve targets for auxiliary reserves as a key component of the president's Key Performance Indicators (KPI's). The reserve is intended to cover debt service obligations for one year, future working capital needs, reserves for renewal and replacement and reserves for major renovations. Also as a part of the president's KPI's – the University utilizes the Composite Financial Index (CFI) and its four component ratios as supplementary tools for monitoring its financial performance and strength. The CFI serves as an additional means of confirmation that the amount of resources that University directs towards its mission are well within sustainable levels. The University currently carries a level of debt that is consistent with its policies and mission. For FY18, debt service was 7.4% of total operating expenses compared to 7.7% in FY17. The majority of the University's debt is backed revenue-producing capital projects, as non-revenue backed debt accounted for only 0.9% of total operating expenses.

Virginia State University
FINANCIAL STATEMENTS

STATEMENT OF NET POSITION

As of June 30, 2018 (with comparative financial information as of June 30, 2017)

	2018		2017	
ASSETS & DEFERRED OUTFLOWS OF RESOURCES	Virginia State University	Component Units	Virginia State University	Component Units
Current assets:				
Cash and cash equivalents (Note 2)	$ 27,287,571	$ 4,173,040	$ 25,506,869	$ 4,034,020
Cash and cash equivalents - Securities Lending (Note 2)	1,578,290	-	-	-
Accounts and loans receivable, net of allowance (Note 3)	5,481,712	112,162	3,685,584	53,060
Due from the Commonwealth (Note 3)	2,088,643	-	1,642,339	-
Prepaid expenses	1,551,329	5,934	2,865,460	4,384
Total current assets	37,987,545	4,291,136	33,700,252	4,091,464
Noncurrent assets:				
Restricted cash and cash equivalents (Note 2)	5,716,863	3,034,230	7,722,150	3,457,521
Restricted investments (Note 2)	3,714,303	27,000	3,057,421	27,000
Endowment investments (Note 2)	31,855,931	15,997,559	30,089,101	13,948,400
State appropriation available	104,558	-	494,993	-
Notes receivable, net of allowance (Note 3)	1,704,964	-	2,031,396	-
Other postemployment benefits (OPEB)	1,771,000	-	-	-
Other long-term investments (Note 2)	3,169,575	-	3,063,026	-
Other noncurrent	19,282	75,740	5,234	-
Non depreciable capital assets (Note 4)	33,852,141	542,828	32,129,547	542,828
Depreciable capital assets, net (Note 4)	263,424,096	6,364,072	270,417,859	6,975,494
Total noncurrent assets	345,332,713	26,041,429	349,010,727	24,951,243
Total assets	383,320,258	30,332,565	382,710,979	29,042,707
Deferred outflows of resources: (Note 1.O)				
Pension related	5,832,761	-	9,434,522	-
Other postemployment benefits (OPEB) related	1,316,164		-	-
Loss on refunding of debt	2,396,840	-	2,757,049	-
Total deferred outflows of resources	9,545,765	-	12,191,571	-
Total assets and deferred outflows of resources	392,866,023	30,332,565	394,902,550	29,042,707
LIABILITIES & DEFERRED INFLOWS OF RESOURCES				
Current liabilities:				
Accounts payable and accrued liabilities (Note 5)	11,523,588	205,869	8,222,223	132,776
Due to federal government	-	-	96,606	-
Unearned revenue	3,152,049	45,174	1,893,095	62,345
Retainage payable	61,409	-	78,333	-
Obligations under securities lending	1,578,290	-	-	-
Deposits held in custody of others	1,325,991	55,200	1,281,297	57,600
Long-term liabilities-current portion (Notes 6 and 7)	8,448,334	915,000	8,177,759	900,000
Other current liabilities	113,909	36,096	306,647	46,022
Total current liabilities	26,203,570	1,257,339	20,055,960	1,198,743
Long-term liabilities - noncurrent (Notes 6 and 7)	163,478,149	16,482,904	158,815,019	17,876,293
Total liabilities	189,681,719	17,740,243	178,870,979	19,075,036

STATEMENT OF NET POSITION

As of June 30, 2018 (with comparative financial information as of June 30, 2017) (continued)

	2018		2017	
	Virginia State University	Component Units	Virginia State University	Component Units
Deferred inflows of resources: (Note 1.O)				
Pension related	6,228,000	-	5,174,000	-
Other postemployment benefits related	3,631,527			
Gain on refunding of debt	9,219	-	11,524	-
Total deferred inflows of resources	9,868,746	-	5,185,524	-
Total liabilities and deferred inflows of resources	$ 199,550,465	$ 17,740,243	$ 184,056,503	$ 19,075,036
NET POSITION				
Net investment in capital assets	$ 213,525,016	$ (8,024,005)	$ 214,244,379	$ (8,307,055)
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	5,445,827	12,689,220	5,094,550	11,712,901
Instruction	3,278,711	-	3,266,660	-
Other	563,830	-	561,736	-
Expendable:				
Scholarships and fellowships	26,291,592	5,434,540	24,888,158	3,982,020
Instruction	1,530,598	-	1,221,337	-
Loans	567,391	-	1,055,552	-
Capital projects	513,255	-	419,487	-
Other	1,741,973	-	495,203	-
Unrestricted	(60,142,635)	2,492,567	(40,401,015)	2,579,805
Total net position	**$ 193,315,558**	**$ 12,592,322**	**$ 210,846,047**	**$ 9,967,671**

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended June 30, 2018 (with comparative financial information for the year ended June 30, 2017)

	2018		2017	
	Virginia State University	Component Units	Virginia State University	Component Units
Operating revenues:				
Student tuition and fees (net of scholarship allowance of $12,572,840)	$ 25,648,467	$ -	$ 25,210,716	$ -
Federal grants and contracts	15,468,470	-	16,518,843	-
State and local grants and contracts	1,727,324	-	3,137,701	-
Auxiliary enterprises (net of scholarship allowance of $17,527,327)	29,346,609	-	27,759,938	-
Other operating revenues	942,042	2,556,484	1,377,853	2,589,142
Total operating revenues	73,132,912	2,556,484	74,005,051	2,589,142
Operating expenses: (Note 9)				
Instruction	39,184,491	-	39,810,869	-
Research	7,402,496	-	7,687,826	-
Public service	8,789,360	-	8,370,073	-
Academic support	6,245,149	-	5,846,516	-
Student services	5,167,943	-	4,653,109	-
Institutional support	15,518,891	2,240,894	14,902,461	2,446,107
Operation and maintenance of plant	12,865,116	-	9,793,455	-
Scholarships and fellowships	2,105,526	-	2,410,658	-
Depreciation	10,042,733	611,422	10,515,753	610,426
Auxiliary enterprises	34,805,546	-	31,619,304	-
Total operating expenses	142,127,251	2,852,316	135,610,024	3,056,533
Operating income/(loss)	(68,994,339)	(295,832)	(61,604,973)	(467,391)
Nonoperating revenues/(expenses):				
State appropriations (Note 8)	48,587,822	-	47,001,221	-
Gifts	859,817	2,459,422	657,574	1,968,549
Investment income/(expense)	2,893,174	1,729,514	3,815,735	2,137,846
Interest on indebtedness	(3,238,346)	(794,646)	(3,457,988)	(835,158)
Loss on disposal of assets	(126,083)	-	(46,512)	-
Federal student financial aid	14,121,106	-	13,323,441	-
Other nonoperating revenues	2,152,389	33,252	2,681,386	22,230
Other nonoperating expenses	(1,866,854)	(303,540)	(1,170,745)	(1,060,493)
Net nonoperating revenues/(expenses)	63,383,025	3,124,002	62,804,112	2,232,974
Income/(loss) before other revenues	(5,611,314)	2,828,170	1,199,139	1,765,583
Other revenues/(expenses):				
Capital grants and gifts	827,548	-	1,079,474	-
Additions to permanent endowments	1,053,827	-	667,015	-
VCBA 21st Century bond reimbursement program	5,960,529	-	11,135,124	-
Total other revenues/(expenses)	7,841,904	-	12,881,613	-
Increase/(decrease) in net position	2,230,590	2,828,170	14,080,752	1,765,583
Net position, beginning of year as restated (Note 1.P.)	191,084,968	9,764,152	196,765,295	8,202,088
Net position, end of year	$ 193,315,558	$ 12,592,322	$ 210,846,047	$ 9,967,671

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

STATEMENT OF CASH FLOWS

As of June 30, 2018 (with comparative financial information as of June 30, 2017)

	2018	2017
Cash flows from operating activities:		
Tuition and fees	$ 25,821,436	$ 24,896,951
Grants and contracts	16,229,136	18,551,169
Auxiliary enterprises	29,361,557	27,492,417
Departmental sales and services, and other revenues	668,472	2,658,756
Payments to employees	(66,758,427)	(67,046,939)
Payments for employee fringes and pension benefits	(2,439,543)	(2,888,037)
Payments to suppliers	(48,492,312)	(45,753,704)
Payments for utilities	(6,452,239)	(6,555,474)
Payments for scholarships and fellowships	(5,550,739)	(5,522,084)
Loans issued to students	(204,600)	(218,200)
Collection of loans from students	531,031	204,006
Other payments	261,523	206,754
Net cash provided/(used) by operating activities	(57,024,705)	(53,974,385)
Cash flows from noncapital financing activities:		
State appropriations	48,587,822	46,901,988
Direct lending receipts	43,931,022	43,434,208
Direct lending disbursements	(43,931,022)	(43,434,208)
Gifts	1,913,644	1,324,589
Federal student financial aid	14,121,106	13,323,441
Other nonoperating revenue	285,536	1,463,541
Funds held in custody of others - receipts	4,448,503	4,470,034
Funds held in custody of others - disbursements	(4,403,809)	(4,536,256)
Net cash provided/(used) by noncapital financing activities	64,952,802	62,947,337
Cash flows from capital financing activities:		
Capital appropriations	390,435	-
Capital gifts and grants	827,548	1,079,474
VCBA 21st Century bond reimbursement program	5,514,225	12,808,765
Interest paid on capital debt, leases, and installments	(3,268,050)	(3,441,210)
Principal paid on capital debt, leases, and installments	(7,425,391)	(7,343,138)
Principal received on capital debt, leases, and installments	360,209	360,210
Purchase of capital assets	(4,914,571)	(9,793,913)
Net cash provided/(used) by capital financing activities	(8,515,595)	(6,329,812)
Cash flows from investing activities:		
Investment income	2,893,174	3,815,735
Proceeds from sales and maturities of investments	(1,476,925)	(2,350,711)
Purchase of investments	(1,053,336)	(748,680)
Net cash provided/(used) by investing activities	362,913	716,344
Net increase/(decrease) in cash	(224,585)	3,359,484
Cash and cash equivalents - beginning of the year	33,229,019	29,869,535
Cash and cash equivalents - end of year	**$ 33,004,434**	**$ 33,229,019**

