



## FINANCIAL STATEMENTS

For the Year Ended  
June 30, 2018

- T A B L E   O F   C O N T E N T S -

	<u>Pages</u>
MANAGEMENT’S DISCUSSION AND ANALYSIS	1-7
FINANCIAL STATEMENTS:	
Basic Financial Statements:	
Entity-Wide Financial Statements:	
Statement of Net Position	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet	10-11
Statement of Revenues, Expenditures, and Changes in Fund Balance	12-13
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual	14-15
Notes to Financial Statements	16-71
Required Supplementary Information and Notes to Required Supplementary Information	72-89
MEMBERS OF THE VIRGINIA BOARD OF ACCOUNTANCY	90
INDEPENDENT AUDITOR’S REPORT	91-93
Report on Financial Statements	

## MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

As management of the Virginia Board of Accountancy (Board), the Board offers readers of these financial statements this narrative overview and analysis of the financial activities of the Board for the fiscal year ended June 30, 2018.

### Financial Highlights

The assets and deferred outflows of resources of the Board exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$3,482,792 (net position), an increase of \$246,682, as restated, in comparison with the prior year. Of this amount, \$2,890,470 represents unrestricted net position, which may be used to meet the Board's ongoing obligations.

At the close of FY2018, the Board's governmental funds reported combined ending fund balances of \$4,238,169, an increase of \$136,336 in comparison with the prior year. The committed portion of the fund balance is \$4,235,508, which is available for spending at the Board's discretion.

At the close of FY2018, the total fund balance for the Board's Operating Fund was \$537,362, or approximately 24 percent of total operating expenditures. The Board also has a Trust Account to be used for the study, research, investigation, and adjudication of matters involving possible violations of statutes or regulations relating to the profession of public accounting, or for any other purpose the Board determines is relevant to its statutory purposes and cannot otherwise be funded through its Operating Fund. At the close of FY2018, the Trust Account reported an ending fund balance of \$3,700,807.

Continued investments in technology are necessary to achieve the operational efficiencies necessary for the Board to reach its strategic goals. The Board is currently supported by a generic off-the-shelf licensing software system that was installed in FY2009 which is used for licensing and enforcement of CPAs and CPA firms which includes online licensing renewals and applications. The current system does not meet the needs of staff, applicants, licensees or the public and is in need of updates and modifications. The Board received Project Initiation Approval (PIA) from the Chief Information Officer of the Commonwealth in early FY2018 for a new licensing database system and began development during the year. The Board anticipates implementation of the new system by early FY2020.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Board's basic financial statements, which are comprised of three components: (1) the entity-wide financial statements, (2) the fund financial statements, and (3) the Notes to Financial Statements.

### Entity-Wide Financial Statements

The entity-wide financial statements are designed to provide readers with a broad overview of the Board's finances, in a manner similar to private-sector business.

The Statement of Net Position presents information on all of the Board's assets and deferred outflows of resources, and liabilities and deferred inflows of resources; net position represents the difference between all other elements in a statement of financial position and is displayed in three components – net investment in capital assets; restricted; and unrestricted. Over time, increases or decreases in net position may indicate whether the financial position of the Board is improving or deteriorating.

The Statement of Activities presents information showing how the Board's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned, but unused vacation leave).

The entity-wide financial statements can be found on pages 8 and 9 of this report.

### Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board, like other state and local government agencies, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Board's funds are governmental funds.

### Governmental Funds

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

Because the focus of governmental funds is narrower than that of the entity-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the entity-wide financial statements. By doing so, readers may better understand the long-term impact of the Board's near-term financing decisions. Both the Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Board has two governmental funds (Operating Fund and Trust Account), both of which are special revenue funds. Information is presented in separate columns in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance for each fund.

The Board adopts an annual operating budget for its Operating Fund. The Board's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. A budgetary comparison statement has been provided for the Operating Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 10 through 15 of this report.

#### Entity-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Board, assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$3,482,792 at the close of the most recent fiscal year.

By far the largest portion of the Board's net position (83 percent) is unrestricted, meaning they may be used to meet the Board's ongoing obligations. The remaining portion of the Board's net position reflects its net investment in capital assets (16 percent) and other postemployment asset (1 percent). The Board uses capital assets to provide services to exam and license applicants, regulants and the public; consequently, these assets are not available for future spending.

#### Condensed Summary Statement of Net Position

	for the year ended June 30,		Increase/(Decrease)	
	2018	2017	Amount	Percent
Current and other assets	\$ 4,423,543	\$ 4,229,392	\$ 194,151	5%
Capital assets, net of depreciation	554,322	99,301	455,021	458%
Total assets	4,977,865	4,328,693	649,172	15%
Deferred outflows of resources	259,312	300,965	(41,653)	-14%
Total assets and deferred outflows	5,237,177	4,629,658	607,519	13%
Current liabilities	188,233	158,788	29,445	19%
Long-term liabilities	1,430,919	1,203,760	227,159	19%
Total liabilities	1,619,152	1,362,548	256,604	19%
Deferred inflows of resources	135,233	31,000	104,233	336%
Total liabilities and deferred inflows	1,754,385	1,393,548	360,837	26%
Net position:				
Net investment in capital assets	554,322	99,301	455,021	458%
Restricted	38,000	-	38,000	100%
Unrestricted	2,890,470	3,136,809	(246,339)	-8%
Total net position	\$ 3,482,792	\$ 3,236,110	\$ 246,682	8%

The Board's net position, as restated, increased by \$246,682 during FY2018. This increase represents the degree to which licensing and examination fees exceeded operating expenses. Key elements of this increase in net position are as follows.

### Condensed Summary of Changes in Net Position

	for the year ended June 30,		Increase/(Decrease)	
	2018	2017	Amount	Percent
Program revenues:				
Charges for services	\$ 2,407,171	\$ 2,637,681	\$ (230,510)	-9%
General revenues:				
Monetary penalties	276,738	194,654	82,084	42%
Total revenues	2,683,909	2,832,335	(148,426)	-5%
Licensing and enforcement expenses	1,867,246	1,893,389	(26,143)	-1%
Increase (decrease) in net position before transfers	816,663	938,946	(122,283)	-13%
Transfers/(net)	(286,893)	(204,435)	(82,458)	40%
Increase in net position:	529,770	734,511	(204,741)	-28%
Net position - July 1	3,236,110	2,501,599	734,511	29%
Effects of GASB 75	(283,088)	-	(283,088)	100%
Net position - July 1, as restated	2,953,022	2,501,599	451,423	18%
Net position - June 30	\$ 3,482,792	\$ 3,236,110	\$ 246,682	8%

### Financial Analysis of the Entity's Special Revenue Funds

As noted earlier, the Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financing requirements and fee structure. In particular, unrestricted fund balances may serve as a useful measure of the Board's net resources available for spending at the end of the fiscal year.

#### Program Revenues and Expenditures

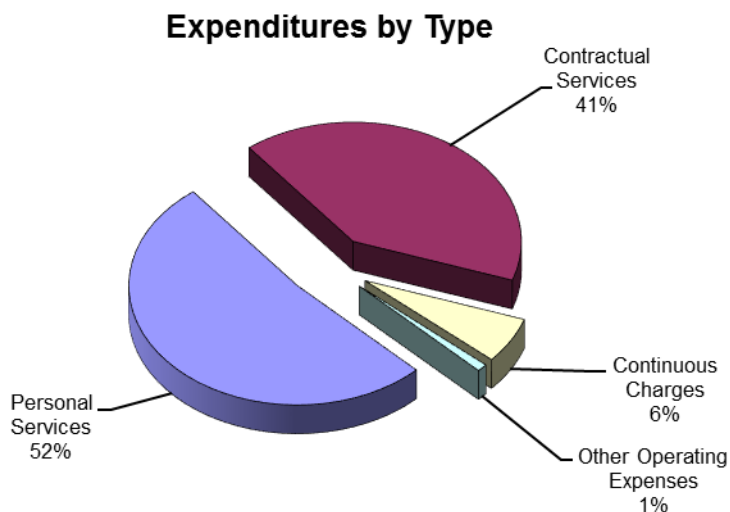
At the end of FY2018, the Board's special revenue funds reported combined ending fund balances of \$4,238,169. The committed portion of the ending fund balances is \$4,235,508 meaning it is available for spending at the Board's discretion.

