



# WILLIAM & MARY

CHARTERED 1693

**Audited Consolidated Financial Report  
For The Year Ended June 30, 2019**



**WILLIAM & MARY,  
VIRGINIA INSTITUTE OF MARINE SCIENCE  
AND RICHARD BLAND COLLEGE**

**ANNUAL FINANCIAL REPORT 2018 - 2019**

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**William & Mary,  
Virginia Institute of Marine Science,  
and Richard Bland College  
Consolidated Financial Statements**

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

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(Unaudited)

This Management’s Discussion and Analysis (MD&A) is required supplemental information to the consolidated financial statements designed to assist readers in understanding the accompanying financial statements. The following information includes a comparative analysis between the current fiscal year ended June 30, 2019 and the prior year ended June 30, 2018. Significant changes between the two fiscal years and important management decisions are highlighted. The summarized information presented in the MD&A should be reviewed in conjunction with both the financial statements and associated footnotes in order for the reader to have a comprehensive understanding of the institution’s financial status and results of operations for fiscal year ended June 30, 2019. William & Mary’s (W&M) management has prepared the MD&A, along with the financial statements and footnotes. W&M’s management is responsible for all of the information presented for William & Mary, the Virginia Institute of Marine Science (VIMS), and their affiliated foundations. Richard Bland College’s (RBC) management is responsible for all of the information presented for RBC and its affiliated foundation.

The financial statements have been prepared in accordance with the Governmental Accounting Standards Board (GASB) reporting model. Accordingly, the three financial statements required are the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. The aforementioned statements are summarized and analyzed in the MD&A.

These financial statements are consolidated statements that include W&M, VIMS, and RBC. All three entities are agencies of the Commonwealth of Virginia reporting to the Board of Visitors of The College of William and Mary. W&M and VIMS, which serves as the university’s School of Marine Science, are referred to collectively as the “university” and Richard Bland College is referred to as the “college” within the MD&A as well as in the consolidated financial statements.

The institutions’ affiliated foundations are component units and are included in the accompanying financial statements in separate columns. However, the following MD&A does not include the Foundations’ financial condition and activities.

**Financial Summary**

Statement of Net Position

The Statement of Net Position provides a combined snapshot of the university and college’s financial positions, specifically the assets, deferred outflows of resources, liabilities, deferred inflows of resources and resulting net position as of June 30, 2019. For comparative purposes, FY18 amounts have been restated to reflect beginning adjustments to Net Position. The information allows the reader to determine the combined assets available for future operations of all three entities, amounts owed by the university and college, and the categorization of net position as follows:

- (1) Net Investment in Capital Assets – reflects the university and college’s capital assets net of accumulated depreciation and any debt attributable to their acquisition, construction or improvements.
- (2) Restricted – reflects the university and college’s endowment and similar funds whereby the donor has stipulated that the gift or the income from the principal, where the principal is to be preserved, is to be used to support specific programs. Donor restricted funds are grouped into generally descriptive categories of scholarships, research, departmental uses, etc.

- (3) Unrestricted – reflects a broad range of assets available to the university and college that may be used at the discretion of the Board of Visitors for any lawful purpose in support of the university and college’s primary missions of education, research and public service. These assets are derived from student tuition and fees, state appropriations, indirect cost recoveries from grants and contracts, auxiliary services sales and gifts.

Summary Statement of Net Position

|  | FY 2019              | FY 2018              | Dollar Change        | Percent Change |
|--|----------------------|----------------------|----------------------|----------------|
| <u>Assets:</u>                           |                      |                      |                      |                |
| Current                                  | \$ 82,463,755        | \$ 77,811,812        | \$ 4,651,943         | 5.98%          |
| Capital, net of accumulated depreciation | 915,712,757          | 886,556,463          | 29,156,294           | 3.29%          |
| Other non-current                        | 172,381,677          | 141,041,131          | 31,340,546           | 22.22%         |
| Total assets                             | <u>1,170,558,189</u> | <u>1,105,409,406</u> | <u>65,148,783</u>    | <u>5.89%</u>   |
| <u>Deferred outflows of resources:</u>   |                      |                      |                      |                |
| Pension related                          | 12,460,489           | 15,690,143           | (3,229,654)          | -20.58%        |
| Other post-employment benefits           | 8,633,585            | 6,663,137            | 1,970,448            | 100.00%        |
| Loss on refunding of debt                | 4,858,179            | 5,629,432            | (771,253)            | -13.70%        |
| Total deferred outflows of resources     | <u>25,952,253</u>    | <u>27,982,712</u>    | <u>(2,030,459)</u>   | <u>-7.26%</u>  |
| <u>Liabilities:</u>                      |                      |                      |                      |                |
| Current                                  | 100,092,567          | 87,837,709           | 12,254,858           | 13.95%         |
| Non-current                              | 435,770,741          | 431,327,429          | 4,443,312            | 1.03%          |
| Total liabilities                        | <u>535,863,308</u>   | <u>519,165,138</u>   | <u>16,698,170</u>    | <u>3.22%</u>   |
| <u>Deferred inflows of resources:</u>    |                      |                      |                      |                |
| Pension related                          | 10,831,000           | 9,031,000            | 1,800,000            | 19.93%         |
| Other post-employment benefits           | 19,025,276           | 11,259,506           | 7,765,770            | 100.00%        |
| Gain on refunding of debt                | 509,779              | 588,563              | (78,784)             | -13.39%        |
| Total deferred inflows of resources      | <u>30,366,055</u>    | <u>20,879,069</u>    | <u>9,486,986</u>     | <u>45.44%</u>  |
| <u>Net Position:</u>                     |                      |                      |                      |                |
| Net investment in capital assets         | 668,965,954          | 654,634,186          | 14,331,768           | 2.19%          |
| Restricted                               | 89,595,322           | 88,146,487           | 1,448,835            | 1.64%          |
| Unrestricted                             | <u>(128,280,197)</u> | <u>(149,432,762)</u> | <u>21,152,565</u>    | <u>14.16%</u>  |
| Total net position                       | <u>\$630,281,079</u> | <u>\$593,347,911</u> | <u>\$ 36,933,168</u> | <u>6.22%</u>   |

The overall result of the combined FY19 operations was a growth in net position of approximately \$36.9 million or an increase of 6.22 percent, bringing total net position to \$630.3 million. The growth was a result primarily of an increase in the net investment in capital assets of \$14.3 million and unrestricted funds of \$21.2 million.