STATEMENT OF CASH FLOWS

As of June 30, 2018 (with comparative financial information as of June 30, 2017) (continued)

	2018	2017
Reconciliation of Net Operating Loss to Net cash used by Operating Activities:		
Operating income/(loss)	$ (68,526,030)	$ (61,604,973)
Adjustments to reconcile net cash used by operating activities:		
Depreciation expense	10,042,733	10,515,753
Changes in assets & deferred outflows and liabilities & deferred inflows:		
Receivables	(1,796,128)	(203,516)
Prepaid items	1,314,131	25,085
Other post employment benefits asset (OPEB)	(107,000)	-
Other assets	(14,048)	(5,234)
Accounts payable	3,301,365	92,747
Less: Interest payable	29,704	30,322
Due to Federal Government	(96,606)	(3,668,984)
Unearned revenue	1,258,954	(298,847)
Other liabilities	(192,738)	211,988
Long term liabilities	(232,931)	3,833,505
Net loans	326,432	(14,194)
Pension liability	(7,271,000)	861,000
Other post employment benefits liability (OPEB)	(2,032,667)	-
Deferred outflows of resources from pension and other postemployment benefits	2,285,597	(3,306,037)
Deferred inflows of resources from pension and other postemployment benefits	4,685,527	(443,000)
Net cash provided/(used) by operating activities	$ (57,024,705)	$ (53,974,385)
Noncash investing, capital and financing activities:		
Securities lending	1,578,290	-
Change in fair value of investments	161,718	1,837,694
Change in accounts receivable related to non-operating income	446,304	(1,673,641)
Change in accounts payable related to non-operating expense	29,704	30,322
Amortization of bond premium/discount and gain/loss on debt refunding	513,559	585,969
Gain/(loss) on disposal of capital assets	(126,083)	(46,512)
VRS and VaLORS special revenue allocation	-	1,511,000

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The University is a component unit of the Commonwealth of Virginia and is included in the Comprehensive Annual Financial Report (CAFR) of the Commonwealth. These basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) applicable to colleges and universities. They are prepared for and at the direction of the Commonwealth of Virginia for inclusion in the Commonwealth's CAFR, which includes all agencies, boards, commissions, and authorities associated with the Commonwealth and over which the Commonwealth exercises or has the ability to exercise oversight authority. In addition, the University has two discrete components units and a blended component unit included in the basic financial statements.

The Virginia State University Foundation (VSUF) is a legally separate discrete component unit of the University and was organized as a tax-exempt charitable and educational organization in 1968. The purpose of this foundation is to accept contributions from individual donors and to safeguard, invest, and distribute the funds as designated by the donors or the Foundation's Board of Trustees for the benefit of the University, its students, alumni, and educational community in support of the University's mission. For the year ended June 30, 2018, the VSUF distributed $1,366,509 to the University for both restricted and unrestricted purposes. Separate financial statements for the VSUF can be obtained by writing Virginia State University Foundation c/o Vice President of Development, Storum Hall, Post Office Box 9071 Petersburg, VA 23806.

Additionally, the Virginia State University Real Estate Foundation (VSUREF) is a legally separate, discrete component unit of the University and was organized as a tax-exempt charitable and educational organization in 2002. Operations began in August 2003. The VSUREF operates on a December 31st year end, and is incorporated into the University's June 30th year end financial statements. The purpose of the Real Estate Foundation is to construct and manage the University Apartments at Ettrick (UAE), a 504-bedroom dormitory facility for the University, in support of the University's mission. Financial statements for the VSUREF can be acquired by writing the VSU Vice President of Finance, Post Office Box 9213, Petersburg, Va. 23806.

Although the University does not control the timing or amount of receipts from either the VSUF or the VSUREF, the majority of the resources or income thereof that both foundations hold and invest is restricted to the activities of the University by the donors. Because these restricted resources held by the foundations can only be used by, or for the benefit of the University, the VSUF and the VSUREF are considered component units of the University and are discretely presented in the University's financial statements.

Because these discretely presented component units are consolidated in the financial statements, a financial summary for each entity is presented below.

Condensed Statement of Net Position
As of June 30, 2018

	VSU Foundation	VSU Real Estate Foundation	Total
Assets:			
Current assets:	$ 1,801,427	$ 2,565,449	$ 4,366,876
Noncurrent assets:			
Restricted cash and cash equivalents	828,132	2,206,098	3,034,230
State appropriations available	-	-	-
Investments	16,024,559	-	16,024,559
Capital assets, net	-	6,906,900	6,906,900
Other	-	-	-
Total noncurrent assets	16,852,691	9,112,998	25,965,689
Deferred outflow of resources	-	-	-
Total assets & deferred outflows of resources	18,654,118	11,678,447	30,332,565
Liabilities:			
Current liabilities	3,262	1,254,077	1,257,339
Noncurrent liabilities	-	16,482,904	16,482,904
Deferred inflow of resources	-	-	-
Total liabilities & deferred inflows of resources	3,262	17,736,981	17,740,243
Net position:			
Net investment in capital assets	-	(8,024,005)	(8,024,005)
Restricted:			-
Nonexpendable	12,689,220	-	12,689,220
Expendable	5,434,540	-	5,434,540
Unrestricted	527,096	1,965,471	2,492,567
Total net position	$ 18,650,856	$(6,058,534)	$ 12,592,322

Condensed Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2018

	VSU Foundation	VSU Real Estate Foundation	Total
Operating revenues	$ -	$ 2,556,484	$ 2,556,484
Operating expenses	(8,552)	2,860,868	2,852,316
Operating income/(loss)	$ 8,552	$ (304,384)	$ (295,832)
Nonoperating revenues/(expenses):			
State appropriations	-	-	-
Federal student financial aid	-	-	-
Other nonoperating revenues/(expenses)	3,426,274	(302,272)	3,124,002
Net nonoperating revenues/(expenses)	3,426,274	(302,272)	3,124,002
Income/(loss) before other revenues and reductions	3,434,826	(606,656)	2,828,170
Other revenues:			
Capital grants and gifts	-	-	-
Additions/(reductions) to permanent endowments	-	-	-
21st Century Bonds Reimbursement Program	-	-	-
Total other revenues	-	-	-
Total increase/(decrease) in net position	3,434,826	(606,656)	2,828,170
Net position, beginning of year	16,606,063	(6,841,911)	9,764,152
Net position, end of year	$ 20,040,889	$ (7,448,567)	$ 12,592,322

In 2015, the Virginia State University Research Foundation (VSURF) commenced operations, and is included as a blended component unit in the University's financial statements. The purpose of the VSURF is to support the University's objectives for research, public service, economic and technological development. As a representative of the University, VSURF exemplifies the same spirit of entrepreneurship and focuses on the applications of engineering, science and technology to develop new ideas, methods and opportunities. In its capacity, the Foundation will provide several services related to Intellectual Property Management, Technology Transfer and Commercialization, and the Office of Sponsored Research & Programs.

The VSURF, like the University, operates on a June 30th year end, and as a blended component unit, their financial information is combined with the University's and reported in the financial statements in one column. For copy of the VSURF financial statements, send a written request to Virginia State University Research Foundation, Post Office Box 9005, Petersburg, Va. 23806.

The condensed component unit financial summary presented below, and subsequent notes, comply with the Governmental Accounting Standards Board (GASB) presentation format. Both VSU Foundation and VSU Real Estate Foundation follow the Financial Accounting Standards Board (FASB) presentation format in their audited financial statements. Consequently, reclassifications have been made to convert their statements to the GASB format.

Because the reporting entities' financial information is combined in the financial statements, a financial summary for each entity, and in total, is shown below.

Condensed Statement of Net Position
As of June 30, 2018

	Virginia State University	VSU Research Foundation	Total
Assets:			
Current assets:	$ 37,241,913	$ 745,632	$ 37,987,545
Noncurrent assets:			
Restricted cash and cash equivalents	5,716,863	-	5,716,863
State appropriations available	104,558	-	104,558
Investments	38,739,809	-	38,739,809
Capital assets, net	297,276,237	-	297,276,237
Other	3,495,246	-	3,495,246
Total noncurrent assets	345,332,713	-	345,332,713
Deferred outflow of resources	9,545,765	-	9,545,765
Total assets & deferred outflows of resources	392,120,391	745,632	392,866,023
Liabilities:			
Current liabilities	26,203,570	-	26,203,570
Noncurrent liabilities	163,478,149	-	163,478,149
Deferred inflow of resources	9,868,746	-	9,868,746
Total liabilities & deferred inflows of resources	199,550,465	-	199,550,465
Net position:			
Net investment in capital assets	213,525,016	-	213,525,016
Restricted:			
Nonexpendable	9,288,368	-	9,288,368
Expendable	30,255,695	389,114	30,644,809
Unrestricted	(60,499,153)	356,518	(60,142,635)
Total net position	$ 192,569,926	$ 745,632	$ 193,315,558

Condensed Statement of Revenues, Expenses and Changes in Net Position For the year ended June 30, 2018	Virginia State University	VSU Research Foundation	Total
Operating revenues	$ 72,725,177	$ 407,735	$ 73,132,912
Operating expenses	142,043,982	83,269	142,127,251
Operating income/(loss)	$ (69,318,805)	$ 324,466	$ (68,994,339)
Nonoperating revenues/(expenses):			
State appropriations	48,587,822	-	48,587,822
Federal student financial aid	14,121,106	-	14,121,106
Other nonoperating revenues/(expenses)	674,097	-	674,097
Net nonoperating revenues/(expenses)	63,383,025	-	63,383,025
Income/(loss) before other revenues and reductions	(5,935,780)	324,466	(5,611,314)
Other revenues:			
Capital grants and gifts	827,548	-	827,548
Additions/(reductions) to permanent endowments	1,053,827	-	1,053,827
21st Century Bonds Reimbursement Program	5,960,529	-	5,960,529
Total other revenues	7,841,904	-	7,841,904
Total increase/(decrease) in net position	1,906,124	324,466	2,230,590
Net position, beginning of year	190,663,802	421,166	191,084,968
Net position, end of year	$ 192,569,926	$ 745,632	$ 193,315,558

B. Basis of Presentation

The University's accounting policies conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). In recent years, several substantial GASB standards were issued, and the applicable requirements for VSU have been implemented. For FY18 the University implemented GASB Pronouncement 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which are referred to as OPEB plans. Statement 75 largely mirrors recent changes to pension accounting made under GASB 67/68 and has significantly altered the measurement and reporting standards previously required for Other Post Employment Benefit (OPEB) plans. New GASB 75 replaces GASB 45 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Components of Standard 75 include a beginning balance restatement, a liability for the unfunded net portion of the plans, related expenses, and deferred inflows and deferred outflows of resources. Basically, the GASB 75 has moved accounting for OPEB to the balance sheet and income statement of the University, and expands the required note disclosure, bringing more focus onto OPEB liabilities and related inflows and outflows.

