



Essel Propack, Danville



1901 Group, Montgomery County



Volvo Trucks, Pulaski County



Micron, Manassas

Virginia Economic Development Partnership

Annual Report • Fiscal Year 2019

Annual Report Fiscal Year 2019

Table of Contents

Letter from the Chairman of the VEDP Board of Directors	1
Introduction	2
VEDP overview	3
Status update on the implementation of the strategic, operational, and marketing plans	8
Marketing in high-unemployment and rural areas	17
FY19 audited financial statements	27

Chairman's Letter

November 1, 2019

As Chairman of the Board of Directors for the Virginia Economic Development Partnership Authority (VEDP), I am pleased to present our Annual Report for the fiscal year ending June 30, 2019. This report is being submitted in accordance with the requirements of the Code of Virginia.

Over the past year, VEDP has continued to make progress against the goals set forth in its Strategic Plan for Economic Development of the Commonwealth. This Strategic Plan not only outlines multiple transformational goals for Virginia and VEDP, but also includes specific strategies and initiatives needed to realize this vision over the next five years. To advance the initiatives set forth in its Strategic Plan, VEDP develops an annual Operational Plan, which outlines major initiatives and activities, their owners, and completion deadlines. An annual Marketing Plan describes its marketing goals, the specific activities that will be undertaken to support each goal, and performance measures to track progress. Progress made in FY19 against each of these plans is included in this annual report.

VEDP made substantial progress toward reasserting itself as a leader in the economic development community in FY19, contributing to Virginia regaining its previous position as CNBC's Top State for Business, as well as being named by Site Selection as the most competitive state economic development office in the U.S. Most importantly, VEDP has helped Virginia's economy to grow with outstanding project wins across the state in 2019, and an excellent pipeline of projects the Partnership will work to secure in FY 20 and beyond.

VEDP's Audited Basic Financial Statements for the year ended June 30, 2019 include an unmodified audit opinion from the Auditor of Public Accounts. This is the 23rd consecutive year that an unmodified opinion has been issued to VEDP. The Auditor also issued a separate letter on VEDP's internal controls and compliance dated October 18, 2019, with no findings identified.

I am thankful for the talented and dedicated VEDP team that will make our goals a reality. As we continue to execute our ambitious strategic vision, I am also grateful for the support and guidance of the Governor and his Administration, members of the General Assembly, the VEDP Board of Directors and staff, and our state, regional, and local partners. I look forward to our continued collaboration in the year to come.

Sincerely,



Ned W. Massee
Chairman, VEDP Board of Directors

Introduction

The FY 2019 Annual Report of the Virginia Economic Development Partnership Authority (VEDP) is submitted pursuant to

- § 2.2-2237.1 B and D of the Code of Virginia, which direct VEDP to report annually on its strategic, operational, and marketing plans; any modifications to the plans; and its progress toward meeting the goals and objectives stated in the plans; and
- § 2.2-2238 B, which requires VEDP to prepare and report on a plan to market high unemployment areas of the state; and
- § 2.2-2242, which directs the Authority to submit an annual report containing financial statements for the year ending June 30, 2019 (FY 2019) as audited by the Auditor of Public Accounts;

To offer context, this Annual Report also includes an overview of the Partnership, its governance structure, and its performance. Additionally, the scope of this year's report has been expanded to encompass the annual status update on the Partnership's progress in implementing the various plans that guide its activities, which was reported as a separate document for FY18. This addition reflects statutory requirements adopted in 2017 (§ 2.2-2237.1), which require VEDP to publish a Strategic Plan, Marketing Plan, and Operational Plan along with annual progress reports. Combining many of the Partnership's annual reporting requirements into one document should make it easier for stakeholders to find salient information, and also to see how all of VEDP's strategies, plans, and initiatives fit together to grow the Commonwealth's economy for all Virginians.

VEDP Overview

In 1995, the General Assembly created the Virginia Economic Development Partnership Authority to “encourage, stimulate and support the development and expansion of the economy of the Commonwealth through economic development.” The Partnership is a state authority, which is governed by a 17-member supervisory Board and led by a President and Chief Executive Officer of VEDP employed by the Board.

FY19 economic development results

Virginia’s economy benefited from a tremendous amount of economic development success in FY19. In addition to winning landmark projects such as Amazon’s East Coast headquarters and Micron’s \$3 billion expansion, VEDP and its partners helped secure 110 other domestic projects involving companies locating or expanding in Virginia. VEDP’s trade efforts also helped nearly 330 Virginia companies expand their international presence, infusing over \$720 million in sales into the state’s economy.

Metrics	FY 2017 actuals	FY 2018 actuals	FY 2019 actuals
VEDP-assisted project announcements			
Capital investment (\$)	2.0	2.1	10.4
Without Amazon HQ2 ¹	--	--	7.9
Direct jobs	19,295	13,222	36,913
Without Amazon HQ2 ¹	--	--	11,913
VEDP-generated leads			
Number	212	306	406
Number converted ²	--	174	197
VEDP international trade programs			
Companies enrolled	348	330	329
Projected international sales ³ (\$M)	n/a	\$595	\$793
Projected trade-supported jobs ³	n/a	5,355	7,133

¹Only applicable to FY19, the year during which Amazon HQ2 was announced

²Metrics for leads converted were not consistently utilized by VEDP during FY17

³FY17 goals were more qualitative in nature, whereas a more quantitative approach has been used since

VEDP Board of Directors structure and members

The Board selects the President and Chief Executive Officer and ensures that VEDP complies with all Board and statutory directives. The Board works with VEDP staff to develop, implement, and update strategic and marketing plans for the Commonwealth and an operational plan for VEDP.

In accordance with reform legislation enacted in 2017, the current VEDP Board is comprised of:

- Six ex officio members: the Secretary of Commerce and Trade, the Secretary of Finance, the Chairman of the Virginia Growth and Opportunity Board, the Executive Director of the Virginia Port Authority, and the Staff Directors of the House Committee on Appropriations and the Senate Committee on Finance;
- Seven nonlegislative citizen members appointed by the Governor; and
- Four nonlegislative citizen members appointed by the Joint Rules Committee.

A listing of Board members as of Fall 2019 follows.

The Honorable Brian Ball* – Vice Chair

Secretary of Commerce and Trade
Commonwealth of Virginia
Term Concurrent with Office

Heather Engel

Managing Partner
Strategic Cyber Partners
Term Expires: 6/30/2020

Deborah K. Flipppo

Economic Development
Program Manager
Draper Aden Associates, Inc.
Term Expires: 6/30/2022

April Kees*

Co-Director***
Virginia Senate Finance
Committee
Term Concurrent with Office

Vincent J. Mastracco

Partner
Kaufman & Canoles PC
Term Expires: 6/30/2022

Carrie Hileman Chenery

Principal
Valley Pike Partners
Term Expires: 6/30/2020

Greg B. Fairchild

Isidore Horween Research
Associate Professor of
Business Administration
Associate Dean for
Washington, D.C., Area
Initiatives and Academic
Director of Public Policy and
Entrepreneurship
University of Virginia
Term Expires: 6/30/2022

Richard “Rick” O. Harrell, III

President (retired)
R.O. Harrell, Inc.
Term Expires: 6/30/2022

The Honorable Aubrey L. Layne, Jr.*

Secretary of Finance
Commonwealth of Virginia
Term Concurrent with Office

Dan M. Pleasant

Chief Operating Officer
Dewberry
Term Expires: 6/30/2022

C. Daniel Clemente

Chairman and Chief Executive
Officer
Clemente Development
Company Inc.
Term Expires: 6/30/2018**

Thomas “Tom” Farrell, II*

Chairman
Growth and Opportunity Board
Term Concurrent with Position

William “Bill” Hayter

President & CEO
The First Bank & Trust
Company
Term Expires: 6/30/2020

Ned W. Massee – Chair

Croatan Advisors
Term Expires: 6/30/2022

Jason Powell*

Co-Director***
Virginia Senate Finance
Committee
Term Concurrent with Office

John F. Reinhart*
 CEO and Executive Director
 The Port of Virginia
 Term Concurrent with Position

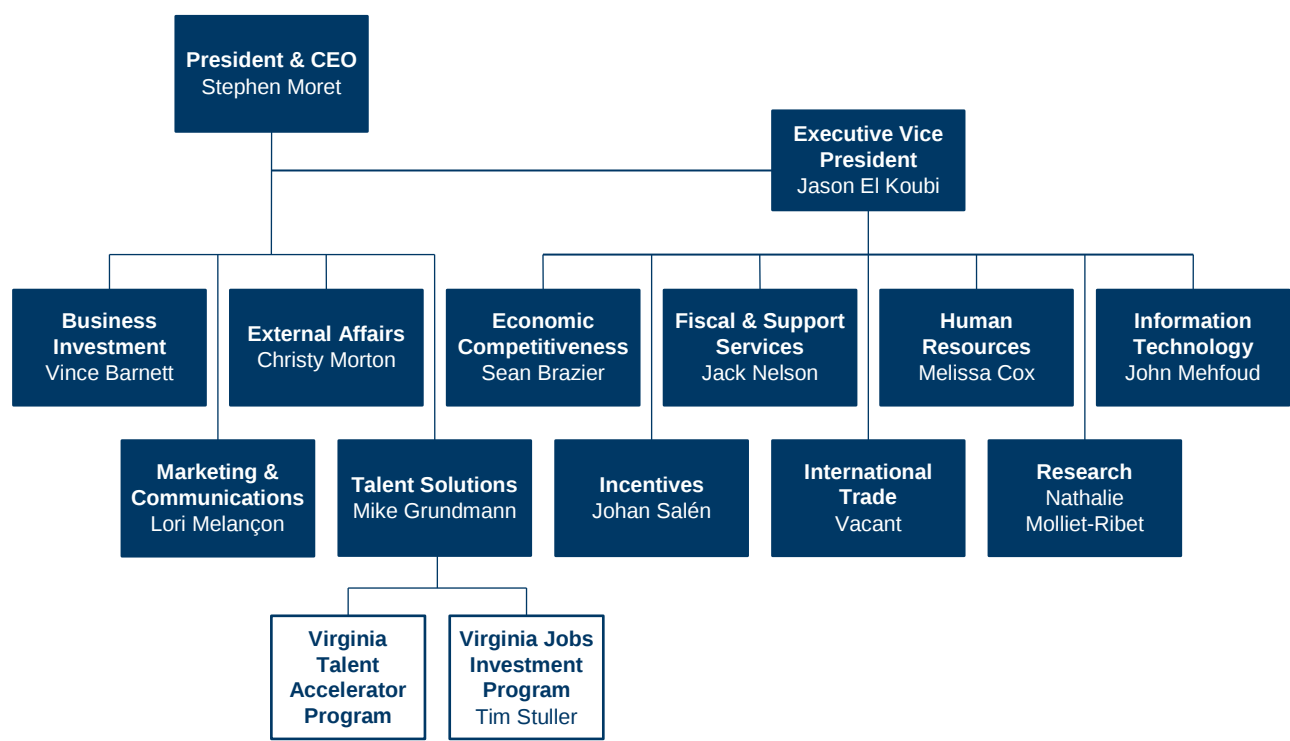
Xavier R. Richardson
 Executive Vice President,
 Mary Washington Healthcare
 President, Mary Washington
 Hospital & Stafford Hospital
 Foundations
 Term Expires: 6/30/2022

Robert P. Vaughn*
 Director
 House Appropriations
 Committee
 Term Concurrent with Office

* Ex Officio Member
 ** C. Daniel Clemente’s term expired in 2018, however, Board members serve until they are officially reappointed or replaced
 *** Ms. Kees and Mr. Powell shared a seat on the Board

Overview of VEDP divisions

VEDP’s President and CEO oversees the fulfillment of the Partnership’s mission. All divisions report to either the President and CEO or to the Executive Vice President. Each division within VEDP plays an important role in operationalizing this mission, whether by interacting with clients or by providing the support needed to win projects. The structure of the organization is illustrated in the chart below with division leaders, and is followed by a brief description of the roles and responsibilities of each VEDP division.



Business Investment

The Business Investment division is comprised of five teams: Lead Generation; Products; Technology and Services; Business Retention and Expansion; and the Call Center. Business Investment collaborates with regional and local partners to identify and convert high-potential leads and prospects into project opportunities, as well as support the retention and growth of existing Virginia employers.

Economic Competitiveness

The Economic Competitiveness division is responsible for developing and initiating implementation of strategies and initiatives to improve Virginia's business environment, supporting productivity and prosperity growth for its citizens.

External Affairs

The External Affairs division is responsible for managing VEDP's relationships with the Administration, the General Assembly, and Virginia's congressional delegation. The division also manages VEDP's external relationships with local and regional economic development organizations, trade associations, and other key stakeholders and partners to increase VEDP's collaboration across the Commonwealth. In addition, External Affairs is responsible for managing the MEI project approval process, budget and legislative proposals, VEDP staff familiarization tours, VEDP orientations for all new economic development professionals across Virginia, and various special projects.

Fiscal and Support Services

The Fiscal and Support Services division has primary responsibility for asset protection, internal control, procurement, budget, and accounting and support services operations.

Human Resources

The Human Resources division is responsible for talent acquisition and retention, performance management, rewards, and human capital risk management.

Incentives

The Incentives division is responsible for reviewing, vetting, tracking, and coordinating all incentives administered by VEDP, as well as for setting VEDP's incentives strategy and for structuring incentive offers for major projects.

Information Technology

The Information Technology division is responsible for the strategic planning, implementation, security, and technical support of VEDP's technology platforms and custom applications.

International Trade

VEDP's International Trade programs and services support Virginia companies seeking growth opportunities through trade development. Numerous trade programs are available to increase the sales of Virginia products and services in the international marketplace, including Virginia Leaders in Export Trade (VALET), the Global Defense Program, Global Network, and trade missions.

Marketing & Communications

The Marketing and Communications division is responsible for marketing the Commonwealth for business, including the VEDP and Virginia brands, websites, event and trade show marketing, publications, and public relations.

Research

The Research division is made up of four teams: Analytics, Geographic Information Systems (GIS), Project Support, and Sites & Buildings. Research assists market-facing divisions and internal decision makers by creating customized and insightful analysis and data visualizations that facilitate an understanding of

Virginia's full value proposition; maintaining knowledge of available sites and buildings to promote positive location decisions for Virginia; and owning and supporting VEDP's customer relationship management software.

Talent Solutions

The Talent Solutions division offers statewide support to address the talent needs of new and expanding businesses through collaboration with regional and statewide workforce partners and management of two discretionary incentive programs: the Virginia Jobs Investment Program and the new Virginia Talent Accelerator Program.

Office Locations

Most of VEDP's operations are performed from its headquarters in Richmond, Virginia. The International Trade division has several field offices around the state to support customers. The Business Investment division also maintains three international offices where lead generation activities are conducted.

