

CHRISTOPHER NEWPORT UNIVERSITY

Audited Financial Statements

For the
year ended
June 30, 2018



CHRISTOPHER NEWPORT
UNIVERSITY

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Newport News, Virginia

AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The youngest comprehensive university in the Commonwealth, Christopher Newport University was founded in 1960 as Christopher Newport College, a two-year branch of the College of William & Mary in Williamsburg, Virginia. Located in historic Hampton Roads, the institution was named for the 17th-century English mariner who helped establish the Jamestown Colony. The University became independent in 1977 and gained university status in 1992.

Today, CNU is a four-year, undergraduate liberal arts university, enrolling 5,000 students in rigorous academic programs through the College of Arts and Humanities, the College of Natural and Behavioral Sciences, and the College of Social Sciences including the Luter School of Business. CNU combines traditional liberal arts and sciences curriculum with contemporary teaching ideologies and an emphasis on growing leaders of the future.

OVERVIEW

The following Management's Discussions and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective analysis of the University's financial activities based on currently known facts, decisions, and conditions. The discussion includes an analysis of the University's financial condition and results of operations for the fiscal year ended June 30, 2018, with comparative numbers for the year ended June 30, 2017. This presentation includes highly summarized data and should be read in conjunction with the accompanying financial statements and notes to financial statements. University management is responsible for all of the financial information presented, including the discussion and analysis.

The Christopher Newport University Educational and Real Estate Foundations, Inc. are component units and are included in the accompanying financial statements in separate columns. However, the following discussion and analysis does not include the Foundations' financial condition and activities.

The basic financial statements for Christopher Newport University are the Statement of Net Position, the Statement of Revenues, Expenses, and Change in Net Position, and the Statement of Cash Flows. The following analysis discusses elements from the Statement of Net Position, the Statement of Revenues, Expenses, and Change in Net Position, and the Statement of Cash Flows, as well as an overview of the University's activities.

STATEMENT OF NET POSITION

The *Statement of Net Position* (SNP) presents the assets, liabilities, and net position of the University as of the end of the fiscal year. The purpose of the statement is to present a snapshot of the University's financial position to the readers of the financial statements.

The data presented aids readers in determining the assets available to continue operations of the University. It also allows readers to determine how much the University owes to vendors, investors, and lending institutions. Finally, the SNP provides a picture of net position and their availability for expenditure by the University. Sustained increases in net position over time are one indicator of the financial health of the organization.

The University's net position is classified as follows:

- **Net investment in capital assets** – Net investment in capital assets represents the University's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. Debt incurred, but not yet expended for capital assets, is not included as a component of invested in capital assets, net of related debt.
- **Restricted net position, expendable** – Expendable restricted net position includes resources the University is legally or contractually obligated to expend in accordance with restrictions imposed by external third parties.
- **Restricted net position, nonexpendable** – Nonexpendable restricted net position consists of endowment and similar type funds where donors or other outside sources have stipulated, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or added to principal.
- **Unrestricted net position** – Unrestricted net position represents resources used for transactions relating to academic departments and general operations of the University, and may be used at the discretion of the University's Board of Visitors to meet current expenses for any lawful purpose in support of the University's primary missions. These resources are derived from student tuition and fees, state appropriations, and sales and services of auxiliary enterprises and educational departments. The auxiliary enterprises are self-supporting entities that provide services for students, faculty, and staff. Some examples of the University's auxiliaries are student residential and dining programs.

The University's assets and deferred outflows increased by \$9.5 million, or 1.6%, during fiscal year 2018, bringing the total assets and deferred outflows to \$588.8 million at year-end. This increase is a combination of the increase in net capital assets (\$15.4 million), offset by the decrease in other non-current assets, net (\$4.0 million) and the decrease in deferred outflows of resources (\$2.2 million).

The net capital asset increase reflects ongoing construction at the University and is discussed in detail in the following section: Capital Asset and Debt Administration. The decrease in other noncurrent assets represents \$5.4 million in spending of bond construction funds for the expansion to the Regatta's Dining Hall, offset by \$1.4 million increase in other restricted assets for the Virginia Sickness and Disability Plan (VSDP), Net Other Post Employment Benefit Asset recorded in response to the implementation of Governmental Accounting Standards Board (GASB) Statement 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

The decrease in deferred outflows (\$2.2 million) is primarily due to the decrease in the investment experience for the change in net pension liability as provided by the Virginia Retirement System (VRS).

This is the first year of reporting for GASB Statement 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB) and GASB Statement 85, Omnibus 2017, which resolved two outstanding issues from GASB 75 relating to the presentation of payroll related measures in the Required Supplemental Information (RSI) and the classification of employer paid member contributions for OPEB plans.

These reporting changes require the University to record its portion of the Net OPEB Liabilities (Assets) and expenses from Department of Human Resources Management (DHRM) for Health Benefits Program for Pre-Medicare Retirees, Survivors, and Long-Term Disability Participants, as well as, from the VRS State Employee and Virginia Law Officers' Plans for Health Insurance

Credit (HIC), Group Life Insurance (GLI), Line of Duty Act (LODA) and VSDP. As a result of this change in reporting, the University has recorded its proportionate share of the net OPEB liability (asset), pension expense, OPEB expense, deferred outflows and deferred inflows in the financial statements presented within. Prior to the implementation of GASB 75, VRS and DHRM did not measure assets, pension benefit, and OPEB benefit

Condensed Statement of Net Position				
For the years ended June 30, 2018 and 2017				
(All dollars in millions)				
Assets and Deferred Outflows:	2018	2017	Change Amount	Change Percent
Current assets	\$ 40.6	\$ 40.3	\$ 0.3	0.8 %
Capital assets, net	532.9	517.5	15.4	3.0 %
Other noncurrent assets	3.9	7.9	(4.0)	(51.1) %
Deferred outflows of resources	11.4	13.6	(2.2)	(16.3) %
Total assets and deferred outflows	588.8	579.3	9.5	1.6 %
Liabilities and Deferred Inflows:				
Current liabilities	40.5	39.9	0.6	1.5 %
Noncurrent liabilities	207.1	203.9	3.2	1.6 %
Deferred inflows of resources	8.7	2.7	6.0	220.5 %
Total liabilities and deferred inflows	256.3	246.5	9.8	4.0 %
Net Position:				
Invested in capital assets, net	380.5	353.2	27.3	7.7 %
Restricted	1.4	-	1.4	100.0 %
Unrestricted	(49.4)	(20.4)	(29.0)	(142.2) %
Total net position	\$ 332.5	\$ 332.8	\$ (0.3)	(0.1) %

obligations separately for individual state institutions. Therefore, for the purpose of the MD&A, fiscal year 2017 comparative numbers have not been restated.

Note 1 of the *Notes to Financial Statements* includes the summary of significant accounting policies for OPEB. Note 13 and the required supplementary information discloses information on the OPEB plans available to all full-time, salaried permanent employees of the University, along with detail on net OPEB liability (asset), OPEB expense, and OPEB contributions by the University. GASB 75 states that changes in the net OPEB liability that have not been included in OPEB expense are required to be reported as deferred outflows of resources or deferred inflows of resources. Differences between employer contributions and proportionate share of contributions, as well as, employer contributions subsequent to the measurement date are recognized as deferred outflows of resources, and net difference between projected and actual experience plus the change in assumptions on OPEB plan investments are reported as deferred inflows of resources.

The University's total liabilities and deferred inflows increased by \$9.8 million, or 4.0%, during fiscal year 2018. This is due to the increase in noncurrent liabilities (\$3.2 million) and an increase in deferred inflows (\$6.0 million). The increase in noncurrent liabilities is a function of the principal payments on long term debt offset by increases from implementation of GASB 75. The University did not issue any new debt, nor were any refunding issues done during fiscal year 2018. The increase in deferred inflows is a function of GASB 68 and 75 where the Pension and OPEB plans experienced an increase in the difference between expected and actual experience combined with an increase in the net difference between the projected and actual investment earnings on plan investments.

The increase of \$9.5 million in total assets and deferred outflows less the increase in total liabilities of \$9.8 million resulted in a net decrease to the University's net position by \$0.3 million, or 0.1% for fiscal year 2018.

Net investment in capital assets increased by \$27.3 million due to the ongoing improvements to the University's buildings as discussed in detail in the next section. Restricted net position increased by \$1.4 million due to the recognition of the VSDP asset, and unrestricted net position decreased by \$29.0 million due to the recognition by the University for the OPEB liability, both are associated with the implementation of GASB 75 and discussed in detail in Note 13.

CAPITAL ASSET AND DEBT ADMINISTRATION

One of the critical factors in ensuring the quality of the University's academic and residential life functions is the development and renewal of its capital assets. The University continues to maintain and upgrade current structures, as well as pursue opportunities for additional facilities. Investment in new structures and the upgrade of current structures serve to enrich the University's high-quality instructional programs and residential lifestyles.

Note 5 describes the University's significant investment in capital assets with gross additions of \$45.5 million.

Capital Assets	
For the year ended June 30, 2018 (All dollars in millions)	
	Amount
Additions	
Buildings & other improvements	\$ 11.4
Infrastructure	1.0
Equipment, library & intangibles	2.8
Construction in progress (see table)	30.3
Total capital asset additions	\$ 45.5
Reductions	
Infrastructure	\$ 0.3
Equipment, library & intangibles	0.7
Construction in progress	12.3
Total capital asset reductions	\$ 13.3

Ongoing investments in capital assets for fiscal year 2018 included additions to buildings and other improvements for the Regatta's Dining Hall expansion and the replacement of the Freeman Center Indoor Track.

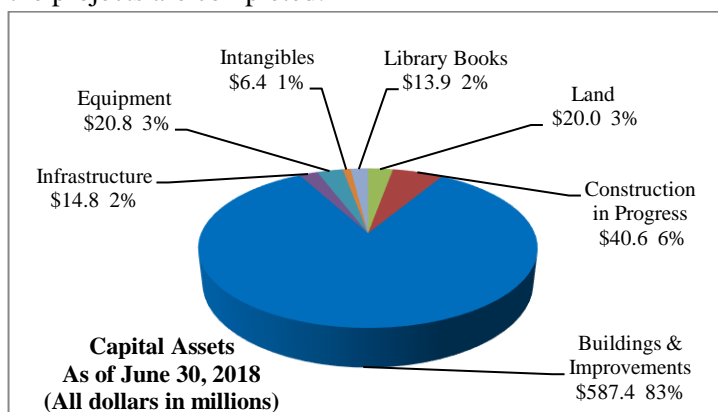
Infrastructure additions included the new telephone system, campus wide network, and upgrade to the Blackboard system that controls campus ID's, door access and our Auxiliary Services cashiering system.

Equipment, library and intangibles additions included instructional, laboratory, and information system technology equipment; an audio visual and projection system, additional library books; and two new vehicles for the Police Department.

The investment in construction in progress is detailed in the table below. The Tribble Library Phase II is scheduled to be completed by the beginning of classes for the Fall 2018 semester and provides 28 group study rooms, four classrooms, eight large reading rooms and a 100-seat

theater for special presentations and lectures.

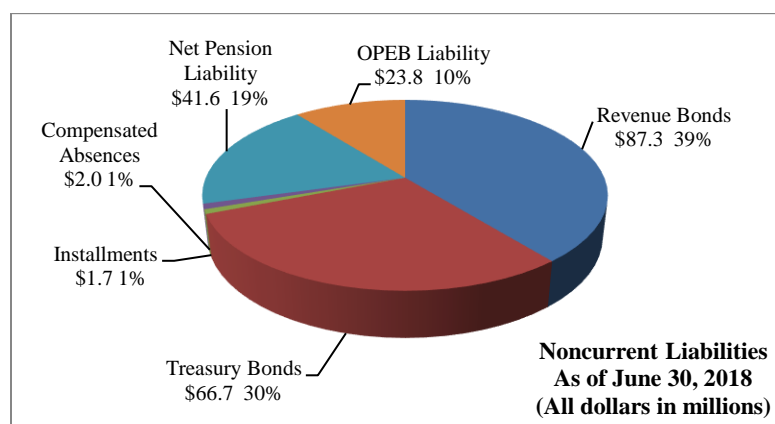
Ending balances of capital assets at June 30, 2018 are presented in the graph below and total \$703.9 million before accumulated depreciation. Buildings and improvements continue to account for the majority of capital assets of the University. The majority of the costs currently in construction in progress will eventually become part of buildings and improvements once the projects are completed.



Construction in Progress	
For the year ended June 30, 2018 (All dollars in millions)	
Project	Amount
Tribble Library Phase II	\$ 36.7
Fine Arts and Rehearsal Space	2.4
Residence Hall VII	1.1
Athletics Facilities Expansion	0.1
Band Rehearsal Hall	0.1
Central Chilled Water Plant	0.1
Miscellaneous	0.1
Total construction in progress	\$ 40.6

Notes 8 and 9 of the *Notes to Financial Statements* contain information relating to the long-term debt of the University. In fiscal year 2018, the Commonwealth of Virginia conducted no bond issues or bond refundings. The increases to long-term liabilities consisted of a beginning balance adjustment of \$26.9 million in response to the implementation of GASB 75 from DHRM for Health Benefits Program for Pre-Medicare Retirees, Survivors, and Long-Term Disability Participants, as well as, from VRS State Employee and Virginia Law Officers' Plans for HIC, GLI, and LODA. Prior to the implementation of GASB 75, VRS did not measure assets and OPEB benefit obligations separately for individual state institutions. As a result of this change in reporting, the University has recorded its proportionate share of the

net OPEB liability of \$23.8 million as of June 30, 2018. As a result of the GASB 68, Accounting and Financial Reporting for Pensions, \$41.6 million was recorded as net pension liability as of June 30, 2018. Total long-term liabilities at the end of fiscal year 2018 are \$223.1 million.



STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION

Operating and non-operating activities creating changes in the University's total net position are presented in the *Statement of Revenues, Expenses, and Change in Net Position*. The purpose of this statement is to present all revenues received and accrued, all expenses paid and accrued, gains or losses from investments and capital assets.