New disclosures are also required under GASB 75, and are similar to those added for 68. Specifically, the new note requirements include an emphasis on the various elements of the OPEB plans, and include computations of various ratios. The notes must include information detailing deferred outflows/inflows or resources from the plan. Additional information will show what factors are influencing plan liabilities over time and will highlight the funded status of the plan. A ten year schedule of changes to the net OPEB is required, as well. Implementation of this Statement is required for fiscal years beginning after June 15, 2017. See Note 12 for additional information related to the particular OPEB plans of the University.

GASB Pronouncement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* was issued in June, 2015 and applies to FY2016. It simplifies the structure of the hierarchy of generally accepted accounting principles (GAAP). The GAAP hierarchy sets forth what constitutes GAAP for all state and local governments. This Standard establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance governmental entities must apply.

C. Basis of Accounting

The University's financial statements have been prepared 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 a liability has been incurred, regardless of the timing of related cash flows. All significant intra-agency transactions have been eliminated as well.

D. Cash Equivalents

The University considers all highly liquid investments with an original maturity of ninety days or less to be cash equivalents. Funds invested through the State Non-Arbitrage Program (SNAP) and portions of the funds invested in the State Securities Lending Program are considered cash equivalents.

E. Prepaid Expenses

Prepaid expenses represent University library books, memberships, subscriptions, postage, system maintenance agreements, service agreements and licenses that were paid in advance as of June 30, 2018.

F. Capital Assets

Capital assets consisting of land, buildings, equipment, infrastructure assets, improvements other than buildings, inexhaustible works of art, intangible assets, and construction-in-progress are stated at appraised historical cost or actual cost, where determinable. Purchased or constructed capital assets are reported at actual cost or estimated historical cost. Donated capital assets are reported at fair value on the date of acquisition. Library materials are valued using purchase price for library acquisitions and are capitalized if the annual composite amount is $5,000 or greater. Buildings and infrastructure are capitalized when the cost is $100,000 or greater. Building renovations are capitalized when cost is $100,000 or greater, and the asset value significantly increases or the useful life is significantly extended. Equipment is capitalized when the acquisition cost is $5,000 or greater and the estimated useful life is greater than one year. Expenses for construction-in-progress are capitalized as they are incurred. Intangible assets are capitalized when the acquisition cost is $100,000 or greater. Interest expenses relating to construction are capitalized, net of interest income earned on resources set aside for this purpose. For the year ended June 30, 2018, no interest associated with construction was capitalized.

Depreciation is calculated using the straight-line method over the estimated useful life as follows:

Buildings	30-60 years
Infrastructure assets	15-20 years
Equipment	2-10 years
Intangible assets – computer software	5-10 years
Library books	5 years
Other improvements	20 years

G. Net Position

Net investment in capital assets represents the net value of capital assets (property, plant and equipment) less the debt incurred to acquire or construct the asset. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt are included in this component.

Resources restricted by outside sources are distinguished from unrestricted resources allocated for specific purposes by action of the Board of Visitors. Externally restricted resources may be utilized only in accordance with the purposes established by the source of such resources and are in contrast with unrestricted resources, of which the governing board retains full control to use in achieving the institutional purpose.

Restricted net assets can be expendable or nonexpendable. Nonexpendable restricted net assets are endowments and similar type funds where the donor(s) or some other outside source has 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 principal. Expendable restricted net assets are resources which the University is legally or contractually obligated to spend in accordance with the restrictions imposed by external parties.

Unrestricted net assets are resources derived primarily from state appropriations, sales and services of educational departments, student tuition and fees, auxiliary enterprises fees and revenues, and gifts. Auxiliary enterprises are self-supporting activities that provide services for students, faculty, and staff. These unrestricted resources are used for transactions relating to the educational and general operations of the University and at the discretion of the governing board to meet current expenses.

When an expense has been incurred that can be paid using either restricted or unrestricted resources, the University's policy is first to apply the expense toward restricted resources and then toward unrestricted. Restricted funds remain classified as such until restrictions have been satisfied.

H. Unearned Revenue

Unearned revenue represents revenues collected, but not earned as of June 30, 2018. This consists primarily of student tuition and fees received in advance of the academic term and advance payments from grant and contract sponsors.

I. Accrued Compensated Absences

The amount of leave earned, but not taken by 12-month faculty and salaried employees is recorded as a liability on the Statement of Net Position. The amount reflects all unused vacation leave, overtime leave, compensatory leave, sabbatical leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave payout policy as of June 30, 2018. The applicable share of employer-related taxes payable on eventual termination payments is also included.

J. Revenue and Expense Classifications

Operating revenues include activities that have the characteristics of exchange transactions, such as: (1) student tuition and fees, net of scholarship allowance; (2) federal, state, and nongovernmental grants and contracts; and (3) sales and services of auxiliary enterprises, net of scholarship allowance.

Non-operating revenues include activities that have the characteristics of non-exchange transactions such as gifts and other revenue sources that are defined as non-operating revenues 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*, such as state appropriations, investment income, and federal student financial aid.

Non-operating expenses include interest on debt related to the purchase of capital assets and investment expenses. All other expenses are classified as operating expenses.

K. Discounts, Premiums, and Bond Issuance Costs

Bonds payable on the Statement of Net Position are reported net of related premiums and discounts, which are amortized as revenue or expense over the life of the bond. Bond issuance costs are expensed as incurred, due to the implementation of GASB Statement 65 *Items Previously Reported as Assets and Liabilities*. While prior to FY2014, issuance costs were expensed over the life of the bonds.

L. Scholarship Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowance in the Statement of Revenues, Expenses, and Changes in Net Position. Scholarship allowance is the difference between the stated charge for goods and services provided by the University and the amount paid by students and/or third parties making payments on the students' behalf. The scholarship allowance is reported using the alternative method as recommended by the National Association of College and University Business Officers (NACUBO). The alternative method is a simple proportionality algorithm that computes scholarship allowance on a University-wide basis by allocating the amounts applied to student accounts and the cash payment to students, excluding payments for services, on the ratio of total aid to the aid not considered third-party aid.

M. Title IV Federal Financial Assistance Programs

The University participates in the following federally funded programs: Federal Pell Grant (PELL) and Teacher Education Assistance for College and Higher Education (TEACH) Grant; Federal Supplemental Educational Opportunity Grant (SEOG); Federal Direct Subsidized and Unsubsidized; Federal Parent Loan for Undergraduate and Graduate Students (PLUS), Federal Perkins Loan and Federal College Work Study (CWS).

N. Comparative Data

The University presents its financial information on a comparative basis. The basic financial statements include certain prior year summarized comparative information in total, but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Specifically, the summarized comparative information presented does not include the necessary adjustments related to the implementation of GASB Statement 75 for the 2017 financial statements to be comparative with the 2018 financial statements. The information needed to make these adjustments is not available for prior years. Accordingly, the June 30, 2017 information should be read in conjunction with the University's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

O. Deferred Outflows and Deferred Inflows of Resources

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

For the University, gains on retirement of debt are classified as deferred inflows of resources and losses are reported as deferred outflows of resources. Each year these amounts are amortized and included as a component of interest expense based on the life of the debt. Changes in net pension liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. In addition, employer contributions subsequent to the measurement date of the net pension liability are also reported as deferred outflows of resources.

Summarized below is the compilation of deferred outflows and inflows of resources at June 30, 2018:

At June 30, 2018	Pension Related	OPEB	Gain/Loss on Debt Refunding	Total
Deferred outflows of resources	$ 5,832,761	$ 1,316,164	$ 2,396,840	$ 9,545,765
Deferred inflows of resources	$ 6,228,000	$ 3,631,527	$ 9,219	$ 9,868,746

P. Restatement of Beginning Net Position Categories

As discussed in Notes 1.B. and 12, GASB 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* requires a restatement of the beginning net OPEB liability for FY18. Additionally, net assets were adjusted for prior year eliminations related to component units. The effect of the reporting changes to net position of the University is as follow:

Net position as reported at June 30, 2017	$ 210,846,047
Less: Decrease due to GASB 75 implementation regarding OPEB liability and related deferred outflows and deferred inflows of resources	(20,229,338)
Less: prior year eliminations	468,259
Net position at July 1, 2017, as restated	$ 191,084,968

Q. Pensions

The Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' Retirement 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 Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' Retirement System (VaLORS) Retirement Plan; and the additions to/deductions from the VRS State Employee Retirement Plan's and the VaLORS Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See Note 11 for additional information on the VRS and VaLORS pension plans.

R. 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 or participating employers. For purposes of measuring the net Group Life Insurance Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Group Life Insurance Program OPEB, and Group Life Insurance Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Group Life Insurance program OPEB and the additions to/deductions from the VRS Group Life Insurance Program OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See Note 12 Other Post-Employment Benefits for additional plan information.

S. State Employee Health Insurance Credit Program

The Virginia Retirement System (VRS) State Employee Health Insurance Credit Program is a single employer plan that is presented as a multiple-employer, cost-sharing plan. The State Employee Health Insurance Credit Program was established pursuant to §51.1-1400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The State Employee Health Insurance Credit Program is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired state employees. For purposes of measuring the net State Employee Health Insurance Credit Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the State Employee Health Insurance Credit Program OPEB, and the State Employee Health Insurance Credit Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) State Employee Health Insurance Credit Program; and the additions to/deductions from the VRS State Employee Health Insurance Credit Program's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See Note 12 Other Post-Employment Benefits for additional plan information.

T. 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. See Note 12 Other Post-Employment Benefits for additional plan information.

U. 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. See Note 12 Other Post-Employment Benefits for additional plan information.