Headquarters

Richmond Office

901 E. Cary Street, Suite 900
Richmond, Virginia 23219
Telephone: 804.545.5600

Additional Virginia offices

Eastern Region

101 West Main Street, Suite 600
Norfolk, Virginia 23510
Telephone: 757.314.2129

South Central Region

220 Roanoke Boulevard
Salem, Virginia 24153
Telephone: 540.387.2562

Northern Region

8150 Leesburg Pike, Suite 710
Vienna, Virginia 22182
Telephone: 703.506.9742

Southwest Region

16325 Taylor Place, Suite 300
Abingdon, Virginia 24211
Telephone: 276.623.1536

Northwest Region

491 Airport Road, Suite 100
Winchester, Virginia 22602
Telephone: 540.490.1566

International offices

Europe

Pacellistrasse 6-8
80333 Munich
Germany
Telephone: 49.89.92.58.11.96

Republic of South Korea

13F, Seoul Square Building
416 Hangang-daero, Jung-gu
Seoul
04637 Korea
Telephone: 82.10.4313.2070

Japan

11th Floor Aoyama Palacio
Tower
3-6-7 Kita-Aoyama,
Minato-ku
Tokyo 107-0061 Japan
Telephone: 81.3.5778.7568

VEDP Status Update on Plan Implementation

This section offers an update on the progress made by the Virginia Economic Development Partnership Authority (VEDP) in FY19 relative to several VEDP plans that are required by Code provisions adopted in 2017. Specifically, it fulfils the requirements for VEDP to report annually on progress against the following plans:

- Strategic Plan for Economic Development of the Commonwealth (Code of Virginia §2.2-2237.1. B.)
- VEDP's FY18 Operational Plan (Code of Virginia §2.2-2237.1. D.2.)
- VEDP's FY18 Marketing Plan (Code of Virginia §2.2-2237.1. D.1.)

These plans were previously submitted in accordance with Code and other requirements. Because most elements of these plans are treated with confidentiality and are exempted from mandatory disclosure provisions (Code of Virginia §2.2-3705.7. 33.), this progress report references specific elements of the plans without revealing information that is protected by the Code for competitive purposes.

Strategic Plan update

The Strategic Plan for Economic Development of the Commonwealth of Virginia adopted by the VEDP Board in FY18 is a five-year plan (FY19-FY23) for which implementation began on July 1, 2018.

Major advances in Strategic Plan implementation

With the support of two governors, the General Assembly, and hundreds of partners, much progress has been made implementing many of the initiatives detailed in the Strategic Plan. Following are just a few examples (not comprehensive):

- With state funding support, VEDP launched a world-class, customized workforce recruitment and training program, the Virginia Talent Accelerator Program, which is being implemented in collaboration with the Virginia Community College System (VCCS) and other higher education partners. Within two years, VEDP expects this program will be viewed as one of the very best in America.
- With state funding support, VEDP and partners across the Commonwealth have characterized several hundred identified development sites and are now poised to dramatically increase state matching funds to support the development of those sites.
- With new state support to partially fund a comprehensive marketing program, VEDP has been able to implement a basic marketing program to expand awareness of Virginia's assets for business among corporate execs and site consultants.
- Thanks to increased funding for marketing, implementation of a site consultant cultivation program, and a variety of expanded and/or improved lead generation activities, VEDP lead generation has increased more than 100% compared to pre-Strategic Plan levels.
- With state funding support, Virginia is implementing the most ambitious expansion of computer science education in the country with its Tech Talent Investment Program, which includes substantial new investments in nearly every public university in Virginia and VCCS, as well as the development of two tech campuses in Northern Virginia by George Mason University and Virginia Tech.
- With dramatically increased state funding for rural broadband, Virginia is now on track to achieve near-ubiquitous broadband access in less than a decade.
- Working with a variety of in-state and national partners, VEDP helped to craft Virginia's first comprehensive international trade strategic plan, with a goal to increase exports by 50 percent.
- VEDP established a dedicated Division of Incentives, as well as more systematic risk management and performance monitoring processes.
- VEDP has dramatically improved communication, transparency, and collaboration with partners, including the creation of a Quarterly Partner Report, prospect protocols, and post-project partner surveys, among other initiatives.

Despite the strong progress that has been made on several fronts, many initiatives detailed in the Strategic Plan have not yet been implemented, often due to funding constraints. Accordingly, while substantial progress has been made with respect to all five of the following transformational goals, Virginia has not yet fully achieved them.

Status update on transformational goals

The Strategic Plan includes five transformational goals, the achievement of which would require the implementation of dozens of new initiatives over a period of years (multiple biennium budgets). The five transformational goals are outlined below, as well as a progress indicator, rating the Commonwealth's status in achieving each of these goals:

Legend	Details	
	On track to achieve long-term goals with no major concerns	
	Will make progress against long-term goals but concerns (typically due to funding challenges)	
	Additional funding will be required to meet these goals	
Transformational goal	Details	Status
1. Robust state growth	Over the next several years, position Virginia to achieve a growth rate (measured by employment and median earned income of workers) among that of the top 5-10 states in the U.S.	
2. Every region wins	Ensure that every region participates in the growth of the Commonwealth (i.e., all with positive growth in employment and median earned income of workers)	
3. Best state for business	Restore Virginia to its previous leadership position near the top of the national business climate rankings (i.e., average position among the top 3-5 states)	
4. Top state EDO	Reestablish VEDP as one of America's premier state economic development organizations (principally to better enable accomplishment of the top three transformational goals)	
5. Super-collaborator	Exhibit collaboration and coordination as hallmarks of VEDP (i.e., place a central focus on the "P" in VEDP)	

Some of the initiatives in the Strategic Plan require new funding to implement and, therefore, the achievement of the five transformational goals will depend on resourcing levels.

Status update on 40 detailed initiatives

The 14 strategies developed in the Strategic Plan are as follows:

Cultivate target industry growth clusters	▪ Push new boundaries as a U.S. leader in information technology ▪ Assemble a world-class transportation and logistics hub ▪ Position Virginia's manufacturing base to be future ready ▪ Create bus. services and ops. centers of excellence (e.g., HQs) ▪ Capitalize on Virginia's unique assets to become a leader in promising disruptive technologies (e.g., unmanned systems, genomics, personalized medicine)
Enhance VA's economic competitiveness	▪ Strengthen Virginia's human capital development engine ▪ Assemble an ample, strategic portfolio of project-ready sites and buildings across Virginia ▪ Rigorously assess and steadily improve Virginia's state, regional, and local economic competitiveness ▪ Leverage public-private partnerships to strengthen Virginia's digital infrastructure (i.e., broadband) ▪ Place a special focus on achieving growth in Virginia's rural regions and small metros
Enhance VEDP's capabilities	▪ Cultivate world-class execution at VEDP ▪ Implement robust marketing/branding, lead generation, and site consultant cultivation programs ▪ Strengthen and expand business and international trade development programs ▪ Become a national leader in incentives administration

To advance these 14 strategies, the Strategic Plan provides 40 detailed initiatives for phased implementation over a period of years (multiple biennium budgets). Some of the initiatives scheduled for implementation in FY19 were not funded, slowing progress towards achieving the transformational goals outlined in the Strategic Plan. Progress made on these initiatives during FY19 is summarized in the following table.

Current Implementation Status of Strategic Plan Initiatives

Status of Initiatives

	Generally on track Count: 14
	Partially on track (typically due to funding) Count: 15
	On hold (typically due to funding constraints) Count: 5
	Potential change in strategy and/or priority (to be re-evaluated in Strategic Plan biennial update) Count: 6
Total: 40	

Cultivate Target Industry Clusters	
FY 2019 Initiatives	FY 2020 Initiatives
Collaborate with The Port of Virginia to enhance its economic development efforts	Attract firms in the Cybersecurity 500 index
Enhance the toolkits, strategies, and assets on hand to attract targeted firms	Commit state financial support for expanded 21 st -century technology campus(es)*
Develop clusters built around IT-focused Big Push efforts	Embrace regulatory experimentation to develop the next-gen of transportation and logistics
	Enhance existing technology transfer efforts at universities and federal labs
	Expand the startup ecosystem through dedicated resourcing and support
	Create an InnoVAte team to enhance Virginia's innovation ecosystem and branding
	* Part of Amazon HQ2 investment package

Cultivate Target Industry Clusters	
FY 2019 Initiatives	FY 2020 Initiatives
Create a turnkey, customized workforce recruitment and training incentive program	Expand supply of high-need baccalaureate degrees in critical fields
Expand supply of high-need subbaccalaureate degrees and other credentials in critical fields*	Upgrade Virginia's labor market data infrastructure to empower data-driven decision-making
Strategically enhance Virginia's portfolio of development-ready sites and buildings	Build excitement for 21 st -century technology education and careers in K-12*
Build a best-in-class Economic Competitiveness team within VEDP	Provide targeted incentives to produce and retain talent with high-demand skills and experience
Pursue a national rankings initiative to develop strategies and plans for marked improvement	Integrate employer partnerships more deeply into the workforce and education ecosystem*
Launch an Economic Development Innovation and Research Fund	Develop a public-private partnership to launch and manage a Site Improvement Fund
Proactively address key elements of regional economic competitiveness	Marshal the Commonwealth's full support behind expanding broadband access
Develop framework for assessing local economic competitiveness	* Part of Amazon HQ2 investment package
Assess Virginia's state/local tax burdens and propose targeted solutions to improve tax competitiveness	
Pursue a focused economic development strategy sufficient to position rural VA for growth	

Enhance VEDP's Capabilities

FY 2019 Initiatives

FY 2020 Initiatives

Implement protocols for alignment and coordination	Build deep, dedicated cluster expertise within VEDP's Business Investment division**
Establish structured quarterly communications program with economic development partners	**VEDP had not yet requested state funding for this initiative
Implement a training and professional development program for VEDP staff	
Implement a robust marketing, branding, and site consultant cultivation program for Virginia	
Upgrade VEDP's lead generation capabilities	
Implement a strategic site consultant cultivation program	
Expand VEDP's Business Retention and Expansion (BRE) program	
Expand VEDP's well-regarded and oversubscribed International Trade development programs	
Strengthen VEDP's approach to project management to communicate Virginia's total value proposition	
Launch a Project Development and Special Opportunities Fund (note: partially implemented in FY18)	
Build a dedicated division of incentives	
Develop best-in-class incentives reporting functions	
Position Virginia to secure transformational economic development projects	

FY19 Operational Plan update

VEDP's annual Operational Plan is the primary tool for operationalizing the strategies and initiatives identified in the Strategic Plan, and ultimately achieving VEDP's transformational goals. VEDP's FY19 Operational Plan covers activities that were planned between July 1, 2018 and June 30, 2019. The Plan contained 15 major initiatives that, along with the workplans for ongoing activities for each of VEDP's divisions, guided the initial implementation of the detailed initiatives identified in the Strategic Plan. The Operational Plan also established annual performance metrics for the fiscal year.

Performance metrics FY19 Goals vs. Actuals

Performance metric	FY 2019 Goals	FY 2019 Results	% of Measure Goals
VEDP-assisted project announcements: Capital Investment	\$2.5 billion	\$10.4 billion	416%
VEDP-assisted project announcements: Direct Jobs	13,000	36,913	283%
VEDP-generated leads: Number	350	406	116%
VEDP-generated leads: Number converted	125	197	157%
Virginia companies enrolled in International Trade programs	320	329	103%
Projected international sales from Virginia companies participating in VEDP International Trade programs	\$600 million ¹	\$793 million	132%
Projected trade-supported jobs from Virginia companies participating in VEDP International Trade programs	5,400 ¹	7,133	132%

¹During the course of FY19, the goals relating to Virginia companies participating in International Trade programs were adjusted by the VEDP Board to the figures presented here in order to reflect more accurate survey methodology.

Major Initiatives

VEDP executed against each of the 15 Major Initiatives identified in its FY19 Operational Plan, as summarized below:

Major Initiative ¹	Percentage complete (of FY19 goal)	Overview
1. Develop and execute a comprehensive strategy to cultivate rural technology centers	100%	Held four company meetings in Phase 1 with two leads generated; developed hypotheses for future phases
2. Create a turnkey, customized workforce recruitment and training incentive program in collaboration with VCCS	100%	Updated timeline for hiring of SVP; made strong progress on org. design/key hires; began partner introductions; kicked off facilities planning
3. Work with key partners to identify opportunities to expand supply of high-demand degrees and credentials in critical fields	50%	Continued interviewing tech sector companies and sharing results with core stakeholders; establishing process for education stakeholder outreach

Major Initiative¹	Percentage complete (of FY19 goal)	Overview
4. Develop a strategy to enhance Virginia's portfolio of development ready sites	100%	Kicked off site characterization process with engineering firm partners for ~400 sites of 25+ acres; released RFP to evaluate non-physical characteristics
5. Develop targeted strategies to address key elements of local competitiveness	100%	Changes to the workplan (e.g., additional stakeholder input) delayed product delivery; stakeholder engagement ongoing
6. Assess Virginia's state and local tax burdens and propose targeted solutions to improve overall tax competitiveness	100%	Concluded initiative; developed targeted tax proposals, incl. modeled rankings and revenue impacts
7. Pending sufficient funding, implement a comprehensive talent management program and improve internal collaboration and communication	n/a (no new funding allocated)	Initiated execution of short-term activities in the absence of new funding, and drafted broader structure and processes pending new funding
8. Build a best-in-class lead generation capability	100%	Executed FY19 lead generation plan, exceeding performance goals for leads created and converted
9. Implement a robust inbound and outbound site consultant cultivation program	100%	Secured consultant in-office visits and spring in-bound FAM tours.
10. Execute and expand VEDP's Business Retention and Expansion (BRE) program	100%	Continued target company visits with EDOs; building corporate HQ visit candidates from EDOs and from visits
11. Strengthen VEDP's approach to project management by developing a repeatable process, focusing on communicating Virginia's total value proposition	100%	Reviewed data for value proposition for target sectors (automotive, software, cyber and data centers); surveyed partners/clients on project manager effectiveness
12. Develop a transformational projects matrix, including top targets and anticipated investment packages by region	100%	Defining "transformational project" by region and industry; remainder of project postponed due to HQ2
13. Identify top opportunities to expand trade and trade-related jobs in Virginia	100%	Analyses completed; Int'l Trade Plan development substantially completed for public launch in late 2019
14. Implement a comprehensive partner relations program	100%	Attended various meetings/events and met with partners and legislators across Virginia to understand issues and align resources
15. Deepen understanding of and summarize Virginia's value proposition for each target sector and region	100%	Completed state- and regional-level analysis of all target sectors; validated results with Business Investment Managers / leadership

¹Reflects Board-endorsed adjustments made to the scope and/or timing of some initiatives during FY19

VEDP's FY20 Operational Plan builds upon the progress made to date and is intended to further advance the implementation of the 40 initiatives contained in the Strategic Plan. In FY20, VEDP will focus on the following 11 Major Initiatives, along with other ongoing activities including implementation of the International Trade Plan for the Commonwealth. Progress made against these Major Initiatives and other activities outlined in its FY20 Operational Plan will be reported next year after the close of FY20.