Total assets increased by \$65.1 million. Capital assets, net of accumulated depreciation, increased by \$29.2 million primarily as a result of ongoing construction projects for instruction, research and residential facilities offset by capitalization of completed projects. These projects are discussed in more detail under *Capital Asset and Debt Administration* below. Current assets increased by \$4.7 million due to an increase in cash and accounts receivable, offset by a decrease in investments. Other non-current assets increased by \$31.3 million as a result of increases in cash and investments. The \$2.0 million decrease in deferred outflows of resources is due to pension and other post-employment benefits (OPEB) obligations.

Current liabilities increased \$12.3 million, and non-current liabilities increased \$4.4 million, which reflects a net increase in total liabilities of \$16.7 million. The change in current liabilities was attributable to an increase in accounts payable and accrued expenses primarily due to the timing of payments for goods or services and construction projects as well as an increase in current debt payments. Non-current liabilities increased by \$4.4 million due to normal payment of debt for bonds payable offset by increases related to issuance of new notes and bonds payable and changes in pension

and OPEB liabilities. The \$9.5 million increase in deferred inflows of resources is due to pension and other post-employment benefits (OPEB) obligations.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position presents the results from operations for the fiscal year. Revenues for the daily operation of the university and college are presented in two categories: operating and non-operating. Operating revenues include the significant categories of tuition and fees, grants and contracts, and the sales of auxiliary enterprises representing exchange transactions. Non-operating revenues include the significant categories of state appropriations, gifts and investment income representing non-exchange transactions. Net other revenues include capital appropriations, grants and contributions.

Summary Statement of Revenues, Expenses and Changes in Net Position

|                                     | <u>FY 2019</u>       | <u>FY 2018</u>       | <u>Dollar Change</u> | <u>Percent Change</u> |
|-------------------------------------|----------------------|----------------------|----------------------|-----------------------|
| Operating revenues                  | \$ 324,068,655       | \$ 315,371,761       | \$ 8,696,894         | 2.76%                 |
| Operating expenses                  | <u>467,645,138</u>   | <u>463,757,687</u>   | <u>3,887,451</u>     | <u>0.84%</u>          |
| Operating gain/(loss)               | (143,576,483)        | (148,385,926)        | 4,809,443            | 3.24%                 |
| Net Non-operating revenues          | <u>142,098,447</u>   | <u>132,378,728</u>   | <u>9,719,719</u>     | <u>7.34%</u>          |
| Income/(Loss) before other revenues | (1,478,036)          | (16,007,198)         | 14,529,162           | 90.77%                |
| Net other revenues                  | <u>38,411,204</u>    | <u>34,565,904</u>    | <u>3,845,300</u>     | <u>11.12%</u>         |
| Increase in net position            | <u>\$ 36,933,168</u> | <u>\$ 18,558,706</u> | <u>\$ 18,374,462</u> | <u>99.01%</u>         |

Overall, the result from operations was an increase in net position of \$36.9 million. This resulted in a net change year over year of \$18.4 million. Details are provided in the following sections entitled *Summary of Operating and Non-Operating Revenues net of Non-Operating Expenses* and *Summary of Operating Expenses*.

State appropriations for the university and college are treated as non-operating revenues, therefore the university and college will typically display an operating loss for the year. For FY19, state appropriations contributed almost \$80.8 million or 56.8 % of non-operating revenue as shown in the summary below.

The following table provides additional details of the operating, non-operating and other revenues of the university and college's net of non-operating expenses.

Summary of Operating and Non-Operating Revenues net of Non-Operating Expenses

|   | <u>FY 2019</u>               | <u>FY 2018</u>               | <u>Dollar Change</u>        | <u>Percent Change</u> |
|---|------------------------------|------------------------------|-----------------------------|-----------------------|
| Operating Revenues:   |                              |                              |                             |                       |
| Student Tuition and Fees, net of scholarship allowances         | \$ 176,441,292               | \$ 170,806,146               | \$ 5,635,146                | 3.30%                 |
| Federal, State, Local and Non-governmental grants and contracts | 44,739,494                   | 45,501,339                   | (761,845)                   | -1.67%                |
| Auxiliary Enterprise, net of scholarship allowances             | 95,113,461                   | 92,436,137                   | 2,677,324                   | 2.90%                 |
| Other   | 7,774,408                    | 6,628,139                    | 1,146,269                   | 17.29%                |
| <b>Total Operating Revenues</b>                                 | <b><u>324,068,655</u></b>    | <b><u>315,371,761</u></b>    | <b><u>8,696,894</u></b>     | <b><u>2.76%</u></b>   |
| Non-Operating:  |                              |                              |                             |                       |
| State Appropriations  | 80,754,614                   | 78,058,470                   | 2,696,144                   | 3.45%                 |
| Gifts, Investment Income and other income and expenses          | 61,343,833                   | 54,320,258                   | 7,023,575                   | 12.93%                |
| <b>Total Non-Operating</b>                                      | <b><u>142,098,447</u></b>    | <b><u>132,378,728</u></b>    | <b><u>9,719,719</u></b>     | <b><u>7.34%</u></b>   |
| Other Revenues, Gains and (Losses):                             |                              |                              |                             |                       |
| Capital Appropriations  | 24,279,423                   | 28,258,864                   | (3,979,441)                 | -14.08%               |
| Capital Grants and Gifts  | 14,396,010                   | 6,727,420                    | 7,668,590                   | 113.99%               |
| Loss on disposal of assets                                      | (264,229)                    | (420,380)                    | 156,151                     | -37.15%               |
| <b>Total Other Revenues, Gains and (Losses)</b>                 | <b><u>38,411,204</u></b>     | <b><u>34,565,904</u></b>     | <b><u>3,845,300</u></b>     | <b><u>11.12%</u></b>  |
| <b>Total Revenues</b>   | <b><u>\$ 504,578,306</u></b> | <b><u>\$ 482,316,393</u></b> | <b><u>\$ 22,261,913</u></b> | <b><u>4.62%</u></b>   |

Within the operating revenue category, Student Tuition and Fees, and Auxiliary Revenues increased \$5.6 million and \$2.7 million respectively due to increases in student tuition and fees, including student fees for auxiliary services. This was offset by slight decreases in Federal, State, Local and non-governmental grants and contracts. Non-operating revenues grew, with increases in State Appropriations, Gifts, Investment Income and other revenue and expenses. The university and college experienced an increase in Total Other Revenues due to the timing of capital project funding and the completion of construction projects.