V. Pre-Medicare Retiree Healthcare Plan

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

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

A. Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., *Code of Virginia*, all State funds of the University are held by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of State funds. Cash deposits held by the University are maintained in accounts that are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 of the *Code of Virginia*. In accordance with the GASB Statement 9 *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds,* definition of cash and cash equivalents, cash represents cash with the Treasurer of Virginia, cash on hand, and cash deposits including certificates of deposit and temporary investments with original maturities of three months or less. The Virginia State Non-Arbitrage Program (SNAP) offers a professionally-managed money market mutual fund, which provides issuers with a temporary pooled investment vehicle for proceeds pending expenditure, and with record keeping, depository and arbitrage rebate calculation services. SNAP is in compliance with all of the standards of GASB Statement No. 79 and elects to report its investments for financial reporting at amortized cost. At June 30, 2018, the carrying amount of cash and cash equivalents was $33,004,434.

B. Investments - Credit Risk, Custodial Credit Risk, and Interest Rate Risk

Pursuant to Section 23.1-1301*, Code of Virginia*, the Board of Visitors of Virginia State University has the broad authority to manage the funds of The University. In doing so, the Board created an "Investment Policy" which governs the investment of the University's pooled endowed funds and sets forth the responsibilities of the University, its investment advisors, and external managers. The University's Endowment consists of gifts, Board-designated endowments, and funds connected with the Title III Endowment Challenge Grant Program. It is the intent of the Board that these funds be invested with a long-term approach aimed at generating sustainable levels of income to support the academic mission of the University. In order to do so, the University adheres to the guidelines set forth by the Uniform Prudent Management of Institutional Funds Act, *Code of Virginia* Section 64.2-1100-1108, to evaluate common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The following disclosures are made in accordance with GASB Statement 40 *Deposit and Investment Risk Disclosures*. As an element of interest rate risk, this statement requires certain disclosures of investments with fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement must be disclosed. GASB Statement 40 also modifies disclosures required by GASB Statement 3 *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.*

As of June 30, 2018, the University had the following investments:

Spider Management Group	$20,189,475
Graystone Consulting Richmond	18,550,334
Total investments	$38,739,809

The University also participates in the Commonwealth's security lending program. 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. 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 CAFR. In fiscal year 2018, the Department of the Treasury reinstated the Securities Lending Program, in which VSU participated. VSU reported $1,578,290 of cash and cash equivalents for the Securities Lending Program for fiscal year 2018.

C. Fair Value Measurement

The following disclosures are made in accordance with GASB Statement 72 *Fair Value Measurement and Application*. This standard expands fair value disclosures to provide comprehensive information for financial statement users about the impact of fair value measurements on a government's financial position. Furthermore, 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 the chart below, SNAP Investments are reported using the net asset value per share, which is calculated on an amortized cost basis that provides a NAV per share that approximates fair value. Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Commercial and residential mortgage-backed securities classified in Level 3 are valued using discounted cash flow techniques. Collateralized debt obligations classified in Level 3 are valued using consensus pricing.

Investments:	Not Applicable to Fair Value Measurement	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at Net Asset Value (NAV)	Credit Rating
Cash	$ 28,664,600					
Cash (SNAP)	4,339,834					
Cash (Investments)	260,912	$ -	$ -	$ -	$ -	Not applicable
Stocks	-	2,326,038	-	-	-	Not applicable
ETS & CEFS	-	3,183,807	-	-	-	Not applicable
Mutual Funds	-	12,779,577	-	-	-	Not rated
Unitized Investment Pool (Spider)	-	-	-	-	20,189,475	Not rated
Total	$ 33,265,346	$ 18,289,422	$ -	$ -	$ 20,189,475	

The Richmond Fund creates a strategic mix of asset classes in order to preserve principal and build long-term capital. Diversification is the core tenant of the Richmond Fund, which invests across asset classes broadly categorized as public equity, private equity/venture capital, multi-strategy/credit, and real assets.

The following chart provides information on the availability of the investment funds:

Investment Manager	Redemption Frequency	Redemption Notice Period
Spider Management	Quarterly	60 days
Graystone Consulting Richmond	Monthly	1 day

D. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. The University does not invest directly in fixed income securities, but rather holds shares of mutual funds which target specific types of fixed income instruments. Doing so allows the University to construct a fixed-income portfolio which carries prudent levels of interest rate risk by targeting and maintaining an average duration congruent with the investment objectives of the University.

E. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Statutes authorize the investment of local funds held by the University in obligations of the Commonwealth; federal government; other states or political subdivisions thereof; Virginia political subdivisions; the International Bank for Reconstruction and Development; the Asian Development Bank; and the African Development Bank. In addition, the University may invest in prime quality commercial paper rated Prime 1 by Moody's Investment Service or A-1 by Standard and Poor's, Incorporated. The University may also invest in overnight term or open repurchase agreements and money market funds. The University does not hold rated debt securities directly but rather constructs a balanced fixed-income mutual fund portfolio which assumes levels of credit risk appropriate with its risk and return objectives.

F. Custodial Credit Risk

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the endowment funds will not be able to recover the value of the investments that are in possession of an outside party. The University does not have a formal investment policy for custodial arrangements. At June 30, 2018, the

University endowment funds were held at the custodial banks, the Spider Management Group, and Graystone Consulting Richmond.

G. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government or university in a single issuer. The University does not have a formal policy to reduce concentration of credit risk; however, all of the University's investments were held in various instruments and stocks and were not exposed to this risk.

H. Foreign Currency Risk

Foreign currency risk is the risk deposits or investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U. S. dollar relative to foreign currencies. In order to benefit from international investments which are necessary for the attainment of the University's long-term performance objectives, the University understands that some level of foreign currency risk is necessary. These exposures may be mitigated to some extent via hedging. In order to maintain manageable levels of foreign currency risk, significant portions of the University's international fixed-income and equity portfolios were dollar-hedged as of June 30, 2018.

I. VSUF – Cash and Investments

The investments of the VSUF consist primarily of equity securities and mutual funds. All investments are stated at fair value as reported by investment managers and reflect readily determinable market prices. All investments are considered available for sale. The amount of cash and investments held by the VSUF at June 30, 2018, was $18,550,878.

At June 30 2018, the VSUF had $16,127,799 in total investments. Per GASB Statement 72 *Fair Value Measurement and Application* these investments are classified as follows: $15,921,887 as Level 1; $27,000 as Level 2; $178,912 as Level 3.

J. VSUREF - Cash and Investments

The investments of the VSUREF consist primarily of U.S. government money market funds. All investments are stated at fair value as reported by investment managers and reflect readily determinable market prices. All investments are considered available for sale. Cost is determined based on the initial purchase price of each individual investment. The amount of cash and investments held by the VSUREF at December 31, 2017 was $4,680,951.

At December 31, 2017, the VSUREF had $(2,466,999) related to a derivative interest rate swap agreement. Per GASB Statement 72 *Fair Value Measurement and Application* this investment is classified as Level 2.

3. ACCOUNTS AND NOTES RECEIVABLE

A. Accounts Receivable

Accounts receivable is shown net of allowance for doubtful accounts in the accompanying Statement of Net Position.

Accounts Receivable at June 30, 2018		
University:		
Student tuition and fees	$	1,655,300
Federal, state and private grants and contracts		4,223,572
Multi-purpose center		186,132
Auxiliary enterprises		177,806
Third party receivables - students		306,146
Other receivables		80,082
Gross accounts receivable		6,629,038
Less: Allowance for doubtful accounts		(1,565,951)
Net accounts receivable		5,063,087
Research Foundation:		
Gross accounts receivable		418,625
Less: Allowance for doubtful accounts		-
Net accounts receivable		418,625
Total net accounts receivable	$	5,481,712

B. Due from the Commonwealth

Receivables due from the Commonwealth represent reimbursements due for equipment purchases made by the University under the Equipment Trust Fund and bond reimbursement programs. On a reimbursement basis, the Equipment Trust Fund program provides State-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional and research equipment.

The details for the receivables due from the Commonwealth are as follows:

Due from the Commonwealth at June 30, 2018		
21st Century Bond Reimbursement - Multipurpose Center Project	$	42,523
21st Century Bond Reimbursement - Water Storage Tank and Campus Water		124,594
21st Century Bond Reimbursement - Lockett Hall		107,677
21st Century Bond Reimbursement - Erosion & Sediment Control		103,214
21st Century Bond Reimbursement - Maintenance Reserve		1,487,543
21st Century Bond Reimbursement - Master Plan & Maintenance		14,949
21st Century Bond Reimbursement - Equipment Trust Fund Reimbursement		208,143
Total due from the Commonwealth	$	2,088,643

C. Notes Receivable

Notes receivable are shown net of an allowance for doubtful accounts in the accompanying Statement of Net Position.

At June 30, 2018, notes receivable consisted of the following:

Notes Receivable at June 30, 2018

Noncurrent notes receivables:	
Federal student loans	1,923,174
Local student loans	136
Trojan Development, LLC	328,000
Less: Allowance for doubtful accounts	(546,346)
Total notes receivable	$ 1,704,964

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2018, is presented as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Nondepreciable capital assets:				
Land	$ 19,188,243	$ -	$ (1,776)	$ 19,186,467
Inexhaustible works of art and historical treasures	119,000	-	-	119,000
Construction in progress	12,822,304	3,935,877	(2,211,507)	14,546,674
Total nondepreciable capital assets	32,129,547	3,935,877	(2,213,283)	33,852,141
Depreciable capital assets:				
Buildings	381,982,167	13,786	(203,193)	381,792,760
Equipment	37,829,652	952,294	(5,806,948)	32,974,998
Infrastructure (includes Improvements other than buildings)	23,983,197	2,197,722	-	26,180,919
Intangible Assets-Computer Software	3,347,006	-	-	3,347,006
Library books	20,591,476	22,683	(211,331)	20,402,828
Total depreciable capital assets	467,733,498	3,186,485	(6,221,472)	464,698,511
Less accumulated depreciation for:				
Buildings	127,934,723	7,412,899	(203,193)	135,144,429
Equipment	31,519,813	1,594,203	(5,669,433)	27,444,583
Infrastructure (includes Improvements				-
other than buildings)	14,305,524	925,231	-	15,230,755
Intangible Assets-Computer Software	3,347,006	-	-	3,347,006
Library books	20,208,573	110,400	(211,331)	20,107,642
Total accumulated depreciation	197,315,639	10,042,733	(6,083,957)	201,274,415
Net depreciable capital assets	270,417,859	(6,856,248)	(137,515)	263,424,096
Total	$ 302,547,406	$ (2,920,371)	$ (2,350,798)	$ 297,276,237

Net capital assets of the VSUREF consist of $542,828 for land and $6,364,072 (net of accumulated depreciation of $9,114,892) for buildings, land improvements, and equipment as of December 31, 2017.