1. Embed continuously-refined value proposition in VEDP messaging, materials, and industry strategies
2. Modernize and redeploy Salesforce to mirror business processes and support decision making
3. Create a turnkey, customized workforce recruitment and training incentive program in collaboration with VCCS
4. Develop a strategy to enhance Virginia's portfolio of development-ready sites
5. Identify opportunities to address talent shortages in high-demand occupations
6. Develop and execute an outreach strategy to assess local and regional competitiveness, using the community competitiveness framework
7. Develop rural and small metro tech centers across Virginia
8. In partnership with the Virginia Chamber, launch Team Virginia, an executive-to-executive 501(c)3 marketing organization
9. Develop a high-impact biennium budget package
10. Implement a comprehensive talent management program
11. Refresh FY19-23 Strategic Plan per Virginia Code

FY19 Marketing Plan update

A strong, comprehensive marketing program is critical to building awareness of Virginia's assets among businesses and site selection consultants. Because location decisions are influenced by perceptions as well as by objective evaluations of more concrete factors that matter to companies, strategic marketing efforts aimed at enhancing the state's reputation can significantly improve its effectiveness in attracting jobs and investment.

The Code of Virginia charges VEDP with economic development marketing responsibilities that include

- seeing that effective economic development marketing and promotional programs are carried out, and
- developing and updating biennially a marketing plan for the Commonwealth as a whole.

VEDP focused its marketing efforts on seven target sectors: corporate services, food and beverage processing, information/communication technologies, life sciences, manufacturing, supply chain management, and unmanned systems.

In FY19, VEDP's Marketing and Communications division made strategic investments to improve the brand image of both Virginia and the organization, leveraging partial funding toward a comprehensive program for recurring, third-party economic development marketing. These efforts included the launch of a new quarterly publication, *Virginia Economic Review*, and the development of a c-level testimonial campaign that can be used for sponsorship and digital advertising placements as well as on vedp.org. In addition, VEDP implemented a targeted site selection consultant cultivation effort to raise awareness and improve perceptions of Virginia as a premier business destination among this highly-valued influencer group.

To further promote Virginia as a top destination for business, the Business Investment division also attended multiple trade shows and conducted marketing missions in conjunction with regional and local economic development partners. These efforts were supported by lead generation calling campaigns and activities conducted by representatives in VEDP's foreign offices.

In FY20, VEDP plans to utilize \$2.7 million to implement select strategic marketing initiatives, such as the publication of the quarterly magazine for top site consultants and targeted corporate executives, expanded site consultant cultivation efforts, sponsoring and hosting events, creating an expanded suite of marketing collateral, and developing and pursuing the development of new digital marketing tools.

To shield strategic initiatives from competitors, the update provided in this document is purposely high level. Additional details about VEDP's marketing and lead generation activities in FY19 can be provided anytime through in-person briefings.

Marketing in High-Unemployment and Rural Areas

While VEDP's strategies and initiatives are designed to position the entire Commonwealth to achieve robust economic growth, many of the activities outlined in the strategic, marketing, and operational plans will have particularly important and focused impacts on the economic opportunities available in Virginia's high-unemployment and rural areas.

A regional approach to economic development

One of VEDP's five transformational goals is for every region to share in to the state's overall economic growth. Using a regional approach to execute the Partnership's strategic and operational plans is key to ensuring that job and income growth reach every part of the Commonwealth. When every region wins, workers in every locality—especially those with high unemployment levels—benefit from job opportunities created within commuting distance and their impact on the economy.

Project activity by region in FY19

VEDP Marketing Region (see map below)	Regional profile		Visits	Referrals		Project wins		
	% of VA work-force	Number of Distressed ¹ Localities	VEDP Prospect Visits ²	Property ³	Projects ⁴	Projects	New jobs	Capital invested (\$M)
Central Virginia	4.2	0	1	42	29	3	340	39
Eastern Shore	0.5	2	2	8	7	-	-	-
Greater Fredericksburg	4.1	2	9	113	37	2	150	28
Greater Richmond*	13.4	2	29	356	106	14	1,555	328
Greater Williamsburg	1.8	1	5	46	34	-	-	-
Hampton Roads	17.2	5	25	304	89	13	701	190
I-81 I-77 Crossroads	2.0	5	1	122	54	7	369	50
I-95 I-85 Intersection (Virginia's Gateway Region)*	1.5	6	13	120	70	2	222	30
Lynchburg Region	2.8	2	1	25	23	2	0	7
Middle Peninsula	1.1	1	2	22	5	1	20	2
New River Valley	2.0	2	4	58	34	5	1,431	404
Northern Neck	0.6	3	2	3	3	2	48	3
Northern Shenandoah Valley	2.1	0	7	69	37	2	311	13
Northern Virginia	33.3	0	12	199	41	24	29,506	6,476

VEDP Marketing Region (see map below)	Regional profile		Visits	Referrals		Project wins		
	% of VA work-force	Number of Distressed ¹ Localities	VEDP Prospect Visits ²	Property ³	Projects ⁴	Projects	New jobs	Capital invested (\$M)
Roanoke Region	3.8	3	6	89	49	7	332	315
Shenandoah Valley	4.1	3	11	142	59	13	657	1,259
South Central Virginia (VA's Growth Alliance)	1.6	7	15	149	59	4	222	1,072
Southern Virginia	2.3	6	22	129	61	8	966	171
Southwest Virginia (e-Region)	1.6	7	3	52	29	3	83	9
Statewide Total	100.0	57	170	2,048	n/a⁴	112	36,913	10,394

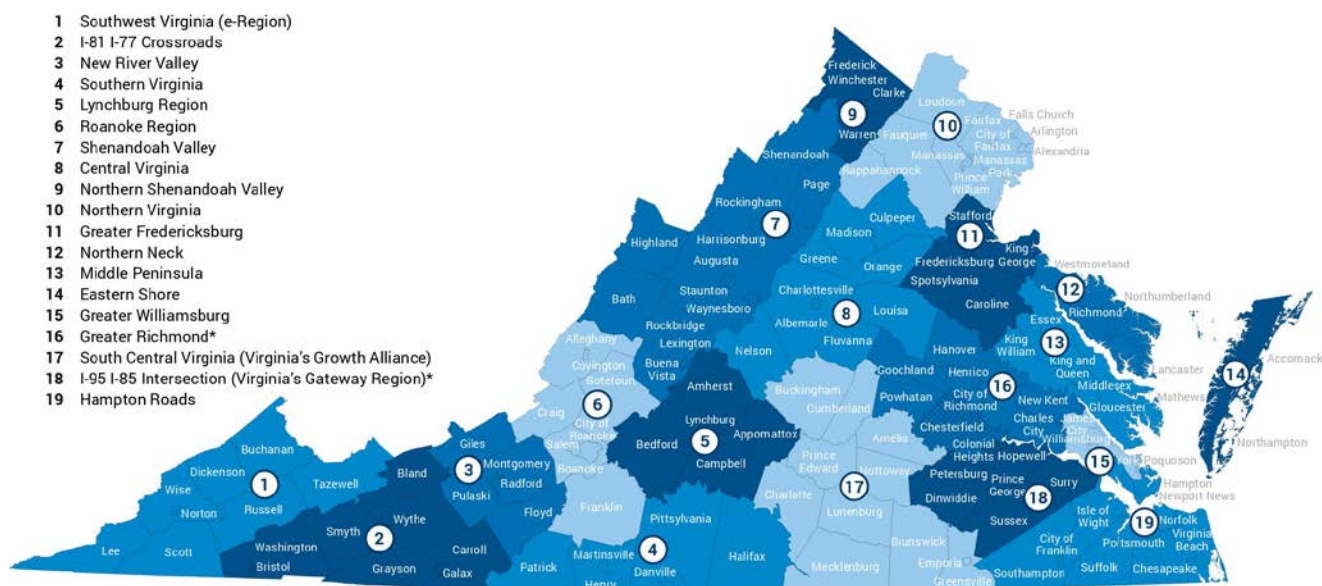
Project activity is reported by Marketing Region and may not match the figures calculated by Regional EDO for other VEDP reports, such as the Quarterly Partner Report

¹Localities with an unemployment rate of 0.5 percentage points or more above the average unemployment rate for the state as of Q1 2019 (3.0 percent)

²Count of visits made to properties by prospects

³Total number of times regional properties were referred by VEDP to prospects in support of VEDP-generated project work. The same property can be referred multiple times during the year and is counted as a referral each time

⁴Count of unique VEDP-generated projects that received property referrals within the region. Projects may be referred to multiple regions and cannot be added across regions to form a statewide total



*Chesterfield County is in two regions; to avoid double-counting, it has been reported only with Greater Richmond

Regional marketing efforts are necessary to buck national trends for distressed areas

Targeting economic development efforts at distressed localities specifically is unlikely to be successful given historical trends: across the nation as well as in Virginia, over 80 percent of localities did not experience a single project win on average over the past four years. Changing this dynamic significantly would require, at a minimum, unprecedented efforts and fundamental changes in economic development practices, and may ultimately not be feasible without employing other strategies. In contrast, over two-thirds (68 percent) of Virginia regions experienced at least one project win during the same time period.

Based on employment forecasts, nearly all Virginia regions are expected to experience net job growth over the next ten years. Only three regions (Northern Neck-Chesapeake Bay, Southern Virginia Regional Alliance, and Virginia's e-Region) currently face a slightly negative job forecast, and they could be positioned for net growth with no more than a few hundred additional jobs on average each year — an addressable gap for VEDP.

The concept of a regional approach has already been validated by local efforts. Most local economic developers rely on regional economic development organizations to market their broader region to companies. State policy has also recognized the benefits of regional collaboration with the design of the GO Virginia program.

Significant investments have been made to address long-standing, state-specific challenges

Although states throughout the nation have wrestled with how to spur economic development in fiscally-distressed areas, Virginia has long faced some unique challenges—particularly against major competitors. Over the past year, meaningful progress has been made toward mitigating many of these challenges as a result of budgetary and policy actions taken by the General Assembly and the Administration, combined with initiatives carried out by VEDP. The progress made has enhanced the Commonwealth's ability to successfully compete for projects not only in distressed areas, but throughout the state. A lot more remains to be done, beginning with the FY20 activities highlighted below.

Marketing and communications activities

Challenges

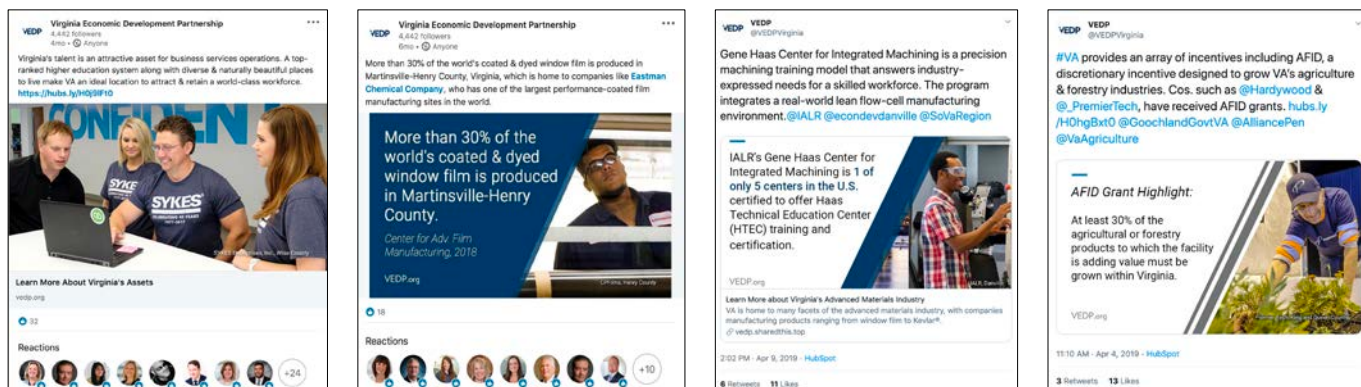
Economic developers throughout the state report that Virginia has historically not been well known to business leaders and their site selection consultants outside of the Commonwealth. Until recently, no funding had been allocated toward raising awareness of the strong business advantages presented by Virginia generally, and its rural and high-unemployment areas specifically. A fully-funded marketing program is a critical requirement for effectively branding and marketing rural regions in Virginia as a top destination for certain target industries because of their business climate, assets, and workforce potential.

Actions taken

VEDP received funding to implement a limited integrated marketing program in FY 2019. As part of this program, VEDP highlighted rural advantages and assets as a component of its overall marketing communications, which include social media, a new quarterly publication, *Virginia Economic Review*, and site consultant and media familiarization tours.

Social Media

VEDP is incorporating rural marketing into our social media strategy with posts highlighting: regional assets, key companies, project announcements, available properties, executive quotes, company case studies, and more. 57% of the partner mentions in FY19 on VEDP's Twitter account were of a rural locality or region.



Virginia Economic Review

Each issue of *Virginia Economic Review* provides an inside look at Virginia's economy, its diverse array of world-class companies, its amazing talent, and its stunning natural beauty, as well as insights from national thought leaders. VEDP published two editions of *Virginia Economic Review* in FY19 with rural content integrated into the each issue.

First Quarter 2019 (Tech Focus)

Rural Highlights:

- Virginia Tech Corporate Research Center
- Regional spotlight on Southwest Virginia

Second Quarter 2019 (Manufacturing Focus)

Rural Highlights:

- Workforce development pipeline in Danville/Pittsylvania County
- PBE Group's (Tazewell) international trade successes
- Regional spotlight on the I-81 corridor from Bristol to Winchester

Inbound Familiarization (FAM) Tours

In FY19, VEDP coordinated nine inbound site consultant FAM tours with regional partners. Eight of these consultant FAM tours were conducted in predominantly rural regions. VEDP also conducted two inbound media FAM tours in conjunction with seven regional partners, including six predominantly rural regions.

FY20 plan

Virginia Economic Review

The Third Quarter 2019 issue focuses on various dimensions of America's rural growth challenge and features thought leaders and others who are making a difference. The issue also dives into how Virginia is seeking to leverage its distinctive strengths to buck national trends in rural economic development.

Highlights include:

- Facts & figures about rural communities
- Investments in broadband and site development
- Virginia Talent Accelerator Program
- Rural and small metro tech centers initiative
- Interviews with rural thought leaders
- Agricultural exports
- Photo essay featuring 11 of Virginia's regions

The Fourth Quarter CY2019 issue will focus on data in Virginia (e.g., data science, data centers) and will highlight Microsoft's investment in Southern Virginia. The First Quarter of CY2020 issue will focus on food and beverage processing in Virginia.



Additional Planned Activities

VEDP will continue to partner with regional EDOs to host familiarization tours in their regions for site selection consultants & media as well as incorporate rural marketing into our social media strategy. The M&C team will launch a limited C-level testimonial campaign featuring companies located in Virginia. VEDP is also filming drone videos of Virginia's certified sites which includes sites in 12 regions of state.

Incentives

Challenges

Virginia has long awarded companies lower incentives per job and dollar invested than competitor states, relying instead on the many other strengths the Commonwealth has to offer (e.g., business friendliness, highly-educated workforce). Despite the state's many successes, certain locations face difficulties attracting and retaining businesses if they face barriers such as long distances from a large population center, as is often the case with distressed areas. Smaller incentives mean that grants are not as effective at mitigating the impact of barriers or remedying them. Even when barriers do not present a major issue, Virginia can be at a competitive disadvantage relative to other states that are far more aggressive with financial incentives (see first chart below). As shown in the second chart below, Virginia's new project activity has underperformed many regional competitors over the past three years.