Details of the operating expenses of the university and college are summarized below:

Summary of Operating Expenses

|                                    | <u>FY 2019</u>        | <u>FY 2018</u>        | <u>Dollar Change</u> | <u>Percent Change</u> |
|------------------------------------|-----------------------|-----------------------|----------------------|-----------------------|
| Operating Expenses:                |                       |                       |                      |                       |
| Instruction                        | \$ 134,988,703        | \$ 137,246,740        | \$ (2,258,037)       | -1.65%                |
| Research                           | 51,838,208            | 56,488,325            | (4,650,117)          | -8.23%                |
| Public Service                     | 82,624                | 37,734                | 44,890               | 118.96%               |
| Academic Support                   | 38,961,505            | 38,246,891            | 714,614              | 1.87%                 |
| Student Services                   | 18,089,368            | 17,010,759            | 1,078,609            | 6.34%                 |
| Institutional Support              | 46,678,912            | 45,747,413            | 931,499              | 2.04%                 |
| Operation and Maintenance of Plant | 27,775,075            | 28,748,152            | (973,077)            | -3.38%                |
| Student Aid                        | 17,476,356            | 15,310,719            | 2,165,637            | 14.14%                |
| Auxiliary Enterprise               | 95,311,784            | 89,410,497            | 5,901,287            | 6.60%                 |
| Depreciation                       | 36,412,541            | 35,139,267            | 1,273,274            | 3.62%                 |
| Other Operating Expenses           | 30,062                | 371,190               | (341,128)            | -91.90%               |
| Total Operating Expenses           | <u>\$ 467,645,138</u> | <u>\$ 463,757,687</u> | <u>\$ 3,887,451</u>  | <u>0.84%</u>          |

For FY19, the increase in operating expenses was a result of increases in Student Aid, Auxiliary Enterprises and Student Services offset by decreases in Instruction, Research and Operation and Maintenance of Plant.

Statement of Cash Flows

The Statement of Cash Flows provides detailed information about the university and college's sources and uses of cash during the fiscal year. Cash flow information is presented in four distinct categories: Operating, Non-Capital Financing, Capital Financing and Investing Activities. This statement aids in the assessment of the university and college's ability to generate cash to meet current and future obligations.

Summary Statement of Cash Flows

|                                 | <u>FY 2019</u>       | <u>FY 2018</u>         | <u>Dollar Change</u> | <u>Percent Change</u> |
|---------------------------------|----------------------|------------------------|----------------------|-----------------------|
| Cash Flows from:                |                      |                        |                      |                       |
| Operating Activities            | \$ (110,016,945)     | \$ (117,884,341)       | \$ 7,867,396         | 6.67%                 |
| Non-Capital Financing           | 143,366,475          | 129,391,279            | 13,975,196           | 10.80%                |
| Capital and Related Financing   | (8,388,637)          | (26,206,034)           | 17,817,397           | 67.99%                |
| Investing Activities            | 6,947,499            | 2,261,727              | 4,685,772            | 207.18%               |
| Net Increase/(Decrease) in Cash | <u>\$ 31,908,392</u> | <u>\$ (12,437,369)</u> | <u>\$ 44,345,761</u> | <u>356.55%</u>        |

Cash flow from operations and non-capital financing reflects the sources and uses of cash to support the core mission of the university and college. The primary sources of cash supporting the core mission of the university and college in FY19 were: tuition and fees - \$168.9 million, auxiliary enterprise revenues - \$93.4 million, state appropriations - \$80.8 million, research grants and contracts - \$48.4 million and gifts - \$57.5 million.

The primary uses of operating cash in FY19 were payments to employees - \$267.8 million representing salaries, wages, and fringe benefits and payments to suppliers of goods and services - \$130.0 million.

Cash flow from capital financing activities reflects the activities associated with the acquisition and construction of capital assets including related debt payments. The primary sources of cash in FY19 were: proceeds from issuance of debt - \$41.4 million, capital appropriations - \$24.1 million, and capital grants and contributions - \$14.1 million. The primary uses of cash were for capital expenditures - \$59.5 million and debt payments - \$26.2 million.

The change in cash flows from investing activities is due to investment income and purchase and sale of investments.

## Capital Asset and Debt Administration

### William & Mary

The following list provides highlights of capital projects completed, in progress, or in design during FY19.

- **Projects Completed in FY19** – Six projects were placed into service in FY19. The Dillard Storage Building and portion of the Fine and Performing Arts Project was completed and placed in use as the temporary scene shop for the Theatre, Speech, and Dance Department. Landrum Hall renovation was completed. A campus storm water improvement project was completed to ensure continued compliance with TMDL requirements. A campus accessibility project that installed a ramp, elevator, and accessible restrooms in Adair Hall and improved various pathways across campus was completed. An ADA compliant ramp was added to the Wren Building. The McLeod Tyler Wellness Center was completed.
- **Projects in Progress** – Including the 18 projects highlighted on this document, there are over 50 projects currently in some phase of progress – concept development, design, construction, or close out.

Projects in Design – A brief description of each project in design at the end of the fiscal year is provided below:

- A Memorial to the Enslaved, a concept design selected from a worldwide competition to honor the enslaved persons that helped establish William & Mary, will be designed and constructed in the vicinity of the Wren Building.
- Lake Matoaka Dam Spillway Improvement project addresses Virginia dam safety regulations, which require that high risk dams have the capacity to pass off 90% of the flow created by probable maximum precipitation. The capacity will be created by hardening the downstream face of the dam using roller compacted concrete in order to allow passage of flow by overtopping without damage to the earthen embankment.
- Muscarelle Museum Expansion will provide a more modern, program-oriented facility which will include exhibit and teaching space.
- Blow Hall IT Data Center Renovation installs a new heating ventilation and air conditioning system for computer rack cooling to meet current cooling loads. The project also adds redundant power sources with two new uninterrupted power supplies and a new generator power source.
- Integrated Science Center, Phase 4 (ISC4) will support the Mathematics, Computer Science, Engineering Design and Kinesiology & Health Sciences programs which are currently housed in facilities that lack sufficient space and robust building systems. This new facility will accommodate state of the art instruction and research by constructing approximately 121,000 square feet of new space and renovating 7,000 square feet of existing space in order to connect ISC 4 to the adjacent ISC 1. The facility will be constructed on the site of the former Millington Hall.
- Sadler West Addition constructs a 46,000-square foot addition to the western side of the Sadler Center and renovates 8,000 square feet in the old Student Health Center. This total program supports the relocation and



consolidation of the university's mission essential Student Affairs program which is spread across multiple facilities on campus.