The Operating Fund is the primary operating fund of the Board. At the end of FY2018, the total fund balance of the Operating Fund was \$537,362. Per Board Policy #1 – Trust Account, it is the policy of the Board to maintain funds equal to three months of the operating budget in the Operating Fund. Funds exceeding this

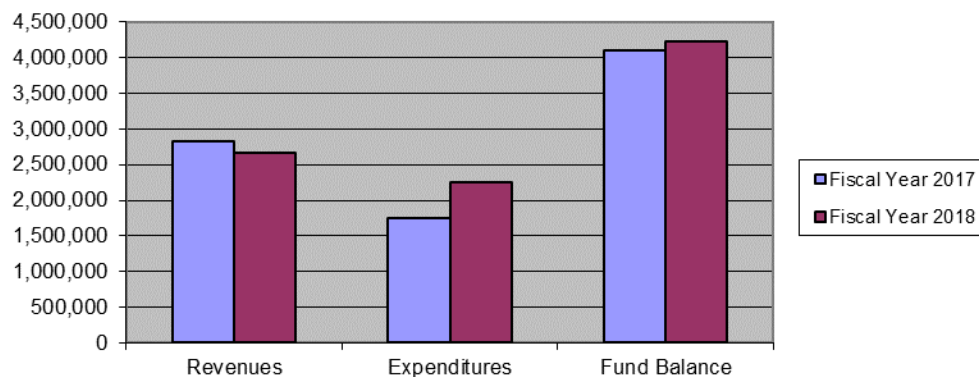
amount are transferred to the Trust Account on at least a quarterly basis. During FY 2018 the Board transferred \$24,435 from the Trust Account into the Operating Fund to support costs associated with the Board's implementation of a new licensing database system.

The total fund balance of the Board increased by \$136,336 during FY2018. Key factors affecting the change in fund balance are as follows:

- Revenues exceeded expenditures by \$410,900 in FY2018. Revenues from licensing and examination fees decreased by \$251,810 (10 percent) from the previous year. This is largely attributable to the elimination of the Active – Renewal Fee Delinquent status and its associated late fees. There was also a decrease in application fee revenue related to an 8 percent decrease in the number of first time exam candidates applying to sit for the CPA exam.
- Transfers to other funds totaled \$274,564. Monetary penalties transferred to the State Literary Fund represented 96 percent of these transfers.
- Total expenditures increased by \$504,013 (29 percent) over the previous year. There was an increase of \$452,263 (96%) in contractual services primarily related to system implementation expenses during FY 2018.



### Revenues, Expenditures, and Fund Balances Operating and Trust Account Funds Combined



#### Operating Fund Budgetary Highlights

The Board adopts an annual operating budget for its Operating Fund. The Board's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly plus any pending budget execution transactions and amendments. The Board budgeted total expenditures of \$2,417,446 and total revenue of \$2,826,017, including \$209,675 in monetary penalties to be deposited into the state's Literary fund. During the year, revenues were less than budgetary estimates due to the elimination of the Active- Renewal Fee Delinquent status as part of the Board's statute change to a single renewal date. Prior to the statute change, an individual or firm holding a Virginia CPA license had an additional 12-month period following the license renewal date in which the licensee or firm could renew and pay a late fee. Actual expenditures were less than budgetary estimates for the year.

#### Capital Assets

The Board's net investment in capital assets at June 30, 2018, totals \$554,322 (net of accumulated depreciation). This is an increase of \$455,021 from the prior year related to software construction in progress additions. The remaining portion of the capital asset amount consists of software costs for the Board's computerized licensing system, capitalized leasehold improvements and modular office furniture systems. Additional information on the Board's capital assets can be found in Note 6.

#### Economic Factors and Next Year's Budget and Rates

The Board's major source of revenue is licensing and examination fees. The Board experienced a slight increase in the number of licensed individuals and licensed firms in the FY2018. Revenue from licensing and examination fees decreased in FY2018 by \$251,810 primarily related to the elimination of the Active – Renewal Fee Delinquent status and its associated late fees. The number of first time exam candidates applying to sit for the CPA exam also decreased (8%) in FY2018.



CPA License Holders

	<u>At June 30, 2018</u>	<u>At June 30, 2017</u>
Individuals	27,903	27,711
Firms	<u>1,177</u>	<u>1,167</u>
Total	<u>29,080</u>	<u>28,878</u>

On-going expenditures continue to increase for the Board primarily in the areas of personal services, information technology, and legal services. The Board also anticipates continued costs through FY2019 related to the implementation of the new licensing database system. All of these factors were considered in preparing the Board's budget for the fiscal year ending June 30, 2019.

## **FINANCIAL STATEMENTS**

## VIRGINIA BOARD OF ACCOUNTANCY

## STATEMENT OF NET POSITION

As of June 30, 2018

With Comparative Figures for 2017

	Governmental Activities	
	2018	2017
Assets:		
Cash held by the Treasurer of Virginia (Note 4)	\$ 4,344,565	\$ 4,208,252
Accounts receivable (Note 5)	38,317	18,489
Prepaid items (Note 1E)	2,661	2,651
Net other postemployment benefit (Note 11)	38,000	-
Capital assets, net of accumulated depreciation (Note 6)	<u>554,322</u>	<u>99,301</u>
Total Assets	<u>4,977,865</u>	<u>4,328,693</u>
Deferred Outflow of Resources:		
Deferred outflows related to pension (Note 10)	200,090	300,965
Deferred outflows related to other postemployment benefit (Note 11)	<u>59,222</u>	<u>-</u>
Total Deferred Outflows	<u>259,312</u>	<u>300,965</u>
Liabilities:		
Accounts payable	34,121	33,016
Accrued salaries payable	74,936	76,054
Due to the State Literary Fund (Note 5)	38,317	18,489
Long-term liabilities due within one year		
Compensated absences payable (Note 7)	36,208	31,229
Other postemployment liability (Note 11)	4,651	-
Long-term liabilities due in more than one year		
Compensated absences payable (Note 7)	28,202	44,760
Net pension liability (Note 10)	1,068,000	1,159,000
Net other postemployment liability (Note 11)	<u>334,717</u>	<u>-</u>
Total Liabilities	<u>1,619,152</u>	<u>1,362,548</u>
Deferred Inflows of Resources:		
Deferred inflows related to pension (Note 10)	77,000	31,000
Deferred inflows related to other postemployment benefit (Note 11)	<u>58,233</u>	<u>-</u>
Total Deferred Inflows	<u>135,233</u>	<u>31,000</u>
Net Position:		
Net investment in capital assets (Note 6)	554,322	99,301
Restricted for net other postemployment benefit (Note 11)	38,000	-
Unrestricted	<u>2,890,470</u>	<u>3,136,809</u>
Total Net Position	<u>\$ 3,482,792</u>	<u>\$ 3,236,110</u>

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

VIRGINIA BOARD OF ACCOUNTANCY  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2018  
With Comparative Figures for 2017

	Governmental Activities			
	2018		2017	
	Program	Net (Expense)	Net (Expense)	
	Revenues	Revenue and	Revenue and	
	Charges for	Changes in	Changes in	
	Expenses	Services	Net Position	Net Position
<u>Functions/programs:</u>				
Governmental activities				
Licensing, examination and enforcement functions	<u>\$ 1,867,246</u>	<u>\$ 2,407,171</u>	<u>\$ 539,925</u>	<u>\$ 744,292</u>
General revenues:				
Monetary penalties		276,738	194,654	
Transfers:				
Transfers to the State General Fund		(10,155)	(9,781)	
Transfers to the State Literary Fund		(276,738)	(194,654)	
Total general revenues and transfers		<u>(10,155)</u>	<u>(9,781)</u>	
Changes in net position		529,770	734,511	
Net position - beginning of year		3,236,110	2,501,599	
Restatement (Note 2)		(283,088)	-	
Net position - beginning of year, as restated		<u>2,953,022</u>	<u>-</u>	
Net position, June 30		<u>\$ 3,482,792</u>	<u>\$ 3,236,110</u>	

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

VIRGINIA BOARD OF ACCOUNTANCY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
As of June 30, 2018  
With Comparative Figures for 2017