Virginia also lacks by-right state and local tax benefits for new manufacturing jobs and investment. Although the state is regarded as having a generally competitive tax environment, new manufacturers typically face a higher state and local tax burden in Virginia compared to many competitor states.

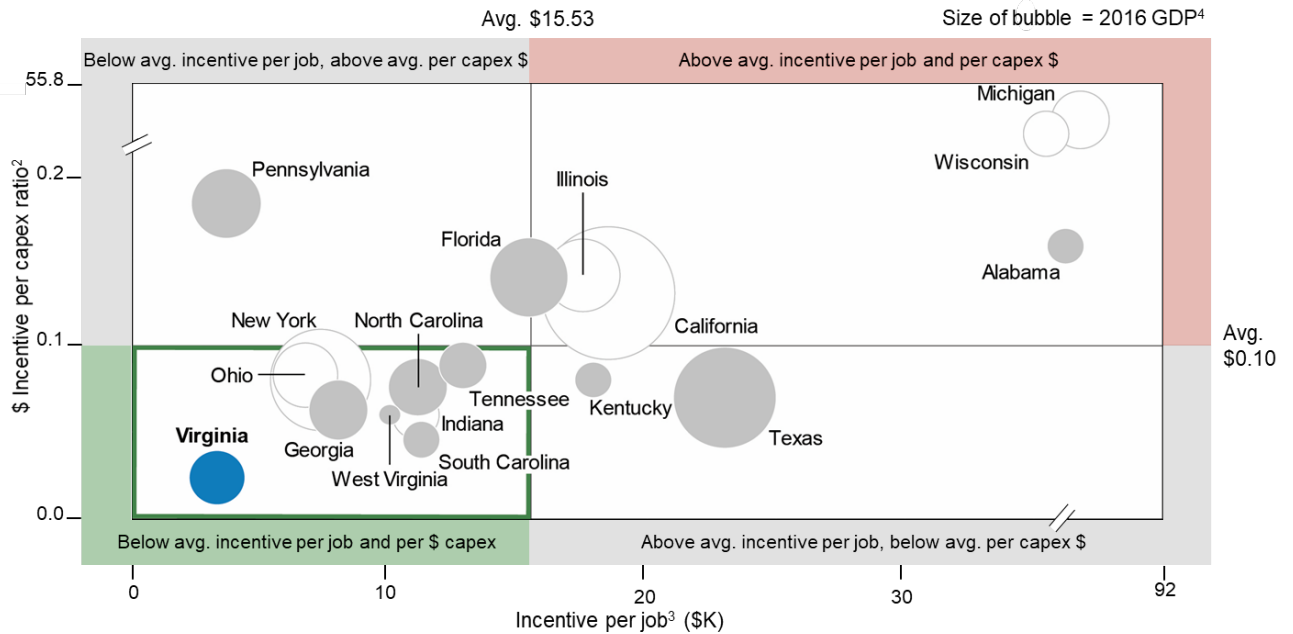
Actions taken

To enhance Virginia's competitiveness in attracting new employers to the state, custom grants have been more frequently used to secure major projects expected to have a transformational effect in an entire region, including high-unemployment localities. The custom grants structured in collaboration with legislative and Administration partners facilitated projects such as the \$400 million and 770+ jobs expansion of the Volvo Trucks facility in the New River Valley, and the \$1 billion expansion of the Merck facility that will add 152 high-paying jobs to the Shenandoah Valley region.

In addition, the 2018 General Assembly passed and the Governor signed House Bill 222 into law. The "New Company Incentive Program" provides employers that are new to Virginia with an exemption from income taxes and up to \$2,000 per new job if they meet certain statutory requirements including:

- Locating in a specified set of localities—many of which are distressed, and
- Exceeding certain job and investment thresholds.

Incentive per job & capex among peers¹ (2013 – 2017)



¹ Considers OH, regional peers, and competitive peers; Data for OH and all peer states except AL and TN pulled February 14, 2018; data for AL and TN pulled March 5, 2018;

² Considers total incentives divided by sum of capex promised by each deal at the time of deal announcement;

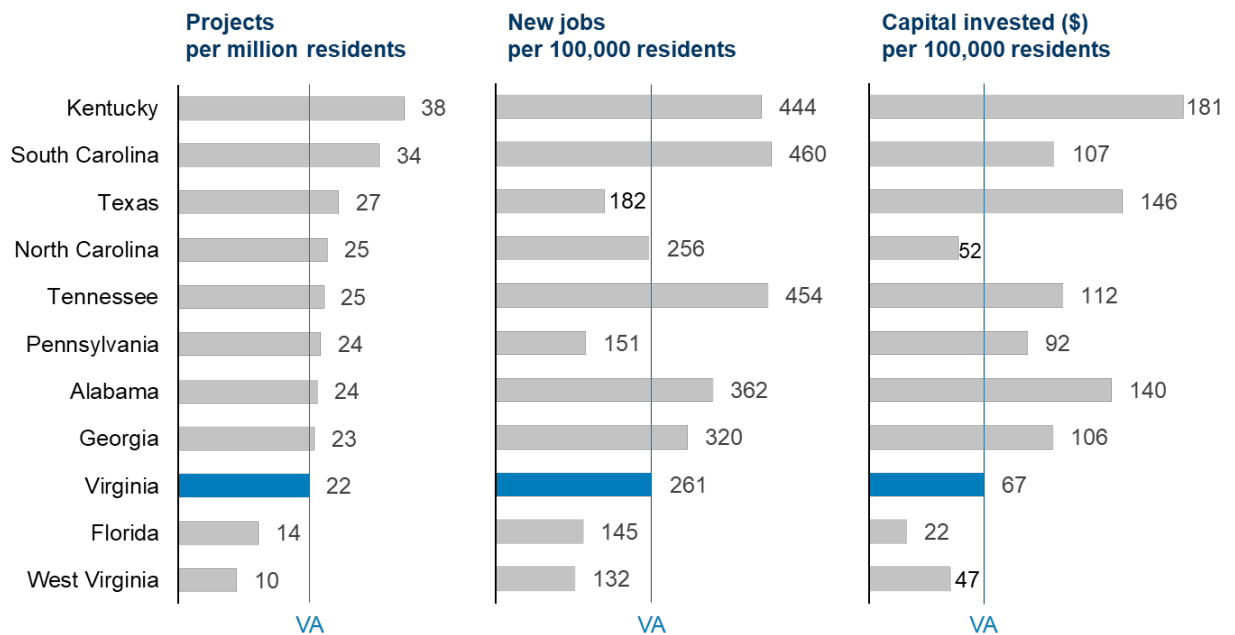
³ Considers total incentives divided by the sum of jobs (created and safeguarded) promised by each deal at the time of deal announcement;

⁴ 2016 real GDP (chained to 2009 USD), M

Source: IncentivesMonitor – WAVTEQ (www.IncentivesMonitor.com), Moody's

Virginia and regional competitor greenfield announcements¹

Greenfield projects, jobs, and capital investment normalized by population (2016-2018)



¹ Excludes Amazon HQ2, which distorts historic performance trends due to exceptional size

Source: Conway Analytics; U.S. Census Bureau; VEDP analysis

FY20 plan

Funding to the Virginia Jobs Investment Program (VJIP) has also been restored to previous, higher levels. This program, which offers financial assistance and training to companies that seek to attract and retain qualified employees in the Commonwealth, is particularly important in distressed localities where the volume of trained workers may be insufficient to meet the needs of companies that might otherwise locate in these areas. VEDP will continue to work with legislative and Administration partners to structure custom grants for opportunities whose economic impact on the region warrant a competitive and tailored approach.

Sites and Buildings Development

Challenges

Unlike several of its main competitors (e.g., Tennessee, Georgia, Alabama, North Carolina), Virginia had not until recently made any significant investment in developing sites and buildings to meet the short timelines and expectations of major companies looking to start operations as soon as possible. Without an adequate and diverse supply of quality sites in every Virginia region, the state may lose projects for which it might otherwise have been competitive, and may face difficulties supporting robust job growth across the state. An analysis of the reasons why Virginia lost projects over the past three years confirms that the availability and readiness of sites are the leading “deal breaker” according to companies.

Actions taken

The 2018 General Assembly and the Governor appropriated \$2 million in FY19 for VEDP to characterize all Virginia sites over 25 acres. The characterization effort, which was undertaken as part of the Virginia Business Ready Sites Program, was intended to produce an assessment of the current readiness of available sites and to collect information that would help guide the allocation of future investments in site development. Using these funds, VEDP worked with partners, engineering firms, and site selection consultants to produce characterization reports and location competitiveness reports for 466 sites, as well as ratings on the developability of each site and its suitability for a variety of sectors.

FY20 plan

Results from the characterization efforts will help guide decisions about investing in specific sites in any geography or sector. Additional investment for site development will be needed to begin creating a competitive portfolio of “shovel-ready” sites across the state.

Custom Workforce

Challenges

Despite having some of the country’s best educational attainment levels and higher education institutions, Virginia has lacked a turnkey, custom workforce recruitment and training incentive program to compete with other southeastern states (Georgia, Louisiana, Alabama, North Carolina, and South Carolina). By offering highly customized solutions to qualified new and expanding companies, these states have been able to overcome deficiencies that may exist with the availability, skill level, and quality of the workforce in certain industries or locations, such as distressed areas. Further, companies and site-selection consultants place a high premium on this type of incentive as it offers a very valuable, tangible benefit with a market value that far exceeds the state’s cost to provide.

Actions taken

In FY18, the General Assembly and the Administration approved funding to launch Virginia's own custom workforce solutions program. Recently branded as the Virginia Talent Accelerator Program, the program has been ramping up during FY19 and has strong leaders in key positions. The program has been offered to several significant projects and its first customer was secured in October 2019, with the announcement of Morgan Olson's move to Danville-Pittsylvania County, Virginia.

FY20 plan

During FY20, the new leadership team will begin hiring instructional design, visualization, and learning technology talent. Their area of focus will be on developing and delivering highly customized solutions for the program's first clients. They will also build the program's infrastructure, including a suite of training modules to supplement the highly customized deliverables which will be the program's core service.

Familiarization and education activities

To better understand and market the specific advantages and assets that each region possesses for VEDP's target sectors, VEDP partnered with most regional EDOs to conduct familiarization tours. Business Investment and Lead Generation managers participated in 21 familiarization tours in 15 regions and several unaffiliated localities in FY19, focusing on regional assets relevant to their assigned sectors. Another 10 asset-related tours in 10 regions are already planned for FY20. Tours with a broad regional focus are planned to every Regional EDO in FY20.

Special initiatives for distressed communities

Rural think tank initiatives

Initiatives identified by the rural think tank group continue to progress in Virginia. Formed in 2017, the group identified various initiatives that would significantly impact rural economic growth and advance rural economic development. Nearly all of the identified initiatives have made some progress toward the identified goals over the last two years. During FY 2019, the rural think tank group met to receive a broadband update regarding the Virginia telecommunications initiative, a review of the site characterization initiative, rural and small metro technology center initiative, local and regional economic competitiveness, and other priorities. More details about the progress made is shown in the exhibit on the following page.

In FY20, VEDP plans to continue working with think tank members to maintain focus on the eight outlined initiatives. While progress has been made on many of these initiatives, there is still much work to be done. Increased funding will be needed to expand many of these, including the rural marketing initiative, ubiquitous broadband, expanded site inventory, and the customized workforce program.

Additionally, VEDP is launching a local economic competitiveness survey initiative to help local and regional economic developers have a better understanding of their readiness compared to their peers. This initiative will help address the community competitiveness recommendation.

	Recommendations	Details	Percent Complete (%)
1	Rural Marketing Initiative	Brand rural Virginia as the most attractive, most competitive locations in the U.S. for manufacturing and other sectors open to rural locations (e.g., BPO, data centers, distribution)	25-35
1	Ubiquitous broadband	Leverage public-private partnerships and/or incentives to achieve ubiquitous broadband coverage in Virginia within 5-7 years	30-40
3	Expanded site inventory	Dramatically expand competitive site inventory, ranging from mega sites to business parks depending on the regional strategy	5-10
4	Customized workforce	Create a world-class, turnkey, customized workforce development incentive program for competitive economic development projects to build confidence that a high-quality, trained workforce can be secured	30-40
5	Partnerships to fund projects	Partner with the Tobacco Commission, VCEDA and other economic development funding sources in rural Virginia to target and attract high-impact projects to rural Virginia communities through private capital investment partnership opportunities	On track
6	Tax / incentive changes	Encourage state and local leaders to work together in a bipartisan fashion to make state and/or local tax changes to ensure that Virginia's tax burden rankings for new, job-creating investments are no worse than those for existing firms.	10
7	Community competitiveness	Bring back some form of a community competitiveness/readiness index	10
8	Civic leadership	Rebuild civic leadership with the next generation in rural Virginia	TBD

Rural and small metro tech centers

VEDP's Rural and Small Metro Technology Centers Initiative is aimed at supporting the growth of high-wage, tech sector jobs in rural and small metro Virginia. In FY19, VEDP focused on opportunities for onshore delivery centers, and marketed rural and small metro Virginia communities to large technology sector companies in pursuit of these opportunities. As a result, representatives from global tech companies came to visit rural Virginia communities, and VEDP is continuing to work these project opportunities. In FY20, VEDP will add "Software as a Service" (SaaS) firms and data centers to its growing focus for rural and small metro technology sector growth. The initiative requires collaboration between technology companies, higher education institutions, and other key stakeholders to create a hub for information technology and computer science companies with the talent pipeline they need to succeed.

By fully implementing these initiatives as well as others outlined in the Strategic Plan, Virginia can achieve a growth rate among the top 5-10 states in the U.S., while also ensuring that every region participates in the growth of the Commonwealth (i.e., all regions with positive growth in employment and median earned income of workers).

Board of Directors Rural Virginia Action Committee

During FY19, the Rural Virginia Action Committee of the VEDP Board of Directors focused their efforts on supporting the initiatives identified by the rural think tank group as top priorities for rural economic growth. The committee members engaged on several specific priorities including site development, broadband expansion, local and regional economic competitiveness, and civic leadership development. The Rural Virginia Action Committee of the VEDP Board of Directors received a presentation from the VRC on North Carolina's Rural Economic Development Institute and the VRC's plans for a similar program in Virginia.

VEDP board members are supportive of the VRC's efforts to create this program and address civic leadership challenges in rural Virginia.

In the beginning of FY20, Mr. Ned Massee took over as Chairman of the VEDP Board of Directors and stepped down as Chair of the Rural Action Committee. Mr. Rick Harrell, VEDP board member from South Boston (GO Virginia Region 3), was appointed Chairman of the committee. In FY20, the committee plans to support various initiatives focused on ways to better assist communities with their economic development work with VEDP as a convener and partner in these efforts. Building upon past work, the Committee will continue to support VEDP and other stakeholders in furthering policies and practices aimed at enhancing economic development opportunities in underserved and distressed communities throughout the Commonwealth.

FY19 audited financial statements

Following are the Virginia Economic Development Partnership's Audited Basic Financial Statements for the Fiscal Year Ended June 30, 2019, as well as an independent opinion letter issued by the Auditor of Public Accounts.