Projects in Construction - A brief description of each project in construction at the end of the fiscal year is provided below:

- Fine and Performing Arts will expand and renovate Phi Beta Kappa (PBK) Hall, construct a new music building, and improve pedestrian and vehicular circulation in the immediate vicinity. PBK will house Theater, Dance, and Speech and feature a 100-seat student laboratory, a 250-seat studio (black box) theater and a 499-seat renovated main theater. The music building will feature a 125-seat recital hall and a 450-seat recital hall. Both facilities will be uniquely suited to the instructional and acoustic needs of the supported programs. Construction is underway with a completion target of Fall 2021.
- Reveley Garden will construct a version of the 1926 Charles Gillette garden that was designed as part of William & Mary's Beaux-Arts campus plan but never built. The project will create new places of repose and beauty on the south side of W&M's campus, as well as move towards fulfilling Gillette's thoughtful and compelling design for the early twentieth-century campus. Site work has been completed and the Garden Club of Virginia is slated to install landscaping.
- The One Tribe Place project provides structural and water infiltration repairs to the building. It provides a fire sprinkler system upgrade, electrical switchgear replacement and fire pump relocation. The stabilization portion of the project will preserve the 1984 addition for future renovation or repurposing of this portion of the residence hall. Construction commenced in June 2019.
- The Alumni House expansion project will construct a significant addition to the existing Bright House and 1990's addition, enabling University Advancement to improve significantly its support of W&M alumni. Construction is well underway with completion expected in Spring 2020.
- The Tribe Field Hockey Center is a 2,900 square foot, one story building that supports the women's athletic program. The new building will contain permanent team locker facilities, public facilities at Busch Field, goalie's gear storage, a trainer's room, and a rooftop space for viewing and events. The project will encompass storm water infrastructure for the surrounding service roadway and site integration of the field hockey field to the north of the new facility. Completion is expected in Fall 2019
- The West Utility Plant project is in full swing. The project will create a new regional utility plant that will reduce the load on the existing Swem Plant and create sufficient chilled water/hot water capability to support the west side of South Campus, including a new Fine and Performing Arts Complex as part of W&M's Campus Master Plan. Completion in January 2020 is expected.

Looking ahead, W&M will be centered on significant construction efforts in the coming year with Fine and Performing Arts Phases I and II, the Alumni House, Tribe Field Hockey Center and West Plant will all be active in 2020. W&M will also explore academic, auxiliary and administrative space needs balanced against existing inventory and master plan data to determine best courses of action for renovations or new construction to support current and future programs

#### Virginia Institute of Marine Science

The following list provides highlights of property acquisitions completed in FY19 as well as capital projects in progress or in design during FY19.

- **Property Acquisition Completed in FY19** - VIMS has authority from the Commonwealth of Virginia to purchase property adjacent to its Gloucester Point and Wachapreague campuses as well as to acquire property for the

Virginia Estuarine & Coastal Research Reserve as privately-owned properties become available. VIMS procured one parcel of land at the Gloucester Point campus in October 2018.

- **Projects Completed in FY19** - The Research Vessel (R/V) project involved the planning and construction of a new custom designed research vessel to replace the R/V Bay Eagle. Construction activities and sea trials have been completed. The R/V Virginia departed from the shipyard and made its maiden voyage to its permanent station in September 2018. The christening ceremony was held April 2019. The Consolidated Scientific Research Facility project involved the planning of a new 32,000-square foot building to provide research, study, office and technology space for the departments of Information Technology, Marine Advisory Services, Virginia Sea Grant, Center for Coastal Resources Management, and the Communications Center. All major construction is complete. The final finish punch list items were 99% complete as of June 30.
- **Projects in Progress** - VIMS had several projects either in design or under construction in FY19.

### Projects in Design

- The New Research Facility project involves the planning of a new building to replace the existing Chesapeake Bay Hall building with a new 65,000-square foot building to provide research, education, and office space for the Departments of Aquatic Health Sciences, Biological Sciences, Fisheries Science, and Physical Sciences. A preferred site has been identified for the building and programming is underway.
- The Eastern Shore Laboratory Complex project involves the planning and construction for a new building complex totaling 22,218 square feet that includes a new administration building, education building, visiting scientist/student center, shellfish aquaculture hatchery, maintenance shop, and a storage shop. The design is complete and construction documents are being reviewed for code compliance and permitting. General Contractors Statements of Qualifications have been reviewed to develop a bidder shortlist. Bidding will begin upon completion of code review.
- The Oyster Hatchery project involves the planning for a new state of the art 22,000-square foot oyster hatchery which will house space for research, education, and training as well as space for outreach activities with industry that promotes economic development. Design is expected to be completed in early 2020, followed by a construction phase of approximately 13 months.

### Construction

- The Facilities Management Building project involves the planning and construction of a new 15,000-square foot modern building to relocate and house administrative offices, maintenance trades shops, automotive and equipment repair garage, grounds, housekeeping, and central shipping and receiving units. All building systems and finishes are complete with adjustments, as needed, to eliminate deficiencies discovered during code inspections. The architect's final punch lists are ongoing.

### Debt Activity

The university and college's long-term debt is comprised of bonds payable, notes payable, capital lease payable and installment purchases. The bonds payable are Section 9(c) bonds, which are general obligation bonds issued and backed by the Commonwealth of Virginia on behalf of the university and college. These bonds are used to finance capital projects which will produce revenue to repay the debt. The university and college's notes payable consist of Section 9(d) bonds, which are issued by the Virginia College Building Authority's (VCBA) Pooled Bond Program. These bonds are backed by pledges against the university and college's general revenues. As of June 30, 2019, the university and college had \$75.0 million and \$180.2 million in outstanding balances for Section 9(c) and 9(d) bonds, respectively.

The outstanding balance of 9(c) bonds can be summarized in five major categories: (1) Renovation of Dormitories - \$40.8 million, (2) New Dormitory - \$18.3 million, (3) Commons Dining Hall - \$4.4 million, (4) Graduate Housing -

\$3.4 million, and (5) RBC Student Housing Conversion - \$2.3 million. The remaining difference reflects \$5.8 million in unamortized premiums.

The majority of the 9(d) balance at June 30, 2019 is related to: Plant Renovations – \$31.6 million, Expansion of Sadler Center - \$31.1 million, One Tribe Place - \$18.9 million, Miller Hall School of Business - \$12.9 million, Barksdale dormitories - \$11.7 million, Integrated Science Center - \$10.9 million, McLeod Tyler Wellness Center - \$8.7 million, Marshall-Wythe Law School Library - \$8.0 million, Improvement of Auxiliary facilities \$8.7 million, the Parking Deck -\$5.1 million, Recreation Sports Center - \$4.5 million, Athletic related projects – \$8.9 million, and various other projects – \$4.0 million. The remaining difference reflects \$15.2 million in unamortized premiums.

### Economic Outlook

The university's strong economic health continues to reflect its strong student demand for a W&M degree, the predictability of the university's tuition and fee revenue, continued funding from the Commonwealth of Virginia, particularly for targeted initiatives and capital projects, its ability to raise from grants and contracts and philanthropic donations, and its on-going commitment to reallocate funds to support the university's highest priorities.