Summary of the Statement of Revenues, Expenses, and Changes in Net Position				
For the years ended June 30, 2018 and 2017				
(All dollars in millions)				
	2018	2017	Change Amount	Change Percent
Operating revenues	\$ 116.0	\$ 114.6	\$ 1.4	1.2 %
Operating expenses	152.2	147.8	4.4	3.0 %
Operating loss	(36.2)	(33.2)	(3.0)	(9.0) %
Non-operating revenues, net	34.3	35.3	(1.0)	(2.8) %
Net other revenues (expenses)	25.8	12.6	13.2	105.0 %
Increase in net position	23.9	14.7	9.2	62.9 %
Net position beginning of the year	308.6	318.1	(9.5)	(3.0) %
Net position end of year	\$ 332.5	\$ 332.8	\$ (0.3)	(0.1) %

In fiscal year 2018 the University had an increase in net position of \$23.9 million resulting primarily from Capital Appropriations for construction projects related to the mission of the University to enhance student success, such as the Tribble Library and the Fine Arts and Rehearsal Hall.

Operating revenues are generally received through providing goods and services to the various customers and constituencies of the University. Operating expenses are expenditures made to acquire or procure the goods and services provided in return for the operating revenues and to carry out the mission of the University. Salaries and fringe benefits for faculty and staff are the largest type of operating expenses. Non-operating revenues are revenues received for which goods and services are not directly provided. State appropriations included in this category provide substantial support for paying operating expenses of the University. Therefore, the University, like most public institutions, will expect to show an operating loss.

Per the University's Mission Statement, our primary focus is excellence in teaching, inspired by sound

scholarship. At CNU, personal attention in small classes creates a student-centered environment where creativity and excellence can flourish. First, second and third year students are required to live on campus. The University feels that students who live on campus statistically achieve higher academic success, are more engaged with faculty, more connected with campus, more likely to return for a second year, and go on to graduate.

Summary of Revenues

For the years ended June 30, 2018 and 2017

(All dollars in millions)

	2018	2017	Change Amount	Change Percent	
Operating revenues					
Student tuition and fees, net	\$ 40.5	\$ 38.5	\$ 2.0	5.2	%
Grants and contracts	2.0	1.7	0.3	17.6	%
Auxiliary enterprises, net	69.9	70.3	(0.4)	(0.6)	%
Other operating revenue	3.6	4.1	(0.5)	(12.2)	%
Total operating revenue	116.0	114.6	1.4	1.2	%
Non-operating revenues					
State appropriations	33.9	33.2	0.7	2.1	%
Federal financial aid	3.1	3.0	0.1	3.3	%
Other non-operating revenue*	3.0	4.0	(1.0)	(24.6)	%
Total non-operating revenue	40.0	40.2	(0.2)	(0.4)	%
Other revenue					
Capital appropriations	25.6	11.5	14.1	122.6	%
Capital gifts and grants	0.3	1.1	(0.8)	(72.7)	%
Total other revenue	25.9	12.6	13.3	105.6	%
Total revenue	\$ 181.9	\$ 167.4	\$ 14.5	8.6	%

* Includes gifts, Build America Bond subsidy, investment income, and other non-operating revenue.

OPERATING REVENUES

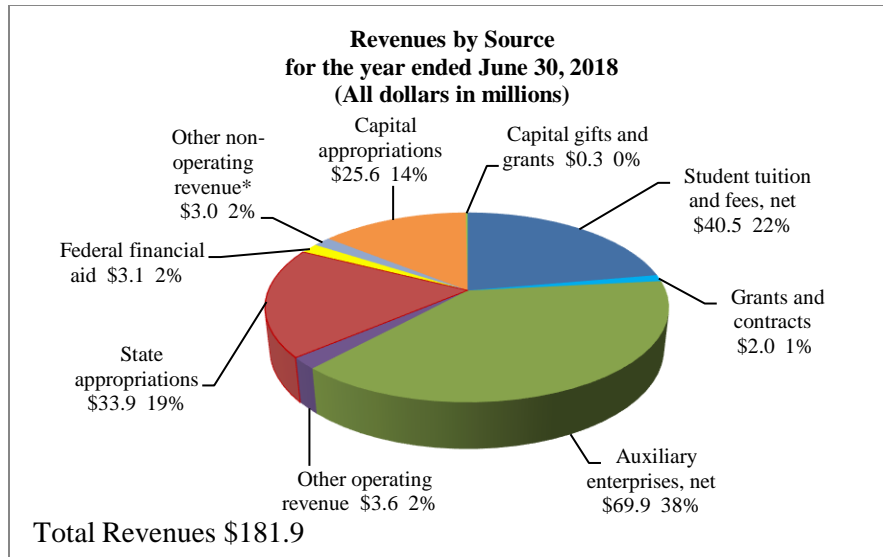
Total operating revenues increased by \$1.4 million, or 1.2%, from the prior fiscal year due primarily to the increase in the tuition and fees rate adjustment approved by the Board of Visitors.

NON-OPERATING REVENUES

Total non-operating revenues decreased in total by \$0.2 million. This increase is primarily due to the \$0.7 million increase the University received from State appropriations; an additional \$0.1 million in federal student financial aid, offset by a \$1.0 million decrease in other non-operating revenue for the VRS special revenue allocation for contributions received in fiscal year 2017.

OTHER REVENUES

Other revenues increased by \$13.3 million, or 105.6%, from prior fiscal year due to the increase in capital appropriations. In current year, capital appropriations were received for the construction of Tribble Library and the Fine Arts and Rehearsal Hall.



TOTAL EXPENSES

The expenses of the University are also separated into operating and non-operating expenses. The operating expenses are presented in the financial statements by function.

Summary of Expenses					
For the years ended June 30, 2018 and 2017					
(All dollars in millions)					
	2018	2017	Change Amount	Change Percent	
Operating expenses					
Instruction	\$ 37.0	\$ 35.5	1.5	4.2	%
Research	1.6	1.7	(0.1)	(5.9)	%
Academic support	9.2	9.1	0.1	1.1	%
Student services	7.5	7.3	0.2	2.7	%
Institutional support	10.4	9.9	0.5	5.1	%
Operation & maintenance of plant	9.7	9.1	0.6	6.6	%
Depreciation	17.4	17.0	0.4	2.4	%
Student aid	1.1	1.7	(0.6)	(35.3)	%
Auxiliary enterprises	58.3	56.4	1.9	3.4	%
Total operating expenses	152.2	147.7	4.5	3.0	%
Non-operating expenses					
Interest on capital asset related debt	5.2	4.6	0.6	13.0	%
Other non-operating expenses and loss on disposal of plant assets	0.6	0.4	0.2	50.0	%
Total non-operating expenses	5.8	5.0	0.8	15.5	%
Total expenses	\$ 158.0	\$ 152.7	5.3	3.5	%

OPERATING EXPENSES

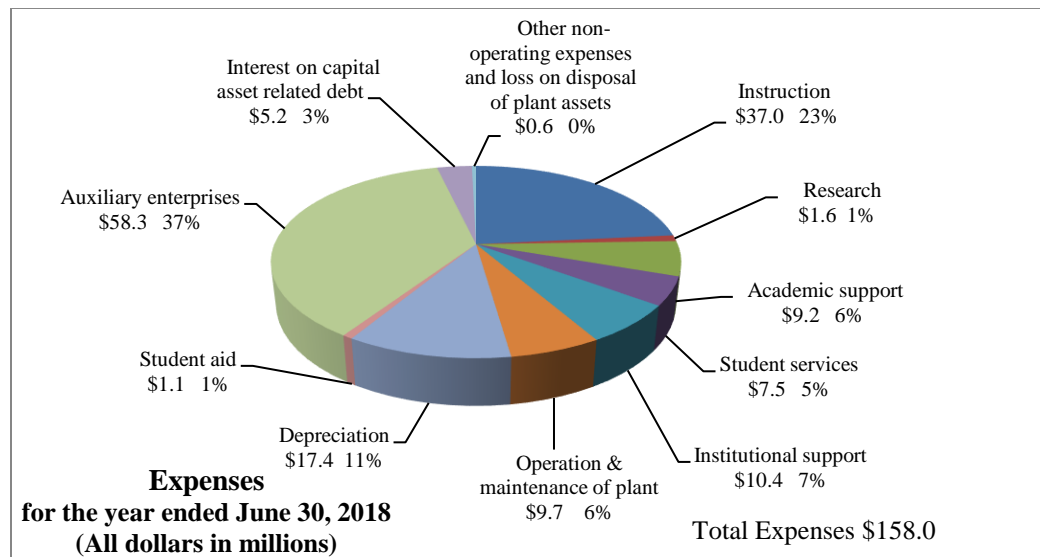
Total operating expenses for the fiscal year totaled \$152.2 million, up \$4.5 million from fiscal year 2017. The net change resulted primarily from Instruction and Auxiliary enterprises in support of the University's mission to provide quality instruction and facilities.

Investment in new structures and the upgrade of current structures serve to enrich the University's high-quality, instructional programs.

Operating expenses in most areas remained consistent from fiscal year 2018 over 2017.

NON-OPERATING EXPENSES

Non-operating expenses consist of losses on disposal of capital assets and interest paid on capital-related debt.



STATEMENT OF CASH FLOWS

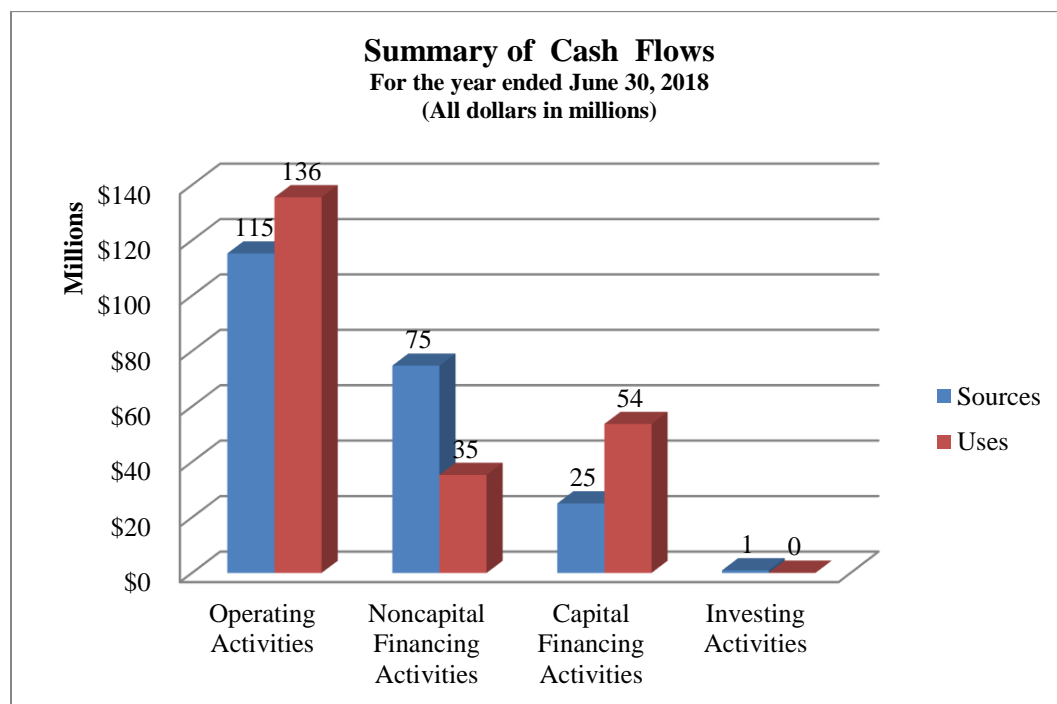
The *Statement of Cash Flows* presents detailed information about the cash activity of the University during the year. Cash flows from operating activities will always be different from the operating loss on the *Statement of Revenues, Expenses, and Change in Net Position* (SRECNP). This difference occurs because the SRECNP is prepared on the accrual basis of accounting and includes noncash items, such as depreciation expenses, whereas the *Statement of Cash Flows* presents cash inflows and outflows without regard to accrual items. The *Statement of Cash Flows* should help readers assess the ability of an institution to generate sufficient cash flows necessary to meet its obligations.

The statement is divided into five sections:

- *Cash flows from operating activities* deals with operating cash flows and shows net cash used by the operating activities of the University.
- *Cash flows from noncapital financing activities* reflects cash received and disbursed for purposes other than operating, investing, and capital financing. GASB requires that general appropriations from the Commonwealth be shown as cash flows from noncapital financing activities. Since state appropriations are used to cover the operating expenses of the University, net cash should always be used by operating activities and provided by noncapital financing activities.
- *Cash flows from capital financing activities* presents cash used for the acquisition and construction of capital and related items. Plant funds and related long-term debt activities (except depreciation and amortization), as well as capital appropriations, are included in cash flows from capital financing activities.
- *Cash flows from investing activities* reflects the cash flows generated from investments, including purchases, proceeds, and interest.

- The last section reconciles the operating loss reflected on the *Statement of Revenues, Expenses, and Change in Net Position* to the net cash used by operating activities.

Summary of Cash Flows				
For the years ended June 30, 2018 and 2017				
(All dollars in millions)				
	2018	2017	Change Amount	Change Percent
Net cash provided/(used) by operating activities	\$ (20.3)	\$ (15.4)	\$ (4.9)	31.8 %
Net cash provided/(used) by noncapital activities	39.4	39.0	0.4	1.0 %
Net cash provided/(used) by capital and related financing activities	(28.6)	(32.3)	3.7	(11.5) %
Net cash provided/(used) by investing activities	0.9	0.7	0.2	28.6 %
Net increase (decrease) in cash and cash equivalents	(8.6)	(8.0)	(0.6)	7.5 %
Cash and cash equivalents - beginning of year	41.6	49.6	(8.0)	(16.1) %
Cash and cash equivalents - end of year	\$ 33.0	\$ 41.6	\$ (8.6)	(20.7) %



The University ended 2018 with cash and cash equivalents of \$33.0 million, a net decrease in cash of \$8.6 million from prior fiscal year.

Net cash used by operating activities was \$20.3 million. The primary sources of cash from operating activities was \$69.9 million from Auxiliary services and \$40.5 million from student tuition and fees. The primary uses of

cash from operating activities were payments to employees for salaries, wages and fringe benefits of \$78.6 million and payments for services and supplies of \$48.2 million.

Noncapital financing activities had net cash provided of \$39.4 million. The primary sources of cash from noncapital financing activities consisted of state appropriations of \$33.9 million, federal student financial aid of \$3.1 million and gifts and grants of \$2.1 million.