	Special Revenue Funds			
	Operating Fund	Trust Account	Total	
			2018	2017
Assets:				
Cash held by the Treasurer of Virginia (Note 4)	\$ 643,758	\$ 3,700,807	\$ 4,344,565	\$ 4,208,252
Accounts receivable (Note 5)	38,317	-	38,317	18,489
Prepaid items (Note 1E)	2,661	-	2,661	2,651
Total assets	<u>\$ 684,736</u>	<u>\$ 3,700,807</u>	<u>\$ 4,385,543</u>	<u>\$ 4,229,392</u>
Liabilities, deferred inflows of resources and fund balance:				
Liabilities:				
Accounts payable	34,121	-	34,121	33,016
Accrued salaries payable	74,936	-	74,936	76,054
Due to the State Literary Fund	25,988	-	25,988	17,933
Total liabilities	<u>135,045</u>	<u>-</u>	<u>135,045</u>	<u>127,003</u>
Deferred Inflows of Resources:				
Revenue not currently available	12,329	-	12,329	556
Total deferred inflows of resources	<u>12,329</u>	<u>-</u>	<u>12,329</u>	<u>556</u>
Fund balance:				
Nonspendable:				
Prepaid insurance/other	2,661	-	2,661	2,651
Committed for:				
Board operations	534,701	3,700,807	4,235,508	4,099,182
Total fund balance	<u>537,362</u>	<u>3,700,807</u>	<u>4,238,169</u>	<u>4,101,833</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 684,736</u>	<u>\$ 3,700,807</u>	<u>\$ 4,385,543</u>	<u>\$ 4,229,392</u>

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

VIRGINIA BOARD OF ACCOUNTANCY  
BALANCE SHEET, continued  
GOVERNMENTAL FUNDS  
As of June 30, 2018  
With Comparative Figures for 2017

	Special Revenue Funds	
	Total	
	2018	2017
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Total fund balance (per page 10)	\$ 4,238,169	\$ 4,101,833
Capital assets reported for governmental activities are not financial resources and, therefore, are not reported in the funds. (Note 6)	554,322	99,301
Restricted net other postemployment asset is not a financial resource and, therefore is not reported in the funds. (Note 11)	38,000	-
Long-term liability for compensated absences, net pension liability, and net other postemployment liability are not due and payable in the current period and therefore are not reported in the funds. (Note 7, Note 10, and Note 11)	(28,202)	(44,760)
	(36,208)	(31,229)
	(1,068,000)	(1,159,000)
	(339,368)	-
Deferred inflows and outflows related to pension activity are not required to be reported in the funds but are required to be reported at the government-wide level. (Note 10)		
Deferred outflow - Employer contributions made subsequent to measurement date	104,090	99,965
Deferred outflow - Changes in proportion and differences between employer contributions and proportionate share of contributions	84,000	122,000
Deferred outflow - Net difference between projected and actual earnings on pension plan investments	-	74,000
Deferred outflow - Difference between expected and actual experience	2,000	5,000
Deferred outflow - Change in assumptions	10,000	-
Deferred inflow - Net difference between projected and actual earnings on pension plan investments	(31,000)	(31,000)
Deferred inflow - Net difference between projected and actual earnings on pension plan investments	(46,000)	-
Deferred inflows and outflows related to other postemployment activity are not required to be reported in the funds but are required to be reported at the government-wide level. (Note 11)		
Deferred outflow - Change in proportion	36,753	-
Deferred outflow - Amounts associated with transactions subsequent to the measurement date	22,469	-
Deferred inflow - Differences between actual and expected experience	(9,054)	-
Deferred inflow - Change in assumptions	(44,179)	-
Deferred inflow - Net difference between projected and actual earnings on plan investments	(5,000)	-
Net position of governmental activities (page 8)	\$ 3,482,792	\$ 3,236,110

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

VIRGINIA BOARD OF ACCOUNTANCY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2018  
With Comparative Figures for 2017

	Special Revenue Funds			
	Operating Fund	Trust Account	Total	
			2018	2017
Revenues:				
Licensing and examination fees	\$ 2,351,510	\$ -	\$ 2,351,510	\$ 2,603,320
Interest income	7,134	47,640	54,774	35,450
Monetary penalties	264,409	-	264,409	194,098
Other revenues	887	-	887	-
Total revenues	2,623,940	47,640	2,671,580	2,832,868
Expenditures:				
Licensing, examination and enforcement functions:				
Personal services	1,173,054	-	1,173,054	1,120,127
Contractual services	924,263	-	924,263	472,000
Supplies and materials	11,900	-	11,900	15,920
Transfer payments	848	-	848	1,273
Continuous charges	140,447	-	140,447	135,318
Equipment purchases	10,168	-	10,168	12,029
Total expenditures	2,260,680	-	2,260,680	1,756,667
Excess of revenues over expenditures	363,260	47,640	410,900	1,076,201
Other financing sources/(uses):				
Transfers to/from other funds (Note 8)	24,435	(24,435)	-	-
Transfers to the State General Fund	(10,155)	-	(10,155)	(38,781)
Transfers to the State Literary Fund	(264,409)	-	(264,409)	(194,098)
Total other financing sources and uses	(250,129)	(24,435)	(274,564)	(232,879)
Net change in fund balance	113,131	23,205	136,336	843,322
Fund balance, July 1	424,231	3,677,602	4,101,833	3,258,511
Fund balance, June 30	\$ 537,362	\$ 3,700,807	\$ 4,238,169	\$ 4,101,833

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

VIRGINIA BOARD OF ACCOUNTANCY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, continued

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2018

With Comparative Figures for 2017

	Special Revenue Funds	
	Total	
	2018	2017
Amounts reported for governmental activities in the Statement of Activities are different because:		
Net change in fund balance (page 12)	\$ 136,336	\$ 843,322
Governmental funds report revenue when they are collected within sixty days of the end of the current fiscal year. However, in the Statement of Activities revenues are recorded when earned. This is the amount of revenue not currently available that is not due to the State Literary Fund less prior year revenue not currently available that is not due to the State Literary Fund.	-	(1,089)
Governmental funds report equipment purchases as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of equipment purchases less depreciation expense in the current period.	455,021	(42,633)
The expense associated with compensated absences reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.	11,579	(25,549)
Deferred inflows and outflows related to pension activity are not required to be reported in the funds but are required to be reported at the government-wide level.		
Change in deferred outflow - Employer contributions made subsequent to measurement date.	4,125	2,460
Change in deferred outflow - Changes in proportion and differences between employer contributions proportionate share of contributions	(38,000)	(20,000)
Change in deferred outflow - Net difference between projected and actual earnings on pension plan	(74,000)	74,000
Change in deferred outflow - Change in assumptions	10,000	-
Change in deferred outflow - Differences between expected and actual experience	(3,000)	(2,000)
Change in deferred inflow - Net difference between projected and actual earnings on pension plan	(46,000)	43,000
Change in net pension liability	91,000	(137,000)
Deferred inflows and outflows related to other postemployment activity are not required to be reported in the funds but are required to be reported at the government-wide level.		
Deferred outflow - Change in proportion	36,753	-
Deferred outflow - Amounts associated with transactions subsequent to the measurement date	(1,370)	-
Deferred inflow - Differences between actual and expected experience	(9,054)	-
Deferred inflow - Net difference between projected and actual earnings on plan investments	(5,000)	-
Deferred inflow - Change in assumptions	(44,179)	-
Change in net other postemployment liability	5,559	-
Changes in net position of governmental activities (page 9)	\$ 529,770	\$ 734,511

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



VIRGINIA BOARD OF ACCOUNTANCY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
PREPARED ON THE BUDGETARY (CASH BASIS) OF ACCOUNTING  
SPECIAL REVENUE FUND  
For the Year Ended June 30, 2018  
With Comparative Figures for 2017