W&M continues to recruit, admit and retain top-caliber students even as the university competes against the most selective public and private institutions in the country. The freshman applicant pool continues to be strong, with 14,680 students seeking admission for Fall 2019. With an incoming class size of 1,530 undergraduate students, W&M has almost 9.6 applicants for every student enrolled. Given its robust applicant pool, the credentials of admitted students remain strong, reflecting the university's highly selective nature. These statistics, coupled with the university's academic reputation, suggest a strong continuing student demand for the future. Similarly, VIMS continues to see significant success in its academic, research and advisory programs, particularly in high profile areas such as coastal flooding, sea-level rise, and water quality. Over the past several years, enrollment at RBC, a separate two-year college governed by the Board of Visitors has fluctuated as the college has raised its admissions standards. However, based on Fall 2019 enrollments, it appears that enrollments are beginning to stabilize as investments the college has made in academic advising, student support services, and retention programs begin to pay off.

State support for operations is a function of general economic conditions and the priority assigned to higher education among competing demands for Commonwealth resources. The amended 2018-2020 Appropriation Act, Chapter 854, adopted by the General Assembly and signed into law by the Governor, provided significant investment of new state general fund support in FY 19 and FY 20 for targeted initiatives, student financial aid and funding to offset tuition increases in order to mitigate the cost to students.

FY19 also showed strong financial performance for the university's endowment. As of June 30, 2019, the market value of W&M's total endowment was greater than \$1.0 billion, including \$27.2 million in revocable endowments held by third parties -- up six percent over the prior year total of \$962.2 million. The Board of Visitors' endowment recognized a 6.3% one-year investment return as of June 30, 2019. The William & Mary Investment Trust recognized a 5.4% return. Together, these remain the largest of the investment portfolios and both remain highly diversified across asset classes.

W&M also continued its fundraising success in FY19, generating almost \$92 million in new philanthropic gifts this year and bringing the total in gifts raised as part of a \$1 billion fundraising campaign to over \$892 million. The number of donors continues to be robust with more than 41,000 total donors, including almost 18,000 undergraduate alumni donors. W&M boasts one of the highest donor retention rates in the nation and ranks first among US public colleges and university in alumni giving. The university fully anticipates meeting its campaign goal by 2020 as planned.

In March 2020, the university shifted from traditional classroom teaching to online and distance learning platforms as a result of the COVID-19 global outbreak. For the health and safety of the campus community, the majority of on-campus operations and all events were canceled or delayed, and faculty and staff began teleworking. For the fiscal year ending June 30, 2020, revenue from student housing, dining and parking is expected to be impacted as well as additional

expenses related to the transition to remote education and other activities in response to the outbreak are expected to be incurred. The financial impact and duration of altered business processes cannot be reasonably estimated at this time.

In addition to operating dollars, investments in academic facilities and infrastructure remain strong. With significant support from the Commonwealth for construction and renovation of academic facilities, W&M is well under way in the construction of state-of-the-art educational and performance facilities for its music, theater, dance and speech programs. The last phase of the Integrated Science Center is in design and will accommodate state-of-the-art instruction and research space along with the expansion of the Sadler Center that will support the consolidation of activities and programs for Student Affairs. Likewise, with support from the Commonwealth, VIMS is also continuing to invest in its facilities and physical inventory, with the completion of construction of a new research vessel and the design and planning for a new Research Facility, Oyster Hatchery, and Eastern Shore Research Facilities are under way.

## **Consolidated Financial Statements**

**William & Mary, Virginia Institute of Marine Science and Richard Bland College - Consolidated Report**  
**Statement of Net Position**  
**As of June 30, 2019**

| <b>ASSETS</b>  | <b>University</b>     | <b>Component<br/>Units</b> |
|--|-----------------------|----------------------------|
| <b>Current assets:</b>   |                       |                            |
| Cash and cash equivalents (Note 3)                                   | \$ 32,825,832         | \$ 38,969,256              |
| Investments (Note 3)   | 20,693,830            | 34,324,135                 |
| Appropriation available  | 478,740               | -                          |
| Receivables, net of allowance for doubtful accounts (Note 5)         | 19,381,580            | 3,064,660                  |
| Notes receivable (Note 5)  | 371,121               | -                          |
| Due from commonwealth  | 4,450,142             | -                          |
| Inventories  | 538,807               | 12,947                     |
| Pledges receivable   | -                     | 8,101,575                  |
| Prepaid expenses   | 3,561,542             | 425,615                    |
| Other assets   | 162,161               | 54,008                     |
| <b>Total current assets</b>  | <b>82,463,755</b>     | <b>84,952,196</b>          |
| <b>Non-current assets:</b>   |                       |                            |
| Restricted cash and cash equivalents (Note 3)                        | 44,735,087            | 7,423,886                  |
| Restricted investments (Note 3)                                      | 95,610,778            | 457,519,659                |
| Investments (Note 3)   | 27,387,197            | 307,211,704                |
| Receivables  | -                     | 19,945,996                 |
| Notes receivable, net of allowance for doubtful accounts (Note 5)    | 1,679,615             | -                          |
| Pledges receivable   | -                     | 21,842,940                 |
| Capital assets, nondepreciable (Note 6)                              | 155,408,746           | 15,351,295                 |
| Capital assets, depreciable net of accumulated depreciation (Note 6) | 760,304,011           | 21,769,685                 |
| Other assets   | -                     | 2,282,284                  |
| Other restricted assets  | 2,969,000             | 176,918,886                |
| <b>Total non-current assets</b>                                      | <b>1,088,094,434</b>  | <b>1,030,266,335</b>       |
| <b>Total assets</b>  | <b>1,170,558,189</b>  | <b>1,115,218,531</b>       |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                                |                       |                            |
| Pension related (Note 14)  | 12,460,489            |                            |
| Other postemployment benefits (Note 15)                              | 8,633,585             |                            |
| Loss on refunding of debt  | 4,858,179             |                            |
| <b>Total deferred outflows of resources</b>                          | <b>25,952,253</b>     |                            |
| <b>Total assets and deferred outflows of resources</b>               | <b>1,196,510,442</b>  |                            |
| <b>LIABILITIES</b>   |                       |                            |
| <b>Current liabilities:</b>  |                       |                            |
| Accounts payable and accrued expenses (Note 7)                       | 50,275,209            | 4,277,341                  |
| Unearned revenue   | 16,610,864            | 413,836                    |
| Deposits held in custody for others                                  | 1,328,283             | 302,306                    |
| Advance from the Treasurer of Virginia (Note 18)                     | 796,803               | -                          |
| Obligations under securities lending program                         | 14,694                | -                          |
| Long-term liabilities-current portion (Note 9)                       | 31,028,274            | 1,970,305                  |
| Other liabilities  | 38,440                | 39,800                     |
| <b>Total current liabilities</b>                                     | <b>100,092,567</b>    | <b>7,003,588</b>           |
| Long-term liabilities-non-current portion (Note 9)                   | 435,770,741           | 60,939,949                 |
| <b>Total liabilities</b>   | <b>535,863,308</b>    | <b>67,943,537</b>          |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                 |                       |                            |
| Pension related (Note 14)  | 10,831,000            |                            |
| Other postemployment benefits (Note 15)                              | 19,025,276            |                            |
| Gain on refunding of debt  | 509,779               |                            |
| <b>Total deferred inflows of resources</b>                           | <b>30,366,055</b>     |                            |
| <b>Total liabilities and deferred inflows of resources</b>           | <b>566,229,363</b>    |                            |
| <b>NET POSITION</b>  |                       |                            |
| Net investment in capital assets                                     | 668,965,954           | 15,369,981                 |
| <b>Restricted for:</b>   |                       |                            |
| <b>Nonexpendable:</b>  |                       |                            |
| Scholarships and fellowships   | 10,501,029            | 153,926,733                |
| Research   | -                     | 25,330,882                 |
| Loans  | -                     | 24,230                     |
| Departmental uses  | 48,165,124            | 173,296,228                |
| Other  | -                     | 226,768,349                |
| <b>Expendable:</b>   |                       |                            |
| Scholarships and fellowships   | 9,709,983             | 120,701,055                |
| Research   | -                     | 7,748,048                  |
| Debt service   | 2,809,830             | -                          |
| Capital projects   | 3,842                 | 36,374,714                 |
| Loans  | 707,609               | -                          |
| Departmental uses  | 17,697,905            | 189,676,755                |
| Other  | -                     | 32,439,407                 |
| Unrestricted   | (128,280,197)         | 65,618,612                 |
| <b>Total net position</b>  | <b>\$ 630,281,079</b> | <b>\$ 1,047,274,994</b>    |