The beginning balances for buildings and related accumulated depreciation have been adjusted to properly reflect fully depreciated disposals that occurred prior to July 1, 2017. The total amount of this adjustment was $5,227,027. There was no impact as a result of this adjustment to net depreciable capital assets.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following at June 30, 2018:

Employee salaries, wages, and fringe benefits payable	$ 3,999,942
Matured interest payable	340,165
Vendor and supplier accounts payable	7,183,481
Total	$ 11,523,588

6. LONG-TERM LIABILITIES

The University's noncurrent liabilities consist of long-term debt (further described in Note 7) and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ending June 30, 2018 is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current	Noncurrent
Long-term debt:						
General obligations revenue bonds	$ 88,856,256	$ -	$ (6,287,991)	$ 82,568,265	$ 5,549,127	$ 77,019,138
Notes payable	5,759,444	-	(771,044)	4,988,400	733,978	4,254,422
Installment purchases	1,349,513	-	(364,050)	985,463	346,368	639,095
Total long-term debt	95,965,213	-	(7,423,085)	88,542,128	6,629,473	81,912,655
Other noncurrent liabilities:						
Net pension liability	61,525,000	-	(7,271,000)	54,254,000	-	54,254,000
Net OPEB Liability	22,971,267	-	(3,110,546)	19,860,721	257,226	19,603,495
Accrued compensated absences	4,215,093	2,439,876	(2,254,276)	4,400,693	1,143,104	3,257,589
Federal Government - NIFA	3,765,590	-	(418,531)	3,347,059	418,531	2,928,528
Federal Perkins loan contributions	1,521,882	-	-	1,521,882	-	1,521,882
Total other noncurrent liabilities	93,998,832	2,439,876	(13,054,353)	83,384,355	1,818,861	81,565,494
Total long-term liabilities	$ 189,964,045	$ 2,439,876	$ (20,477,438)	$ 171,926,483	$ 8,448,334	$ 163,478,149

7. LONG-TERM INDEBTEDNESS

A. Bonds Payable

The University's bonds are issued pursuant to Section 9 of Article X of the Constitution of Virginia. All of the bonds at the University are Section 9(c) bonds. These bonds are backed by the full faith, credit and taxing power of the Commonwealth, and are issued to finance capital projects which, when completed, will generate revenue to repay the debt.

A summary of future principal and interest requirements of bonds payable for fiscal years as of June 30, 2018, are as follows:

General obligation revenue bonds:	Interest Rate	Maturity	Total
VSU Construct Residence Hall 2006B Refunded Portion, Series 2009D	5.0%	2022	4,065,000
VSU Construct Dining Hall Refunded Portion 2006B, Series 2009D	5.0%	2022	1,050,000
Construct Two Res Halls - 2007B Ref Portion, Series 2013B	4.0% to 5.0%	2025	11,231,552
Construct Dining Hall - 2006B Ref Portion, Series 2013B	4.0%	2026	1,219,718
Construct Residence Halls - 2006B Ref Portion, Series 2013B	4.0%	2026	4,719,150
Construct Residence Halls - 2007A Ref Portion, Series 2013B	4.0% to 5.0%	2027	1,132,216
Construct Two Residence Halls-2007B Ref Portion, Series 2015B	5.0%	2027	3,622,618
Construct Gateway Residence Hall Phase, Series 2011A	2.2% to 5.0%	2031	25,665,000
Construct Quad Phase II, Series 2011A	2.2% to 5.0%	2031	22,450,000
Add unamortized premium (net of discount)			7,413,011
Total Bonds Payable			$ 82,568,265

Aggregate annual maturities of bonds payable for fiscal years after 2018 are:

Maturity	Principal	Interest	Total
2019	5,549,127	3,294,621	8,843,748
2020	5,785,600	3,038,864	8,824,464
2021	6,006,350	2,789,684	8,796,034
2022	6,299,827	2,530,917	8,830,744
2023	6,541,801	2,264,820	8,806,621
2024 - 2028	31,447,549	6,758,336	38,205,885
2029 - 2031	13,525,000	1,300,150	14,825,150
Add unamortized premium (net of discount)	7,413,011	-	7,413,011
Total	$ 82,568,265	$ 21,977,392	$ 104,545,657

B. Notes Payable

The University entered into a loan agreement with the Department of Housing and Urban Development (HUD) in 1989 and closed the agreement in 1992 to borrow funds to repair seven dormitories. The loan is to be repaid over 30 years at three percent interest and is secured by a lien on the net revenues from the ownership, operation, and use of the seven dormitories under repair. In prior years, the University participated in the Virginia College Building Authority (VCBA) Pooled Bond Program to fund the renovation of Rogers Stadium and the Student Village Housing Renovation Project. At June 30, 2018, the outstanding principal balances were $635,968 for the HUD loan and $4,030,000 for the VCBA notes payable.

A summary of future principal and interest requirements of the VCBA notes and HUD loan payable for the fiscal years as of June 30, 2018, are as follows:

Virginia College Building Authority and HUD Notes Payable:	Interest Rate	Maturity	Total
VSU Pooled Bonds - 2002A Rogers Stadium Ref Portion, Series 2007B	4.0 - 4.5%	2020	$ 775,000
VSU 2002A Rogers Stadium Ref Portion, Series 2010B	5.0%	2023	1,320,000
VSU Roger's Stadium Proj. - 2005 A Ref Portion, Series 2012A	3.0 - 5.0%	2025	1,085,000
VSU Student Village Hsg. - 2005 A Ref Portion, Series 2012A	3.0 - 5.0%	2025	565,000
VSU Pooled Bonds-Roger's Stadium-2005A, Ref Portion, Series 2014B	4.0%	2026	190,000
VSU Pooled Bonds-Student Village Hsg-2005A, Ref Portion.Series 2014B	4.0%	2026	95,000
Department of Housing and Urban Development	3.0%	2022	635,968
Add unamortized premium (net of discount)			322,432
Total notes payable			$ 4,988,400

Aggregate annual maturities of notes payable for fiscal years after 2018 are:

Maturity	Principal	Interest	Total
2019	733,978	191,771	925,749
2020	768,783	160,390	929,173
2021	813,733	126,165	939,898
2022	824,474	87,067	911,541
2023	705,000	50,275	755,275
2024 - 2026	820,000	47,375	867,375
Add unamortized premium:	322,432	-	322,432
Total	$ 4,988,400	$ 663,043	$ 5,651,443

The Commonwealth of Virginia, on behalf of the University, issued bonds and notes in previous fiscal years for which the proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service on the refunded bonds. Accordingly, the trust account assets and the related liability for the defeased bonds are not reflected in the University's financial statements. At June 30, 2018, $0 of the defeased bonds were outstanding.

C. Installment Purchases

Installment purchase obligations in FY2018 consisted of the Energy Performance Leasing Program with $847,610 in principal remaining. In addition, the University has outstanding principal of $137,853 through MELP for the Voiceover Internet Protocol (VoIP) telephone system.

Principal and interest payment commitments as of June 30, 2018, are as follows:

Installment purchase obligations:	Interest Rate	Maturity	Total
Master Equipment Leasing Program - VoIP Phone System Phase II	1.2%	2019	100,257
Master Equipment Leasing Program - VoIP Phone System Phase III	2.1%	2019	37,596
Energy Performance Leasing Program	1.1%	2022	847,610
Total installment purchase obligations			$ 985,463

The aggregate maturity of installment purchase obligations for fiscal years after 2018 is:

Maturity	Principal	Interest	Total
2019	346,368	11,138	357,506
2020	210,757	6,872	217,629
2021	213,023	4,606	217,629
2022	215,315	2,315	217,630
Total	$ 985,463	$ 24,931	$ 1,010,394

D. Foundation Debt

The VSUREF refinanced and paid off the Series 2006 bonds and obtained $20,330,000 in Series 2008 bonds of which $14,930,905 in principal remains at December 31, 2017. The Series 2008 bonds are collateralized by the rental property and equipment. Also, the VSUREF is required to maintain a debt service reserve. The contractual interest rates are variable.

The Series 2008 bonds mature on July 1, 2031, and the VSUREF has agreed to prepayment terms of the principal to the Trustee with payments remaining due as follows:

Maturity	Principal
2018	915,000
2019	960,000
2020	1,005,000
2021	1,055,000
2022	1,105,000
Thereafter	9,890,905
Total	$ 14,930,905

In conjunction with the refinancing of the bonds, loan costs of $124,371 were incurred and are being amortized over the life of the debt. Amortization expense for the year ended December 31, 2017 and 2016 was $5,528 and $5,527 respectively.

The VSUREF had entered into an interest rate swap agreement as part of the provisions of the Series 2006 bond agreement. When the VSUREF issued the 2008 Series bonds the original swap contract was satisfied and a new interest rate swap agreement was obtained. Per the terms of the 2008 swap agreement, the VSUREF pays a fixed rate of interest of 4.12%. The interest rate swap agreements qualify as derivative financial instruments and are used to mitigate the effect of interest rate fluctuations. The VSUREF accounts for the interest rate swaps as fair value hedges whereby other liabilities in the accompanying statements of financial position with the offsets recorded as expenses.

The fair value of these contracts was a negative $2,466,999 and $2,950,916 at December 31, 2017 and 2016 respectively. This is the amount the VSUREF would have to pay to settle the interest rate swaps as of these respective dates.

In conjunction with the bond issuance, the University signed a support agreement with the VSUREF stating that the project will be an equal part of the student housing program, provide preferential treatment to provide 95% occupancy if the debt service coverage ratio is less than 1.2 to 1, and limit additional housing projects.

8. STATE APPROPRIATIONS

The University receives state appropriations from the General Fund of the Commonwealth. The Appropriations Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of a biennium.

The following is a summary of state appropriations received by the University for the year ended June 30, 2018:

Virginia State University:		
Original legislative appropriation:		
Education and general programs	$	34,088,277
Higher education student financial assistance		8,615,565
Supplemental adjustments:		
State grants and scholarships		58,025
VIVA interlibrary loan allocation		5,059
FY2018 central appropriation distribution		1,041,106
Capital outlay fee-FY2018		(773,578)
VCBA debt service appropriations		(108,886)
Year-end cash reversion		(192,468)
Reappropriation of FY2017 carry forward		1,019,146
		43,752,246
Cooperative Extension and Agricultural Research Services:		
Original legislative appropriation:		
Education and general programs		5,518,368
Supplemental adjustments:		
FY2018 central appropriation distribution		68,875
Year-end cash reversion		(1,131,702)
Reappropriation of FY17 carry forward		380,035
		4,835,576
Total state appropriations	$	48,587,822

9. EXPENSES BY NATURAL CLASSIFICATION

The following table shows a classification of operating expenses both by function, as listed in the Statement of Revenues, Expenses, and Changes in Net Position and by natural classification, which is the basis for amounts shown in the Statement of Cash Flows.