	Operating Fund				
	2018				2017
	Original Budget	Final Budget	Actual Amounts	Final Budget/ Actual Variance Positive/ (Negative)	Actual Amounts
Revenues:					
Licensing and examination fees	\$ 2,616,342	\$2,616,342	\$ 2,351,595	\$ (264,747)	\$2,604,132
Interest income	-	-	7,134	7,134	6,679
Monetary penalties	209,675	209,675	256,354	46,679	189,258
Other revenues	-	-	887	887	-
Total revenues	<u>2,826,017</u>	<u>2,826,017</u>	<u>2,615,970</u>	<u>(210,047)</u>	<u>2,800,069</u>
Expenditures:					
Licensing, examination and enforcement functions:					
Personal services	1,320,796	1,320,796	1,174,172	146,624	1,103,142
Contractual services	419,819	919,819	933,694	(13,875)	459,835
Supplies and materials	16,745	16,745	11,900	4,845	15,920
Transfer payments	1,300	1,300	848	452	1,273
Continuous charges	137,909	137,909	140,457	(2,548)	135,308
Equipment purchases	20,877	20,877	10,168	10,709	12,029
Total expenditures	<u>1,917,446</u>	<u>2,417,446</u>	<u>2,271,239</u>	<u>146,207</u>	<u>1,727,507</u>
Excess of revenues over expenditures	908,571	408,571	344,731	(63,840)	1,072,562
Other financing sources/(uses):					
Transfers from/(to) other funds (Note 8)	-	24,435	24,435	-	(840,930)
Transfers to the State General Fund	(10,155)	(10,155)	(10,155)	-	(38,781)
Transfers to the State Literary Fund	(219,947)	(219,947)	(256,354)	(36,407)	(189,258)
Total other financing sources and uses	<u>(230,102)</u>	<u>(205,667)</u>	<u>(242,074)</u>	<u>(36,407)</u>	<u>(1,068,969)</u>
Net change in fund balance	678,469	202,904	102,657	(100,247)	3,593
Fund balance, July 1	<u>511,346</u>	<u>511,346</u>	<u>511,346</u>	<u>-</u>	<u>507,753</u>
Fund balance, June 30	<u>\$ 1,189,815</u>	<u>\$ 714,250</u>	<u>\$ 614,003</u>	<u>\$ (100,247)</u>	<u>\$ 511,346</u>

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

VIRGINIA BOARD OF ACCOUNTANCY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, continued  
PREPARED ON THE BUDGETARY (CASH BASIS) OF ACCOUNTING  
SPECIAL REVENUE FUND  
For the Year Ended June 30, 2018  
With Comparative Figures for 2017

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This statement presents comparisons of the legally adopted budget prepared on the cash basis of accounting with actual data prepared on the cash basis. Actual amounts reported on the modified accrual basis of accounting are different because:

	Operating Fund	
	2018	2017
	Actual	Actual
	Amounts	Amounts
Net change in fund balance (page 14)	\$ 102,657	\$ 3,593
Accrued revenues on modified accrual basis	7,970	4,028
Accrued expenditures on modified accrual basis	10,559	(29,160)
Accrued transfers on modified accrual basis	<u>(8,055)</u>	<u>(4,840)</u>
Change in fund balance on modified accrual basis (page 12)	<u>\$ 113,131</u>	<u>\$ (26,379)</u>

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

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## **NOTES TO FINANCIAL STATEMENTS**

# THE VIRGINIA BOARD OF ACCOUNTANCY

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

The Board regulates the practice of accounting in Virginia, protecting and serving the citizens of the Commonwealth by administering the laws and regulations for their financial health, safety, and welfare. The Board's major activities include reviewing and approving applications to ensure applicants are competent to enter the public accounting profession; determining continued qualifications for licensure; conducting audits of continuing professional education; and adjudicating enforcement cases and disciplining those who do not follow acceptable, ethical, or professional standards.

A separate report is prepared for the Commonwealth, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Board is an agency of the Commonwealth and is included in the Commonwealth's Comprehensive Annual Financial Report.

#### B. Fund Accounting

The activities of the Board are accounted for in its special revenue funds. Special revenue funds account for transactions related to resources received and used for committed or specific purposes.

The Board has two special revenue funds. The Operating Fund is the Board's primary operating fund. It accounts for all financial resources of the Board, except those resources held in the Trust Account. The Trust Account is to be used for the study, research, investigation, and adjudication of matters involving possible violations of statutes or regulations relating to the profession of public accounting, or for any other purpose the Board determines is relevant to its statutory purposes and cannot otherwise be funded through its Operating Fund. Both funds are considered major funds of the Board.

#### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

*Entity-Wide Financial Statements* – The entity-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the Board's financial activities. For the most part, the effect of interfund activity has been removed from these statements. The Statement of Activities demonstrates the degree to which direct expenses are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues consist of charges to exam applicants and regulants. Other revenues not included among program revenues are reported instead as general revenues.

The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows.

*Governmental Fund Financial Statements* – The financial statements also include separate fund financial statements. The Operating Fund and Trust Account are reported in separate columns in the fund financial statements. The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within sixty days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

D. Fund Balance

With the implementation of GASB No. 54, the fund balance classifications are reported as Non-spendable, Restricted, Committed, Assigned, and Unassigned. The Non-spendable fund balance includes amounts that cannot be spent because they are either a) not in spendable form or b) legally required to be maintained intact such as the corpus of a permanent fund. The Committed fund balance includes amounts that can be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority through enabling legislation. The highest level of decision authority for the Commonwealth is the General Assembly and the Governor.

E. Prepaid Items

Prepaid assets for rent, insurance, and similar items are recognized when purchased and expensed when used.

F. Summarized Comparative Data

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Board's financial statements for the year ended June 30, 2017, from which the summarized information was derived. The summarized comparative information presented does not include the necessary adjustments related to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). The information needed to make these adjustments is not available for prior years.

G. 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.

H. Pensions

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

I. State Employee Health Insurance Credit Program (OPEB)

The 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.

J. Group Life Insurance Program (OPEB)

The VRS Group Life Insurance Program is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The Group Life Insurance Program was established pursuant to §51.1-500 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The Group Life Insurance Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net Group Life Insurance 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.

K. Disability Insurance Program (OPEB)

The 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 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.

L. Pre-Medicare Retiree Healthcare (OPEB)

The Commonwealth of Virginia State Health Plans Program for Pre-Medicare Retirees (Pre-Medicare Retiree Healthcare Plan) 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. The Pre-Medicare Retiree Healthcare Plan was established by Title 2.2, Chapter 28 of the Code of Virginia for retirees who are not yet eligible to participate in Medicare. Benefit payments are recognized when due and payable in accordance with benefit terms. There are no assets accumulated in a trust to pay benefits.

2. CHANGE IN ACCOUNTING PRINCIPLE

The Board implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in the fiscal year ended June 30, 2018. The implementation of the statement required the Board to record beginning net OPEB liabilities and the effects on net position of contributions made by the Board. The Board could not practically determine the period-specific details of the change on all prior periods presented; therefore, the cumulative effect of the change was applied to the beginning balances of the current year as follows:

	(As Previously Reported) June 30, 2017	Restatement	(As Restated) June 30, 2017
Deferred Outflows of Resources	\$ -	\$ 23,839	\$ 23,839
Liabilities			
Other postemployment benefit liability	-	(306,927)	(306,927)
Net Position			
Net investment in capital asset	99,301	-	99,301
Unrestricted	3,136,809	(283,088)	2,853,721
Total Net Position	\$ 3,236,110	\$ (283,088)	\$ 2,953,022

### 3. BUDGETARY INFORMATION

The Board adopts an annual operating budget for its Operating Fund. The Board's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be reappropriated for expenditure in the following fiscal year. The Governor, as required by the Code of Virginia, submits a budget composed of all proposed expenditures for the state, and of estimated revenues and borrowing for a biennium, to the General Assembly.

The budget is prepared on a biennial basis; however, the budget contains separate appropriations for each year within the biennial budget, as approved by the General Assembly, and signed into law by the Governor. For management control purposes, the budget is controlled at the program level.

Appropriations of special revenue funds may allow expenditures in excess of the original appropriations to the extent that revenues of the funds exceed original budget estimates and such additional expenditures are approved by the Governor through supplemental appropriations.

### 4. CASH WITH THE TREASURER OF VIRGINIA

All state funds of the Board are held by the Treasurer of Virginia, pursuant to Section 2.2-1800, Code of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Each fund's equity in pooled state funds is reported as "Cash Held by the Treasurer of Virginia" and is not categorized as to credit risk.