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

**William & Mary, Virginia Institute of Marine Science and Richard Bland College - Consolidated Report**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended June 30, 2019**

|   | University     | Component<br>Units |
|---|----------------|--------------------|
| Operating revenues:   |                |                    |
| Student tuition and fees, net of scholarship allowances of \$43,335,165 | \$ 176,441,292 | \$ -               |
| Gifts and contributions   | -              | 19,965,683         |
| Federal grants and contracts  | 34,957,384     | -                  |
| State grants and contracts  | 2,880,982      | -                  |
| Local grants and contracts  | 346,545        | -                  |
| Nongovernmental grants and contracts                                    | 6,554,583      | -                  |
| Auxiliary enterprises, net of scholarship allowances of \$20,595,131    | 95,113,461     | -                  |
| Other   | 7,774,408      | 9,781,820          |
|   | <hr/>          | <hr/>              |
| Total operating revenues  | 324,068,655    | 29,747,503         |
| Operating expenses: (Note 11)   |                |                    |
| Instruction   | 134,988,703    | 6,915,592          |
| Research  | 51,838,208     | 942,999            |
| Public service  | 82,624         | 724,009            |
| Academic support  | 38,961,505     | 3,909,255          |
| Student services  | 18,089,368     | 980,607            |
| Institutional support   | 46,678,912     | 14,400,895         |
| Operation and maintenance of plant                                      | 27,775,075     | 10,791,292         |
| Student aid   | 17,476,356     | 15,543,672         |
| Auxiliary enterprises   | 95,311,784     | 6,843,928          |
| Depreciation  | 36,412,541     | 982,429            |
| Other   | 30,062         | 4,238,555          |
|   | <hr/>          | <hr/>              |
| Total operating expenses  | 467,645,138    | 66,273,233         |
| Operating loss  | <hr/>          | <hr/>              |
|   | (143,576,483)  | (36,525,730)       |
| Non-operating revenues/(expenses):                                      |                |                    |
| State appropriations (Note 12)  | 80,754,614     | -                  |
| Gifts   | 57,541,385     | -                  |
| Net investment revenue  | 6,828,292      | 35,849,254         |
| Pell grant revenue  | 5,701,168      | -                  |
| Interest on capital asset related debt                                  | (6,879,367)    | (724,237)          |
| Other non-operating revenue   | 1,023,204      | 24,584,219         |
| Other non-operating expense   | (2,870,849)    | -                  |
|   | <hr/>          | <hr/>              |
| Net non-operating revenues  | 142,098,447    | 59,709,236         |
| Income/(loss) before other revenues, expenses, gains or losses          | <hr/>          | <hr/>              |
|   | (1,478,036)    | 23,183,506         |
| Capital appropriations  | 24,279,423     | -                  |
| Capital grants and contributions  | 14,396,010     | 15,212,127         |
| Loss on disposal of assets  | (264,229)      | -                  |
| Additions to permanent endowments                                       | -              | 31,894,308         |
|   | <hr/>          | <hr/>              |
| Net other revenues, expenses, gains or losses                           | 38,411,204     | 47,106,435         |
| Increase/(Decrease) in net position                                     | <hr/>          | <hr/>              |
|   | 36,933,168     | 70,289,941         |
| Net position - beginning of year, restated (Note 2)                     | <hr/>          | <hr/>              |
|   | 593,347,911    | 976,985,053        |
| Net position - end of year  | <hr/>          | <hr/>              |
|   | \$ 630,281,079 | \$ 1,047,274,994   |

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

**William & Mary, Virginia Institute of Marine Science and Richard Bland College - Consolidated Report**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2019**