	Salaries & Wages	Fringe Benefits	Services & Supplies	Scholarships & Fellowships	Utilities	Depreciation	Total
Instruction	$ 22,211,460	$ 7,399,386	$ 8,962,864	$ 432,986	$ 177,795	$ -	$ 39,184,491
Research	3,550,424	1,078,053	2,614,139	112,513	47,367	-	7,402,496
Public Service	4,227,153	1,054,076	3,379,913	-	128,218	-	8,789,360
Academic Support	3,129,267	976,205	2,070,052	34,000	35,625	-	6,245,149
Student Services	2,764,004	1,005,617	1,329,521	13,674	55,127	-	5,167,943
Institutional Support	8,715,281	3,844,971	2,673,390	-	285,249	-	15,518,891
Operations & Maintenance of Plant	371,109	383,287	8,891,964	-	3,218,756	-	12,865,116
Scholarships & Fellowships	-	-	23,759	2,081,767	-	-	2,105,526
Depreciation	-	-	-	-	-	10,042,733	10,042,733
Auxiliary Enterprises	4,743,760	1,546,274	23,135,611	2,875,799	2,504,102	-	34,805,546
Total	$ 49,712,458	$ 17,287,869	$ 53,081,213	$ 5,550,739	$ 6,452,239	$ 10,042,733	$ 142,127,251

10. COMMITMENTS

A. Construction Commitments

As of June 30, 2018, the University was a party to construction contracts totaling $11,607,435 of which $1,398,542 was still outstanding.

B. Operating Leases

The University entered into an operating lease for warehouse and office space in 2012 and since 2016, there have been issues with the habitability of the leased space. The University has subsequently vacated the premises, referred to as the Cameron Building. Genesis has obtained representation and is claiming damages of $1,500,000 (one million, five hundred thousand dollars). While, we cannot guarantee or predict the outcome of this matter, the University has very credible defenses which will be advocated, and therefore removed any future obligations from the schedule of combined future rental payments, as shown below. The initial terms of this lease is ten years which began on August 15, 2012, and ends August 14, 2022. There were no rent payments made for this lease in FY2018.

A lease with Radcliffe Warehouse, LLC is for warehouse storage. Rent payments for FY2018 were $24,250. The lease was originally for a period of three years beginning on July 1, 2014 and ending on June 30, 2017. Effective July 1, 2017 the lease was renewed for an additional two year term and ends on June 30, 2019, with a new rental rate of $24,000 per year.

The University has another lease with the City of Petersburg to provide rental space related to a federal grant with the Department of Agriculture. The lease began on January 1, 2016 and ends December 31, 2021. Rent payments for this lease were $3,300 in FY2018.

For the schedule below, the total future payment amount of $27,900 represents obligations of the University.

The schedule of combined future rental payments is as follows:

2019		24,900
2020		1,200
2021		1,200
2022		600
2023		-
	Total	$ 27,900

11. RETIREMENT PLANS

A. Virginia Retirement System – Pension Plan

Plan Description

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

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

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution

		component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from 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 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.	**Eligible Members** Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. **Hybrid Opt-In Election** Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • State employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 ***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Members of the Virginia Law Officers' Retirement System (VaLORS) Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and

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.	(ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions State employees, excluding state elected officials, and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer 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 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	**Creditable Service** Same as Plan 1.	**Creditable Service** **<u>Defined Benefit Component:</u>** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to

retirement, if the employer offers the health insurance credit.		calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **<u>Defined Contributions Component:</u>** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	**Vesting** Same as Plan 1.	**Vesting** **<u>Defined Benefit Component:</u>** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **<u>Defined Contributions Component:</u>** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a

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

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

VaLORS: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.		**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%. **Eligibility:** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.	**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%. **Eligibility:** Same as Plan 1	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable. **Eligibility:** Same as Plan 1 and Plan 2.

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 Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	**Exceptions to COLA Effective Dates:** Same as Plan 1	**Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.
Disability Coverage	**Disability Coverage**	**Disability Coverage**

Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. 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.	Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **<u>Defined Benefit Component:</u>** Same as Plan 1, with the following exception: • Hybrid Retirement Plan members are ineligible for ported service. **<u>Defined Contribution Component:</u>** Not applicable.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to 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 employer contribution rate for the year ended 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(s) 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 University to the VRS State Employee Retirement Plan were $4,857,605 and $4,716,140 for the years ended June 30, 2018 and June 30, 2017, respectively. Contributions from the University to the VaLORS Retirement Plan were $162,156 and $227,382 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 University reported a liability of $52,833,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability and a liability of $1,421,000 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. VSU's proportion of the Net Pension Liability was based on the University'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, VSU's proportion of the VRS State Employee Retirement Plan was 0.90659% as compared to 0.91023% at June 30, 2016. At June 30, 2017, the University's proportion of the VaLORS Retirement Plan was 0.21657% as compared to 0.19813% at June 30, 2016.

For the year ended June 30, 2018, the University recognized pension expense of $2,447,000 for the VRS State Employee Retirement Plan and $24,000 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, VSU reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

State Employee Retirement Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 112,000	$ 1,599,000
Net difference between projected and actual earnings on pension plan investments	-	2,257,000
Change in assumptions	513,000	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	89,000	2,206,000
Employer contributions subsequent to the measurement date	4,857,605	-
Total	$ 5,571,605	$ 6,062,000

VaLORS Retirement Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 4,000	$ 5,000
Net difference between projected and actual earnings on pension plan investments	-	39,000
Change in assumptions	-	92,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	95,000	30,000
Employer contributions subsequent to the measurement date	162,156	-
Total	$ 261,156	$ 166,000

$4,857,605 for the State Retirement Plan and $162,156 for the VaLORS Retirement Plan were reported as deferred outflows of resources related to pensions resulting from VSU'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:

State Retirement Plan Year Ended June 30:		VaLORS Retirement Plan Year Ended June 30:	
2019	$(3,321,000)	2019	$(52,000)
2020	$(486,000)	2020	$12,000
2021	$(24,000)	2021	$0
2022	$(1,517,000)	2022	$(27,000)
2023	$0	2023	$0

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 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 pension liabilities.

Mortality rates:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

The 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
Salary increases, including Inflation	3.5 percent – 4.75 percent
Investment rate of return	7.0 percent, net of pension 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 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
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decrease rate from 50% to 35%

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 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 Plan	**VaLORS Retirement Plan**
Total Pension Liability	$ 23,617,412	$ 2,002,184
Plan Fiduciary Net Position	17,789,888	1,345,887
Employers' Net Pension Liability (Asset)	$ 5,827,524	$ 656,297
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:

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

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

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by VSU 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 University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents VSU'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 University'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 State University's proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	$78,040,000	$52,833,000	$31,663,000

The following presents the University's proportionate share of the VaLORS Retirement Plan net pension liability using the discount rate of 7.00%, as well as what the VSU'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 State University's proportionate share of the VaLORS Retirement Plan Net Pension Liability	$1,983,000	$1,421,000	$957,000

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.

Payables to the Pension Plan

At June 30, 2018, the University reported a payable of $224,012 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

B. Optional Retirement Plans

Full-time faculty and certain administrative staff may participate in one of two other retirement plans: 1) Fidelity Investments Institutional Services and 2) Teacher Insurance and Annuity Association/College Retirement Equity Fund. These are fixed-contribution programs where the retirement benefits received are based upon the net of employer and employee contributions, plus interest and dividends. Individual contracts issued under these plans provide full and immediate vesting of both the University and the participants' contributions.

Employees who became members of the respective plans prior to July 1, 2010, there is an employer required contribution of 10.4 percent. Annual pension costs under these plans totaled $564,623 for the year ended June 30, 2018. Contributions to these retirement programs were calculated using the base salary amount of $5,429,072.

For employees who became members of the respective plans on or after July 1, 2010, there is an employer required contribution of 8.5 percent and an employee required contribution of 5 percent. Annual pension costs under these plans totaled $262,283 for the year ended June 30, 2018. Contributions to these retirement programs were calculated using the base salary amount of $3,085,687.

C. Deferred Compensation

On a voluntary basis, University employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to $20 per pay period. The matched dollar amount can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under section 401(a) of the Internal Revenue Code. The University expense for contributions under the Deferred Compensation Plan, which is an amount assessed by the Commonwealth, was $159,813 for FY2018.

12. OTHER POSTEMPLOYMENT BENEFITS

As well as providing voluntary and involuntary termination benefits, the University participates in postemployment benefit programs that are sponsored by the Commonwealth and administered by the Virginia Retirement System. These programs include the Group Life Insurance Program, Virginia Sickness and Disability Program, Retiree Health Insurance Credit Program, and Line of Duty Act Program.

Additional information related to all Other Postemployment Benefit (OPEB) plans is available at the state-wide level in the Commonwealth's Comprehensive Annual Financial Report.

A. Termination Benefits

The University is in compliance with GASB Statement No. 47 Accounting for Termination Benefits, and did not have any voluntary termination benefits and/or involuntary termination benefit liabilities outstanding as of June 30, 2018 to recognize in accordance with this standard.

B. Virginia Retirement System - Group Life Insurance Program (GLI)

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. • **Natural Death Benefit** – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. • **Accidental Death Benefit** – The accidental death benefit is double the natural death benefit. • **Other Benefit Provisions** – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include: o Accidental dismemberment benefit o Safety belt benefit o Repatriation benefit o Felonious assault benefit o Accelerated death benefit option
Reduction in benefit Amounts The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.
Minimum Benefit Amount and Cost-of-Living Adjustment (COLA) For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at $8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and 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. Contribution to the Group Life Insurance Program from the University were $242,652 and $235,428 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, Virginia State University reported a liability of $3,640,000 for its proportionate share of the Net 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. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the University's employer's proportion was 0.24194% as compared to 0.24863 % at June 30, 2016.