### 5. RECEIVABLES AND DUE TO THE STATE LITERARY FUND

The Board levies and collects penalties from regulants and non-regulants found guilty of violating the Board's statutes or regulations. The proceeds from penalties are deposited into the state's Literary Fund in accordance with Section 19.2-353, Code of Virginia. Consequently, receivables are partially offset by a corresponding amount Due to the State Literary Fund and are not available to meet the Board's current operating needs. At June 30, 2018, the amount Due to the State Literary Fund for collections on monetary penalties was \$38,317.



	<u>June 30, 2018</u>
Gross receivables	\$ 92,025
Less: allowance for doubtful	<u>(53,708)</u>
Net Receivables	<u><u>\$ 38,317</u></u>

## 6. CAPITAL ASSETS

The following presents capital activity for the year ended June 30, 2018:

	Balance at June 30, 2017	Additions	Reductions	Balance at June 30, 2018
<b>Nondepreciable capital assets:</b>				
Construction-in-Progress	\$ -	\$ 496,073	\$ -	496,073
Total nondepreciable assets	<u>-</u>	<u>496,073</u>	<u>-</u>	<u>496,073</u>
<b>Depreciable capital assets:</b>				
Software	183,388	-	-	183,388
Tenant improvements	101,534	-	-	101,534
Equipment	<u>72,260</u>	<u>-</u>	<u>-</u>	<u>72,260</u>
Total depreciable assets	<u>357,182</u>	<u>-</u>	<u>-</u>	<u>357,182</u>
<b>Less accumulated depreciation for:</b>				
Software	(154,351)	(18,339)	-	(172,690)
Tenant improvements	(79,058)	(15,487)	-	(94,545)
Equipment	<u>(24,472)</u>	<u>(7,226)</u>	<u>-</u>	<u>(31,698)</u>
Total accumulated depreciation	<u>(257,881)</u>	<u>(41,052)</u>	<u>-</u>	<u>(298,933)</u>
Depreciable capital assets, net	<u>99,301</u>	<u>(41,052)</u>	<u>-</u>	<u>58,249</u>
Total capital assets, net	<u><u>\$ 99,301</u></u>	<u><u>\$ 455,021</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 554,322</u></u>

The Board capitalizes all software and equipment with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. This includes capitalizing personal service costs and vendor payments associated with developing its licensing software for internal use.

Capital assets are reported at historical cost less accumulated depreciation. Depreciation of software and equipment costs is expensed on a straight-line basis over their estimated useful life of ten years. Depreciation of tenant improvement costs is expensed on a straight-line basis over the ten year life of the lease agreement.

7. COMPENSATED ABSENCES

Compensated absences reflected in the Statement of Net Position represent the amounts of vacation, sick, and compensatory leave earned by the Board's employees but not taken at June 30, 2018. The amount reflects all earned vacation, sick, and compensatory leave payable under the Commonwealth's leave payout policies. Information on the Commonwealth's leave payout policies is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.

<u>Balance at</u> <u>June 30, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at</u> <u>June 30, 2018</u>
\$75,989	\$53,566	(\$65,145)	\$64,410
		Due within one year	(36,208)
		Due in more than one year	<u>\$28,202</u>

8. TRANSFERS TO AND FROM THE TRUST ACCOUNT

In accordance with § 54.1-4405.1 of the Code of Virginia, a special nonreverting fund known as the Board of Accountancy Trust Account (the Trust Account) was created. The purpose of the Trust Account is to provide a supplemental source of funds to the Board on a timely basis for its use in the study, research, investigation or adjudication of matters involving possible violations of the statutes or regulations pertaining to the profession of public accounting or for any other purpose that the Board determines is germane to its statutory purposes and cannot otherwise be funded through the Operating Fund. During FY 2018 the Board transferred a total of \$24,435 from the Trust Account.

9. COMMITMENTS

As of June 30, 2018, the Board had contractual commitments of approximately \$550,000 related to the information systems project. These remaining commitments represent the unperformed portion of the contracts and, as such, have not been accrued as expenses or liabilities on the Board's financial statements.

On August 2, 2007, the Board moved its offices to the Perimeter Center Building at 9960 Mayland Drive, Henrico, VA 23233. The move brought the Board together with five other state agencies to facilitate the use of shared space and services. On August 29, 2007, the Board entered into a ten-year operating lease for the new space. The Perimeter Center Building was sold to a new owner in May of 2014. Effective April 1, 2015, the term of the lease was extended to January 31, 2025 which included a rent reduction and improvements which included an office space expansion for the Board in FY 2015. The rent reduction and increased costs related to the expansion are included in the future obligations listed below.

The Board has, as of June 30, 2018, the following future obligations due under the Perimeter Center Building lease agreement:

<u>Year Ending June 30,</u>	<u>Amount</u>	
2019	\$ 93,416	
2020	95,918	
2021	98,488	
2022	101,128	
2023	103,842	
2024	106,630	
2025	<u>63,445</u>	(Lease expires on 1/31/2025)
	<u><u>\$ 662,867</u></u>	

#### 10. DEFINED BENEFIT PENSION PLAN

##### **Plan Description**

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

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

<b>RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE</b>		
<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<b>About Plan 1</b> 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.	<b>About Plan 2</b> 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.	<b>About the Hybrid Retirement Plan</b> The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. <ul style="list-style-type: none"> <li>• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a</li> </ul>

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
		<p>formula.</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul>

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Eligible Members</b> Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.</p> <p><b>Hybrid Opt-In Election</b> 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><b>Eligible Members</b> Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> 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>	<p><b>Eligible Members</b> Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> <li>• State employees*</li> <li>• 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</li> </ul> <p><b>*Non-Eligible Members</b> Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> <li>• Members of the Virginia Law Officers' Retirement System (VaLORS)</li> </ul> <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>

<b>RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE</b>		
<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p><b>Retirement Contributions</b> 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><b>Retirement Contributions</b> State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.</p>	<p><b>Retirement Contributions</b> 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><b>Creditable Service</b> Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the</p>	<p><b>Creditable Service</b> Same as Plan 1.</p>	<p><b>Creditable Service</b> <u><b>Defined Benefit Component:</b></u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count</p>

<b>RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE</b>		
<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
health insurance credit in retirement, if the employer offers the health insurance credit.		<p>toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><b><u>Defined Contributions Component:</u></b> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>
<p><b>Vesting</b> 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><b>Vesting</b> Same as Plan 1.</p>	<p><b>Vesting</b> <b><u>Defined Benefit Component:</u></b> 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><b><u>Defined Contributions Component:</u></b> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the</p>

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
		<p>employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the 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"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> <p>Distribution is not required by law until age 70½.</p>
<b>Calculating the Benefit</b> The Basic Benefit is calculated based on a formula using the member's average final	<b>Calculating the Benefit</b> See definition under Plan 1.	<b>Calculating the Benefit</b> <u><b>Defined Benefit Component:</b></u> See definition under Plan 1



<b>RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE</b>		
<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p>compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>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.</p>		<p><b><u>Defined Contribution Component:</u></b> 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.</p>
<p><b>Average Final Compensation</b> A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b> A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b> Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p><b>Service Retirement Multiplier</b> 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%.</p>	<p><b>Service Retirement Multiplier</b>  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.</p>	<p><b>Service Retirement Multiplier</b> <b><u>Defined Benefit Component:</u></b> The retirement multiplier for the defined benefit component is 1.00%.</p> <p>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.</p> <p><b><u>Defined Contribution Component:</u></b> Not applicable.</p>

<b>RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE</b>		
<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<b>Normal Retirement Age</b> <b>VRS:</b> Age 65.	<b>Normal Retirement Age VRS:</b> Normal Social Security retirement age.	<b>Normal Retirement Age</b> <b><u>Defined Benefit Component:</u></b> <b>VRS:</b> Same as Plan 2.  <b><u>Defined Contribution Component:</u></b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.
<b>Earliest Unreduced Retirement Eligibility</b> Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.	<b>Earliest Unreduced Retirement Eligibility</b> Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.	<b>Earliest Unreduced Retirement Eligibility</b> <b><u>Defined Benefit Component</u></b> Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.  <b><u>Defined Contribution Component:</u></b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.
<b>Earliest Reduced Retirement Eligibility</b> Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	<b>Earliest Reduced Retirement Eligibility</b> Age 60 with at least five years (60 months) of creditable service.	<b>Earliest Reduced Retirement Eligibility</b> <b><u>Defined Benefit Component:</u></b> Age 60 with at least five years (60 months) of creditable service.  <b><u>Defined Contribution Component:</u></b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b>  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%.</p> <p><b><u>Eligibility:</u></b>  For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b>  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"> <li>• The member is within five years of qualifying for an unreduced retirement</li> </ul>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b>  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%.</p> <p><b><u>Eligibility:</u></b>  Same as Plan 1</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b>  Same as Plan 1</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b>  <b><u>Defined Benefit Component:</u></b>  Same as Plan 2.</p> <p><b><u>Defined Contribution Component:</u></b>  Not applicable.</p> <p><b><u>Eligibility:</u></b>  Same as Plan 1 and Plan 2.</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b>  Same as Plan 1 and Plan 2.</p>