Net cash used by capital financing activities was \$28.6 million. The primary source of cash from capital financing was \$23.9 million from capital appropriations. Primary uses of cash from capital financing activities were for the purchase of capital assets of \$34.4 million and the principal and interest payments on debt of \$13.8 million and \$5.5 million, respectively.

ECONOMIC OUTLOOK

The University's economic outlook is closely related to its role as one of the Commonwealth's comprehensive higher education institutions. As such, it is largely dependent upon ongoing financial support from state government. The University's governing board increased in-state tuition and technology fee by \$830; out-of-state tuition and technology fee by \$1,500; comprehensive fee by \$270; and room and board by \$236 for fiscal year 2019.

Christopher Newport University is a young institution, but our formidable reputation is growing quickly thanks to our commitment to the principles of liberal learning and our dedication to the ideals of scholarship, leadership and service. This dedication has earned the University a spot in *U.S. News & World Report's* Best Colleges guide as fourth among public regional universities in the South and tenth among all regional universities in the South.

CNU has also been named a "College of Distinction" by a top national guide to colleges that highlights innovative learning opportunities at top schools. Per the national guide, "CNU offers great teaching and small class sizes with an emphasis on leadership, civic engagement, and honor. The University's success at creating an incomparable environment for academic and student life alike has received top recognition being named one of America's schools to watch for having made "the most promising and innovative changes in academics, faculty, student life, campus, and facilities". Over 40,000 guidance counselors and thousands of parents and students use the *Colleges of Distinction* guide across the country as they decide where to go to college. In addition, the *Princeton Review* included CNU as one of the nation's best institutions for undergraduate education. Rankings are based on widely accepted indicators of excellence, such as the retention and graduation of students, the commitment to instruction as measured by class size, faculty salaries and the proportion of professors with the highest degrees in their field, student selectivity, and alumni giving.

FINANCIAL STATEMENTS

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF NET POSITION
As of June 30, 2018

	University	Component Unit Education Foundation	Component Unit Real Estate Foundation
Current Assets:			
Cash and cash equivalents (Note 3)	\$ 3,742,422	\$ 896,032	\$ 892,669
Cash and cash equivalents Treasurer of Virginia (Note 3)	27,133,201	-	-
Cash and cash equivalents - securities lending (Note 3)	1,914,021	-	-
Accounts receivable, net of allowance (Note 4)	1,214,928	1,363,930	750,281
Pledges receivable, net of allowance (Note 17)	-	3,451,177	-
Due from Commonwealth (Note 4)	3,792,146	-	-
Prepaid expenses	2,625,908	-	-
Inventory	209,398	-	-
Total current assets	<u>40,632,024</u>	<u>5,711,139</u>	<u>1,642,950</u>
Noncurrent Assets:			
Restricted cash and cash equivalents (Note 3)	1,907,989	2,008,422	-
Restricted cash/cash equivalents Treasurer of Virginia (Note 3)	210,090	-	-
Restricted investments (Notes 3 and 17)	248,839	35,434,129	-
Appropriations available/due from	85,665	-	-
Pledges receivable, net of allowance (Note 17)	-	10,135,556	-
Other assets	-	-	10,000
Other restricted assets	1,412,000	1,376,558	-
Non-depreciable capital assets (Notes 5 and 17)	60,649,824	637,934	20,609,720
Capital assets, net (Notes 5 and 17)	<u>472,276,036</u>	<u>107,751</u>	<u>83,482,151</u>
Total noncurrent assets	<u>536,790,443</u>	<u>49,700,350</u>	<u>104,101,871</u>
Deferred outflows of resources (Note 6)	<u>11,383,830</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>588,806,297</u>	<u>55,411,489</u>	<u>105,744,821</u>
Current Liabilities:			
Accounts payable and accrued expenses (Note 7)	16,918,832	389,586	195,371
Unearned revenue	1,357,158	-	20,265
Obligations under securities lending	1,914,021	-	-
Accrued interest payable	1,387,960	-	137,445
Deposits held in custody for others	2,941,166	-	-
Long-term liabilities - current portion (Notes 8 and 17)	<u>15,980,688</u>	<u>-</u>	<u>14,161,127</u>
Total current liabilities	<u>40,499,825</u>	<u>389,586</u>	<u>14,514,208</u>
Noncurrent liabilities (Notes 8, 9 and 17)	<u>207,147,925</u>	<u>-</u>	<u>84,552,401</u>
Deferred inflows of resources (Note 6)	<u>8,652,624</u>	<u>-</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>256,300,374</u>	<u>389,586</u>	<u>99,066,609</u>
Net investment in capital assets	380,534,111	745,684	9,131,019
Restricted for:			
Nonexpendable - scholarships and fellowships	-	27,078,721	-
Expendable:			
OPEB	1,412,000	-	-
Scholarships and fellowships	-	3,740,947	-
Academic support	-	12,232,579	-
Capital projects	-	2,292,056	-
Other	-	4,783,539	-
Unrestricted	<u>(49,440,188)</u>	<u>4,148,377</u>	<u>(2,452,807)</u>
Total net position	<u>\$ 332,505,923</u>	<u>\$ 55,021,903</u>	<u>\$ 6,678,212</u>

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

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
For the Year Ended June 30, 2018

	University	Component Unit Education Foundation	Component Unit Real Estate Foundation
Operating Revenues:			
Student tuition and fees, Net of scholarship allowance of \$5,657,842	\$ 40,490,218	\$ -	\$ -
Federal grants and contracts	1,291,020	-	-
State grants and contracts	648,061	-	-
Nongovernmental grants and contracts	64,982	-	-
Gifts and contributions	-	4,049,921	-
Auxiliary enterprises, Net of scholarship allowance of \$7,924,893	69,924,533	-	-
Lease and rental revenue	-	-	11,725,160
Other operating revenue	3,595,000	551,503	73
Total operating revenues	<u>116,013,814</u>	<u>4,601,424</u>	<u>11,725,233</u>
Operating Expenses:			
Instruction	37,032,799	-	-
Research	1,568,377	-	-
Academic support	9,216,779	-	-
Student services	7,524,885	-	-
Institutional support	10,422,484	2,444,619	1,938,250
Operation and maintenance of plant	9,641,721	1,660,501	2,211,599
Depreciation	17,340,420	26,962	3,841,289
Student aid	1,127,265	1,957,478	-
Auxiliary enterprises	58,298,368	-	-
Total operating expenses	<u>152,173,098</u>	<u>6,089,560</u>	<u>7,991,138</u>
Operating gain/(loss)	<u>(36,159,284)</u>	<u>(1,488,136)</u>	<u>3,734,095</u>
Non-operating Revenues/(Expenses):			
State appropriations (Note 10)	33,939,223	-	-
Federal student financial aid	3,102,067	-	-
Gifts	2,132,513	-	-
Investment income, net of investment expenses of \$6,500	387,206	3,337,665	661,153
Interest on capital asset related debt	(5,182,479)	(10,400)	(3,574,720)
Build America Bonds subsidy	489,969	-	-
Other non-operating revenues (expenses)	(243,405)	-	(2,214,096)
Gain (Loss) on disposal of plant assets	(356,518)	-	(146,188)
Net nonoperating revenues/(expenses)	<u>34,268,576</u>	<u>3,327,265</u>	<u>(5,273,851)</u>
Income before other revenues/(expenses)/gains/(losses)	<u>(1,890,708)</u>	<u>1,839,129</u>	<u>(1,539,756)</u>
Capital appropriations	25,563,540	333,810	-
Capital gifts and grants	270,187	-	-
Additions to permanent endowments	-	1,832,243	-
Net other revenues	<u>25,833,727</u>	<u>2,166,053</u>	<u>-</u>
Increase/(decrease) in net position	23,943,019	4,005,182	(1,539,756)
Transfer to/from affiliate	-	(623,806)	623,806
Net Position - Beginning of year* (Note 2)	<u>308,562,904</u>	<u>51,640,527</u>	<u>7,594,162</u>
Net Position - End of year	<u>\$ 332,505,923</u>	<u>\$ 55,021,903</u>	<u>\$ 6,678,212</u>

*Certain 2017 amounts have been restated.

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

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2018

Cash flows from operating activities:

Student tuition and fees	\$ 40,044,400
Grants and contracts	1,626,889
Auxiliary enterprises	69,040,150
Other receipts	3,569,720
Payments to employees	(78,552,793)
Payments for services and supplies	(48,236,149)
Payments for utilities	(6,052,028)
Payments for scholarships and fellowships	(709,100)
Payments for plant improvements and equipment	(1,122,443)
Loans and advances issued to students and employees	(869,877)
Collection of loans and advances from students and employees	973,846
Net cash used by operating activities	<u>(20,287,385)</u>

Cash flows from noncapital financing activities:

State appropriations	33,924,581
Gifts and grants for other than capital purposes	2,132,513
Federal student financial aid	3,102,067
Federal direct lending program receipts	24,856,389
Federal direct lending program disbursements	(24,849,987)
PLUS loan receipts	8,860,438
PLUS loan disbursements	(8,860,438)
Agency receipts	1,839,739
Agency payments	(1,331,284)
Other nonoperating revenues	16,800
Other nonoperating expenses	(260,205)
Net cash provided by noncapital financing activities	<u>39,430,613</u>

Cash flows from capital financing activities:

Capital appropriations	23,863,456
Capital grants and contributions	270,187
Proceeds from sale of revenue bonds	904,175
Purchase of capital assets	(34,371,500)
Principal paid on capital debt, leases, and installments	(13,768,557)
Interest paid on capital debt, leases, and installments	(5,547,220)
Net cash used by capital financing activities	<u>(28,649,459)</u>

Cash flows from investing activities:

Interest on investments	875,440
Purchase of investments	(83,380)
Sales of investments	60,415
Net cash provided by investing activities	<u>852,475</u>

Net decrease in cash (8,653,756)

Cash and cash equivalents - Beginning of year 41,647,458

Cash and cash equivalents - End of year \$ 32,993,702

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2018

Reconciliation of Net Operating Loss to Net Cash
Used by Operating Activities:

Operating loss	\$ (36,159,284)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	17,340,420
Changes in assets, deferred outflows, liabilities and deferred inflows:	
Receivables, net	(356,038)
Inventory	4,737
Prepaid expenses	(192,320)
OPEB restricted asset	(285,000)
Deferred outflow of resources	2,887,011
Accounts payable and accrued expenses	(1,222,119)
Unearned revenue	(82,361)
Deposits held in custody	69,237
Accrued compensated absences	(11,164)
Net pension liability	(5,243,000)
OPEB liability	(3,058,219)
Deferred inflow of resources	6,020,715
Net cash used by operating activities	<u>\$ (20,287,385)</u>

Non Cash investing, non capital financing, and
capital and related financing transactions:

Amortization of bond premium and discount	\$ 1,743,627
Capitalization of interest expense	\$ 317,153
Amortization of deferral on defeased bonds	\$ (762,831)
Change in fair value of investments recognized as a component of interest income	\$ 22,965
Loss on disposal of plant assets	\$ (356,518)

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

NOTES TO THE FINANCIAL STATEMENTS

CHRISTOPHER NEWPORT UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the University are as follows:

A. Reporting Entity

Christopher Newport University is a comprehensive university that is part of the Commonwealth of Virginia's statewide system of public higher education. The University's Board of Visitors, appointed by the Governor, is responsible for overseeing governance of the University. A separate report is prepared for the Commonwealth of Virginia, which includes all agencies over which the Commonwealth exercises oversight authority. The University is a component unit of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth.

The University includes all entities over which the University exercises or has the ability to exercise oversight authority for financial reporting purposes. Under Governmental Accounting Standards Board (GASB) Statement 14, as amended by Statements 39 and 61, the Christopher Newport University Education and Real Estate Foundations, Inc. are discretely presented as component units of the University. The Foundations are legally separate and tax-exempt organizations formed to promote the achievements and further the aims and purposes of the University.

Christopher Newport University Education and Real Estate Foundations are tax-exempt, nonprofit, nonstock corporations. The Christopher Newport University Education Foundation was organized in September 1980 and Christopher Newport University Real Estate Foundation was organized in June 1997. The Foundations were created to receive, administer and distribute funds and property exclusively in furtherance of the educational activities and objectives of Christopher Newport University. Although the University does not control the timing or amount of receipts from the Foundations, the majority of resources, or incomes thereon, which the Foundations hold and invest, are restricted to the activities of the University by the donors. Since these restricted resources held by the Foundations can only be used by, or for the benefit of the University, the Foundations are considered a component unit of the University and are discretely presented in the University's financial statements.

During the year ended June 30, 2018, the Foundations distributed \$2,499,191 to the University for both restricted and unrestricted purposes. Separate financial statements for the Foundations can be obtained by writing the Chief Financial Officer, CNU Foundations, 1 Avenue of the Arts, Newport News, Virginia 23606.

B. Basis of Presentation

The University's accounting policies conform to generally accepted accounting principles as prescribed by GASB, including all applicable GASB pronouncements. The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities*. The University follows GASB 34 requirements for "reporting by special-purpose governments engaged only in business-type activities."

Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), replaces the requirements of Statements 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for

OPEB. Statement 75, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, established new accounting and financial reporting requirements for OPEB plans. See Note 13 for general information about the OPEB plans and calculation of the OPEB obligation.

Other current year implementations GASB statements, Statement 81, *Irrevocable Split-Interest Agreements*; Statement 85, *Omnibus 2017*; and Statement 86, *Certain Debt Extinguishment Issues* had no significant effect on the University's financial statements for the current year.

The Foundations are private, nonprofit organizations that report under Financial Accounting Standards Board (FASB) standards, including FASB Statement 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition and presentation features. No modifications have been made to the Foundations' financial information in the University's financial reporting entity for these differences.

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 is incurred, regardless of the timing of related cash flows. All significant intra-agency transactions have been eliminated.

D. Cash Equivalents and Investments

In accordance with GASB Statement 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, the University considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, purchased investments, interest-bearing temporary investments classified with cash and investments received as gifts are recorded at fair value. All investment income, including changes in the fair value of investments (unrealized gains and losses), is reported as non-operating revenue in the Statement of Revenues, Expenses and Change in Net Position. The University implemented GASB Statement No. 72, *Fair Value Measurement and Application*, during fiscal year 2016. This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The fair value hierarchy is based on the valuation inputs used to measure the fair value of assets.