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|   |                           |
|---|---------------------------|
| Cash flows from operating activities:                     |                           |
| Tuition and fees  | \$ 168,939,341            |
| Scholarships  | (16,625,986)              |
| Research grants and contracts                             | 48,395,183                |
| Auxiliary enterprise charges                              | 93,359,088                |
| Payments to suppliers                                     | (130,023,130)             |
| Payments to employees                                     | (267,750,676)             |
| Payments for operation and maintenance of facilities      | (13,478,451)              |
| Collection of loans to students and employees             | 459,830                   |
| Other receipts  | 6,998,738                 |
| Other payments  | (290,882)                 |
|   | <hr/>                     |
| Net cash used by operating activities                     | (110,016,945)             |
| Cash flows from noncapital financing activities:          |                           |
| State appropriations                                      | 80,754,614                |
| Gifts   | 57,541,385                |
| Agency receipts   | 703,094                   |
| Agency payments   | (332,576)                 |
| Direct Loan receipts                                      | 47,907,192                |
| Direct Loan disbursements                                 | (47,907,192)              |
| Other non-operating receipts                              | 7,348,584                 |
| Other non-operating disbursements                         | (2,648,626)               |
|   | <hr/>                     |
| Net cash provided by noncapital financing activities      | 143,366,475               |
| Cash flows from capital financing activities:             |                           |
| Proceeds from issuance of capital debt                    | 41,429,210                |
| Capital appropriations                                    | 24,056,877                |
| Capital grants and contributions                          | 14,077,377                |
| Advance from the Treasurer of Virginia                    | 2,720,328                 |
| Payment to the Treasurer of Virginia                      | (5,598,049)               |
| Insurance payments  | 515,120                   |
| Capital expenditures                                      | (59,468,867)              |
| Principal paid on capital-related debt                    | (15,917,898)              |
| Interest paid on capital-related debt                     | (10,239,392)              |
| Proceeds from sale of capital assets                      | 36,657                    |
|   | <hr/>                     |
| Net cash used by capital and related financing activities | (8,388,637)               |
| Cash flows from investing activities:                     |                           |
| Investment income   | 6,292,146                 |
| Investment expense  | (232,963)                 |
| Proceeds from sale of investments                         | 32,031,730                |
| Purchase of investments                                   | (31,143,414)              |
|   | <hr/>                     |
| Net cash provided by investing activities                 | 6,947,499                 |
| Net increase/(decrease) in cash                           | 31,908,392                |
| Cash-beginning of year                                    | <hr/> 45,637,833          |
| Cash-end of year  | <hr/> <hr/> \$ 77,546,225 |



**William & Mary, Virginia Institute of Marine Science and Richard Bland College - Consolidated Report**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2019**

Reconciliation of Cash-end of year-Cash Flow Statement, to Cash and Cash Equivalents-Statement of Net Position :

|   |                             |
|---|-----------------------------|
| Statement of Net Position                       |                             |
| Cash and cash equivalents                       | \$ 32,825,832               |
| Restricted cash and cash equivalents            | 44,735,087                  |
| Less: Securities lending -Treasurer of Virginia | <u>(14,694)</u>             |
| Net cash and cash equivalents                   | <u><u>\$ 77,546,225</u></u> |

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

|   |                                |
|---|--------------------------------|
| Net operating loss  | \$ (143,576,483)               |
| Adjustments to reconcile net operating expenses to cash used by operating activities:             |                                |
| Depreciation expense  | 36,412,541                     |
| Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources: |                                |
| Receivables-net   | (4,013,885)                    |
| Inventories   | (51,671)                       |
| Prepaid expense   | 211,401                        |
| Accounts payable  | 3,362,997                      |
| Unearned revenue  | 3,180,071                      |
| Deposit held for others   | (14,329)                       |
| Compensated absences  | 501,845                        |
| Pension liability   | (9,786,000)                    |
| Deferred outflows of resources related to pension obligations                                     | 3,229,654                      |
| Deferred inflows of resources related to pension obligations                                      | 1,800,000                      |
| Other post-employment benefits liability  | (6,818,946)                    |
| Other post-employment benefits asset  | (91,000)                       |
| Deferred outflows of resources related to other post-employment benefits                          | (1,970,448)                    |
| Deferred inflows of resources related to other post-employment benefits                           | 7,765,770                      |
| Software licenses liability   | 102,358                        |
| Other liability   | <u>(260,820)</u>               |
| Net cash used in operating activities   | <u><u>\$ (110,016,945)</u></u> |

**NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS**

|  |              |
|--|--------------|
| Amortization of deferred loss                    | \$ 692,469   |
| Donated capital assets                           | \$ 269,967   |
| Loss on disposal of assets                       | \$ 264,229   |
| Capital assets acquired through accounts payable | \$ 5,009,445 |
| Amortization of bond premium                     | \$ 2,494,443 |
| Net change in value of investments               | \$ 784,983   |

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

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**Notes to  
Financial Statements  
Year Ended June 30, 2019**

# William & Mary, Virginia Institute of Marine Science, and Richard Bland College - Consolidated Report

## NOTES TO FINANCIAL STATEMENTS

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

The consolidated financial statements of William & Mary includes the financial statements of William & Mary (W&M) located in Williamsburg, Virginia, Virginia Institute of Marine Science (VIMS), which serves as the school of Marine Science, collectively referred to as “university” and Richard Bland, referred to as the “college”. All three entities are recognized as distinct state agencies within the Commonwealth of Virginia’s statewide system of public higher education with a shared governing board appointed by the Governor of Virginia. In this capacity, the Board of Visitors is responsible for overseeing governance of all three entities. The university and college are a component unit of the Commonwealth of Virginia and are included in the general purpose financial statements of the Commonwealth.

The accompanying financial statements present all funds for which the university and college’s Board of Visitors is financially accountable. Related foundations and similar non-profit corporations for which the university and college are not financially accountable are also a part of the accompanying financial statements in accordance with the Governmental Accounting Standards Board (GASB) reporting model. These entities are legally separate and tax exempt organizations formed to promote the achievements and further the aims and purposes of the university and college. These component units are described in Note 13.

The university and college have nine component units – the William & Mary Foundation, The Marshall-Wythe School of Law Foundation, the William & Mary Alumni Association, the William & Mary Athletic Educational Foundation, the William & Mary School of Business Foundation, the Virginia Institute of Marine Science Foundation, the Richard Bland College Foundation, the William & Mary Real Estate Foundation, and the Intellectual Property Foundation. These organizations are separately incorporated tax-exempt entities and have been formed to promote the achievements and further the aims and purposes of the university and college. The Foundations are private, non-profit organizations, and as such the financial statement presentation follows the recommendation of accounting literature related to non-profits. As a result, reclassifications have been made to convert the Foundation’s financial information to GASB format.

Although the university and college do not control the timing or amount of receipts from the Foundations, the majority of resources or income which the Foundations hold and invest are restricted to the activities of the university and college by the donors. Because these restricted resources held by the Foundations can only be used by or for the benefit of the university and college, the Foundations are considered component units of the university and college and are discretely presented in the financial statements with the exception of the Intellectual Property Foundation. The Intellectual Property Foundation is presented blended in the university column because the university has a voting majority of the governing board of the Foundation.

The William & Mary Foundation is a private, not-for-profit corporation organized under the laws of the Commonwealth of Virginia to “aid, strengthen, and expand in every proper and useful way” the work of William & Mary. For additional information on the William & Mary Foundation, contact the Foundation at Post Office Box 8795, Williamsburg, Virginia 23187.

The Marshall-Wythe School of Law Foundation is a non-stock, not-for-profit corporation organized under the laws of the Commonwealth of Virginia, established for the purpose of soliciting and receiving gifts to support the William & Mary Law School. The Foundation supports the law school through the funding of scholarships and fellowships, instruction and research activities, and academic support. For additional information on The Marshall-Wythe School of Law Foundation, contact the Foundation Office at Post Office Box 8795, Williamsburg, Virginia 23187.