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>benefit as of January 1, 2013.</p> <ul style="list-style-type: none"> <li>• The member retires on disability.</li> <li>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).</li> <li>• 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.</li> <li>• 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.</li> </ul>		
<p><b>Disability Coverage</b> 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</p>	<p><b>Disability Coverage</b> 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><b>Disability Coverage</b> 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>

<b>RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE</b>		
<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p>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>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>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><b>Purchase of Prior Service</b> Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.</p>	<p><b>Purchase of Prior Service</b> Same as Plan 1.</p>	<p><b>Purchase of Prior Service Defined Benefit Component:</b> Same as Plan 1, with the following exception:</p> <ul style="list-style-type: none"> <li>Hybrid Retirement Plan members are ineligible for ported service.</li> </ul> <p><b><u>Defined Contribution Component:</u></b> Not applicable.</p>

### **Contributions**

The contributions 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 options 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 is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. The Board'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. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The contribution rate for the VRS

State Employee Retirement Plan also reflects the transfer in June 2016 of \$162,406,273 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The 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 Board to the VRS State Employee Retirement Plan were \$104,090 and \$99,965 for the years ended June 30, 2018, and June 30, 2017, respectively.

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

At June 30, 2018, the Board reported a liability of \$1,068,000 for its proportionate share of the VRS State Employee 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 Board's proportion of the Net Pension Liability was based on the Board'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 Board's proportion of the VRS State Employee Retirement Plan was 0.01833% as compared to 0.01759% at June 30, 2016.

For the year ended June 30, 2018, the Board recognized pension expense of \$158,000 for the VRS State Employee 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 Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,000	\$ 31,000
Net difference between projected and actual earnings on pension plan investments	-	46,000
Change in assumptions	10,000	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	84,000	-
Employer contributions subsequent to the measurement date	104,090	-
Total	<u>\$ 200,090</u>	<u>\$ 77,000</u>

\$104,090 reported as deferred outflows of resources related to pensions resulting from the Board'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 as follows:

Year ended June 30:

2019	\$	9,000
2020	\$	29,000
2021	\$	11,000
2022	\$	(30,000)
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%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7.0%, net of pension plan investment expenses, Including inflation*

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

**Mortality rates:**

Pre-Retirement:

RP-2014 Employee Rates to age 80, Health 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%

### **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 are as follows (amounts expressed in thousands):

Total Pension Liability	\$	23,617,412
Plan Fiduciary Net Position		<u>17,789,888</u>
Employers' Net Pension Liability	\$	<u>5,827,524</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		75.33%

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:

<b>Asset Class (Strategy)</b>	<b>Target Allocation</b>	<b>Arithmetic Long-Term Expected Rate of Return</b>	<b>Weighted Ave rage Long- Term Expected Rate of Return</b>
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 Board for the VRS State Employee Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 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 State Board's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

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

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Board's proportionate share of the VRS State Employee Retirement Plan net pension liability	\$1,578,000	\$1,068,000	\$640,000

### **Pension Plan Fiduciary Net Position**

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 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.

## **11. OTHER POSTEMPLOYMENT BENEFITS**

The Board participates in postemployment benefit programs that are sponsored by the Commonwealth and administered by the Virginia Retirement System and the Department of Human Resource Management. These programs include the State Employee Health Insurance Credit Program, Group Life Insurance Program, Virginia Sickness and Disability Program and Pre-Medicare Retiree Healthcare Program.

### **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><b>Eligible Employees</b></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"> <li>• Full-time and part-time permanent salaried state employees covered under VRS, SPORS, VaLORS and JRS.</li> </ul>
<p><b>Benefit Amounts</b></p> <p>The State Employee Retiree Health Insurance Credit Program provides the following benefits for eligible employees:</p> <ul style="list-style-type: none"> <li>• <b><u>At Retirement</u></b> – For State employees who retire, the monthly benefit is \$4.00 per year of service per month with no cap on the benefit amount.</li> <li>• <b><u>Disability Retirement</u></b> – 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.</li> </ul>
<p><b>Health Insurance Credit Program Notes:</b></p> <ul style="list-style-type: none"> <li>• The monthly Health Insurance Credit benefit cannot exceed the individual premium amount.</li> <li>• 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.</li> </ul>

### ***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. The Board'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 Board to the VRS State Employee Health Insurance Credit Program were \$9,103 and \$8,744 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 Board reported a liability of \$104,000 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 Board's proportion of the Net VRS State Employee Health Insurance Credit Program OPEB Liability was based on the Board'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 Board's proportion of the VRS State Employee Health Insurance Credit Program 0.01139% as compared to 0.01106% at June 30, 2016.

For the year ended June 30, 2018, the Board recognized VRS State Employee Health Insurance Credit Program OPEB expense of \$12,000. 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 Board 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	-	-
Changes in assumptions	-	1,000
Changes in proportionate share		-
Employer contributions subsequent to the measurement date	9,103	-
Total	\$ 9,103	\$ 1,000

\$9,103 reported as deferred outflows of resources related to the State Employee HIC OPEB resulting from the Board'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:

<u>Year ended June 30:</u>		
2019	\$	1,000
2020	\$	-
2021	\$	-
2022	\$	-
2023	\$	-
Thereafter	\$	-

### ***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
Investment rate of return	7.0 percent, net of plan investment expenses, including inflation*

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

### **Mortality rates – General State Employees**

#### **Pre-Retirement:**

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

#### **Post-Retirement:**

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

#### **Post-Disablement:**

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

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

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

### **Mortality rates – SPORS Employees**

#### **Pre-Retirement:**

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

#### **Post-Retirement:**

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

#### **Post-Disablement:**

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

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

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

### **Mortality rates – VaLORS Employees**

**Pre-Retirement:**

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

**Post-Retirement:**

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

**Post-Disablement:**

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

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

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

### **Mortality rates – JRS Employees**

**Pre-Retirement:**

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

**Post-Retirement:**

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

**Post-Disablement:**

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

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

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

### ***Net State Employee HIC OPEB Liability***

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

#### **State Employee HIC OPEB Plan**

Total State Employee HIC OPEB Liability	\$ 990,028
Plan Fiduciary Net Position	<u>79,516</u>
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%
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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:



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

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

### ***Discount Rate***

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

The following presents the Board'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 Board'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% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Board's proportionate share of the VRS State Employee HIC OPEB Plan Net HIC OPEB Liability	\$115,000	\$104,000	\$94,000

### ***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.

### **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

### Eligible Employees

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

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

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

### Benefit Amounts

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

- **Natural Death Benefit** – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.
- **Accidental Death Benefit** – The accidental death benefit is double the natural death benefit.
- **Other Benefit Provisions** – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:
  - 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. Contributions to the Group Life Insurance Program from the Board were \$4,043 and \$3,833 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 Board reported a liability of \$60,000 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 Board's proportion was 0.00399% as compared 0.00387% at June 30, 2016.