For the year ended June 30, 2018, VSU recognized GLI OPEB expense of $22,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

Virginia State University's GLI Plan	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Difference between expected and actual experience	$ -	$ 81,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	137,000
Change in assumptions	-	188,000
Changes in proportion	3,000	102,000
Employer contributions subsequent to the measurement date	242,652	
Total	$ 245,652	$ 508,000

$242,652 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer'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 by the University. 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	
FY 2019	$ (105,000)
FY 2020	$ (101,000)
FY 2021	$ (101,000)
FY 2022	$ (101,000)
FY 2023	$ (68,000)
Thereafter	$ (29,000)

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 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
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 – 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-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

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%

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

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 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 retirement rates at older ages and extended final retirement age from 70 to 75.
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14 to 15%

Mortality rates – Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 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 retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 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	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Net GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 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	1,437,586
Employers' Net GLI OPEB Liability (Asset)	$ 1,504,840
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 log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of System's investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

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

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

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 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 the University's proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, as well as what the employer's proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
VSU's proportionate share of the Group Life Insurance Program Net OPEB Liability	$ 4,709,000	$ 3,640,000	$ 2,775,000

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.

C. Virginia Retirement System – Health Insurance Credit Program (HIC)

Plan Description

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 and VaLORS 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, and VaLORS.
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 years of service credit to qualify for the health insurance credit as a retiree.

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:

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 the University to the VRS State Employee Health Insurance Credit Program were $544,888 and $529,569 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, the University reported a liability of $6,286,000 for its proportionate share of the VRS State Employee Health Insurance Credit Program Net OPEB Liability. The Net VRS State Employee Health Insurance Credit Program OPEB Liability was measured as of June 30, 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. The University's proportion of the Net VRS State Employee Health Insurance Credit Program OPEB Liability was based on VSU'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, VSU's proportion of the VRS State Employee Health Insurance Credit Program was 0.69039% as compared to 0.70688% at June 30, 2016.

For the year ended June 30, 2018, the University recognized VRS State Employee Health Insurance Credit Program OPEB expense of $521,000. 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, the University 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:

Virginia State University's HIC Plan	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Difference between expected and actual experience	$ -	$ 1,000
Net difference between projected and actual earnings on State HIC OPEB program investments	-	21,000
Change in assumptions	-	64,000
Changes in proportionate shares	5,000	132,000
Employer contributions subsequent to the measurement date	544,888	
Total	$ 549,888	$ 218,000

$544,888 reported as deferred outflows of resources related to the State Employee HIC OPEB resulting from VSU'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		
FY 2019	$	(42,000)
FY 2020	$	(42,000)
FY 2021	$	(42,000)
FY 2022	$	(42,000)
FY 2023	$	(37,000)
Thereafter	$	(8,000)

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
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
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%

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

Net State Employee HIC OPEB Liability

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

State Employee

	HIC OPEB Plan
Total State Employee HIC OPEB Liability	$ 990,028
Plan Fiduciary Net Position	79,516
State Employee net HIC OPEB Liability (Asset)	$ 910,512
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 log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of VRS System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

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

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

Discount Rate

The discount rate used to measure the total State Employee HIC OPEB was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by the University 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 University's Proportionate Share of the State Employee HIC Net OPEB Liability to Changes in the Discount Rate

The following presents VSU's proportionate share of the VRS State Employee Health Insurance Credit Program net HIC OPEB liability using the discount rate of 7.00%, as well as what VSU'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%)
VSU's proportionate share of the VRS State Employee HIC OPEB Plan Net HIC OPEB Liability	$ 6,952,000	$ 6,286,000	$ 5,716,000

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.

D. Virginia Retirement System – Line of Duty Program (LODA)

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), 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), or the Virginia Law Officers' Retirement System (VaLORS).

Benefit Amounts
The Line of Duty Act Program (LODA) provides death and health insurance benefits for eligible individuals:
• __Death__ – The Line of Duty Act program death benefit is a one-time payment made to the beneficiary or beneficiaries of a covered individual. Amounts vary as follows:
  o $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.
• __Health Insurance__ – The Line of Duty Act program provides health insurance benefits.
  o 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 Virginia State University were $10,213 and $9,645for 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 University reported a liability of $235,000 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 OPEB Liability was determined by an actuarial valuation as of that date. Virginia

State University's proportion of the Net LODA OPEB Liability was based on the entity'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 University's proportion was 0.08943% as compared to 0.08509% at June 30, 2016.

For the year ended June 30, 2018, the University's LODA OPEB expense of $22,000. 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, Virginia State University reported deferred outflows of resources and deferred inflows of resources related to the LODA OPEB from the following sources:

Virginia State University's LODA Plan	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Difference between expected and actual experience	$ -	$ -
Net difference between projected and actual earnings on LODA OPEB plan	-	-
Change in assumptions	-	25,000
Changes in proportionate	11,000	-
Employer contributions subsequent to the measurement date	10,213	
Total	$ 21,213	$ 25,000

$10,213 reported as deferred outflows of resources related to the LODA OPEB resulting from the University's contributions subsequent to the measurement date will be recognized as a reduction of 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	
FY 2019	$ (2,000)
FY 2020	$ (2,000)
FY 2021	$ (2,000)
FY 2022	$ (2,000)
FY 2023	$ (2,000)
Thereafter	$ (4,000)

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-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-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%

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 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	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Changes to the LODA Program Associated with HB 1345 (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 of Duty Act Program
Total LODA OPEB Liability	$ 266,252
Plan Fiduciary Net Position	3,461
Employers' Net OPEB Liability (Asset)	$ 262,791
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 covered employer's proportionate share of the net LODA OPEB liability using the discount rate of 3.56%, as well as what the covered employer'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:

	1.00% Decrease (2.56%)	Current Discount Rate (3.56%)	1.00% Increase (4.56%)
Covered employer's proportionate share of the total LODA net OPEB liability	$ 267,000	$ 235,000	$ 209,000

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 provisions for the payment of health insurance premiums, the liabilities are also impacted by the health care trend rates. The following presents the covered employer'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 covered employer's proportionate share of the net LODA OPEB liability would be if it were calculated using a health care trend rate that is one percentage point lower (6.75% decreasing to 4.00%) or one percentage point higher (8.75% decreasing to 6.00%) than the current rate:

	1.00% Decrease (6.75% decreasing to 4.00%)	Health Care Trend Rates (7.75% decreasing to 5.00%)	1.00% Increase (8.75% decreasing to 6.00%)
Covered employer's proportionate share of the total LODA net OPEB liability	$ 200,000	$ 235,000	$ 279,000

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.

E. Virginia Retirement System – Virginia Sickness & Disability Program (VSDP)

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

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

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

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

Disability Insurance Program (VSDP) Plan Notes:

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

Cost-of-Living Adjustment (COLA)

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

- For participating full-time employees receiving supplemental (work-related) disability benefits, the creditable compensation may be increased annually by an amount recommended by the actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement
  - 100% of the increase in the pay over the previous plan year for continuing VSDP members in the State 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 the University were $225,186 and $214,816 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, VSU reported a liability (asset) of $(1,771,000) for its proportionate share of the 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. Virginia State University's proportion of the Net VSDP OPEB Liability (Asset) was based on the agency'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, the University's proportion was 0.86221% as compared to 0.87105% at June 30, 2016.

For the year ended June 30, 2018, VSU recognized VSDP OPEB expense of $147,000. Since there was a change in proportionate share between measurement dates, a portion of the VSDP OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to the VSDP OPEB from the following sources:

Virginia State University's VSDP Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ -
Net difference between projected and actual earnings on State VSDP OPEB plan investments	-	139,000
Change in assumptions	-	132,000
Changes in proportionate shares	17,000	-
Employer contributions subsequent to the measurement date	225,186	-
Total	$ 242,186	$ 271,000

$225,186 reported as deferred outflows of resources related to the VSDP OPEB resulting from the University'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	
FY 2019	$ (51,000)
FY 2020	$ (51,000)
FY 2021	$ (51,000)
FY 2022	$ (51,000)
FY 2023	$ (17,000)
Thereafter	$ (33,000)

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
Investment rate of return	7.0 Percent, net of OPEB plan investment expenses, including inflation*

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

Mortality rates – General State Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 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-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 Program
Total VSDP OPEB Liability	$ 237,013
Plan Fiduciary Net Position	442,334
Employers' Net OPEB Liability (Asset)	($ 205,321)
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 arithmetic nominal return		7.30%

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

Discount Rate

The discount rate used to measure the total VSDP OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 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 University's Proportionate Share of the Net VSDP OPEB Liability (Asset) to Changes in the Discount Rate

The following presents VSU's proportionate share of the net VSDP OPEB liability (asset) using the discount rate of 7.00%, as well as what the University'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%)
VSU's proportionate share of the total VSDP Net OPEB Liability (Asset)	$ (1,685,000)	$ (1,771,000)	$ (1,919,000)

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.

F. Department of Human Resource Management – Pre-Medicare Retiree Healthcare (PMRH)

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 her Benefits Administrator to enroll.

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

This fund is reported as part of the Commonwealth's Healthcare Internal Service Fund. Benefit payments are recognized when due and payable in accordance with the benefit terms. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes, and is administered by the Department of Human Resource Management. There were approximately 5,600 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.

Valuation Date	Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported.
Measurement Date	June 30, 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	4.0%
Medical Trend Under 65	Medical & Rx: 8.62% to 5.00% Dental: 4.00% Before reflecting Excise tax
Year of Ultimate Trend	2025
Mortality	Mortality rates vary by participant status
Pre-Retirement:	RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020; males setback 1 year, 85% of rates; females setback 1 year

Post-Retirement	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females setback 1 year with 1.5% increase compounded from ages 70 to 85
Post-Disablement:	RP-2014 Disabled Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates

The discount rate was based on the Bond Buyers GO 20 Municipal Bond Index as of the measurement date which is June 30, 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 to 75
- Withdrawal rates - adjusted rates to better fit experience at each year age and service 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%.

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

At June 30, 2018, Virginia State University reported a liability of $9,699,722 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. The covered employer'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, Virginia State University's proportion was 0.74677% as compared to 0.75909% at June 30, 2016. For the year ended June 30, 2018, the University recognized Pre-Medicare Retiree Healthcare OPEB expense of $743,910.