E. Capital Assets

Capital assets include land, buildings and other improvements, library materials, equipment, intangible assets such as computer software, and infrastructure assets such as sidewalks. Capital assets are defined by the University as assets, excluding computer software, infrastructure and building improvements, with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Computer software developed or obtained for internal use is defined as having a license cost of \$10,000 or more and an estimated useful life in excess of one year. Computer software and licenses purchased on installment agreements have a cost of \$50,000 or more. Infrastructure is defined as having an initial cost of \$100,000 or more and an estimated useful life in excess of one year. Building improvements are defined as the lesser of \$100,000 or 20% of the building's cost and must enhance the use of or extend the life of the building beyond its original estimated life. Donated capital assets are recorded at acquisition value at the date of the donation. Expenses for major capital assets and improvements are capitalized (construction in progress) as projects are constructed. The cost of normal maintenance and repairs that do not add to the asset's value or materially extend its useful life are not capitalized. Plant assets, at the time of disposal, revert to the Commonwealth of Virginia for disposition. Proceeds, if any, are returned to the University.

Depreciation is calculated using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expense categories. Useful lives by asset categories are listed below:

Buildings	5-50 years
Other improvements	12-30 years
Infrastructure	5-50 years
Equipment	5-20 years
Intangible Assets – Computer Software	3-5 years
Library materials	5 years

F. Prepaid Expenses

As of June 30, 2018, the University's prepaid expenses included items such as insurance premiums, membership dues, stipends and software maintenance for fiscal year 2019 that were paid in advance, and publication subscriptions which include initial and renewal annual subscriptions for technical and professional publications.

G. Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market. The inventory held by the University consists of expendable supplies and items for resale. The cost of inventories are recorded as expenditures when consumed or sold rather than when purchased.

H. Noncurrent Cash and Investments

Cash and investments that are externally restricted to construct capital and other noncurrent assets are classified as noncurrent assets in the Statement of Net Position.

I. Unearned Revenue

Unearned revenue includes amounts received for tuition, fees, and grants and contracts prior to the end of the fiscal year, but related to the period after June 30, 2018.

J. Long-term Debt and Debt Issue Costs

Long-term debt on the Statement of Net Position is reported net of related discounts and premiums, which are amortized over the life of the debt. Debt issuance costs are expensed as Non-operating expenses.

K. Accrued Compensated Absences

Accrued leave reflected in the accompanying financial statements represents the amount of annual, sick and compensatory leave earned but not taken as of June 30, 2018. The amount represents all earned vacation, sick and compensatory leave payable under the Commonwealth of Virginia's leave pay-out policy and the University Handbook, for all Administrators holding faculty appointments, upon employment termination. The applicable share of employer related taxes payable on the eventual termination payments is also included.

L. Federal Financial Assistance Programs

The University participates in federally funded Pell Grant, Supplemental Educational Opportunity Grants and Federal Work-Study programs. In addition, the University has numerous federal research grants. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the Office of Management and Budget Revised Circular A-133, Audit of State, *Local Governments and Non-Profit Organizations* and the Compliance Supplement. The Office of Management and Budget (OMB) incorporated OMB Circulars A-21, A-87, A-89, A-102, A-110, A-122 and A-133 into a single document. The document is titled 2 CFR, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards.

M. Deferred Inflows and Outflows of Resources

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

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.

N. Net Position

GASB Statement 34 requires that the Statement of Net Position report the difference between assets and liabilities as net position. GASB Statement 63 changes that terminology from *net assets* to *net position*. Net position consists of *Net Investment in Capital Assets, Restricted* and *Unrestricted*. *Net Investment in Capital Assets* consists of capital assets, net of accumulated depreciation and is reduced by outstanding debt that is attributable to the acquisition, construction, or improvement of those assets. Net position is reported as *Restricted* when constraints on the net position use are either externally imposed by creditors, grantors, or contributors or imposed by law. *Unrestricted* net position consists of net assets that do not meet the definitions above. When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to evaluate these expenditures and apply resources on a case by case basis.

O. 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 discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship allowances; and (3) federal, state and nongovernmental grants and contracts.

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, such as state appropriations and investment and interest income.

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

P. Scholarship Discounts and Allowances

Student tuition and fees revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Change in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs are recorded as either operating or non-operating revenues in the University's financial statements. To the extent that such revenues are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Q. Pensions

The Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' System (VaLORS) Retirement Plan are single employer pension plans that are treated like cost-sharing plans. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' System (VaLORS) Retirement Plan; and the

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

The information included in the Required Supplemental Information (RSI) reflects GASB Statement 82 by the plan. The statement resolved two outstanding issues from GASB Statement 68; the Presentation of Payroll Measures in RSI and the Classification of Employer-paid Member Contributions.

R. Other Post-Employment Benefits

State Employee Health Insurance Credit Program

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

VRS Disability Insurance Program

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

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.

Line of Duty Act Program

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

Pre-Medicare Retiree Healthcare

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 and 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.

2. RESTATEMENT OF BEGINNING NET POSITION

Beginning net position which were originally reported as ending net position in the University's financial statements as of June 30, 2017 have been restated to reflect the implementation of GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Net position as previously reported June 30, 2017	\$ 332,874,110
Net Asset/(Liability) as of measurement date	
Virginia Sickness and Disability Program	1,127,000
Health Insurance Credit	(7,413,000)
Group Life Insurance	(4,943,000)
Line of Duty Act	(296,000)
Pre-Medicare Retiree Healthcare	(14,225,628)
Deferred outflows - FY17 contributions	
Virginia Sickness and Disability Program	166,000
Health Insurance Credit	598,000
Group Life Insurance	261,000
Line of Duty Act	12,000
Pre-Medicare Retiree Healthcare	402,422
Total prior period adjustments	(24,311,206)
Net position restated at June 30, 2017	<u>\$ 308,562,904</u>

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

GASB Statement 40, *Deposit and Investment Risk Disclosures*, became effective for periods beginning after June 15, 2004. This statement amends GASB Statement 3, *Deposits with Financial Institutions*, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements. GASB Statement 40 eliminates the custodial credit risk disclosures for Category 1 and 2 deposits and investments. However, this Statement does not change the disclosure requirements for Category 3 deposits and investments. The University has no Category 3 deposits or investments for 2018 to disclose.

GASB Statement 40 requires the following risk disclosures:

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

Concentration of Credit Risk – The risk of loss attributed to the magnitude of a government's investment in a single issuer. This Statement requires disclosure of investments with any one issuer that represents five percent or more of total investments. However, investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external pools and other pooled investments are excluded from the requirement.

Interest Rate Risk – The risk that changes in interest rates will adversely affect the fair value of an investment. This Statement requires disclosure of the terms of the investments with fair values that are highly sensitive to changes in interest rates. The University does not have investments or deposits that are sensitive to change in interest rates as of the close of business on June 30, 2018.

Foreign Currency Risk – The risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University had no foreign investments/deposits for 2018.

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 collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia. Cash and cash equivalents represent cash with the Treasurer, cash on hand and cash deposits including certificates of deposit, temporary investments with original maturities of three months or less, and cash equivalents with the Virginia State Non-Arbitrage Program (SNAP). SNAP offers a professionally-managed money market mutual fund, which provides a temporary pooled investment vehicle for proceeds pending expenditure, and with record keeping, depository and arbitrage rebate calculations. SNAP complies with all standards of GASB Statement 79. SNAP investments are reported using the net asset value per share, which is calculated on an amortized cost basis that provides a Net Asset Value per share that approximates fair value. Cash and cash equivalents reporting requirements are defined by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*.

B. Investments

The Board of Visitors establishes and monitors CNU's investment strategy. Authorized investments are set forth in the Investment of Public Funds Act, Section 2.2-4500 through 2.2-4517, et seq., Code of Virginia. Investments fall into two groups: short-term and long-term. Short-term investments have an original maturity of over 90 days, but less than or equal to one year. Long-term investments have an original maturity greater than one year.

The University implemented GASB Statement No. 72, *Fair Value Measurement and Application*, during fiscal year 2016. This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The fair value hierarchy is based on the valuation inputs used to measure the fair value of assets.

Summarized below are cash equivalents and investments as of June 30, 2018:

Cash and cash equivalents:	
Deposits with financial institutions	\$ 3,742,422
Treasurer of Virginia	29,257,312
State non-arbitrage program (SNAP)	<u>1,907,989</u>
Total cash and cash equivalents	<u>34,907,723</u>
Investments:	
Mutual funds (level 1 inputs) and Money Market	<u>248,839</u>
Total investments	<u>248,839</u>
Total cash, cash equivalents and investments	<u>\$35,156,562</u>

Level 1 inputs are quoted prices in active markets for identical assets.

C. Securities Lending Transactions

GASB Statement 28, *Accounting and Financial Reporting for Securities Lending Transactions*, establishes accounting and financial reporting standards for security lending transactions. In these transactions, governmental entities transfer their securities to brokers, dealers and other entities for collateral and simultaneously agree to return the collateral for the same securities in the future. Collateral held for securities lending and the securities lending transactions reported on the financial statements represent the University's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. 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 *Comprehensive Annual Financial Report*.

4. ACCOUNTS RECEIVABLE

A. Accounts receivable consisted of the following at June 30, 2018:

Student tuition and fees	\$178,098
Auxiliary enterprises	280,291
Federal, state, private grants and contracts	726,778
Other activities	<u>121,439</u>
Gross receivables	<u>1,306,606</u>
Less: Allowance for doubtful accounts	<u>(91,678)</u>
Net accounts receivable	<u>\$1,214,928</u>

B. Due from the Commonwealth of Virginia consisted of the following at June 30, 2018:

Virginia College Building Authority 21 st Century Bonds	<u>\$3,792,146</u>
Total Due from Commonwealth of Virginia	<u>\$3,792,146</u>

5. CAPITAL ASSETS

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

	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable capital assets:				
Land	\$ 20,038,227	\$ -	\$ -	\$ 20,038,227
Construction in progress	22,622,666	30,330,246	(12,341,315)	40,611,597
Total nondepreciable capital assets	<u>42,660,893</u>	<u>30,330,246</u>	<u>(12,341,315)</u>	<u>60,649,824</u>
Depreciable capital assets:				
Buildings	543,782,628	10,451,436	(12,460)	554,221,604
Infrastructure	14,092,557	1,034,148	(296,784)	14,829,921
Equipment	20,557,715	1,053,517	(681,031)	20,930,201
Intangibles	5,099,845	1,145,416	-	6,245,261
Other improvements	32,306,569	883,388	-	33,189,957
Library materials	13,262,516	621,516	(10,414)	13,873,618
Total depreciable capital assets	<u>629,101,830</u>	<u>15,189,421</u>	<u>(1,000,689)</u>	<u>643,290,562</u>
Less accumulated depreciation:				
Buildings	102,512,617	12,020,665	-	114,533,282
Infrastructure	8,537,739	1,071,347	(238,585)	9,370,501
Equipment	12,071,288	1,862,647	(374,212)	13,559,723
Intangibles	4,431,693	543,156	-	4,974,849
Other improvements	14,873,522	1,424,846	-	16,298,368
Library materials	11,860,044	417,759	-	12,277,803
Total accumulated depreciation	<u>154,286,903</u>	<u>17,340,420</u>	<u>(612,797)</u>	<u>171,014,526</u>
Depreciable capital assets, net	<u>474,814,927</u>	<u>(2,150,999)</u>	<u>(387,892)</u>	<u>472,276,036</u>
Total capital assets, net	<u>\$ 517,475,820</u>	<u>\$ 28,179,247</u>	<u>\$ (12,729,207)</u>	<u>\$ 532,925,860</u>

During fiscal year 2018, the University incurred interest charges totaling \$5,499,632. Of this amount, \$317,153 was capitalized as part of the cost of construction and \$5,182,479 was expensed.

6. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES:

The composition of deferred outflows and inflows of resources at June 30, 2018 is summarized below:

Loss on debt defeasance (see Note 9)	\$ 3,607,061
Pension related (see Note 12)	6,002,015
Other postemployment benefit related (see Note 13)	
Health Insurance Credit Program	664,138
Virginia Sickness and Disability Program (VSDP)	190,581
Group Life Insurance Program	295,003
Line of Duty Act (LODA)	10,213
Pre-Medicare Retiree Healthcare	614,819
Total deferred outflows of resources	<u>\$ 11,383,830</u>
Gain on debt defeasance (see Note 9)	\$ 1,412,909
Pension related (see Note 12)	3,227,000
Other postemployment benefit related (see Note 13)	
Health Insurance Credit Program	178,000
Virginia Sickness and Disability Program (VSDP)	241,000
Group Life Insurance Program	516,000
Line of Duty Act (LODA)	29,000
Pre-Medicare Retiree Healthcare	3,048,715
Total deferred inflows of resources	<u>\$ 8,652,624</u>

7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES:

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

Employee salaries, wages and fringe benefits payable	\$ 9,364,459
Vendors and suppliers accounts payable	6,311,802
Retainage payable	<u>1,242,571</u>
Total accounts payable and accrued liabilities	<u>\$16,918,832</u>

8. NONCURRENT LIABILITIES

The University's noncurrent liabilities consist of long-term debt (further described in Note 9), and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ending June 30, 2018 is presented below:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds	\$ 96,849,387	\$ -	\$ 9,553,673	\$ 87,295,714	\$ 8,525,000
Treasury-general obligation bonds	72,270,698	-	5,521,972	66,748,726	5,148,938
Installment purchases	1,196,512	904,175	436,539	1,664,148	611,253
Total long-term debt	170,316,597	904,175	15,512,184	155,708,588	14,285,191
Accrued compensated absences	2,028,779	2,121,329	2,132,492	2,017,616	1,695,497
Net pension liability (see Note 12)	46,826,000	1,219,000	6,462,000	41,583,000	-
OPEB liabilities (see Note 13):					
Health Insurance Credit Program	7,413,000	615,000	776,000	7,252,000	-
Group Life Insurance Program	4,943,000	38,000	777,000	4,204,000	-
Line of Duty Act	296,000	21,000	41,000	276,000	-
Pre-Medicare Retiree Healthcare	14,225,628	1,312,918	3,451,137	12,087,409	-
Total long-term liabilities	\$ 246,049,004	\$ 6,231,422	\$ 29,151,813	\$ 223,128,613	\$ 15,980,688

9. LONG TERM DEBT

On behalf of The University, the Commonwealth has issued two categories of bonds pursuant to Section 9 of Article X of the *Constitution of Virginia*.