For the year ended June 30, 2018, the Board recognized GLI OPEB expense of \$3,000. 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 employer 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	\$ -	\$ 2,000
Net difference between projected and actual earnings on State GLI OPEB program investments	-	2,000
Changes in assumptions	-	3,000
Changes in proportion		-
Employer contributions subsequent to the measurement date	4,043	-
Total	\$ 4,043	\$ 7,000

\$4,043 reported as deferred outflows of resources related to the GLI OPEB resulting from the Board'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:

<u>Year ended June 30:</u>		
2019	\$	(1,000)
2020	\$	(1,000)
2021	\$	(1,000)
2022	\$	(1,000)
2023	\$	(1,000)
Thereafter	\$	(2,000)

### ***Actuarial Assumptions***

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

Inflation	2.5 percent
Salary increases, including inflation –	
General state employees	3.5 percent – 5.35 percent
Teachers	3.5 percent – 5.95 percent
SPORS employees	3.5 percent – 4.75 percent
VaLORS employees	3.5 percent – 4.75 percent
JRS employees	4.5 percent
Locality – General employees	3.5 percent – 5.35 percent
Locality – Hazardous Duty employees	3.5 percent – 4.75 percent

Investment rate of return

7.0 Percent, net of investment expenses,  
including inflation\*

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

### **Mortality rates – General State Employees**

#### **Pre-Retirement:**

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

#### **Post-Retirement:**

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

#### **Post-Disablement:**

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

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

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

### **Mortality rates – Teachers**

#### **Pre-Retirement:**

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

#### **Post-Retirement:**

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

**Post-Disablement:**

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

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

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

**Mortality rates – SPORS Employees**

**Pre-Retirement:**

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

**Post-Retirement:**

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

**Post-Disablement:**

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

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

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

Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

### **Mortality rates – VaLORS Employees**

#### **Pre-Retirement:**

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

#### **Post-Retirement:**

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

#### **Post-Disablement:**

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

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

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

### **Mortality rates – JRS Employees**

#### **Pre-Retirement:**

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

#### **Post-Retirement:**

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

#### **Post-Disablement:**

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



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

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

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

##### **Pre-Retirement:**

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

##### **Post-Retirement:**

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

Post-Disablement:

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

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

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

**Mortality rates – Largest Ten Locality Employers – Hazardous Duty Employees**

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

**Mortality rates – Non-Largest Ten Locality Employers – Hazardous Duty Employees****Pre-Retirement:**

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

**Post-Retirement:**

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

**Post-Disablement:**

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

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older
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 Plan Program**

Total GLI OPEB Liability	\$ 2,942,426
Plan Fiduciary Net Position	<u>1,437,586</u>
Employer's 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:

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

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

### ***Discount Rate***

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the

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

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

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

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Board's proportionate share of the Group Life Insurance Program Net OPEB Liability	\$78,000	\$60,000	\$46,000

***Group Life Insurance Program Fiduciary Net Position***

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

**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:

<b>DISABILITY INSURANCE PROGRAM (VSDP) PLAN PROVISIONS</b>
<p><b>Eligible Employees</b></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"> <li>• 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).</li> <li>• 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.</li> <li>• 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.</li> </ul>
<p><b>Benefit Amounts</b></p> <p>The Virginia Sickness and Disability Program (VSDP) provides the following benefits for eligible employees:</p> <ul style="list-style-type: none"> <li>• <b><u>Leave</u></b> – Sick, family and personal leave. Eligible leave benefits are paid by the employer.</li> <li>• <b><u>Short-Term Disability</u></b> – 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.</li> <li>• <b><u>Long-Term Disability</u></b> – 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.</li> <li>• <b><u>Income Replacement Adjustment</u></b> – The program provides for an income replacement adjustment to 80% for catastrophic conditions.</li> <li>• <b><u>VSDP Long-Term Care Plan</u></b> – The program also includes a self-funded long-term</li> </ul>

care plan that assists with the cost of covered long-term care services.
<p><b>Disability Insurance Program (VSDP) Plan Notes:</b></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• A state employee who is approved for VSDP benefits on or after the date that is five years prior to his or her normal retirement date is eligible for up five years of VSDP benefits. Employees on work-related short-term disability receiving only a workers' compensation payment may be eligible to purchase service credit for this period if retirement contributions are not being withheld from the workers' compensation payment. The rate will be based on 5.00% of the employee's compensation.</li> </ul>
<p><b>Cost-of-Living Adjustment (COLA)</b></p> <ul style="list-style-type: none"> <li>• 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. <ul style="list-style-type: none"> <li>○ 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%).</li> <li>○ 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%).</li> </ul> </li> <li>• 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. <ul style="list-style-type: none"> <li>○ 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%</li> </ul> </li> <li>• 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 <ul style="list-style-type: none"> <li>○ 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%.</li> </ul> </li> </ul>

### ***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 Board were \$4,672 and \$4,580 for the years ended June 30, 2018 and June 30, 2017, respectively.

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

At June 30, 2018, the Board reported a liability (asset) of (\$38,000) for its proportionate share of the Net VSDP OPEB Liability (Asset). The Net VSDP OPEB Liability (Asset) was measured as of June 30, 2017 and the total VSDP OPEB liability used to calculate the Net VSDP OPEB Liability (Asset) was determined by an actuarial valuation as of that date. The Board's proportion of the Net VSDP OPEB Liability (Asset) was based on the Board'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 Board's proportion was 0.01829% as compared to 0.01883% at June 30, 2016.

For the year ended June 30, 2018, the Board recognized VSDP OPEB expense of \$4,000. 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 Board 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 program investments	-	3,000
Changes in assumptions	-	3,000
Changes in proportion		-
Employer contributions subsequent to the measurement date	4,672	-
Total	\$ 4,672	\$ 6,000

\$4,672 reported as deferred outflows of resources related to the VSDP OPEB resulting from the Board'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:

2019	\$	(1,000)
2020	\$	(1,000)
2021	\$	(1,000)
2022	\$	(1,000)
2023	\$	(2,000)
Thereafter	\$	0

***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	3.5 percent – 5.35
–	employees	percent
	SPORS employees	3.5 percent – 4.75
	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	<u>442,334</u>
Employer's 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:

<b>Asset Class (Strategy)</b>	<b>Target Allocation</b>	<b>Arithmetic Long-Term Expected Rate of Return</b>	<b>Weighted Average Long-Term Expected Rate of Return</b>
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 Board's Proportionate Share of the Net VSDP OPEB Liability (Asset) to Changes in the Discount Rate***

The following presents the Board's proportionate share of the net VSDP OPEB liability (asset) using the discount rate of 7.00%, as well as what the Board'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% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Board's proportionate share of the total VSDP Net OPEB Liability (Asset)	(\$36,000)	(\$38,000)	(\$41,000)

***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.

**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 5.00% Dental: 4.00%  
Before reflecting Excise tax

Year of Ultimate Trend

2025

Mortality

Mortality rates vary by participant status

Pre-Retirement:

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

Post-Retirement

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

Post-Disablement:

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

The discount rate was based on the Bond Buyers GO 20 Municipal Bond Index as of the measurement date which is June 30, 2017.

***Changes of Assumptions:***

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

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

The discount rate was increased from 2.85% to 3.58% based on the Bond Buyers GO 20 Municipal Bond Index. Spousal coverage was reduced from 70% to 50% based on a blend of recent spousal



coverage election rates and the prior year assumption. Based on the 2017 census, new retirees since 1/1/2015 have chosen to cover their spouses approximately 20% of the time. However, active employees cover their spouses at a rate close to 53%.

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

At June 30, 2018, the Board reported a liability of \$175,370 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 0.01350% as compared to 0.01072% at June 30, 2016. For the year ended June 30, 2018, the participating employer recognized Pre-Medicare Retiree Healthcare OPEB expense of \$20,760.