At June 30, 2018, Virginia State University reported deferred outflows or resources and deferred inflows of resources related to Pre-Medicare Retiree Healthcare from the following sources:

Virginia State University's PMRH Plan	Deferred Outflows	Deferred Inflows
Difference between actual and expected experience	$ -	$ 390,136
Changes in assumptions	-	2,056,351
Changes in proportion	-	163,040
Subtotal	-	2,609,527
Amounts associated with transactions subsequent to the measurement date	257,226	-
Total	$ 257,226	$ 2,609,527

$257,226 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	
FY 2019	$ (480,576)
FY 2020	$ (480,576)
FY 2021	$ (480,576)
FY 2022	$ (480,576)
FY 2023	$ (480,576)
Thereafter	$ (206,647)

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

The following presents the employer'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% Decrease (2.58%)	Current Rate (3.58%)	1% Increase (4.58%)
OPEB liability	10,390,616	9,699,722	9,037,771

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

The following presents the employer'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 the employer'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% Decrease (7.62% decreasing to 4.00%)	Trend Rate (8.62% decreasing to 5.00%)	1% Increase (9.62% decreasing to 6.00%)
OPEB liability	8,630,293	9,699,722	10,953,417

13. CONTINGENCIES

The University is a party to various legal actions and other claims in the normal course of business. While the final outcomes cannot be determined at this time, legal counsel and management are of the opinion that a liability, if any, for these legal actions will not have a material effect on the University's financial position.

14. RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft, or damage to and destruction of assets; errors, and omissions; non-performance of duty, injuries to employees; and natural disasters. The University 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 University 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 CAFR.

Required Supplementary Information (RSI)

A. Virginia Retirement System - Pension Plan

Schedule of Virginia State University's (VSU) Share of Net Pension Liability:

The schedules below are intended to show information for 10 years. Since 2018 is the fourth year for this presentation, only three additional years of data are available. However, additional years will be included as they become available.

Schedule of VSU's 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
VSU's Proportion of the Net Pension Liability (Asset)	0.90659%	0.91023%	0.96796%	0.97741%
VSU's Proportionate Share of the Net Pension Liability (Asset)	$ 52,833,000	$ 59,991,000	$ 59,264,000	$ 54,719,000
VSU's Covered Payroll	$ 36,008,933	$ 34,960,267	$ 36,705,760	$ 36,576,480
VSU's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	146.72%	171.60%	161.46%	149.60%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.33%	71.29%	72.81%	74.28%

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

Schedule of VSU's Share of Net Pension Liability
VaLORS Retirement Plan
For the Years Ended June 30, 2018, 2017, 2016 and 2015*

	2018	2017	2016	2015
VSU's Proportion of the Net Pension Liability (Asset)	0.21657%	0.19813%	0.19707%	0.22780%
VSU's Proportionate Share of the Net Pension Liability (Asset)	1,421,000	$ 1,534,000	$ 1,400,000	$ 1,535,000
VSU's Covered Payroll	770,337	$ 1,080,200	$ 768,997	$ 718,727
VSU's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	184.46%	171.31%	182.06%	213.57%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	67.22%	61.01%	62.64%	63.05%

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

Schedule of Employer Contributions:

The schedule below is intended to show information for 10 years. Since 2018 is the fourth year for this presentation, only three other years of data are shown. However, additional years will be included as they become available.

Schedule of Employer Contributions
VRS State Employee Retirement Plan
For the Years Ended June 30, 2015 through 2018

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Defiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Employee Payroll
2018	$ 4,857,605	$ 4,857,605	$ -	$ 36,008,933	13%
2017	$ 4,716,140	$ 4,716,140	$ -	$ 34,960,267	13%
2016	$ 4,951,607	$ 4,951,607	$ -	$ 36,705,760	13%
2015	$ 4,509,880	$ 4,509,880	$ -	$ 36,576,480	12%

Schedule of Employer Contributions
VaLORS Employee Retirement Plan
For the Years Ended June 30, 2015 through 2018

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Defiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Employee Payroll
2018	$ 162,156	$ 162,156	$ -	$ 770,337	21%
2017	$ 227,382	$ 227,382	$ -	$ 1,080,200	21%
2016	$ 144,879	$ 144,879	$ -	$ 768,997	19%
2015	$ 126,999	$ 126,999	$ -	$ 718,727	18%

Notes to Required Supplementary Information:

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

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

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

B. Virginia Retirement System - Group Life Insurance Program (GLI)

Schedule of Virginia State University's Share of Net GLI OPEB Liability:

The schedule below 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 State University's Share of Net OPEB Liability
Group Life Insurance Program
For the Year Ended June 30, 2018*

	2018
Employer's proportion of the net GLI OPEB liability (asset)	0.24194%
Employer's proportionate share of the net GLI OPEB liability (asset)	$ 3,640,000
Employer's covered payroll	$ 45,364,866
Employer's proportionate share of the net GLI OPEB liability (asset) as a percentage of its covered payroll	8.02%
Plan fiduciary net position as a percentage of the total GLI OPEB liability	48.86%

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

Schedule of Employer Contributions:

The schedule below 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 State University's Employer Contributions
For the Year Ended June 30, 2018

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	242,652	242,652	-	46,941,007	0.52%

Notes to Required Supplementary Information:

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

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

General State Employees

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

Teachers

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

Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

SPORS Employees

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

VaLORS Employees

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

JRS Employees

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

Largest Ten Locality Employers - General Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020

Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Non-Largest Ten Locality Employers - General Employees

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

Largest Ten Locality Employers – Hazardous Duty Employees

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

Non-Largest Ten Locality Employers – Hazardous Duty Employees

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

C. Virginia Retirement System – Health Insurance Credit Program (HIC)

Schedule of Employer's Share of Net HIC OPEB Liability:

The schedule below 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 State University's Share of Net OPEB Liability
Health Insurance Credit Program (HIC)
For the Year Ended June 30, 2018*

	2018
Employer's proportion of the net HIC OPEB liability (asset)	0.69039%
Employer's proportionate share of the net HIC OPEB liability (asset)	$ 6,286,000
Employer's covered payroll	$ 45,364,866
Employer's proportionate share of the net HIC OPEB liability (asset) as a percentage of its covered payroll	13.86%
Plan fiduciary net position as a percentage of the total HIC OPEB liability	8.03%

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

Schedule of Employer Contributions:

The schedule below 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 State University's Employer Contributions
For the Year Ended June 30, 2018

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	544,888	544,888	-	46,941,007	1.16%

Notes to Required Supplementary Information:

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

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

General State Employees:

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

SPORS Employees:

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

VaLORS Employees:

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

JRS Employees:

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

D. Virginia Retirement System – Line of Duty Program (LODA)

Schedule of Virginia State University's Share of Net LODA OPEB Liability:

The schedule below 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 State University's Share of Net OPEB Liability
Line of Duty Act Program (LODA)
For the Year Ended June 30, 2018*

	2018
Employer's proportion of the net LODA OPEB liability (asset)	0.08943%
Employer's proportionate share of the net LODA OPEB liability (asset)	$ 235,000
Covered-employee payroll	$ 1,005,075
Employer's proportionate share of the net LODA OPEB liability (asset) as a percentage of its covered-employee payroll	23.38%
Plan fiduciary net position as a percentage of the total LODA OPEB liability	1.30%

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

Schedule of Employer Contributions:

The schedule below 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 State University's Employer Contributions
For the Year Ended June 30, 2018

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2018	10,213	10,213	-	1,064,798	0.96%

Notes to Required Supplementary Information:

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

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

General State Employees:

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

SPORS Employees:

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

VaLORS Employees:

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

Employees In The Largest Ten Locality Employers With Public Safety Employees

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

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each 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%

E. Virginia Retirement System – Virginia Sickness & Disability Program (VSDP)

Schedule of Virginia State University's Share of Net VSDP OPEB Liability (Asset):

The schedule below 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 State University's Share of Net OPEB Liability
Disability Insurance Program
For the Year Ended June 30, 2018*

	2018
Employer's proportion of the net VSDP OPEB liability (asset)	0.86221%
Employer's proportionate share of the net VSDP OPEB liability (asset)	$ (1,771,000)
Employer's covered payroll	$ 45,364,866
Employer's proportionate share of the net VSDP OPEB liability (asset) as a percentage of its covered payroll	-3.90%
Plan fiduciary net position as a percentage of the total VSDP OPEB liability	186.63%

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

Schedule of Employer Contributions:

The schedule below 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 State University's Employer Contributions For the Year Ended June 30, 2018					
Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	225,186	225,186	-	34,119,091	0.66%

Notes to Required Supplementary Information:

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

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

General State Employees:

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

SPORS Employees:

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

VaLORS Employees:

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

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

F. Department of Human Resources – Pre-Medicare Retirees Healthcare (PRMP)

Schedule of Virginia State University's Share of Net Pre-Medicare Retirees OPEB Liability:

The schedule below 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 State University's Share of Total OPEB Liability	2018*
Employer's proportion of the collective total OPEB liability	0.74677%
Employer's proportionate share of the collective total OPEB liability	$ 9,699,722
Employer's covered-employee payroll	$46,941,007
Employer's proportionate share of the collective total OPEB liability as a percentage of its covered-employee payroll	20.66%

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

Notes to Required Supplementary Information:

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 to 75
- Withdrawal rates – adjusted rates to better fit experience at each year age and service 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%.

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 20, 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 State University

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of Virginia State University, 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 University'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 University, which are discussed in Note 1. Those financial statements were audited by other auditors

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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 University, is based on the reports of the other auditors.

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

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

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

Opinion

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of Virginia State University 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 Note 1 of the accompanying financial statements, Virginia State University implemented Governmental Accounting Standards Board Statements No. 75, related to accounting and financial reporting for postemployment benefits other than pensions. Our opinion is not modified with respect to this matter.

Other Matters

Prior-Year Summarized Comparative Information

We have previously audited the University's June 30, 2017, financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated March 16, 2018. In our opinion, while the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived, it does not include the necessary adjustments for the 2017 financial statements to be comparative with the 2018 financial statements as described in Note 1.

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 2 through 11; the Schedule of Virginia State University's Share of Net Pension Liability, the Schedule of Employer Contributions, and the Notes to Required Supplementary Information for Pension Plans on pages 93 through 95, the Schedule of Virginia State University's Share of Net OPEB Liability (Asset), the Schedule of Employer Contributions, and the Notes to the Required Supplementary Information for the Health Insurance Credit, Group Life Insurance, Disability Insurance, and Line of Duty programs on pages 95 through 105; the Schedule of Virginia State University's Share of Total OPEB Liability and the Notes to the Required Supplementary Information for the Pre-Medicare Retiree Healthcare program on page 105. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated June 20, 2019, on our consideration of Virginia State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University's internal control over financial reporting and compliance.

Martha S. Mavredes

AUDITOR OF PUBLIC ACCOUNTS

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