Virginia Economic Development Partnership Audited Basic Financial Statements Fiscal Year 2019

Virginia Economic Development Partnership
Audited Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

- TABLE OF CONTENTS -

	<u>Pages</u>
INTRODUCTORY SECTION	
Appointed Officials	2
FINANCIAL SECTION	
Management's Discussion and Analysis	3-8
Basic Financial Statements	
Statement of Net Position	9
Statement of Activities	10
Balance Sheet-Governmental Funds	11
Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Statement of Revenues, Expenditures, and Changes in Fund Balances, Budget and Actual-Cash Basis-General and Special Revenue Funds	14
Notes to Financial Statements	15-70
Required Supplementary Information	71-89
Independent Auditor's Report on Financial Statements	90-92

INTRODUCTORY SECTION

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
Richmond, Virginia

APPOINTED OFFICIALS
As of June 30, 2019

Board of Directors

Ned W. Massee, Chair
The Honorable Brian Ball, Ex-Officio, Vice Chair

Carrie Hileman Chenery	William “Bill” Hayter
C. Daniel Clemente	Vincent J. Mastracco
Heather Engel	Dan M. Pleasant
Greg B. Fairchild	John F. Reinhart
Deborah K. Flippo	Xavier R. Richardson
Richard “Rick” O. Harrell, III	

The Honorable Aubrey L. Lane, Jr., Ex-Officio
April Kees, Ex-Officio
Jason Powell, Ex-Officio
Robert P. Vaughn, Ex-Officio
John O. “Dubby” Wynne, Ex-Officio

President and Chief Executive Officer

Stephen M. Moret

FINANCIAL SECTION

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
AS OF JUNE 30, 2019

The Virginia Economic Development Partnership (the Partnership) management offers the readers of the Partnership's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended June 30, 2019. We encourage the reader to consider this information presented here in conjunction with the financial statements and accompanying notes.

Overview of the Financial Statements

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

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

Reconciliations between Government-Wide and Fund Financial Statements

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

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of an organization's financial position. At the close of the fiscal year ended June 30, 2019, the Partnership had a net position of (\$4,552,396) compared to a net position of (\$9,004,302) as of June 30, 2018. Following is an analysis of the changes in the net position of the Partnership.

	<u>Net Position</u>		
	<u>2019</u>	<u>2018</u>	<u>Increase (Decrease)</u>
Current and other assets	\$10,994,876	\$ 5,687,632	\$ 5,307,244
Capital assets, net of depreciation	<u>1,043,091</u>	<u>1,250,911</u>	<u>(207,820)</u>
Total assets	12,037,967	6,938,543	5,099,424
Deferred outflows of resources	<u>3,023,129</u>	<u>1,924,945</u>	<u>1,098,184</u>
Total assets and deferred outflows	<u>15,061,096</u>	<u>8,863,488</u>	<u>6,197,608</u>
Non-current liabilities	16,046,730	15,801,150	245,580
Other liabilities	<u>1,489,160</u>	<u>491,592</u>	<u>997,568</u>
Total liabilities	17,535,890	16,292,742	1,243,148
Deferred inflows of resources	<u>2,077,602</u>	<u>1,575,048</u>	<u>502,554</u>
Total liabilities and deferred inflows	<u>19,613,492</u>	<u>17,867,790</u>	<u>1,745,702</u>
Net position:			
Net investment in capital assets	923,558	1,250,911	(327,353)
Restricted	508,000	412,000	96,000
Unrestricted	<u>(5,983,954)</u>	<u>(10,667,213)</u>	<u>4,683,259</u>
Total net position	<u>\$ (4,552,396)</u>	<u>\$ (9,004,302)</u>	<u>\$ 4,451,906</u>

Total assets increased this fiscal year by \$5,099,424 when compared to last year, primarily due to an increase of \$4,778,711 in the Current asset, cash. The major components of the cash increase were funding received in FY2019 for the Custom Workforce Solutions division (\$2.4 million), the Business Ready Sites Characterization program (\$1.7 million), and the Business Ready Sites Mitigation program (\$1.0 million) carried forward to the next fiscal year. The remaining increase in *Total assets* is due to an increase of \$424,481 in Prepaid expenses related to various international trade shows and site selector events, as well as an increase of \$96,000 in the Restricted net other postemployment asset recorded in compliance with GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75), related to the Partnership's participation in the Virginia Retirement System Disability Insurance Program. These increases were offset by a decrease of \$207,820 in Capital assets, net of depreciation, due to normal depreciation expense and disposal of computer equipment.

Deferred outflows of resources increased by \$1,098,184. This increase is due primarily to changes in proportion and differences between employer contributions and proportionate share of contributions related to the Partnership's participation in the Virginia Retirement System pension and other postemployment benefit plans, recorded in compliance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68) and GASB 75.

Total liabilities increased by \$1,243,148 due to an increase in the Non-current liabilities of the Partnership's net pension liability of \$258,000, along with an increase of \$1,065,973 in Accounts payable due to the timing of year-end payments, offset by decreases in Accrued payroll and Unearned revenue totaling \$68,405.

Deferred inflows of resources increased by \$502,554. This increase is due mainly to differences between expected and actual experience related to the Partnership's participation in the Virginia Retirement System pension and other postemployment benefit plans, recorded in compliance with GASB 68 and GASB 75.

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

Restricted Net position represents the portion of fund balance related to the Restricted net other postemployment asset recorded in compliance with GASB 75 due to the Partnership's participation in the Virginia Retirement System Disability Insurance Program. The remaining *Net position* balance of (\$5,983,954) is classified as *unrestricted*. The Partnership has recorded \$14,956,333 of net pension liability and net other postemployment benefits liabilities that are expected to be paid with future appropriations from the COV. The Partnership's Current and other assets exceed its Other liabilities by \$9,505,716.

	<u>Changes in Net Position</u>		
	<u>2019</u>	<u>2018</u>	<u>Increase (Decrease)</u>
Revenues:			
Program revenues:			
Charges for services	\$ 490,332	\$ 1,756,477	\$ (1,266,145)
Operating grants	178,755	302,061	(123,306)
General revenues:			
General Fund appropriations	33,945,246	28,495,883	5,449,363
Other	356,319	240,879	115,440
Total revenues	34,970,652	30,795,300	4,175,352
Expenses:			
Workforce Solutions	837,571	1,050,713	(213,142)
Custom Workforce Solutions	141,144	-	141,144
Business Investment	5,210,905	5,097,254	113,651
International Trade	7,086,272	6,778,849	307,423
Research	2,207,695	2,141,567	66,128
Marketing and Communications	2,596,029	2,156,250	439,779
Economic Competitiveness	843,216	783,191	60,025
Information Technology	1,599,111	1,518,117	80,994
Incentives	591,364	-	591,364
Administration	5,873,761	7,969,813	(2,096,052)
Pass-Through Payments	3,531,678	5,105,731	(1,574,053)
Total expenses	30,518,746	32,601,485	(2,082,739)
Increase (Decrease) in net position	4,451,906	(1,806,185)	6,258,091
Beginning net position	(9,004,302)	(7,198,117)	(1,806,185)
Ending net position	<u>\$ (4,552,396)</u>	<u>\$ (9,004,302)</u>	<u>\$ 4,451,906</u>

Net position for the Partnership increased by \$4,451,906 during the current fiscal year. The total revenues increase of \$4,175,352 is due primarily to an increase in general fund appropriations provided by the COV related to the Custom Workforce Solutions Division, the Business Ready Sites Characterization program, and new marketing initiatives. In addition, program revenues decreased due to one-time payments from various localities and other economic development organizations in support of corporate headquarters recruitment efforts that were received in FY2018.

Total expenses for the Partnership decreased by \$2,082,739. This decrease was primarily in Administration and Pass-Through Payments. Administration decreased due to one-time expenses related to corporate headquarters recruitment efforts in FY2018, while Pass-Through Payments decreased due to reductions in payments to the Virginia Brownfields Restoration and Economic Redevelopment Assistance Fund and the Commonwealth Center for Advanced Manufacturing. These decreases were offset by increases in the Custom Workforce Solutions and Incentives Divisions created in FY2019, as well as increased participation in International Trade export programs, and Marketing and Communications advertising and new marketing initiatives.

Governmental Funds Analysis

The Partnership records all its financial activities in the General Fund, with the exception of International Trade federal grant programs that are recorded in the Special Revenue Fund. The financial position of the Partnership improved by \$4,209,740 in FY2019 primarily due to the increase in cash as noted in the Government-Wide Financial Analysis, resulting in a fund balance of \$8,993,780 as of June 30, 2019. \$1,301,356 of the fund balance consists of Prepaid expenses and Lease deposits and is nonspendable, with the remaining balance of \$7,692,424 unassigned. The Special Revenue fund records revenues and expenditures in equal amounts and has no fund balance. Activity for the Special Revenue fund decreased from \$302,061 in FY2018 to \$178,755 in FY2019 due to an International Trade federal grant program that ended in FY2018.

General and Special Revenue Fund Budgetary Highlights

The *Statement of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual-Cash Basis* is presented to provide information on the budget as originally prepared and the final budget on which the Partnership operated for the fiscal year. Also, the final budget is compared to the cash basis actual results by revenue source and expenditure activity. The Partnership's budget, as originally prepared, included revenue provided by the COV of approximately \$32.1 million. This amount was adjusted by \$2.0 million for Business Ready Sites Characterization funding, offset by a reduction of \$.2 million for marketing and trade missions. Operating grants were below budget due to the timing of payments from the federal government, and Interest revenue exceeded budget due to the increase in interest rates and the Partnership's cash balance.

Actual expenditures were below the final budget by approximately \$7.6 million for the fiscal year. This underspending was primarily in Custom Workforce Solutions as the program started up later than expected in FY2019, Marketing and Communications advertising and events, Administration consulting services related to the Business Ready Sites Characterization program to be spent in FY2020, and Pass-through Payments for Business Ready Sites Mitigation.

FY2020 Outlook

The Partnership received FY2020 COV funding for some of its key initiatives. This includes a \$2.5 million increase for the Custom Workforce Solutions division to continue funding their customized, turnkey workforce recruitment and training incentive program to secure high-quality economic development projects, as well as a \$1.0 million increase for several new marketing initiatives. The Partnership will continue to seek funding for other important initiatives critical to its success.

Notes to the Financial Statements

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

Requests for Information

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

BASIC FINANCIAL STATEMENTS

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
STATEMENT OF NET POSITION
As of June 30, 2019

	Governmental Activities
Assets	
Cash and cash equivalents (Note 2)	\$ 9,134,244
Travel advances	2,338
Operating grants receivable	48,938
Prepaid expenses	1,282,216
Lease deposits (Note 5)	19,140
Restricted net other postemployment asset (Note 13)	508,000
Capital assets, net of accumulated depreciation (Note 6)	
Leasehold improvements, furniture, and equipment	1,043,091
Total assets	12,037,967
Deferred outflows of resources (Notes 10, 11, 12, 13, and 14)	3,023,129
Total assets and deferred outflows of resources	15,061,096
Liabilities	
Accounts payable	1,210,912
Accrued payroll	197,523
Unearned revenue	80,725
Long-term liabilities due within one year	
Capital lease obligation (Note 8)	24,881
Compensated absences (Note 9)	820,442
Net other postemployment liability (Notes 11, 12, and 14)	53,622
Long-term liabilities due in more than one year	
Compensated absences (Note 9)	150,522
Capital lease obligation (Note 8)	94,652
Net pension liability (Note 10)	11,643,000
Net other postemployment liability (Notes 11, 12, and 14)	3,259,611
Total liabilities	17,535,890
Deferred inflows of resources (Notes 10, 11, 12, 13, and 14)	2,077,602
Total liabilities and deferred inflows of resources	19,613,492
Net position	
Net investment in capital assets	923,558
Restricted for net other postemployment asset (Note 13)	508,000
Unrestricted	(5,983,954)
Total net position	\$ (4,552,396)

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

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2019

		Program Revenues		Net (Expense)
		Charges for	Operating	Revenue and
	Expenses	Services	Grants	Changes in
				Net Position
Governmental Activities				
Workforce Solutions	\$ 837,571	\$ -	\$ -	\$ (837,571)
Custom Workforce Solutions	141,144	-		(141,144)
Business Investment	5,210,905	6,306		(5,204,599)
International Trade	7,086,272	365,276	178,755	(6,542,241)
Research	2,207,695			(2,207,695)
Marketing and Communications	2,596,029	85,000		(2,511,029)
Economic Competitiveness	843,216			(843,216)
Information Technology	1,599,111			(1,599,111)
Incentives	591,364	33,750		(557,614)
Administration	5,873,761			(5,873,761)
Pass-through Payments	3,531,678			(3,531,678)
Total governmental activities	30,518,746	490,332	178,755	(29,849,659)
General Revenues				
Revenue provided by the General Fund of the Commonwealth (Note 4)				33,945,246
Interest revenue				224,027
Loss on disposal of capital assets				(9,825)
Other revenue				142,117
Total general revenues				34,301,565
Increase in net position				4,451,906
Net position, July 1, 2018				(9,004,302)
Net position, June 30, 2019				\$ (4,552,396)

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

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2019

	General Fund	Special Revenue Fund	Total Governmental Funds
Assets			
Cash and cash equivalents (Note 2)	\$ 9,134,244	\$	\$ 9,134,244
Travel advances	2,338		2,338
Due from the special revenue funds	48,938		
Operating grants receivable		48,938	48,938
Prepaid expenses	1,282,216		1,282,216
Lease deposits (Note 5)	19,140		19,140
Total assets	<u>\$ 10,486,876</u>	<u>\$ 48,938</u>	<u>\$ 10,486,876</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 1,210,912		\$ 1,210,912
Accrued payroll	197,523		197,523
Compensated absences	3,936		3,936
Due to the general fund		48,938	
Unearned revenue	80,725		80,725
Total liabilities	<u>1,493,096</u>	<u>48,938</u>	<u>1,493,096</u>
Fund Balances:			
Nonspendable	1,301,356	-	1,301,356
Committed	-	-	-
Unassigned fund balance	7,692,424	0	7,692,424
Total fund balances	<u>8,993,780</u>	<u>0</u>	<u>8,993,780</u>
Total liabilities and fund balances	<u>\$ 10,486,876</u>	<u>\$ 48,938</u>	<u>\$ 10,486,876</u>

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

Fund balances, Governmental Funds	\$ 8,993,780
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,043,091
Restricted net other postemployment asset is not a financial resource and, therefore, is not reported in the funds.	508,000
Noncurrent liabilities (compensated absences, capital lease obligation, net pension liability and net other postemployment obligation) are not due and payable with current financial resources and, therefore, are not reported in the funds.	(15,097,267)
Total net position of governmental activities	<u>\$ (4,552,396)</u>