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

	Deferred Outflows	Deferred Inflows
Difference between actual and expected experience	\$ -	\$ 7,054
Changes in assumptions	-	37,179
Changes in proportion	36,753	-
Subtotal	36,753	44,233
Amounts associated with transactions subsequent to the measurement date	4,651	-
Total	\$ 41,404	\$ 44,233

\$ 4,651 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:

2019	\$	(1,378)
2020	\$	(1,378)
2021	\$	(1,378)
2022	\$	(1,378)
2023	\$	(1,378)
Thereafter	\$	(590)

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

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

	1% Decrease (2.58%)	Current Rate (3.58%)	1% Increase (4.58%)
OPEB Liability	\$187,861	\$175,370	\$163,402

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

The following presents the employer's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using healthcare cost trend rate of 8.62% decreasing to 5%, as well as what the employer's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (7.62% decreasing to 4.00%) or one percentage point higher (9.62% decreasing to 6.00%) than the current rate:

	1% Decrease (7.62% decreasing to 4.00%)	Trend Rate (8.62% decreasing to 5.00%)	1% Increase (9.62% decreasing to 6.00%)
OPEB Liability	\$156,035	\$175,370	\$198,037

## 12. RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Board participates in insurance plans maintained by the Commonwealth. 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, faithful performance of duty bond, and automobile plans. The Board pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**Schedule of Employer's Share of Net Pension Liability**  
**VRS State Employee Retirement Plan**

<b>Year Ended June 30,*</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Employer's proportion of the net pension liability	0.01833%	0.01759%	0.01669%	0.01498%
Employer's proportionate share of the net pension liability	\$1,068,000	\$1,159,000	\$1,022,000	\$839,000
Employer's covered payroll	\$739,906	\$695,362	\$644,621	\$578,909
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	144.34%	166.68%	158.54%	144.93%
Plan fiduciary net position as a percentage of the total pension liability	75.33%	71.29%	72.81%	74.28%

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

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

**Virginia Board of Accountancy**  
**Schedule of Employer Contributions**  
**VRS State Employee Retirement Plan**

<b>Year Ended June 30,</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Contractually required contribution	\$ 104,090	\$ 99,965	\$ 97,505	\$ 79,482
Contributions in relation to the contractually required contribution	104,090	99,965	97,505	79,461
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ 21
Employer's covered payroll	\$ 778,755	\$ 739,906	\$ 695,362	\$ 644,621
Contributions as a percentage covered payroll	13.37%	13.51%	14.02%	12.33%

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

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

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

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

## Virginia Board of Accountancy

### Schedule of Employer's Share of Net OPEB Liability Health Insurance Credit Program (HIC)

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Year Ended June 30, 2018*	2018
Employer's proportion of the Net HIC OPEB Liability (Asset)	0.01139%
Employer's proportionate share of the Net HIC OPEB Liability (Asset)	\$104,000
Employer's covered payroll	\$739,907
Employer's proportionate share of the Net HIC OPEB Liability (Asset) as a percentage of its covered payroll	14.06%
Plan fiduciary net position as a percentage of the total HIC OPEB Liability	8.03%

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

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



## Virginia Board of Accountancy

### Schedule of Employer Contributions Health Insurance Credit Program (HIC)

Year Ended June 30, 2018	2018
Contractually required contribution	\$ 9,103
Contributions in relation to contractually required contribution	<u>9,103</u>
Contribution deficiency (excess)	<u>\$ -</u>
Employer's covered payroll	\$ 778,755
Contributions as a percentage covered payroll	1.17%

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

**Health Insurance Credit Program (HIC)****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

## Virginia Board of Accountancy

### Schedule of Employer's Share of Net OPEB Liability Group Life Insurance Program (GLI)

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Year Ended June 30, 2018*	2018
Employer's proportion of the Net GLI OPEB Liability (Asset)	0.00399%
Employer's proportionate share of the Net GLI OPEB Liability (Asset)	\$60,000
Employer's covered payroll	\$739,907
Employer's proportionate share of the Net GLI OPEB Liability (Asset) as a percentage of its covered payroll	8.11%
Plan fiduciary net position as a percentage of the total GLI OPEB Liability	48.86%

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

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

## Virginia Board of Accountancy

### Schedule of Employer Contributions Group Life Insurance Program (GLI)

Year Ended June 30, 2018	2018
Contractually required contribution	\$ 4,043
Contributions in relation to contractually required contribution	<u>4,043</u>
Contribution deficiency (excess)	<u>\$ -</u>
Employer's covered payroll	\$ 778,755
Contributions as a percentage covered payroll	0.52%

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

**Group Life Insurance Program (GLI)****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%

**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%
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**VaLORS Employees:**

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

**JRS Employees:**

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

**Largest Ten Locality Employers - General Employees:**

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

**Non-Largest Ten Locality Employers - General Employees:**

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

Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14 to 15%

**Largest Ten Locality Employers – Hazardous Duty Employees:**

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

**Non-Largest Ten Locality Employers – Hazardous Duty Employees:**

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



## Virginia Board of Accountancy

### Schedule of Employer's Share of Net OPEB Liability Disability Insurance Program (VSDP)

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Year Ended June 30, 2018*	2018
Employer's proportion of the Net VSDP OPEB Liability (Asset)	0.01829%
Employer's proportionate share of the Net VSDP OPEB Liability (Asset)	\$38,000
Employer's covered payroll	\$689,058
Employer's proportionate share of the Net VSDP OPEB Liability (Asset) as a percentage of its covered payroll	5.51%
Plan fiduciary net position as a percentage of the total GLI OPEB Liability	186.63%

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

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

## Virginia Board of Accountancy

### Schedule of Employer Contributions Disability Insurance Program (VSDP)

Year Ended June 30, 2018	2018
Contractually required contribution	\$ 4,672
Contributions in relation to contractually required contribution	<u>4,672</u>
Contribution deficiency (excess)	<u>\$ -</u>
Employer's covered payroll	\$ 715,906
Contributions as a percentage covered payroll	0.65%

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

**Disability Insurance Program (VSDP)****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%

**SPORS Employees:**

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

**VaLORS Employees:**

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

**Virginia Board of Accountancy**

**Schedule of Employer's Share of Total OPEB Liability  
Pre-Medicare Retiree Healthcare Program**

<b>Year Ended June 30, 2018*</b>	<b>2018</b>
Employer's proportion of the Total OPEB Liability	0.01350%
Employer's proportionate share of the collective total OPEB Liability	\$175,370
Employer's covered payroll	\$745,758
Employer's proportionate share of the Total OPEB Liability as a percentage of its covered payroll	23.52%

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

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

**Pre-Medicare Retiree Healthcare Program**  
**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%.

## VIRGINIA BOARD OF ACCOUNTANCY

### BOARD MEMBERSHIP

As of June 30, 2018

The Board is comprised of five Certified Public Accountants who hold Virginia licenses, one educator in the field of accountancy who holds a Virginia license, and one public member. The Governor appoints each member to a term of four years and no member may serve more than two consecutive terms.

Matthew P. Boshier, Esq.  
Chair

Susan Quaintance Ferguson, CPA  
Vice Chair

D. Brian Carson, CPA, CGFM	Laurie A. Warwick, CPA
Andrea M. Kilmer, CPA, CFF, CGMA	Stephanie S. Saunders, CPA
William R. Brown, CPA	



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

June 18, 2019

The Honorable Ralph S. Northam  
Governor of Virginia

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

Board Members  
Virginia Board of Accountancy

## INDEPENDENT AUDITOR'S REPORT

### **Report on Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Virginia Board of Accountancy (Board) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.



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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Board as of June 30, 2018, and the respective changes in financial position and the respective budgetary comparison for the operating fund 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 Board implemented Governmental Accounting Standards Board Statement No. 75, related to accounting and financial reporting for postemployment benefits other than pensions. Our opinion is not modified with respect to this matter.

#### Relationship to the Commonwealth of Virginia

As discussed in Note 1.A., the basic financial statements of the Board are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and aggregate remaining fund information of the Commonwealth of Virginia that is attributable to the transactions of the Board. They do not purport to, and do not, present fairly the Commonwealth of Virginia's overall financial position as of June 30, 2018, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### *Other Matters*

#### Prior-Year Summarized Comparative Information

We have previously audited the Board's 2017 financial statements, and we expressed an unmodified audit opinion on the respective financial statements of the Board in our report dated

May 8, 2018. In our opinion, while the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived, it does not include the necessary adjustments for the 2017 financial statements to be comparative with the 2018 financial statements as described in Note 1.F.

#### 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 7; the Schedule of Employer's Share of Net Pension Liability, the Schedule of Employer Contributions, and the Notes to the Required Supplementary Information on pages 72 through 74; the Schedule of Employer's Share of Net OPEB Liability, the Schedule of Employer Contributions, and the Notes to the Required Supplementary Information for the Health Insurance Credit, Group Life Insurance, Disability Insurance and Line of Duty programs on pages 75 through 87; the Schedule of Employer's Share of Total OPEB Liability and the Notes to the Required Supplementary Information for the Pre-Medicare Retiree Healthcare program on pages 88 through 89. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated June 18, 2019 on our consideration of the Board'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 Board's internal control over financial reporting and compliance.



AUDITOR OF PUBLIC ACCOUNTS

KJS/vks