Section 9(c) bonds are general obligation bonds issued by the Commonwealth of Virginia on behalf of the University, which are secured by the net revenues of the completed project and the full faith, credit and taxing power of the Commonwealth of Virginia.

Section 9(d) bonds are revenue bonds, which are limited obligations of the University, payable exclusively from pledged general revenues and are not debt of the Commonwealth of Virginia. Pledged revenues include revenues of the University not required by law to be used for another purpose. The University issued 9(d) bonds through the Public Higher Education Financing Program (Pooled Bond Program) created by the Virginia General Assembly in 1996. Through the Pooled Bond Program, the Virginia College Building Authority (VCBA) issues 9(d) bonds and uses the proceeds to purchase debt obligations (notes) of the University and various other institutions of higher education.

Description	Interest Rates	Fiscal Year Maturity	Outstanding Balance at June 30, 2018
General obligation bonds:			
Residence Halls:			
Series 2009C	4.0	2021	\$ 1,827,657
Series 2010A-1 & 2010A-2	2.95-4.7	2040	29,035,000
Series 2011A	2.2-5.0	2021	1,445,000
Series 2014B	5.0	2019	974,330
Series 2014B	5.0	2020	3,090,910
Series 2015A	3.0-5.0	2035	17,565,000
Series 2016B	5.0	2021	460,000
Dining Services:			
Series 2015A	3.0-5.0	2035	8,340,000
Total general obligation bonds			<u>\$ 62,737,897</u>
Revenue bonds:			
Athletics:			
Series 2007B	4.5	2019	745,000
Series 2007B	4.0-4.5	2020	759,903
Series 2007B	4.0-4.5	2020	171,297
Series 2009A	3.25-5.0	2021	280,000
Series 2009B	5.0	2020	915,000
Series 2010B	5.0	2023	290,000
Series 2010B	5.0	2021	225,000
Series 2010B	5.0	2023	1,300,000
Series 2012A	5.0	2024	240,000
Series 2014A	5.0	2030	2,885,000
Series 2014B	4.0-5.0	2026	1,680,000
Series 2015B	3.0-5.0	2029	1,600,000
Series 2016A	3.0-5.0	2038	3,425,000
Series 2016A	3.0-5.0	2040	13,815,000
Dining Services:			
Series 2007B	4.0-4.5	2020	145,000
Series 2007B	4.0-4.5	2020	41,913
Series 2010B	5.0	2022	155,000
Series 2010B	5.0	2023	60,000
Series 2011A	5.0	2022	1,900,000
Student Union:			
Series 2007B	4.0-4.5	2020	1,164,457
Series 2010B	5.0	2023	1,995,000
Series 2012A	2.75-5.0	2026	10,935,000
Series 2014B	5.0	2024	795,000
Series 2016A	3.0	2027	485,000

Description	Interest Rates	Fiscal Year Maturity	Outstanding Balance at June 30, 2018
Parking Decks/Surface:			
Series 2007B	4.0-4.5	2020	1,111,609
Series 2010B	5.0	2023	1,895,000
Series 2011A	5.0	2022	1,340,000
Series 2012A	3.0-5.0	2025	860,000
Series 2012B	5.0	2023	525,000
Series 2014B	4.0	2026	150,000
Residence Halls:			
Series 2007B	4.0-4.5	2020	3,170,820
Series 2010B	5.0	2023	5,415,000
Land Acquisition/Other:			
Series 2009A	3.25-5.0	2021	875,000
Series 2009A	3.25-5.0	2021	190,000
Series 2009B	5.0	2020	295,000
Series 2009B	5.0	2020	85,000
Series 2010A-1	3.75-5.6	2041	4,030,000
Series 2011A	5.0	2022	1,395,000
Series 2014A	5.0	2030	3,115,000
Series 2015B	3.0-5.0	2029	5,000,000
Series 2015B	3.0-5.0	2029	1,050,000
Series 2016A	3.0-5.0	2030	2,010,000
Series 2016A	3.0-5.0	2030	550,000
Total revenue bonds			<u>\$ 79,069,999</u>
Total bonds payable			<u>\$ 141,807,896</u>
Unamortized premiums - GOB bonds			\$ 4,010,829
Unamortized premiums - VCBA bonds			8,225,715
Total unamortized premiums			<u>\$ 12,236,544</u>
Installment purchases			\$ 1,664,148
Total long-term debt			<u>\$ 155,708,588</u>

Long-term debt matures as follows:

	<u>Principal</u>	<u>Interest</u>
2019	\$ 16,001,357	\$ 6,071,121
2020	14,403,663	5,448,352
2021	14,713,063	4,858,897
2022	12,442,360	4,230,841
2023	11,351,625	3,708,204
2024-2028	35,574,564	13,680,726
2029-2033	26,091,497	7,496,535
2034-2038	19,096,003	3,149,645
2039-2043	6,034,456	361,885
	<u>\$ 155,708,588</u>	<u>\$ 49,006,206</u>

Defeasance of Debt

For fiscal year 2018 the deferred outflow of resources from the amortization of losses on debt defeasance was \$3,607,061 and the deferred inflow of resources from the amortization of gains on debt defeasance was \$1,412,909.

At June 30, 2018, \$26,330,000 of the bonds considered defeased remain outstanding.

10. STATE APPROPRIATIONS

The University receives state appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that unexpended appropriations shall revert, except as specifically provided by the General Assembly, at the end of a biennium. For years ending at the middle of a biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the University for disbursement.

The following is a summary of state appropriations received by the University including all supplemental appropriations and reversions:

Original legislative appropriations Per Chapter 836:	
Educational and general programs	\$27,703,597
Student financial assistance	4,879,157
Supplemental adjustments:	
Other central appropriation adjustments	1,285,544
Financial aid adjustments	70,925
Adjusted Appropriation	<u><u>\$33,939,223</u></u>

11. COMMITMENTS

At June 30, 2018, the University was committed to construction contracts totaling approximately \$36,207,542 of which \$7,200,282 was unexpended.

The University is committed under various operating leases for buildings and equipment. In general, the leases are for a one year term and the University has renewal options on these leases for up to three additional one year terms. In most cases, the University expects that in the normal course of business, these leases will be replaced by similar leases.

On August 1, 2002, the University entered into a fifteen year lease agreement with the Educational Foundation for the lease of certain properties to be used for the purposes of student housing and administrative offices. In August 2017, the lease was extended for an additional five year term totaling approximately \$44,410,001.

Rental expense for the fiscal year ended June 30, 2018 was \$9,156,213. The University has, as of June 30, 2018 the following total future minimum rental payments due under the above leases:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2019	\$ 8,438,644
2020	8,558,546
2021	8,719,345
2022	8,891,038
2023	<u>830,180</u>
Total	<u><u>\$35,437,753</u></u>

12. RETIREMENT PLANS

General Information about the Pension Plan

Plan Description

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

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

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. <ul style="list-style-type: none"> • 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	Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is	Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

<p>January 1, 2013, and they have not taken a refund.</p> <p>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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>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.</p>	<p>before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<ul style="list-style-type: none"> • State employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Members of the Virginia Law Officers' Retirement System (VaLORS) <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p>Retirement Contributions State employees, excluding state elected officials, and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.</p>	<p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>
<p>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</p>	<p>Creditable Service Same as Plan 1.</p>	<p>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</p>

<p>factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>		<p>additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><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.</p>
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of 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.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of 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.</p> <p><u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions.

		<ul style="list-style-type: none"> • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	Calculating the Benefit See definition under Plan 1.	Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1 <u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. VaLORS: The retirement multiplier for VaLORS employees is 1.70% or 2.00%.	Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. VaLORS: The retirement multiplier for VaLORS employees is 2.00%.	Service Retirement Multiplier <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. VaLORS: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. VaLORS: Same as Plan 1.	Earliest Unreduced Retirement Eligibility Defined Benefit Component: VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. VaLORS: Not applicable. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. VaLORS: 50 with at least five years of creditable service.	Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service. VaLORS: Same as Plan 1.	Earliest Reduced Retirement Eligibility Defined Benefit Component: VRS: Age 60 with at least five years (60 months) of creditable service. VaLORS: Not applicable. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. 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. For members who retire with a reduced benefit and who have less than 20 years of creditable service,	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.

<p>the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability 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. 	<p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.</p>	<p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>
<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p> <p>Purchase of Prior Service Members may be eligible to purchase service from previous</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p> <p>Purchase of Prior Service Same as Plan 1.</p>	<p>Disability Coverage State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p> <p>Purchase of Prior Service <u>Defined Benefit Component:</u></p>

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.		<p>Same as Plan 1, with the following exception:</p> <ul style="list-style-type: none"> Hybrid Retirement Plan members are ineligible for ported service. <p><u>Defined Contribution</u> <u>Component:</u> Not applicable.</p>
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Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, the 5.00% member contribution was paid by the employer. Beginning July 1, 2012 state employees were required to pay the 5.00% member contribution and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. The University's contractually required 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 actuarially determined rates 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 \$4,069,411 and \$3,696,487 for years ended June 30, 2018 and June 30, 2017, respectively. Contributions from the University to the VaLORS Retirement Plan were \$155,604 and \$152,871 for the year 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 \$39,863,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability and a liability of \$1,720,000 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. The University'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, the University's proportion of the VRS State Employee Retirement Plan was 0.68405% as compared to 0.67610% at June 30, 2016. At June 30, 2017, the University's proportion of the VaLORS Retirement Plan was 0.26217% as compared to 0.29275% at June 30, 2016.

For the year ended June 30, 2018, the University recognized pension expense of \$3,992,000 for the VRS State Employee Retirement Plan and \$227,000 for the VaLORS Retirement Plan. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

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

	VRS Deferred Outflows of Resources	VRS Deferred Inflows of Resources
Differences between expected and actual experience	\$ 85,000	\$ 1,207,000
Net difference between projected and actual earnings on pension plan investments	-	1,703,000
Change in assumptions	387,000	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,202,000	-
Employer contributions subsequent to the measurement date	<u>4,069,411</u>	<u>-</u>
Total	<u>\$ 5,743,411</u>	<u>\$ 2,910,000</u>

	VaLORS Deferred Outflows of Resources	VaLORS Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,000	\$ 4,000
Net difference between projected and actual earnings on pension plan investments	-	48,000
Change in assumptions	-	112,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	98,000	153,000
Employer contributions subsequent to the measurement date	<u>155,604</u>	<u>-</u>
Total	<u>\$ 258,604</u>	<u>\$ 317,000</u>

\$4,069,411 for the VRS Retirement Plan and \$155,604 for the VaLORS Retirement Plan reported as deferred outflows of resources related to pensions resulting from the University's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended 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:

<i>Year ended June 30</i>	VRS	VaLORS
	<u>Retirement Plan</u>	<u>Retirement Plan</u>
FY 2019	\$ (709,000)	\$ (75,000)
FY 2020	495,000	(99,000)
FY 2021	123,000	(7,000)
FY 2022	(1,145,000)	(33,000)
FY 2023	-	-

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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

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

Mortality rates:

Pre-Retirement:

RP-2014 Employee 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 expense, including inflation*

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

Mortality rates:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

	<u>State Employee Retirement Plan</u>	<u>VaLORS Retirement Plan</u>
Total Pension Liability	\$ 23,617,412	\$ 2,002,184
Plan Fiduciary Net Position	<u>17,789,888</u>	<u>1,345,887</u>
Employers' Net Pension Liability (Asset)	<u>\$ 5,827,524</u>	<u>\$ 656,297</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.33%	67.22%

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

Long-Term Expected Rate of Return

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

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 the University 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 the University'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%)
Employer's proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	\$58,883,000	\$39,863,000	\$23,890,000

The following presents the University's proportionate share of the VaLORS Retirement Plans 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%)
Employer's proportionate share of the VaLORS Retirement Plan Net Pension Liability	\$2,400,000	\$1,720,000	\$1,158,000

Pension Plan Fiduciary Net Position

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

Optional Retirement Plans

Full-time faculty and certain administrative staff may participate in Optional Retirement Plans, as authorized by the *Code of Virginia*, rather than the VRS retirement plan. The Optional Retirement Plans are defined contribution plans to which the University contributes an amount established by statute. University employees currently participate in both of these plans to include: Fidelity Investments Institutional Service and Teacher Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF). The employer contribution rates will be 10.4% for Plan 1 participants (hired prior to July 1, 2010) and 8.5% for Plan 2 participants (hired on or after July 1, 2010), with Plan 2 participants continuing to contribute 5%.

Individual contracts issued under the plan provide for full and immediate vesting of both the University and the participant's contributions. Total pension costs under these Optional Retirement Plans were approximately \$2,354,142 for the year ended June 30, 2018. Contributions were calculated using the base salary amount of approximately \$24,826,511.

Deferred Compensation

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 \$222,985 for 2018.

13. POSTEMPLOYMENT 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 Retiree Health Insurance Credit Program, Virginia Sickness and Disability Program, Group Life Insurance Program, and Line of Duty Act Program.

The Group Life Insurance Program provides members basic group life insurance upon employment. In addition to benefits provided to active members during employment, the Virginia Sickness and Disability Program provides inactive members with long-term disability and long-term care benefits. The Retiree Health Insurance Credit Program provides members health insurance credits to offset the monthly health insurance premiums for retirees who have at least 15 years of service. The Line of Duty Act Program provides death and health insurance reimbursement benefits to eligible state employees, such as campus police, who die or become disabled as a result of the performance of their duties as a public safety officer. The University is required to contribute to the costs of participating in these programs.

The University also participates in the Pre-Medicare Retiree Healthcare Plan, which is sponsored by the Commonwealth and administered by the Department of Human Resources Management. The plan provides the option for retirees who are not yet eligible to participate in Medicare to participate in the Commonwealth's healthcare plan for its active employees. The University 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 University effectively subsidizes the costs of the participating retirees' healthcare through payment of the employer's portion of premiums for active employees.