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

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2019

	General Fund	Special Revenue Fund	Total Governmental Funds
Revenues			
Revenue provided by the General Fund of the Commonwealth (Note 4)	\$ 33,945,246	\$	\$ 33,945,246
Participation fees	371,582		371,582
Sponsorship fees	85,000		85,000
Operating grants	-	178,755	178,755
Interest revenue	224,027		224,027
Other revenue	175,867		175,867
Total revenues	34,801,722	178,755	34,980,477
Expenditures			
Workforce Solutions	863,277		863,277
Custom Workforce Solutions	137,453		137,453
Business Investment	5,283,478		5,283,478
International Trade	6,983,866	178,755	7,162,621
Research	2,254,592		2,254,592
Marketing and Communications	2,597,020		2,597,020
Economic Competitiveness	877,663		877,663
Information Technology	1,590,853		1,590,853
Incentives	645,613		645,613
Administration	5,826,489		5,826,489
Pass-through Payments	3,531,678		3,531,678
Total expenditures	30,591,982	178,755	30,770,737
Revenues over expenditures	4,209,740	-	4,209,740
Fund balance, July 1, 2018	4,784,040	-	4,784,040
Fund balance, June 30, 2019	\$ 8,993,780	\$ -	\$ 8,993,780

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 For the Fiscal Year Ended June 30, 2019

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

Net increase (decrease) in fund balance of the governmental funds	\$	4,209,740
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.		(207,820)
Some expenses reported in the statement of activities (compensated absences, capital lease obligation, net pension liability and net other post employment asset and obligation) do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		449,986
Increase in net position of governmental activities	\$	<u>4,451,906</u>

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

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CASH BASIS
GENERAL AND SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2019

	Budgeted Amounts		General	Special	Variances with
	Original	Final	Fund	Revenue	Final Budget-
			Actual	Fund	Positive
				Actual	(Negative)
Revenues					
Revenue provided by the General Fund of the Commonwealth (Note 4)	\$ 31,597,198	\$ 33,945,246	\$ 33,945,246	\$ -	\$ -
Participation fees	455,000	455,000	371,582		(83,418)
Sponsorship fees	-	-	85,000		85,000
Operating grants	-	340,365		165,819	(174,546)
Interest revenue	25,000	75,000	224,027		149,027
Other revenue	165,255	165,255	175,867		10,612
Total revenues	32,242,453	34,980,866	34,801,722	165,819	(13,325)
Expenditures					
Workforce Solutions	992,174	992,174	877,007		115,167
Custom Workforce Solutions	2,510,193	2,510,193	101,527		2,408,666
Business Investment	5,716,526	5,461,977	5,245,712		216,265
International Trade	7,152,832	7,493,197	7,041,026	178,755	273,416
Research	2,391,653	2,391,653	2,273,253		118,400
Marketing and Communications	3,186,796	3,607,621	2,912,947		694,674
Economic Competitiveness	929,294	929,294	860,401		68,893
Information Technology	1,516,145	1,616,145	1,603,762		12,383
Incentives	701,396	701,396	641,487		59,909
Administration	3,960,500	6,968,289	4,900,820		2,067,469
Pass-through Payments	4,896,004	5,146,004	3,531,678		1,614,326
Total expenditures	33,953,513	37,817,943	29,989,620	178,755	7,649,568
Revenues over (under) expenditures	(1,711,060)	(2,837,077)	4,812,102	(12,936)	7,636,243
Fund balance, July 1, 2018	1,711,060	2,837,077	3,594,484	681,347	1,438,754
Fund balance, June 30, 2019 (Note 3)	\$ -	\$ -	\$ 8,406,586	\$ 668,411	\$ 9,074,997

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

NOTES TO FINANCIAL STATEMENTS

VIRGINIA ECONOMIC DEVELOPMENT PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles. The Statement of Net Position and the Statement of Activities are referred to as "government-wide" financial statements and are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Interfund activity and balances between the General Fund and Special Revenue Fund have been eliminated in the government-wide financial statements. The Statement of Activities shows the extent that direct expenses of governmental functions are offset by program revenues. In cases where certain indirect costs have been allocated to the various divisions by headcount, program expenses will include both direct and indirect costs. Program revenues include charges for services and operating grants. Charges for services are comprised primarily of participation fees, sponsorship fees, and shared mission reimbursements. Operating grants are grants awarded to the Partnership from the federal government.

The Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances are referred to as "governmental fund" financial statements and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Partnership considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as in accrual accounting. However, debt service payments and expenditures related to compensated absences are only recorded when payment is due. The Partnership reports its activities in

governmental funds. The general fund is used for its primary operating fund and accounts for all financial transactions not accounted for in the special revenue funds. The special revenue fund is used to account for federal grant revenues and related expenditures for operating grants awarded to the Partnership by the federal government. Both the General Fund and Special Revenue Fund are reported as major governmental funds.

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

C. Operating Grants Receivable

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

D. Prepaid Expenses

The Partnership's prepaid expenses include amounts paid for promotional activities, other services and portions of insurance premiums for which the economic benefits had not been received as of June 30, 2019.

E. Capital Assets

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

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

F. Unearned Revenue

Unearned revenue includes amounts received for sponsorship and participation fees at June 30, 2019, for various events to be held in the next fiscal period.

G. Compensated Absences

Compensated absences represent the amounts of vacation, sick, and compensatory leave earned by the Partnership employees, but not taken at June 30, 2019. Compensated absences were calculated in accordance with GASB Statement No. 16, "Accounting for Compensated Absences." This statement requires the accrual of Social Security and Medicare taxes to be paid by the Partnership on all accrued compensated absences.

H. Pensions

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 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 are reported at fair value.

I. State Employee Health Insurance Credit Program

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 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

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 OPEB expense, information about the fiduciary net position of the 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

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 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 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 Plan

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. This program was established by Title 2.2, Chapter 28 of the *Code of Virginia* for retirees who are not yet eligible to participate in Medicare. It is the same health insurance program offered to active employees and managed by the Virginia Department of Human Resource Management. After retirement, the Partnership no longer subsidizes the retiree's premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, retiree rates are effectively lower than what might otherwise be available outside of this benefit.

M. Deferred Inflows and Outflows of Resources

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

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

N. Budgets and Budgetary Accounting

The Partnership's budget was primarily established by the Appropriation Act as enacted by the General Assembly of Virginia for the fiscal year ended June 30, 2019, which is the first year of the biennium ended June 30, 2020. No payments were made to the Partnership out of the state treasury except in pursuance of appropriations made by law. Payments from the state treasury were deposited into Partnership bank accounts in accordance with the provisions of Chapter 22 of Title 2.2 of the *Code of Virginia* and expended for purposes as stated in those provisions. The budget is prepared on the cash basis. The budget is prepared collectively to include both the General Fund and Special Revenue Fund.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent deposits not with the Treasurer of Virginia and cash in the Local Government Investment Pool (LGIP) with the Treasurer of Virginia. As of June 30, 2019, the Partnership's deposits with the LGIP were \$8,994,477 and the Partnership's deposits not with the Treasurer of Virginia were \$139,767. Cash on deposit is held in demand deposit accounts maintained for operating and payroll costs and is covered by federal depository insurance and carry no significant risk. Cash on deposit includes deposits in Chinese RMB and European Union Euros used to pay the Partnership's international vendors and is valued in U.S. dollars at cost. As of June 30, 2019, the Partnership's holdings in Chinese RMB and European Union Euros were valued at \$5,336 and \$3,803, respectively. The LGIP funds are held in pooled accounts, are considered cash equivalents and, accordingly, also carry no significant risk as defined by Statement 40 of the Governmental Accounting Standards Board. The LGIP enables governmental entities to maximize their return on investments by providing for a State administered fund where monies can be commingled for investment purposes in order to realize the economies of large-scale investing and professional funds management. The LGIP is managed in accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 79. The LGIP is in compliance with all of the standards of GASB Statement No. 79 and elects to report its investments for financial reporting at amortized cost. Participants in the LGIP should also report their investments in the LGIP at amortized cost. The LGIP is rated AAAM by Standard & Poor's rating service. The Partnership deposits are secured in accordance with the provisions of the Virginia Security for Public Deposit Act § 2.2-4400 of the Code of Virginia.

3. RECONCILIATION OF BUDGETARY FUND BALANCE TO GAAP FUND BALANCE

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

	<u>Total all Funds</u>
Fund balance, cash basis, June 30, 2019	\$ 9,074,997
Add: Prepaid expenses and other accrued receivables	1,331,154
Less: Accrued expenses and unearned revenues	<u>(1,412,371)</u>
Fund balance, GAAP basis, June 30, 2019	<u>\$ 8,993,780</u>

4. REVENUE PROVIDED BY THE GENERAL FUND OF THE COMMONWEALTH

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

Original appropriation, Chapter 2	\$ 31,597,198
Add: Business Ready Sites Funding	2,000,000
Marketing and Trade Mission Funding	245,451
Central Appropriations Adjustment	104,984
Less: FY2019 Other Budget Reductions	<u>(2,387)</u>
Revenue provided by the General Fund of the Commonwealth	<u>\$ 33,945,246</u>

5. LEASE DEPOSITS

The Partnership maintains offices in Munich, Germany, Seoul, South Korea, Shanghai, China, and Tokyo, Japan. Each landlord requires a lease deposit as part of the lease agreement for those locations.

The Munich lease deposit is held in a noninterest-bearing account in the amount of 5,117 European Union Euros and was valued at \$6,321 at June 30, 2019. The Seoul lease deposit is held in a noninterest-bearing account in the amount of 1,760,000 South Korean Won and was valued at \$1,571 at June 30, 2019. The Shanghai lease deposit is held in a noninterest-bearing account in the amount of 26,223 Chinese RMB and was valued at \$4,181 at June 30, 2019. The Tokyo lease deposit is held in a noninterest-bearing account in the amount of 930,000 Japanese Yen and was valued at \$7,067 at June 30, 2019.

6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

Capital Assets Being Depreciated	Balance June 30, 2018	Increases	Decreases	Balance June 30, 2019
Leasehold improvements, furniture and equipment	\$ 2,207,180	\$ 72,704	\$ (99,828)	\$ 2,180,056
Less: accumulated depreciation	<u>956,269</u>	<u>270,699</u>	<u>(90,003)</u>	<u>1,136,965</u>
Leasehold improvements, furniture and equipment, net of accumulated depreciation	<u>\$ 1,250,911</u>	<u>\$ (197,995)</u>	<u>\$ (9,825)</u>	<u>\$ 1,043,091</u>

7. COMMITMENTS

The Partnership is committed under various operating leases and office use agreements for office facilities and equipment through May 2027. Expense under these agreements for the fiscal year ended June 30, 2019, amounted to \$1,426,769. A summary of minimum future obligations under these agreements as of June 30, 2019, follows:

<u>Year Ending June 30</u>	<u>Obligations</u>
2020	\$ 1,511,816
2021	1,456,466
2022	1,504,954
2023	1,545,032
2024	1,586,150
2025-2029	<u>4,865,552</u>
Total future minimum rental payments	<u>\$ 12,469,970</u>

8. CAPITAL LEASE OBLIGATION

The Partnership has entered into an equipment lease agreement that is accounted for as a capital lease. The term of the lease is five years and ownership of the assets will pass to the Partnership at the end of the lease term. Gross minimum lease payments, as well as the present value of the net minimum lease payments as of June 30, 2019, are as follows:

<u>Year Ending June 30</u>	<u>Lease Payments</u>
2020	\$ 28,072
2021	25,124
2022	25,124
2023	25,124
2024	<u>25,123</u>
Total gross minimum lease payments	128,567
Less: amount representing interest	<u>(9,034)</u>
Present value of minimum lease payments	<u>\$ 119,533</u>

At June 30, 2019, assets purchased under the capital lease agreement were included in depreciable capital assets as follows:

Gross capital assets	\$ 119,533
Less: accumulated depreciation	<u>(23,675)</u>
Net book value	<u>\$ 95,858</u>

9. COMPENSATED ABSENCES

Compensated absences activity for the fiscal year ended June 30, 2019, was as follows:

<u>Balance</u> <u>July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2019</u>
<u>\$ 985,137</u>	<u>\$ 721,246</u>	<u>\$ 735,419</u>	<u>\$ 970,964</u>
	Due Within One Year		<u>(820,442)</u>
	Due in More Than One Year		<u>\$ 150,522</u>

10. PENSION PLAN

General Information about the Pension Plan

Plan Description

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

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

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.	Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • State employees*

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
		Eligible Members Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 *Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. 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.
Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.	Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014	

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Hybrid Opt-In Election If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	Hybrid Opt-In Election If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	
Retirement Contributions State employees, excluding state elected officials, and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	Retirement Contributions Same as Plan 1.	Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position.	Creditable Service Same as Plan 1.	Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service.

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Creditable Service It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.		Creditable Service <u>Defined Benefit Component:</u> Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. <u>Defined Contribution Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.	Vesting Same as Plan 1.	Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting Members are always 100% vested in the contributions that they make.		Vesting <u>Defined Contribution Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	Calculating the Benefit See definition under Plan 1.	Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1. <u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%	Service Retirement Multiplier Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.	Service Retirement Multiplier <u>Defined Benefit Component:</u> The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. <u>Defined Contribution Component:</u> Not applicable.

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

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. <u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date. <u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability.	Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. <u>Eligibility:</u> Same as Plan 1. <u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.	Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2. <u>Defined Contribution Component:</u> Not applicable. <u>Eligibility:</u> Same as Plan 1 and Plan 2. <u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in Retirement <u>Exceptions to COLA Effective Dates:</u> • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.		
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.	Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.	Disability Coverage State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Disability Coverage Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	Disability Coverage Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	Disability Coverage Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their Plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.	Purchase of Prior Service Same as Plan 1.	Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exception: Hybrid Retirement Plan members are ineligible for ported service. <u>Defined Contribution Component:</u> Not applicable.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to the Partnership by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. The Partnership's contractually required contribution rate for the year ended June 30, 2019 was 13.52% 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, 2017. 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 Partnership to the VRS State Employee Retirement Plan were \$1,272,040 and \$1,242,786 for the years ended June 30, 2019 and June 30, 2018, respectively.

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

At June 30, 2019, the Partnership reported a liability of \$11,643,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2018 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The Partnership's proportion of the Net Pension Liability was based on the Partnership's actuarially determined employer contributions to the pension plan for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018 the Partnership's proportion of the VRS State Employee Retirement Plan was 0.21507% as compared to 0.19536% at June 30, 2017.

For the year ended June 30, 2019, the Partnership recognized pension expense of \$808,000 for the VRS State Employee Retirement Plan. Since there was a change in proportionate share between June 30, 2017 and June 30, 2018, 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, 2019 the Partnership reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 704,000
Net difference between projected and actual earnings on pension plan investments	-	304,000
Change in assumptions	78,000	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	925,000	85,000
Employer contributions subsequent to the measurement date	<u>1,272,040</u>	<u>-</u>
Total	<u>\$ 2,275,040</u>	<u>\$ 1,093,000</u>

\$1,272,040 reported as deferred outflows of resources related to pensions resulting from the Partnership's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the Fiscal Year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year Ended June 30

2020	\$ 108,000
2021	\$ 125,000
2022	\$ (291,000)
2023	\$ (32,000)
2024	\$ -

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2017, 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, 2018.

Inflation	2.5 percent
Salary increases, including inflation	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 pension liabilities.

Mortality rates:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2017 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	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, 2018, NPL amounts for the VRS State Employee Retirement Plan are as follows (amounts expressed in thousands):

	<u>State Employee Retirement Plan</u>
Total Pension Liability	\$ 23,945,821
Plan Fiduciary Net Position	<u>18,532,189</u>
Employers' Net Pension Liability (Asset)	<u>\$ 5,413,632</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.39%

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 class are summarized in the following table:

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

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately proved 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, 2018, the rate contributed by the Partnership for the VRS State Employee Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2018 on, all agencies are assumed to continue 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 Partnership's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Partnership's proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	\$ 17,628,000	\$ 11,643,000	\$ 6,605,000

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 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at:

<https://www.varetire.org/pdf/publications/2018-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

11. STATE EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM

General Information about the State Employee Health Insurance Credit Program

Plan Description

All Partnership full-time, salaried permanent employees 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 the Partnership pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

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

STATE EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM (HIC) PLAN PROVISIONS
Eligible Employees
The State Employee Retiree Health Insurance Credit Program was established January 1, 1990 for retired state employees covered under VRS, SPORS, VaLORS and JRS who retire with at least 15 years of service credit. Eligible employees are enrolled automatically upon employment. They include: • Full-time and part-time permanent salaried state employees covered under VRS, SPORS, VaLORS and JRS.
Benefit Amounts
The State Employee Retiree Health Insurance Credit Program provides the following benefits for eligible employees: • <u>At Retirement</u> – For state employees who retire with at least 15 years of service credit, the monthly benefit is \$4.00 per year of service per month with no cap on the benefit amount. • <u>Disability Retirement</u> – For state employees who retire on disability or go on long-term disability under the Virginia Sickness and Disability Program (VSDP), the monthly benefit is \$120.00 or \$4.00 per year of service, whichever is higher. For State police officers employees with a non-work-related disability who retire on disability or go on long-term disability under the Virginia Sickness and Disability Program (VSDP) the monthly benefit is \$120.00 or \$4.00 per year of service, whichever is higher. For State police officers with a work-related disability, there is no benefit provided under the State Employee Retiree Health Insurance Credit Program if the premiums are being paid under the Virginia Line of Duty Act. However, they may receive the credit for premiums paid for other qualified health plans.
Health Insurance Credit Program Notes:
• The monthly Health Insurance Credit benefit cannot exceed the individual’s premium amount. • Employees who retire after being on long-term disability under VSDP must have at least 15 years of service credit to qualify for the Health Insurance Credit as a retiree.

Contributions

The contribution requirement for active employees is governed by §51.1-1400(D) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to the Partnership by the Virginia General Assembly. The Partnership’s contractually required employer contribution rate for the year ended June 30, 2019 was 1.17% 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, 2017. 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 Partnership to the VRS State Employee Health Insurance Credit Program were \$110,961 and \$109,645 for the years ended June 30, 2019 and June 30, 2018, 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, 2019, the Partnership reported a liability of \$1,259,000 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, 2018 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 Partnership's proportion of the Net VRS State Employee Health Insurance Credit Program OPEB Liability was based on the Partnership's actuarially determined employer contributions to the VRS State Employee Health Insurance Credit Program OPEB plan for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the Partnership's proportion of the VRS State Employee Health Insurance Credit Program was 0.13799% as compared to 0.12298% at June 30, 2017.

For the year ended June 30, 2019, the Partnership recognized VRS State Employee Health Insurance Credit Program OPEB expense of \$131,000. Since there was a change in proportionate share between measurement dates, 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, 2019, the Partnership 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual earnings on State HIC OPEB plan investments	-	2,000
Change in assumptions	-	11,000
Changes in proportionate share	122,000	-
Employer contributions subsequent to the measurement date	<u>110,961</u>	<u>-</u>
Total	<u>\$ 232,961</u>	<u>\$ 13,000</u>

\$110,961 reported as deferred outflows of resources related to the State Employee HIC OPEB resulting from the Partnership'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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the State Employee HIC OPEB will be recognized in the State Employee HIC OPEB expense in future reporting periods as follows:

Year Ended June 30

FY 2020	\$ 21,000
FY 2021	\$ 21,000
FY 2022	\$ 21,000
FY 2023	\$ 22,000
FY 2024	\$ 24,000
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, 2017, 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, 2018.

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

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the 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, 2017 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, 2017 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, 2017 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	Increased rate from 50% to 35%

Mortality rates – JRS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

RP-2014 Disability 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, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

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, 2018, 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	\$1,008,184
Plan Fiduciary Net Position	<u>95,908</u>
State Employee net HIC OPEB Liability (Asset)	<u>\$ 912,276</u>
Plan Fiduciary Net Position as a Percentage of the Total State Employee HIC OPEB Liability	9.51%

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 class are summarized in the following table:

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

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately proved 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 rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2018, the rate contributed by the Partnership 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, which was 100% of the actuarially determined contribution rate. From July 1, 2018 on, all agencies are assumed to continue 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 Partnership's Proportionate Share of the State Employee HIC Net OPEB Liability to Changes in the Discount Rate

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Partnership's proportionate share of the VRS State Employee HIC OPEB Plan Net HIC OPEB Liability	\$ 1,392,000	\$ 1,259,000	\$ 1,145,000

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 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at: <https://www.varetire.org/pdf/publications/2018-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

12. GROUP LIFE INSURANCE PROGRAM

General Information about the Group Life Insurance Program

Plan Description

All full-time, salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This plan is administered by the Virginia Retirement System (the System), along with pensions and other 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 the 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 ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.
Benefit Amounts
The benefits payable under the Group Life Insurance Program have several components. • <u>Natural Death Benefit</u> – The natural death benefit is equal to the employee’s covered compensation rounded to the next highest thousand and then doubled. • <u>Accidental Death Benefit</u> – The accidental death benefit is double the natural death benefit. • <u>Other Benefit Provisions</u> – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include: - o Accidental dismemberment benefit - o Safety belt benefit - o Repatriation benefit - o Felonious assault benefit - o Accelerated death benefit option
Reduction in Benefit Amounts
The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.
Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)
For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and was increased to \$8,279 effective July 1, 2018.

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 the Partnership 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. The Partnership's contractually required employer contribution rate for the year ended June 30, 2019 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. 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 from the Partnership to the Group Life Insurance Program were \$49,695 and \$48,850 for the years ended June 30, 2019 and June 30, 2018, respectively.

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

At June 30, 2019, the Partnership reported a liability of \$750,000 for its proportionate share of the Net Group Life Insurance Program OPEB Liability. The Net Group Life Insurance Program Liability was measured as of June 30, 2018 and the total Group Life Insurance Program Liability was determined by an actuarial valuation as of that date. The Partnership's proportion of the Net Group Life Insurance Program OPEB

Liability was based on the Partnership's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the Partnership's proportion of the Group Life Insurance Program was 0.04940% as compared to 0.04314% at June 30, 2017.

For the year ended June 30, 2019, the Partnership recognized Group Life Insurance Program OPEB expense of \$22,000. Since there was a change in proportionate share between measurement dates, a portion of the Group Life Insurance Program OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2019, the Partnership reported deferred outflows of resources and deferred inflows of resources related to the Group Life Insurance Program OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 37,000	\$ 14,000
Net difference between projected and actual earnings on Group Life Insurance OPEB program investments	-	24,000
Change in assumptions	-	31,000
Changes in proportion	91,000	-
Employer contributions subsequent to the measurement date	<u>49,695</u>	<u>-</u>
Total	<u>\$ 177,695</u>	<u>\$ 69,000</u>

\$49,695 reported as deferred outflows of resources related to the Group Life Insurance Program OPEB resulting from the Partnership's contributions subsequent to the measurement date will be recognized as a reduction of the Net Group Life Insurance OPEB Liability in the Fiscal Year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Group Life Insurance OPEB will be recognized in the Group Life Insurance Program OPEB expense in future reporting periods as follows:

Year Ended June 30

FY 2020	\$ 6,000
FY 2021	\$ 6,000
FY 2022	\$ 6,000
FY 2023	\$ 12,000
FY 2024	\$ 18,000
Thereafter	\$ 11,000

Actuarial Assumptions

The total Group Life Insurance Program OPEB liability was based on an actuarial valuation as of June 30, 2017, 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, 2018.

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

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

Mortality rates – General State Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2017 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 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 Life Mortality Rates projected with scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

Mortality rates – SPORS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2017 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, 2017 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	Increased rate from 50% to 35%

Mortality rates – JRS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

RP-2014 Disability 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, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

Mortality rates – Largest Ten Locality Employers – General Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2017 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, 2017 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, 2017 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, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

Net Group Life Insurance Program 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, 2018, NOL amounts for the Group Life Insurance Program are as follows (amounts expressed in thousands):

	Group Life Insurance <u>OPEB Program</u>
Total Group Life Insurance Program OPEB Liability	\$ 3,113,508
Plan Fiduciary Net Position	<u>1,594,773</u>
Employers' Net Group Life Insurance OPEB Liability (Asset)	\$ 1,518,735
Plan Fiduciary Net Position as a Percentage of the Total Group Life Insurance OPEB Liability	51.22%

The total Group Life Insurance Program 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 Group Life Insurance Program 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 class are summarized in the following table:

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

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

Discount Rate

The discount rate used to measure the total Group Life Insurance Program OPEB 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, 2018, the rate contributed by the Partnership for the Group Life Insurance Program OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2018 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the Group Life Insurance Program 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 Group Life Insurance Program liability.

Sensitivity of the Partnership's Proportionate Share of the Net Group Life Insurance Program OPEB Liability to Changes in the Discount Rate

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Partnership's proportionate share of the Group Life Insurance Program Net OPEB Liability	\$ 980,000	\$ 750,000	\$ 563,000

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 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at: <https://www.varetire.org/pdf/publications/2018-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

13. DISABILITY INSURANCE PROGRAM

General Information about the VRS Disability Insurance Program

Plan Description

All Partnership full-time and part-time permanent salaried employees who are covered under the Virginia Retirement System (VRS) 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 eligibility to be considered for disability retirement. This plan is administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

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

DISABILITY INSURANCE PROGRAM (VSDP) PLAN PROVISIONS

Eligible Employees

The Virginia Sickness and Disability Program, also known as the Disability Insurance Trust Fund was established January 1, 1999 to provide short-term and long-term disability benefits for non-work-related and work-related disabilities.

Eligible employees are enrolled automatically upon employment. They include:

- Full-time and part-time permanent salaried state employees covered under VRS.
- State employees hired before January 1, 1999, who elected to transfer to VSDP rather than retain their eligibility to be considered for VRS disability retirement.
- Public college and university faculty members who elect the VRS defined benefit plan. They may participate in VSDP or their institution's disability program, if offered. If the institution does not offer the program or the faculty member does not make an election, he or she is enrolled in VSDP.

Benefit Amounts

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

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

DISABILITY INSURANCE PROGRAM (VSDP) PLAN PROVISIONS

Disability Insurance Program (VSDP) Plan Notes:

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

Cost-of-Living Adjustment (COLA)

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

Contributions

The contribution requirements for the Disability Insurance Program are governed by §51.1-1140 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to the Partnership by the Virginia General Assembly. The Partnership's contractually required employer contribution rate for the Disability Insurance Program for the year ended June 30, 2019 was 0.62% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. 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 from the Partnership to the

Disability Insurance Program were \$56,243 and \$58,685 for the years ended June 30, 2019 and June 30, 2018, respectively.

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

At June 30, 2019, the Partnership reported an asset of \$508,000 for its proportionate share of the Net VSDP OPEB Asset. The Net VSDP OPEB Asset was measured as of June 30, 2018 and the total VSDP OPEB Liability used to calculate the Net VRS VSDP OPEB Asset was determined by an actuarial valuation as of that date. The Partnership's proportion of the Net VSDP OPEB Asset was based on the Partnership's actuarially determined employer contributions to the VSDP OPEB plan for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the Partnership's proportion was 0.22545% as compared to 0.20066% at June 30, 2017.

For the year ended June 30, 2019, the Partnership recognized VSDP OPEB expense of \$21,000. 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, 2019, the Partnership reported deferred outflows of resources and deferred inflows of resources related to the VSDP OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 21,000
Net difference between projected and actual earnings on VSDP OPEB plan investments	-	30,000
Change in assumptions	-	30,000
Changes in proportionate share	-	37,000
Employer contributions subsequent to the measurement date	<u>56,243</u>	<u>-</u>
Total	<u>\$ 56,243</u>	<u>\$ 118,000</u>

\$56,243 reported as deferred outflows of resources related to the VSDP OPEB resulting from the Partnership's contributions subsequent to the measurement date will be recognized as a reduction of the Net VSDP OPEB Asset in the Fiscal Year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the VSDP OPEB will be recognized in VSDP OPEB expense in future reporting periods as follows:

Year Ended June 30

FY 2020	\$ (24,000)
FY 2021	\$ (24,000)
FY 2022	\$ (24,000)
FY 2023	\$ (15,000)
FY 2024	\$ (15,000)
Thereafter	\$ (16,000)

Actuarial Assumptions

The total VSDP OPEB liability was based on an actuarial valuation as of June 30, 2017, 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, 2018.

Inflation	2.5 percent
Salary increases, including inflation -	
General state employees	3.5 percent – 5.35 percent
SPORS employees	3.5 percent – 4.75 percent
VaLORS employees	3.5 percent – 4.75 percent
Investment rate of return	7.0 percent, net of 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, 2017 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, 2017 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, 2017 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	Increased rate from 50% to 35%

Net VSDP OPEB Asset

The net OPEB asset (NOA) for the VSDP represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the Measurement Date of June 30, 2018, NOA amounts for the VSDP are as follows (amounts expressed in thousands):

	Disability Insurance Program
Total VSDP OPEB Liability	\$ 237,733
Plan Fiduciary Net Position	<u>462,961</u>
Employers' Net OPEB Liability (Asset)	<u>(\$225,228)</u>
Plan Fiduciary Net Position as a Percentage of the Total VSDP OPEB Liability	194.74%

The total VSDP 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 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 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 class are summarized in the following table:

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

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately proved 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 rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2018, the rate contributed by the Partnership 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 which was 100% of the actuarially determined contribution rate. From July 1, 2018 on, participating employers are

assumed to continue 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 Partnership's Proportionate Share of the Net VSDP OPEB Asset to Changes in the Discount Rate

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Partnership's proportionate share of the total VSDP Net OPEB Asset	\$ 490,000	\$ 508,000	\$ 524,000

VSDP OPEB Fiduciary Net Position

Detailed information about the VSDP Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at: <https://www.varetire.org/pdf/publications/2018-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500

14. PRE-MEDICARE RETIREE HEALTHCARE

General Information about the Commonwealth of Virginia State Health Plans Program for Pre-Medicare Retirees

Plan Description

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.

Following are eligibility requirements for Virginia Retirement System (VRS) retirees:

- You are a retiring state employee who is eligible for a monthly retirement benefit from VRS, and
- You start receiving (do not defer) your retirement benefit immediately upon retirement*, and
- Your last employer before retirement was the Commonwealth of Virginia, and
- You were eligible for (even if you were not enrolled) coverage as an active employee in the State Health Benefits Program until your retirement date (not including Extended Coverage/COBRA), and
- You enroll no later than 31 days from your retirement date

*For VRS retirees, this means that your employing agency reported a retirement contribution or leave without pay status for retirement in the month immediately prior to your retirement date. Some faculty members may also be eligible if they are paid on an alternate pay cycle but maintain eligibility for active coverage until their retirement date.