General Information about the State Employee Health Insurance Credit Program

Plan Description

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

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

STATE EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM (HIC) PLAN PROVISIONS
<p>Eligible Employees</p> <p>The State Employee Retiree Health Insurance Credit Program was established January 1, 1990 for retired state employees covered under VRS, SPORS, VaLORS and JRS who retire with at least 15 years of service credit.</p> <p>Eligible employees are enrolled automatically upon employment. They include:</p> <ul style="list-style-type: none"> • Full-time and part-time permanent salaried state employees covered under VRS, SPORS, VaLORS and JRS.
<p>Benefit Amounts</p> <p>The State Employee Retiree Health Insurance Credit Program provides the following benefits for eligible employees:</p> <ul style="list-style-type: none"> • <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. <p>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.</p> <p>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.</p>
<p>Health Insurance Credit Program Notes:</p> <ul style="list-style-type: none"> • The monthly Health Insurance Credit benefit cannot exceed the individual premium amount. • Employees who retire after being on long-term disability under VSDP must have at least 15 years of service credit to qualify for the health insurance credit as a retiree.

Contributions

The contribution requirement for active employees is governed by §51.1-1400(D) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each state agency's contractually required employer contribution rate for the year ended June 30, 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 \$664,138 and \$603,092 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 \$7,252,000 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 the University'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, the University's proportion of the VRS State Employee Health Insurance Credit Program was 0.79653% as compared to 0.80665% at June 30, 2016.

For the year ended June 30, 2018, the University recognized VRS State Employee Health Insurance Credit Program OPEB expense of \$615,000. 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual earnings on State HIC OPEB plan investments	-	17,000
Change in assumptions	-	83,000
Changes in proportionate share	-	78,000
Employer contributions subsequent to the measurement date	664,138	-
Total	<u>\$ 664,138</u>	<u>\$ 178,000</u>

\$664,138 reported as deferred outflows of resources related to the State Employee HIC OPEB resulting from the University'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	\$	(35,000)
FY 2020	\$	(35,000)
FY 2021	\$	(35,000)
FY 2022	\$	(35,000)
FY 2023	\$	(30,000)
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 health, 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 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% compounding increase from ages 70 to 85.

Post-Disablement:

RP-2014 Disability 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 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	Remove 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)	<u>\$ 910,512</u>
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	<u>100.00%</u>		<u>4.80%</u>
	Inflation		<u>2.50%</u>
	* Expected arithmetic nominal return		<u>7.30%</u>

* 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 the University's proportionate share of the VRS State Employee Health Insurance Credit Program net HIC OPEB liability using the discount rate of 7.00%, as well as what the University'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%)
Employer proportionate share of the VRS State Employee HIC OPEB Plan Net HIC OPEB Liability	\$ 8,020,000	\$ 7,252,000	\$ 6,594,000

State Employee HIC OPEB Fiduciary Net Position

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

General Information about the VRS Disability Insurance Program

Plan Description

All full-time and part-time permanent salaried state employees who are covered under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers' Retirement System (VaLORS) hired on or after January 1, 1999 are automatically covered by the Disability Insurance Program (VSDP) upon employment. The Disability Insurance Program also covers state employees hired before January 1, 1999 who elected to transfer to VSDP rather than retain their eligibility to be considered for disability retirement. This plan is administered by the Virginia Retirement System (the System), along with pensions and other 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
<p>Eligible Employees</p> <p>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.</p> <p>Eligible employees are enrolled automatically upon employment. They include:</p> <ul style="list-style-type: none"> • Full-time and part-time permanent salaried state employees covered under VRS, SPORS 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 to five years of VSDP benefits.
- Employees on work-related short-term disability receiving only a workers' compensation payment may be eligible to purchase service credit for this period if retirement contributions are not being withheld from the workers' compensation payment. The rate will be based on 5.00% of the employee's compensation.

Cost-of-Living Adjustment (COLA)

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

Contributions

The contribution requirements for the Disability Insurance Program (VSDP) are governed by §51.1-1140 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer's contractually required employer contribution rate for the Disability Insurance Program (VSDP) for the year ended June 30, 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 \$185,581 and \$168,895 for the years ended June 30, 2018 and June 30, 2017, respectively.

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

At June 30, 2018, the University reported an asset of \$1,412,000 for its proportionate share of the Net VSDP OPEB Asset. The Net VSDP OPEB Asset was measured as of June 30, 2017 and the total VSDP OPEB liability used to calculate the Net VSDP OPEB Asset was determined by an actuarial valuation as of that date. The University's proportion of the Net VSDP OPEB 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 0.68799 % as compared to 0.67518 % at June 30, 2016.

For the year ended June 30, 2018, the university recognized VSDP OPEB expense of \$117,000. 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual earnings on VSDP OPEB plan investments	-	111,000
Change in assumptions	-	106,000
Changes in proportion	5,000	24,000
Employer contributions subsequent to the measurement date	185,581	-
Total	<u>\$ 190,581</u>	<u>\$ 241,000</u>

\$185,581 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	\$47,000
FY 2020	\$44,000
FY 2021	\$44,000
FY 2022	\$44,000
FY 2023	\$17,000
Thereafter	\$40,000

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)	<u>\$ (205,321)</u>
Plan Fiduciary Net Position as a Percentage of the Total VSDP OPEB Liability	186.63%

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

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	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 the University'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%)
Employer's proportionate share of the total VSDP Net OPEB Asset	\$1,344,000	\$1,412,000	\$1,530,000

VSDP OPEB Fiduciary Net Position

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

General Information about the Group Life Insurance Program

Plan Description

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

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

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

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS
<p>Eligible Employees</p> <p>The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:</p> <ul style="list-style-type: none"> • City of Richmond • City of Portsmouth • City of Roanoke • City of Norfolk • Roanoke City Schools Board <p>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.</p>
<p>Benefit Amounts</p> <p>The benefits payable under the Group Life Insurance Program have several components.</p> <ul style="list-style-type: none"> • 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:
 - Accidental dismemberment benefit
 - Safety belt benefit
 - Repatriation benefit
 - Felonious assault benefit
 - 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 \$295,003 and \$268,319 for the years ended June 30, 2018 and June 30, 2017, respectively.

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

At June 30, 2018, the University reported a liability of \$ 4,204,000 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 proportion was 0.27931% as compared to 0.28256% at June 30, 2016.

For the year ended June 30, 2018, the University recognized GLI OPEB expense of \$38,000. 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 93,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	158,000
Change in assumptions	-	217,000
Changes in proportion	-	48,000
Employer contributions subsequent to the measurement date	295,003	-
Total	<u>\$ 295,003</u>	<u>\$ 516,000</u>

\$295,003 reported as deferred outflows of resources related to the GLI OPEB resulting from the University's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year ended June 30

FY 2019	\$ (106,000)
FY 2020	\$ (106,000)
FY 2021	\$ (106,000)
FY 2022	\$ (106,000)
FY 2023	\$ (65,000)
Thereafter	\$ (27,000)

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 Healthy 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% 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 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 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	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

Mortality rates – Largest Ten Locality Employers - General Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Mortality Rates (Pre-retirement, post-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 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 Employees – 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 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 Employees – 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 retirement 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	<u>1,437,586</u>
Employers' Net GLI OPEB Liability (Asset)	<u>\$ 1,504,840</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	48.86%

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

Long-Term Expected Rate of Return

The long-term expected rate of return on the System's investments was determined using a 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	<u>100.00%</u>		<u>4.80%</u>
		Inflation	<u>2.50%</u>
		* Expected arithmetic nominal return	<u>7.30%</u>

* 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 University'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%)
Employer's proportionate share of the Group Life Insurance Program	\$ 5,437,000	\$ 4,204,000	\$ 3,204,000
Net OPEB Liability			

Group Life Insurance Program Fiduciary Net Position

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

General Information about the Line of Duty Act Program

Plan Description

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

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

LINE OF DUTY ACT PROGRAM (LODA) PLAN PROVISIONS
<p>Eligible Employees</p> <p>The eligible employees of the Line of Duty Act Program (LODA) are paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers' Retirement System (VaLORS).</p>
<p>Benefit Amounts</p> <p>The Line of Duty Act Program (LODA) provides death and health insurance benefits for eligible individuals:</p> <ul style="list-style-type: none"> • Death – The Line of Duty Act program death benefit is a one-time payment made to the beneficiary or beneficiaries of a covered individual. Amounts vary as follows: <ul style="list-style-type: none"> ○ \$100,000 when a death occurs as the direct or proximate result of performing duty as of January 1, 2006, or after. ○ \$25,000 when the cause of death is attributed to one of the applicable presumptions and occurred earlier than five years after the retirement date. ○ An additional \$20,000 benefit is payable when certain members of the National Guard and U.S. military reserves are killed in action in any armed conflict on or after October 7, 2001. • Health Insurance – The Line of Duty Act program provides health insurance benefits. <ul style="list-style-type: none"> • Prior to July 1, 2017, these benefits were managed through the various employer plans and maintained the benefits that existed prior to the employee's death or disability. These premiums were reimbursed to the employer by the LODA program. • Beginning July 1, 2017, the health insurance benefits are managed through the Virginia Department of Human Resource Management (DHRM). The health benefits are modeled after the State Employee Health benefits Program plans and provide consistent, premium-free continued health plan coverage for LODA-eligible disabled individuals, survivors and family members. Individuals receiving the health insurance benefits must continue to meet eligibility requirements as defined by the Line of Duty Act.

Contributions

The contribution requirements for the Line of Duty Act Program (LODA) are governed by §9.1-400.1 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer's contractually required employer contribution rate for the Line of Duty Act Program (LODA) for the year ended June 30, 2018 was \$567.37 per covered full-time-equivalent employee. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and represents the pay-as-you-go funding rate and not the full actuarial cost of the benefits under the program. The actuarially determined pay-as-you-go rate was expected to finance the costs and related expenses of benefits payable during the year. Contributions to the Line of Duty Act Program (LODA) from the University were \$10,213 and \$11,347 for the years ended June 30, 2018 and June 30, 2017, respectively.

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

At June 30, 2018, the University reported a liability of \$276,000 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. The University's proportion of the Net LODA OPEB Liability was based on the University'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 0.10522% as compared to 0.10635% at June 30, 2016.

For the year ended June 30, 2018, the University recognized LODA OPEB expense of \$21,000. Since there was a change in proportionate share between measurement dates, a portion of the LODA OPEB expense was related to deferred amounts from changes in proportion.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual earnings on LODA OPEB plan investments	-	-
Change in assumptions	-	29,000
Changes in proportion	-	-
Employer contributions subsequent to the measurement date	10,213	-
Total	<u>\$ 10,213</u>	<u>\$ 29,000</u>

\$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 pensions will be recognized in LODA OPEB expense in future reporting periods as follows:

Year ended June 30

FY 2019	\$	(4,000)
FY 2020	\$	(4,000)
FY 2021	\$	(4,000)
FY 2022	\$	(4,000)
FY 2023	\$	(4,000)
Thereafter	\$	(9,000)

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):

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

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

Long-Term Expected Rate of Return

The long-term expected rate of return on LODA OPEB Program's investments was set at 3.56% for this valuation. Since LODA is funded on a current-disbursement basis, it is not able to use the VRS Pooled Investments 7.00% assumption. Instead, the assumed annual rate of return of 3.56% was used since it approximates the risk-free rate of return. This Single Equivalent Interest Rate (SEIR) is the applicable municipal bond index rate based on the Bond Buyer General Obligation 20-year Municipal Bond Index published monthly by the Board of Governors of the Federal Reserve System as of the measurement date of June 30, 2017.

Discount Rate

The discount rate used to measure the total LODA OPEB liability was 3.56%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year

ending June 30, 2019, the rate contributed by participating employers to the LODA OPEB Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly.
Sensitivity of the Covered Employer's Proportionate Share of the Net LODA OPEB Liability to Changes in the Discount Rate

The following presents the 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%)
Employer's proportionate share of the total LODA Net OPEB Liability	\$ 313,000	\$ 276,000	\$ 245,000

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%)
Employer's proportionate share of the total LODA Net OPEB Liability	\$ 234,000	\$ 276,000	\$ 328,000

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.

General Information about the Pre-Medicare Retiree Healthcare Program

The Commonwealth provides a healthcare plan established by Title 2.2, Chapter 28 of the *Code of Virginia* for retirees who are not yet eligible to participate in Medicare. 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% Dental: 4.00% Before reflecting Excise tax
Year of Ultimate Trend	2025

Mortality rates – 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, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2018, the University reported a liability of \$12,087,409 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, the participating employer's proportion was 0.93058% as compared to 0.90833% at June 30, 2016. For the year ended June 30, 2018, the participating employer recognized Pre-Medicare Retiree Healthcare OPEB expense of \$1,018,644.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ -	\$ 486,173
Changes in assumptions	-	2,562,542
Changes in proportion	294,274	-
Subtotal	<u>294,274</u>	<u>3,048,715</u>
Amounts associated with transactions subsequent to the measurement date	320,545	-
Total	<u><u>\$ 614,819</u></u>	<u><u>\$ 3,048,715</u></u>

\$320,545 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	\$	(507,264)
FY 2020	\$	(507,264)
FY 2021	\$	(507,264)
FY 2022	\$	(507,264)
FY 2023	\$	(507,264)
Thereafter	\$	(218,121)

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

The following presents the University's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using the discount rate of 3.58%, as well as what the University's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.58%) or one percentage point higher (4.58%) than the current rate:

	1.00% Decrease (2.58)	Current Rate (3.58)	1.00% Increase (4.58)
Employer's proportionate share of the total Pre-Medicare Retiree Healthcare OPEB Liability	\$ 12,948,374	\$ 12,087,409	\$ 11,262,512

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

The following presents the University'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 University'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 4.00%) or one percentage point higher (9.62% decreasing to 6.00%) than the current rate:

	1.00% Decrease (7.62% decreasing to 4.00%)	Trend Rates (8.62% decreasing to 5.00%)	1.00% Increase (9.62% decreasing to 6.00%)
Employer's proportionate share of the total Pre-Medicare Retiree Healthcare OPEB Liability	\$ 10,754,729	\$ 12,087,409	\$ 13,649,714

14. CONTINGENCIES

Grants and Contracts

Christopher Newport University has received federal, state and private grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal laws, including the expenditure of resources for eligible purposes. Any disallowance resulting from a federal audit may become a liability of the University.

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

15. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

The University is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees and athletes; 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. For athletes, the University maintains insurance through a third party provider. The University's insurance premiums for the fiscal year ended June 30, 2018 totaled \$838,765. Information relating to the Commonwealth's insurance plans is available at the statewide level in the *Commonwealth's Comprehensive Annual Financial Report*.

16. FEDERAL DIRECT LENDING PROGRAM

The University participates in the Federal Direct Lending Program. Under this program, the University receives funds from the U.S. Department of Education for Stafford and Parent PLUS Loan Programs and disburses these funds to eligible students. The funds can be applied to outstanding student tuition and fee charges or refunded directly to the student.

These loan programs are treated as student payments with the University acting as a fiduciary agent for the student. Therefore, the receipt of the funds from the federal government is not reflected in the federal government grants and contracts total on the Statement of Revenues, Expenses, and Changes in Net Position. The activity is included in the noncapital financing section of the Statement of Cash Flows. For the fiscal year ended June 30, 2018 cash used by the program totaled \$24,849,987.

17. COMPONENT UNITS

Cash and Investments

The Education Foundation and the Real Estate Foundation consider all highly liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalents. The following information is provided with respect to the credit risk associated with the Foundations' cash and cash equivalents and investments at June 30, 2018.

Financial instruments that potentially subject the Foundations to concentrations of credit risk consist of cash balances and overnight investments. The Foundations maintain operating accounts in excess of the \$250,000 limit of federal insurance with financial institutions. In addition, the Foundations maintain cash balances with brokers that are not insured by the FDIC.

Other investments were held in accounts with brokerage firms to reduce the Foundations' risk. The balances are insured by the Securities Investor Protection Corporation (SIPC) up to a maximum of \$500,000. At times, balances in the Foundations' cash accounts may exceed the SIPC insured levels.

Investments are carried at their estimated fair value determined at the date of the combined statement of financial position. Because some investment valuations at June 30 are not available on a timely basis, certain private equity and hedge funds are valued using March 31 valuations, adjusted for any purchase or sale activity in the fourth fiscal quarter. In addition, due to the absence of readily determinable market values, management estimates fair value based on a broad range of factors, including but not limited to the price at which the investment was acquired, the nature of the investment, comparable private and public investments used to determine enterprise value, overall financial condition, current and projected operating performance and discounted cash flow models. Because of the inherent uncertainty of valuation, those estimated fair values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material. Management believes the carrying value of these investments is a reasonable estimate of their fair value at June 30. Income from investments, including realized gains and losses, is accounted for as an increase or decrease in unrestricted, temporarily restricted, or permanently restricted net assets, depending upon the nature of donor restrictions.

Summarized below are Education Foundation investments recorded at estimated fair value:

Mutual Funds	\$ 2,092,542
Private Equity Funds	6,175,414
Hedge Funds	<u>27,166,173</u>
Total investments	<u>\$35,434,129</u>

Education Foundation investments are recorded on the statement of financial condition as follows:

Unrestricted	\$ 3,461,339
Temporarily restricted	10,762,799
Permanently restricted	<u>21,209,991</u>
Total investments	<u>\$35,434,129</u>

Fair Value of Financial Instruments

The Foundations have adopted the provisions of FASB ASC 820-10, *Fair Value Measurements*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value.

ASC 820-55 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Foundations have no Level 2 financial instruments.

The following table presents the financial instruments carried at fair value on a recurring basis as of June 30, 2018 by ASC 820-55 valuation hierarchy defined above:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Education Foundation Assets:			
Mutual Funds	\$ 2,092,542	\$ -	\$ 2,092,542
Charitable Remainder Trusts	-	1,275,158	1,275,158
Total assets in the fair value hierarchy	<u>\$ 2,092,542</u>	<u>\$ 1,275,158</u>	3,367,700
Investments measured at net asset value			<u>33,341,587</u>
Total assets at fair value			<u>\$ 36,709,287</u>
Real Estate Foundation Liabilities:			
Fair Value of Hedges	\$ -	\$ 388,047	\$ 388,047
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 388,047</u>	<u>\$ 388,047</u>

Following is a description of the Foundations' valuation methodologies for assets and liabilities measured at fair value. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 3 consists of charitable remainder trusts. Investments measured at net asset value are valued based on the net asset value reported by such investment vehicles. As a result of adopting ASU 2015-07, the investments in investment vehicles are excluded from the fair value hierarchy.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundations believe its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The fair value measurements of investments in entities that calculate net asset value as of June 30, 2018 are disclosed below:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Eligible)</u>	<u>Redemption Notice Period</u>
Global Equity	\$ 13,892,609	\$ -	Quarterly	105 Days
Hedged Equity	6,076,250	-	Quarterly	105 Days
Absolute Strategies	5,328,277	609,375	Quarterly	105 Days
Fixed Income	1,869,038	-	Quarterly	105 Days
Private Investments	4,416,473	3,242,584	Not Applicable	None
Real Estate	1,758,940	70,121	Not Applicable	None
Total	<u>\$ 33,341,587</u>	<u>\$ 3,922,080</u>		

The Global Equity asset class seeks to outperform the broad equity markets over a full market cycle by providing relative downside protection and participating in upward-moving markets. That said, it should be expected that the strategies implemented in this asset class are generally unhedged. Capital is allocated across the globe in those countries, market capitalizations and asset classes that offer value with a primary objective of capital appreciation.

The Hedged Equity asset class seeks to generate equity-like returns with significantly less volatility over a full market cycle. Managers generally maintain long and short positions, primarily in equities across sectors, geographies and market capitalizations.

The Absolute Strategies asset class seeks to generate absolute investment returns with low volatility. Generally speaking, there are two primary components to the asset class: credit and multi-strategy. Credit managers include publicly and privately traded credit and credit-related securities. Multi-strategy managers allocate capital opportunistically across a broad array of investments including equities, credit, commodities, structured products, currencies, etc.

The Fixed Income asset class seeks to exhibit a low correlation with other asset classes and serve as a hedge against inflation. Investments may include, but are not limited to, U.S. dollar- denominated bonds; including U.S. Treasury and Agency securities, mortgage-backed and asset- backed securities; U.S. and non-U.S. domiciled corporations; and sovereign and supranational issuers.

The Private Investments and Real Estate asset classes seek to provide a portfolio with diversification and an illiquidity premium. Investment opportunities are sought within the sub- strategies of private equity, private real estate and private real assets.

The following table is a roll forward of the combined statements of financial position amounts for charitable remainder trusts classified by the Education Foundation within Level 3 of the valuation hierarchy defined above as of June 30, 2018:

Fair value, beginning of year	\$ 1,185,835
Realized and unrealized gains	89,323
Fair value, end of year	<u>\$ 1,275,158</u>

The following table is a roll forward of the combined statements of financial position amounts for fair value of hedges classified by the Real Estate Foundation within Level 3 of the valuation hierarchy defined above as of June 30, 2018:

Fair value, beginning of year	\$ 1,047,369
Change in value of interest rate swaps	(659,322)
Fair value, end of year	<u>\$ 388,047</u>

The fair value of the interest rate swap agreement is the estimated amount the Foundation would receive or pay to terminate the agreement as of the reporting date. As part of the \$26.9 million bond financing entered into in July 2004, an interest rate swap was obtained to fix the rate at 3.73% rather than the stated rate of 67% of LIBOR. The swap expires on May 1, 2019.

The carrying amounts of cash and cash equivalents, accounts payable, other current liabilities and other liabilities (excluding derivative financial instruments discussed above) approximate fair value because of the short maturity of these instruments.

Pledges Receivable

The Education Foundation has on-going fundraising campaigns to benefit the University. The pledges receivable are unconditional. At June 30, 2018, pledges receivable are as follows:

Receivable in less than one year	\$ 3,451,177
Receivable in one to five years	6,415,309
Receivable in more than five years	<u>7,155,253</u>
Total unconditional pledges	17,021,739
Less discount to net present value	(2,857,524)
Less allowances for uncollectible pledges receivable	<u>(577,482)</u>
Net unconditional pledges receivable	<u>\$ 13,586,733</u>

Long-term pledges receivable are initially recorded by the Foundations at fair value using level 3 inputs. The present value technique is the primary input for this valuation and other inputs include an analysis of the donor's payment history, relationship with the donor, the donor's creditworthiness, and other factors. There were no changes in the valuation techniques used in valuing long-term pledges during the year ended June 30, 2018.

The table below presents information about the changes in pledges receivable for the year ended June 30, 2018:

Beginning balance	\$18,480,931
New pledges receivable	3,223,877
Collections	(3,775,239)
Write-offs	<u>(907,830)</u>
Ending balance	<u>\$17,021,739</u>

The carrying amounts of pledges receivable approximate fair value because they have been discounted to their net present value. After initial measurement at fair value, the discount rate is not changed and the pledge is valued in subsequent years at net realizable value. The discount rate employed by the Foundations for new pledges during the year ended June 30 are as follows:

2018	4.75%
2017	4.00%
2016	3.50%
2012-2015	3.25%
Prior to 2012	6.00%

Capital Assets

Land, buildings, furniture, equipment and collections for 2018 are summarized as follows:

	<u>Education Foundation</u>	<u>Real Estate Foundation</u>
Land	\$ -	\$ 19,807,003
Buildings	-	111,415,030
Furniture and equipment	225,496	2,358,332
Held for sale	19,600	-
Construction in progress	-	802,715
	<u>245,096</u>	<u>134,383,080</u>
Less accumulated depreciation	<u>(117,746)</u>	<u>(30,291,208)</u>
	<u>\$ 127,350</u>	<u>\$ 104,091,872</u>

Education Foundation depreciation charged to expense totaled \$26,962 in 2018. Real Estate Foundation depreciation charged to expense totaled \$3,841,289 in 2018; interest capitalized was \$179,690 in 2018.

During the year ended June 30, 2017, the assets of a marina in Westmoreland County, Virginia were donated to the Real Estate Foundation. Westmoreland Marina, LLC was created during the year to hold the assets and operate the marina. Contributions and assets recorded totaled \$3,300,000 for the year ended June 30, 2017. As of June 30, 2018, after considering several alternatives, management entered into an agreement to sell the asset for \$1,050,000. Accordingly, the Real Estate Foundation financial statements include an impairment loss of \$2,214,096.

Lines of Credit

During 2018 the Real Estate Foundation has available two lines of credit facilities of \$4,500,000 and \$2,000,000 with TowneBank. The lines of credit mature on September 10, 2019. The lines are unsecured and are subject to certain financial covenants. Borrowings under these facilities accrue interest at the Wall Street Journal Prime Rate less 0.25% with a minimum rate of 3.00%. This amount was 4.5% at June 30, 2018. The credit facilities may be used to finance any lawful activity of the Foundations.

Long Term Debt

Notes Payable

Notes payable for the Real Estate Foundation at June 30, 2018 consists of the following:

Old Point National Bank, secured by deed of trust on leasehold interest and assignment of rents and leases. At June 30, 2018, interest is at the all Street Journal (WSJ) prime rate less 0.25% with a maximum rate of 5.75%. The interest rate at June 30, 2018 was 4.0%. Principal payments of \$13,951 are due monthly and the note matures August 2029. \$ 1,336,831

Towne Bank, secured by deed of trust on 12270 Warwick Boulevard, interest due monthly at the WSJ prime rate plus 0.5%, with a maximum rate of 6.5%. The interest rate at June 30, 2018 was 5.5%. Principal and interest payments of \$14,238 beginning August 2012, balance due July 2032. 1,895,094

CGA Mortgage Capital, secured by a deed of trust on leasehold interest and assignment of rents and leases on Riverside Medical Center located at 12422 Warwick Boulevard and 4 and 8 Glendale Road, interest due monthly at 4.738%. Principal and interest payments of \$74,875 beginning December 2013, balance due December 2033.	9,851,662
Union Bank and Trust, unsecured, interest due monthly at the WSJ prime rate minus 0.25%. The interest rate at June 30, 2018 was 4.25%. Principal is due annually each August beginning in 2016 at various amounts between \$42,000 and \$52,600, balance is due June 2025.	1,261,350
Towne Bank, secured by deed of trust on leasehold interest and assignment of rents and leases on Hidenwood Shopping Center located at 2 Hidenwood Boulevard, 12423, 12435, and 12437 Warwick Boulevard, interest due monthly at 4.25%. Interest only payments until December 2018, then principal payments of \$59,594, balance due December 2043.	10,992,344
Union Bank and Trust, secured by 12386 Warwick Boulevard, interest due monthly at 3.99%. Interest only payments until November 2018, then equal consecutive monthly payments of principal plus interest over a 25 year amortization period. Balance is due June 2028.	1,935,414
Less unamortized debt costs for notes payable	<u>(505,259)</u>
Total	<u><u>\$26,767,436</u></u>

Bonds Payable

In March 2001, the Real Estate Foundation entered into an agreement with the Economic Development Authority of the County of James City, Virginia, under which the Authority issued \$8.0 million of variable rate bank-qualified tax-exempt bonds. The Foundation used the proceeds from the bonds to finance the acquisition of various properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion. The bonds were refinanced in June 2016 at a fixed rate of 2.68%. Prior to the refinance, the bonds were financed at 64% of LIBOR plus 0.82%. Principal payments of \$6,000 are paid monthly and interest due is paid monthly. At June 30, 2018, the balance outstanding on the bonds was \$2,486,119. The bonds mature in June 2026.

In November 2001, the Real Estate Foundation entered into an agreement with the Economic Development Authority of New Kent County, Virginia, under which the Authority issued \$10.0 million of variable rate bank-qualified tax-exempt bonds. The Foundation used the proceeds from the bonds to finance the acquisition of various properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion. In December 2013, the bonds were refinanced through the Industrial Development Authority of Poquoson City at a fixed interest rate of 1.69%. Principal payments of \$31,145 are paid monthly and interest due is paid monthly. At June 30, 2018, the balance outstanding on the bonds was \$5,761,615. The bonds mature in December 2018.

In July 2002, the Real Estate Foundation entered into an agreement with the Economic Development Authority of New Kent County, Virginia, under which the Authority issued \$5.5 million of variable rate bank-qualified tax-exempt bonds. The Foundation used the proceeds from the bonds to finance the acquisition of various properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion. In December 2013, the bonds were refinanced with the Industrial Authority of Richmond County at a fixed interest rate of 1.69%. Principal payments of \$17,748 are paid monthly and interest due is paid monthly. At June 30, 2018, the balance outstanding on the bonds was \$3,283,150. The bonds mature in December 2018.