Effective January 1, 2017**, following are eligibility requirements for Optional Retirement Plan retirees:

- You are a terminating state employee who participates in one of the qualified Optional Retirement Plans, and
- Your last employer before termination was the Commonwealth of Virginia, and
- You were eligible for (even if you were not enrolled) coverage in the State Employee Health Benefits Program for active employees at the time of your termination, and
- You meet the age and service requirements for an immediate retirement benefit under the non-ORP Virginia Retirement System plan that you would have been eligible for on your date of hire had you not elected the ORP, and
- You enroll in the State Retiree Health Benefits Program no later than 31 days for the date you lose coverage (or lose eligibility for coverage) in the State Health Benefits Program for active employees due to your termination of employment.

**This change applies to ORP terminations effective January 1, 2017 or later. Eligibility for those who terminated employment prior to January 1 should be determined based on the policy in place at the time of their termination.

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 5,200 retirees and 91,800 active employees in the program in fiscal year 2018. 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.

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

At June 30, 2019, the Partnership reported a liability of \$1,304,233 for its proportionate share of the collective total Pre-Medicare Retiree Healthcare OPEB liability of \$1.0 billion. The Pre-Medicare Retiree Healthcare OPEB liability was measured as of June 30, 2018 and was determined by an actuarial valuation as of June 30, 2018. The Partnership's proportion of the Pre-Medicare Retiree Healthcare OPEB was based on the Partnership's healthcare premium contributions as a percentage of the total employer's healthcare premium contributions for all participating employers. At June 30, 2018, the Partnership's proportion was 0.12969% as compared to 0.11875% at June 30, 2017. For the year ended June 30, 2019, the Partnership recognized Pre-Medicare Retiree Healthcare OPEB expense of \$70,486.

At June 30, 2019, the Partnership reported deferred outflows of resources and deferred inflows of resources related to Pre-Medicare Retiree Healthcare from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 262,971
Change in assumptions	-	521,631
Changes in proportion	227,568	-
Amounts associated with transactions subsequent to the measurement date	<u>53,622</u>	<u>-</u>
Total	<u>\$ 281,190</u>	<u>\$ 784,602</u>

\$53,622 reported as deferred outflows of resources related to the Pre-Medicare Retiree Healthcare OPEB resulting from amounts associated with transactions subsequent to the measurement date will be recognized as a reduction of the total OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pre-Medicare Retiree Healthcare OPEB will be recognized in the Pre-Medicare Retiree Healthcare OPEB expense as follows:

Year Ended June 30

FY 2020	\$ (116,196)
FY 2021	\$ (116,196)
FY 2022	\$ (116,196)
FY 2023	\$ (116,196)
FY 2024	\$ (81,679)
Thereafter	\$ (10,571)

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

The following presents the Partnership's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using the discount rate of 3.87%, as well as what the Partnership'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 (2.87%) or one percentage point higher (4.87%) than the current rate:

	1.00% Decrease <u>(2.87%)</u>	Current Discount Rate <u>(3.87%)</u>	1.00% Increase <u>(4.87%)</u>
Partnership's proportionate share of the OPEB Liability	\$ 1,395,493	\$ 1,304,233	\$ 1,217,453

Sensitivity of the Partnership's Proportionate Share of the OPEB Liability to Changes in the Healthcare Cost Trends Rates

The following presents the Partnership's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using a healthcare cost trend of 8.21% decreasing to 5.00%, as well as what the Partnership'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 (7.21% decreasing to 4.00%) or one percentage point higher (9.21% decreasing to 6.00%) than the current rate.

	1.00% Decrease (7.21% decreasing to 4.00%)	Trend Rate (8.21% decreasing to 5.00%)	1.00% Increase (9.21% decreasing to 6.00%)
Partnership's proportionate share of the OPEB Liability	\$ 1,163,292	\$ 1,304,233	\$ 1,469,901

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, 2018. 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 8.21 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, 2018 (one year prior to the end of the fiscal year)
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar, Closed
Effective Amortization Period	6.19 years
Discount Rate	3.87%
Projected Salary Increases	4.0%
Medical Trend Under 65	Medical & Rx: 8.21% to 5.00% Dental: 4.00% Before reflecting Excise tax
Year of Ultimate Trend	2025

Mortality rates vary by participant status:

Pre-Retirement:

RP-2014 Employee Rates projected with Scale BB to 2020; males setback 1 year, 85% of rates, 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 and females setback 1 year

Post-Disablement:

RP-2014 Disability 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, 2018.

Changes of Assumptions

The following actuarial assumptions were updated since the June 30, 2017 valuation based on recent experience:

Spousal Coverage	Reduced the rate from 50% to 35%
Retiree Participation	Reduced the rate from 70% to 60%

Spousal coverage and retiree participation were both reduced based on a blend of recent experience and the prior year assumptions. The mortality assumption was modified slightly to reflect mortality improvement projection scale BB to 2020. Additionally, the discount rate was increased from 3.58% to 3.87% based on the Bond Buyers GO 20 Municipal Bond Index.

15. DEFERRED COMPENSATION PLAN

Employees of the Partnership may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Partnership matching up to \$20 per pay period. The dollar amount of the match can change depending on the funding available in the Partnership's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were \$30,610 for the fiscal year 2019.

16. RISK MANAGEMENT

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

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

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information**Schedule of Employer's Share of Net Pension Liability****VRS State Employee Retirement Plan****For the Measurement Dates of June 30, 2018, 2017, 2016, 2015 and 2014**

	2018	2017	2016	2015	2014
Employer's Proportion of the Net Pension Liability (Asset)	0.21507%	0.19536%	0.19429%	0.20111%	0.19015%
Employer's Proportionate Share of the Net Pension Liability (Asset)	\$11,643,000	\$11,385,000	\$12,805,000	\$12,313,000	\$10,646,000
Employer's Covered Payroll	\$9,212,635	\$7,937,681	\$7,675,614	\$ 7,745,983	\$7,349,371
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	126.38 %	143.43%	166.83%	158.96%	144.86%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.39%	75.33%	71.29%	72.81%	74.28%

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

Required Supplementary Information

**Schedule of Employer Contributions
VRS State Employee Retirement Plan
For the Years Ended June 30, 2010 through 2019**

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2019	\$1,272,040	\$1,272,040	\$ -	\$9,408,574	13.52%
2018	\$1,242,786	\$1,242,786	\$ -	\$9,212,635	13.49%
2017	\$1,070,793	\$1,070,793	\$ -	\$7,937,681	13.49%
2016	\$1,073,588	\$1,073,588	\$ -	\$7,675,614	13.99%
2015	\$955,080	\$955,080	\$ -	\$7,745,983	12.33%
2014	\$643,805	\$643,805	\$ -	\$7,349,371	8.76%
2013	\$653,491	\$653,491	\$ -	\$7,459,946	8.76%
2012	\$482,844	\$482,844	\$ -	\$7,338,059	6.58%
2011	\$444,254	\$444,254	\$ -	\$6,751,577	6.58%
2010	\$349,116	\$349,116	\$ -	\$7,005,326	4.98%

VRS State Employee Retirement Plan**Notes to Required Supplementary Information for the Year Ended June 30, 2019**

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 for the VRS - State Employee Retirement Plan effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

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

Required Supplementary Information

**Schedule of Employer's Share of Net OPEB Liability
Health Insurance Credit Program (HIC)
For the Measurement Dates of June 30, 2018 and 2017**

	2018	2017
Employer's Proportion of the Net HIC OPEB Liability (Asset)	0.13799%	0.12298%
Employer's Proportionate Share of the Net HIC OPEB Liability (Asset)	\$1,259,000	\$1,120,000
Employer's Covered Payroll	\$9,291,985	\$7,937,681
Employer's Proportionate Share of the Net HIC OPEB Liability (Asset) as a Percentage of its Covered Payroll	13.55%	14.11%
Plan Fiduciary Net Position as a Percentage of the Total HIC OPEB Liability	9.51%	8.03%

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

Schedule of Employer Contributions
Health Insurance Credit Program (HIC)
For the Years Ended June 30, 2010 through 2019

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2019	\$110,961	\$110,961	\$ -	\$9,483,774	1.17%
2018	\$109,645	\$109,645	\$ -	\$9,291,985	1.18%
2017	\$93,665	\$93,665	\$ -	\$7,937,681	1.18%
2016	\$80,594	\$80,594	\$ -	\$7,675,614	1.05%
2015	\$81,333	\$81,333	\$ -	\$7,745,983	1.05%
2014	\$73,494	\$73,494	\$ -	\$7,349,371	1.00%
2013	\$74,599	\$74,599	\$ -	\$7,459,946	1.00%
2012	\$72,647	\$72,647	\$ -	\$7,338,059	0.99%
2011	\$66,841	\$66,841	\$ -	\$6,751,577	0.99%
2010	\$55,769	\$55,769	\$ -	\$7,005,326	0.80%

Health Insurance Credit Program (HIC)

Notes to Required Supplementary Information for the Year Ended June 30, 2019

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%

Health Insurance Credit Program (HIC)**Notes to Required Supplementary Information for the Year Ended June 30, 2019****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	Increased rate from 50% to 35%

JRS Employees:

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

Required Supplementary Information**Schedule of Employer's Share of Net OPEB Liability
Group Life Insurance Program
For the Measurement Dates of June 30, 2018 and 2017**

	2018	2017
Employer's Proportion of the Net Group Life Insurance Program OPEB Liability (Asset)	0.4940%	0.04314%
Employer's Proportionate Share of the Net Group Life Insurance Program OPEB Liability (Asset)	\$750,000	\$649,000
Employer's Covered Payroll	\$9,394,198	\$7,948,514
Employer's Proportionate Share of the Net Group Life Insurance OPEB Liability (Asset) as a Percentage of its Covered Payroll	7.98%	8.17%
Plan Fiduciary Net Position as a Percentage of the Total Group Life Insurance OPEB Liability	51.22%	48.86%

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

Schedule of Employer Contributions
Group Life Insurance Program
For the Years Ended June 30, 2010 through 2019

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2019	\$49,695	\$49,695	\$ -	\$9,556,475	0.52%
2018	\$48,850	\$48,850	\$ -	\$9,394,198	0.52%
2017	\$41,332	\$41,332	\$ -	\$7,948,514	0.52%
2016	\$36,876	\$36,876	\$ -	\$7,682,448	0.48%
2015	\$37,181	\$37,181	\$ -	\$7,745,983	0.48%
2014	\$35,277	\$35,277	\$ -	\$7,349,371	0.48%
2013	\$35,839	\$35,839	\$ -	\$7,466,428	0.48%
2012	\$30,447	\$30,447	\$ -	\$7,426,087	0.41%
2011	\$28,346	\$28,346	\$ -	\$6,913,712	0.41%
2010	\$16,872	\$16,872	\$ -	\$7,030,061	0.24%

Group Life Insurance Program

Notes to Required Supplementary Information for the Year Ended June 30, 2019

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

Group Life Insurance Program**Notes to Required Supplementary Information for the Year Ended June 30, 2019****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	Increased 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

Group Life Insurance Program**Notes to Required Supplementary Information for the Year Ended June 30, 2019****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%

Group Life Insurance Program**Notes to Required Supplementary Information for the Year Ended June 30, 2019****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	Increased rate from 60% to 45%

Required Supplementary Information**Schedule of Employer's Share of Net OPEB Liability
Disability Insurance Program
For the Measurement Dates of June 30, 2018 and 2017**

	2018	2017
Employer's Proportion of the Net Disability Insurance Program OPEB Liability (Asset)	0.22545%	0.20066%
Employer's Proportionate Share of the Net Disability Insurance Program OPEB Liability (Asset)	(\$508,000)	(\$412,000)
Employer's Covered Payroll	\$8,891,622	\$7,561,543
Employer's Proportionate Share of the Net Disability Insurance Program OPEB Liability (Asset) as a Percentage of its Covered Payroll	5.71%	5.45%
Plan Fiduciary Net Position as a Percentage of the Total Disability Insurance Program OPEB Liability	194.74%	186.63%

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

Required Supplementary Information

**Schedule of Employer Contributions
Disability Insurance Program
For the Years Ended June 30, 2010 through 2019**

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2019	\$56,243	\$56,243	\$ -	\$9,071,488	0.62%
2018	\$58,685	\$58,685	\$ -	\$8,891,622	0.66%
2017	\$49,907	\$49,907	\$ -	\$7,561,543	0.66%
2016	\$48,365	\$48,365	\$ -	\$7,327,940	0.66%
2015	\$48,911	\$48,911	\$ -	\$7,410,796	0.66%
2014	\$32,971	\$32,971	\$ -	\$7,015,051	0.47%
2013	\$33,930	\$33,930	\$ -	\$7,219,081	0.47%
2012	\$48,686	\$48,686	\$ -	\$7,376,631	0.66%
2011	\$44,745	\$44,745	\$ -	\$6,779,490	0.66%
2010	\$55,889	\$55,889	\$ -	\$7,022,198	0.80%

Disability Insurance Program

Notes to Required Supplementary Information for the Year Ended June 30, 2019

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%

Disability Insurance Program**Notes to Required Supplementary Information for the Year Ended June 30, 2019****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	Increased rate from 50% to 35%

Required Supplementary Information**Schedule of Employer's Share of Total OPEB Liability
Pre-Medicare Retiree Healthcare Program
For the Measurement Dates of June 30, 2018 and 2017**

	2018	2017
Employer's Proportion of the collective total OPEB liability	0.12969%	0.11875%
Employer's Proportionate Share of the collective total OPEB liability	\$1,304,233	\$1,542,480
Employer's Covered-Employee Payroll	\$9,358,038	\$7,945,015
Employer's Proportionate Share of the collective total OPEB liability as a Percentage of its Covered-Employee Payroll	13.94%	19.41%

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

Pre-Medicare Retiree Healthcare Program

Notes to Required Supplementary Information for the Year Ended June 30, 2019

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 actuarial assumptions were updated since the June 30, 2017 valuation based on recent experience:

Spousal Coverage	Reduced the rate from 50% to 35%
Retiree Participation	Reduced the rate from 70% to 60%

Spousal coverage and retiree participation were both reduced based on a blend of recent experience and the prior year assumptions. The mortality assumption was modified slightly to reflect mortality improvement projection scale BB to 2020. Additionally, the discount rate was increase from 3.58% to 3.87% based on the Bond Buyers GO 20 Municipal Bond Index.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

October 18, 2019

The Honorable Ralph S. Northam
Governor of Virginia

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

Board of Directors
Virginia Economic Development Partnership

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Virginia Economic Development Partnership as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Partnership's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Virginia Economic Development Partnership as of June 30, 2019, and the respective changes in the financial position thereof and the respective budgetary comparison for the General Fund and Special Revenue Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the following be presented to supplement the basic financial statements: Management's Discussion and Analysis on pages 3 through 8; 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 71 through 73; 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, and Disability Insurance programs on pages 74 through 87; and 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 October 18, 2019, on our consideration of the Virginia Economic Development Partnership's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Partnership's internal control over financial reporting and compliance.

Martha S. Mavredes
AUDITOR OF PUBLIC ACCOUNTS

MSM/vks