In July 2004, the Real Estate Foundation entered into an agreement with the Industrial Development Authority of the City of Newport News, Virginia, under which the Authority issued \$26.9 million of variable rate bank-qualified tax-exempt bonds. The Foundation used the proceeds from the bonds to finance the acquisition of various properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion. The bonds were payable interest only until November 2005 at 67% of LIBOR, at which time principal curtailments began. Principal payments vary and are paid biannually in November and May and interest due is paid monthly. At June 30, 2018, the balance outstanding on the bonds was \$19,340,000. The bonds mature November 2028.

In August 2006, the Real Estate Foundation entered into an agreement with the Industrial Development Authority of the City of Newport News, Virginia, under which the Authority issued \$17.5 million of tax-exempt adjustable mode educational facilities revenue bonds. The Foundation used the proceeds from the bonds to refinance indebtedness of the Foundations in connection with the expansion and improvement of various properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion. In June 2015, the bonds were refinanced with the Economic Development Authority of Newport News at a variable interest rate of 65% of LIBOR plus 1.5% with a cap of 3.5% until June 1, 2022 and 3.82% thereafter. The interest rate at June 30, 2018 was 2.52%. Principal payments vary and are paid annually in August and interest due is paid quarterly. At June 30, 2018, the balance outstanding on the bonds was \$6,399,000. The bonds mature in August 2036.

In November 2013, the Real Estate Foundation entered into an agreement with the Industrial Development Authority of the City of Newport News, Virginia, under which the Authority issued \$41.29 million of tax-exempt adjustable mode educational facilities revenue bonds. The Foundation used the proceeds from the bonds to refinance indebtedness of the Foundations in connection with Rappahannock Residence Hall. The interest rate on the bonds is 65% of LIBOR plus 1.6% with a floor of 1.92% and a cap of 4.5%. The interest rate at June 30, 2018 was 2.84%. Principal payments of \$56,000 are paid monthly and interest due is paid monthly. At June 30, 2018, the balance outstanding on the bonds was \$32,994,165. The bonds mature in November 2043.

Unamortized debt issuance costs for bonds payable at June 30, 2018 was \$1,805,570.

The Real Estate Foundation has entered into various letter of credit and credit line deeds of trust as additional security for each of the bond issuances. In addition, some of the note and bond payable agreements contain certain financial covenants pertaining to debt service coverage and lease payment coverage.

Notes and bond principal maturities for the succeeding fiscal years ending June 30 are as follows:

<u>Year</u>	<u>Amount</u>
2019	\$12,513,847
2020	3,789,828
2021	3,998,105
2022	4,260,618
2023	3,742,500
Thereafter	<u>69,231,846</u>
	<u>\$97,536,744</u>

Subsequent Events

The Education Foundation has committed \$750,000 to a private equity fund. The term of the investment will end on the tenth anniversary of the fund's initial closing date (March 31, 2014). The General Partner, at its sole discretion, may extend the term of the investment for two successive one-year periods as well as for additional one-year periods with the consent of the limited partners. As of June 30, 2018, \$547,689 of the capital commitment has been called. Subsequent to the closing of the 2018 fiscal year, the fund called an additional \$35,625.

The Education Foundation has committed \$1,250,000 to a private equity fund. The term of the investment will end on the tenth anniversary of the fund's initial closing date (June 15, 2015). The General Partner, at its sole discretion, may extend the term of the investment for two successive one-year periods as well as for additional one-year periods with the consent of the limited partners. As of June 30, 2018, \$690,625 of the capital commitment has been called. Subsequent to the closing of the 2018 fiscal year, the fund called an additional \$56,250.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information
Cost-Sharing Employer Plans –
VRS State Employee Retirement Plan and VaLORS Retirement Plan
For the Fiscal Year Ended June 30, 2018

Schedule of Christopher Newport University's Share of Net Pension Liability
VRS State Employee and VaLORS Retirement Plans
For the Years Ended June 30, 2018, 2017, 2016 and 2015*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's Proportion of the Net Pension Liability (Asset)				
State Employees	0.68%	0.67%	0.66%	0.62%
VaLORS Employees	0.26%	0.29%	0.27%	0.24%
Employer's Proportionate Share of the Net Pension Liability (Asset)				
State Employees	\$ 39,863,000	\$ 44,560,000	\$ 40,702,000	\$ 34,952,000
VaLORS Employees	1,720,000	2,266,000	1,911,000	1,621,000
TOTAL	<u>\$ 41,583,000</u>	<u>\$ 46,826,000</u>	<u>\$ 42,613,000</u>	<u>\$ 36,573,000</u>
Employer's Covered Payroll				
State Employees	\$ 26,984,837	\$ 26,521,211	\$ 25,863,124	\$ 23,839,726
VaLORS Employees	978,964	1,005,098	903,094	842,938
TOTAL	<u>\$ 27,963,801</u>	<u>\$ 27,526,309</u>	<u>\$ 26,766,218</u>	<u>\$ 24,682,664</u>
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll				
State Employees	147.72%	168.02%	157.37%	146.61%
VaLORS Employees	175.70%	225.45%	211.61%	192.30%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability				
State Employees	75.33%	71.29%	72.81%	74.28%
VaLORS Employees	67.22%	61.01%	62.64%	63.05%

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

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

Schedule of Employer Contributions VRS State Employees Retirement Plan For the Years Ended June 30, 2009 through 2018					
Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$ 4,069,411	\$ 4,069,411	\$ -	\$28,236,237	14.41%
2017	3,696,487	3,696,487	-	26,984,837	13.70%
2016	3,708,521	3,708,521	-	26,521,211	13.98%
2015	3,113,867	3,113,867	-	25,863,124	12.04%
2014	2,111,836	2,111,836	-	23,839,726	8.86%
2013	2,016,265	2,016,265	-	23,472,417	8.59%
2012	1,824,568	1,824,568	-	21,730,079	8.40%
2011	2,352,642	2,352,642	-	21,009,959	11.20%
2010	1,848,835	1,848,835	-	20,544,885	9.00%
2009	2,355,026	2,355,026	-	21,055,949	11.18%

Schedule of Employer Contributions VaLORS State Employees Retirement Plan For the Years Ended June 30, 2009 through 2018					
Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$ 155,604	\$ 155,604	\$ -	\$ 960,013	16.21%
2017	152,871	152,871	-	978,964	15.62%
2016	157,970	157,970	-	1,005,098	15.72%
2015	133,272	133,272	-	903,094	14.76%
2014	105,329	105,329	-	842,938	12.50%
2013	102,789	102,789	-	820,404	12.53%
2012	77,101	77,101	-	641,626	12.02%
2011	65,201	65,201	-	605,309	10.77%
2010	96,688	96,688	-	626,294	15.44%
2009	122,141	122,141	-	641,893	19.03%

Notes to Required Supplementary Information For the Year Ended June 30, 2018

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)	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%

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)	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%

Required Supplementary Information
Cost-Sharing Employer Plans –
VRS State Employee Health Insurance Credit Program (HIC)
For the Fiscal Year Ended June 30, 2018

Schedule of Christopher Newport 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)	
State Employees	0.78%
VaLORS Employees	0.01%
Employer's Proportionate Share of the Net HIC OPEB Liability (Asset)	
State Employees	\$ 7,125,000
VaLORS Employees	127,000
TOTAL	\$ 7,252,000
Employer's Covered Payroll	
State Employees	\$ 50,084,837
VaLORS Employees	978,964
TOTAL	\$ 51,063,801
Employer's Proportionate Share of the Net HIC OPEB Liability (Asset)	
as a Percentage of its Covered Payroll	
State Employees	14.23%
VaLORS Employees	12.97%
Plan Fiduciary Net Position as a Percentage of the Total HIC OPEB Liability	8.03%
<i>Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.</i>	
* The amounts presented have a measurement date of the previous fiscal year end.	

Schedule of Employer Contributions Health Insurance Credit Program For the Year Ended June 30, 2018					
Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$ 664,138	\$ 664,138	\$ -	\$ 53,996,250	1.23%
<i>Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.</i>					

Notes to Required Supplementary Information **For the Year Ended June 30, 2018**

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

Required Supplementary Information
Cost-Sharing Employer Plans –
Disability Insurance Program (VSDP)
For the Fiscal Year Ended June 30, 2018

Schedule of Christopher Newport University's Share of Net OPEB Liability (Asset)	
Disability Insurance Program (VSDP)	
For the Year Ended June 30, 2018*	
	2018
Employer's Proportion of the Net VSDP OPEB Liability (Asset)	
State Employees	(0.66%)
VaLORS Employees	(0.02%)
Employer's Proportionate Share of the VSDP OPEB Liability (Asset)	
State Employees	\$ (1,363,000)
VaLORS Employees	(49,000)
TOTAL	<u>\$ (1,412,000)</u>
Employer's Covered Payroll	
State Employees	\$ 24,616,521
VaLORS Employees	978,964
TOTAL	<u>\$ 25,595,485</u>
Employer's Proportionate Share of the Net VSDP OPEB Liability (Asset)	
as a Percentage of its Covered Payroll	
State Employees	(5.54%)
VaLORS Employees	(5.01%)
Plan Fiduciary Net Position as a Percentage of the Total VSDP OPEB Liability	186.63%
<i>Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.</i>	
* The amounts presented have a measurement date of the previous fiscal year end.	

Schedule of Employer Contributions Disability Insurance Program For the Year Ended June 30, 2018					
Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$ 185,581	\$ 185,581	\$ -	\$27,020,970	0.69%
<i>Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.</i>					

Notes to Required Supplementary Information **For the Year Ended June 30, 2018**

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%

**Required Supplementary Information
Cost-Sharing Employer Plans –
Group Life Insurance Program (GLI)
For the Fiscal Year Ended June 30, 2018**

Schedule of Christopher Newport University's Share of Net OPEB Liability Group Life Insurance Program (GLI) For the Year Ended June 30, 2018*	
	2018
Employer's Proportion of the Net GLI OPEB Liability (Asset)	
State Employees	0.27%
VaLORS Employees	0.00%
Employer's Proportionate Share of the GLI OPEB Liability (Asset)	
State Employees	\$ 4,129,000
VaLORS Employees	75,000
TOTAL	\$ 4,204,000
Employer's Covered Payroll	
State Employees	\$ 50,084,837
VaLORS Employees	978,964
TOTAL	\$ 51,063,801
Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of its Covered Payroll	
State Employees	8.24%
VaLORS Employees	7.66%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	48.86%
<i>Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.</i>	
* The amounts presented have a measurement date of the previous fiscal year end.	

**Schedule of Employer Contributions
Group Life Insurance Program
For the Year Ended June 30, 2018**

Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$ 295,003	\$ 295,003	\$ -	\$53,996,250	0.55%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2018**

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%

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)	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%

JORS 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 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 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 retirement 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%

**Required Supplementary Information
Cost-Sharing Employer Plans –
Line of Duty Act Program (LODA)
For the Fiscal Year Ended June 30, 2018**

**Schedule of Christopher Newport University's Share of Net OPEB Liability
Line of Duty Act
For the Year Ended June 30, 2018***

	2018
Employer's Proportion of the Net LODA OPEB Liability (Asset)	0.11%
Employer's Proportionate Share of the LODA OPEB Liability (Asset)	\$ 276,000
Covered-Employee Payroll	** \$ 1,097,450
Employer's Proportionate Share of the Net LODA OPEB Liability (Asset) as a Percentage of its Covered-Employee Payroll	25.15%
Plan Fiduciary Net Position as a Percentage of the Total LODA OPEB Liability	1.30%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

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

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

Schedule of Employer Contributions Line of Duty Act For the Year Ended June 30, 2018					
Year Ended June 30	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	\$ -	1,085,905	0.94%
Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.					
* The contributions for the Line of Duty Act Program are based on the number of participants in the Program using a per capita-based contribution versus a payroll-based contribution. Therefore, covered-employee payroll is the relevant measurement, which is the total payroll of employees in the OPEB plan.					

Notes to Required Supplementary Information For the Year Ended June 30, 2018

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%

Required Supplementary Information
Commonwealth of Virginia State Health Plans Program
For Pre-Medicare Retirees
For the Fiscal Year Ended June 30, 2018

Schedule of Christopher Newport University's Share of Total OPEB Liability
Pre-Medicare Retirees
For the Years Ended June 30, 2018*

	2018
Employer's Proportion of the collective total OPEB Liability (Asset)	0.93%
Employer's Proportionate Share of the collective total OPEB Liability (Asset)	\$ 12,087,409
Covered-Employee Payroll	\$ 65,134,915
Employer's Proportionate Share of the collective total OPEB Liability (Asset) as a Percentage of its Covered-Employee Payroll	18.56%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

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

Notes to Required Supplementary Information For the Year Ended June 30, 2018

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%.

INDEPENDENT AUDITOR'S REPORT



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

May 6, 2019

The Honorable Ralph S. Northam
Governor of Virginia

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

Board of Visitors
Christopher Newport 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 **Christopher Newport 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 Notes 1 and 17. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the 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 the 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 2 of the accompanying financial statements, the University implemented Governmental Accounting Standards Board (GASB) Statements No. 75 related to accounting and financial reporting for post-employment benefits other than pensions. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the following be presented to supplement the basic financial statements: Management's Discussion and Analysis on pages 1 through 11; the Schedule of Christopher Newport University's Share of Net Pension Liability, the Schedule of Employer Contributions, and the Notes to the Required Supplementary Information on pages 86 through 88; the Schedule of Christopher Newport University's Share of Net OPEB Liability, the Schedule of Employer Contributions, and the Notes to the Required Supplementary Information for the Health Insurance Credit, Disability Insurance, Group Life Insurance and Line of Duty programs on pages 89 through 102; and the Schedule of Christopher Newport University's Share of Total OPEB Liability and the Notes to the Required Supplementary Information for the Pre-Medicare Retiree Healthcare program on pages 103 through 104. 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 May 6, 2019 on our consideration of Christopher Newport 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.



AUDITOR OF PUBLIC ACCOUNTS

LCW/clj

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Newport News, Virginia

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