The William & Mary Alumni Association is a private, not-for-profit corporation organized under the laws of the Commonwealth of Virginia which provides aid to W&M in its work, and promotes and strengthens the bonds of interest between and among William & Mary and its alumni. For additional information on the Alumni Association, contact the Alumni Association Office at Post Office Box 2100, Williamsburg, Virginia 23187-2100.

The William & Mary Athletic Educational Foundation is a not-for-profit corporation organized under the laws of the Commonwealth of Virginia. The purpose of the Foundation is to promote, foster, encourage and further education, in all enterprises of all kinds at William & Mary, but it principally supports W&M's Athletic Department. For additional information on the Athletic Educational Foundation, contact the Foundation Office at 751 Ukrop Drive, Williamsburg, Virginia 23187.

The William & Mary Business School Foundation is a non-stock, not-for-profit corporation organized under the laws of the Commonwealth of Virginia. The purpose of the Business School Foundation is to solicit and receive gifts to endow the W&M School of Business Administration and to support the School through the operations of the Foundation. For additional information on the William & Mary Business School Foundation, contact the Foundation Office at Post Office Box 2220, Williamsburg, Virginia, 23187.

The Virginia Institute of Marine Science Foundation is a not-for-profit corporation organized under the laws of the Commonwealth of Virginia. The purpose of the Foundation is to support VIMS primarily through contributions from the public. For additional information on the Virginia Institute of Marine Science Foundation, contact the Foundation Office at Post Office Box 1346, Gloucester Point, Virginia, 23062.

The Richard Bland College Foundation is a private, not-for-profit corporation organized under the laws of the Commonwealth of Virginia which provides scholarships, financial aid, and books to RBC's students, along with support for faculty development and cultural activities. For additional information on the Richard Bland College Foundation, contact the Foundation Office at 11301 Johnson Road, South Prince George, Virginia 23805.

The William & Mary Real Estate Foundation is a non-profit organization incorporated under the laws of the Commonwealth of Virginia in September 2006. Its purpose is to acquire, hold, manage, sell, lease and participate in the development of real properties in support of the educational goals of William & Mary and VIMS. For additional information on the William & Mary Real Estate Foundation, contact the Foundation Office at Post Office Box 8795, Williamsburg, Virginia, 23187-8795.

The Intellectual Property Foundation is a nonprofit organization incorporated under the laws of the Commonwealth of Virginia in September 2007. Its purpose is to handle all aspects of the intellectual property of William & Mary in support of the educational goals of the university. For additional information on the William & Mary Intellectual Property Foundation, contact the Foundation Office at Post Office Box 8795, Williamsburg, Virginia, 23187-8795.

#### Basis of Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the GASB, including all applicable GASB pronouncements. Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. The university and college follow accounting and reporting standards for reporting as a special-purpose government engaged in business-type activities and accordingly, is reported within a single column in the basic financial statements.

#### Basis of Accounting

The financial statements of the university and college have been prepared using the economic resources measurement focus and the accrual basis of accounting, including depreciation expense related to capitalized fixed assets. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Bond premiums and discounts are deferred and amortized over the life of the debt. All significant

intra-agency transactions have been eliminated.

#### Newly Adopted Accounting Pronouncements

In fiscal year 2019 the following GASB statements of standards became effective: Statement 83, *Certain Asset Retirement Obligations*; and Statement 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. GASB Statement 83 established standards of accounting and financial reporting related to the timing and pattern of recognition associated with legally enforceable liabilities in connection with the retirement of tangible capital assets. Accordingly, the university determined that it did not have any material asset retirement obligations and the financial statements were unaffected by the implementation of GASB Statement 83. GASB Statement 88 improved the information disclosed in the notes that accompany the university's financial statements related to debt, including direct borrowings and direct placements. These enhanced disclosures provide more information regarding the credit worthiness of the university and the Commonwealth of Virginia.

#### Cash and Cash Equivalents

In accordance with the GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, definition, cash and cash equivalents consist of cash on hand, money market funds, and temporary highly liquid investments with an original maturity of three months or less.

#### Investments

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires that purchased investments, interest-bearing temporary investments classified with cash, and investments received as gifts be recorded at fair value, and reported in accordance with GASB Statement No. 72, *Fair Value Measurement and Application* (See Note 3). Realized and unrealized gains and losses are reported in investment income as non-operating revenue in the Statement of Revenues, Expenses, and Changes in Net Position.

#### Receivables

Receivables consist of tuition and fee charges to students and auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to grants and contracts. Receivables are recorded net of estimated uncollectible amounts.

#### Inventories

Inventories at the university are reported using the consumption method and valued at average cost. RBC does not report any inventory.

#### Prepaid Expenses

As of June 30, 2019, the university and college's prepaid expenses included items such as insurance premiums, membership dues, conference registrations and publication subscriptions for FY20 that were paid in advance.

#### Capital Assets

Capital assets are recorded at historical cost at the date of acquisition or acquisition value at the date of donation in the case of gifts. Construction expenses for capital assets and improvements are capitalized when expended. Interest expense of \$285,214 relating to construction is capitalized net of interest income earned on resources set aside for this purpose for the year ended June 30, 2019. The university and college's capitalization policy on equipment includes all items with an estimated useful life of two years or more. The university and college capitalize all items with a unit price greater than or equal to \$5,000. The university capitalizes buildings and improvements other than buildings with a

cost greater than or equal to \$100,000. Richard Bland College capitalizes buildings and improvements other than buildings with a cost greater than or equal to \$5,000. Library materials for the academic or research libraries are capitalized as a collection and are valued at cost. The university capitalizes intangible assets with a cost greater than or equal to \$50,000 except for internally generated computer software which is capitalized at a cost of \$100,000 or greater. Richard Bland College capitalizes intangible assets with a cost greater than or equal to \$20,000.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets as follows:

|                                       |             |
|---------------------------------------|-------------|
| Buildings                             | 40-50 years |
| Infrastructure                        | 10-50 years |
| Equipment                             | 2-30 years  |
| Library Books                         | 10 years    |
| Intangible Assets – computer software | 3-20 years  |

Collections of works of art and historical treasures are capitalized at cost or acquisition value at the date of donation. These collections, which include rare books, are considered inexhaustible and therefore are not depreciated.

#### Deferred Outflows of Resources

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

#### Unearned Revenue

Unearned revenue represents revenue collected but not earned as of June 30, 2019. This is primarily comprised of revenue for student tuition and fees paid in advance of the semester, amounts received from grant and contract sponsors that have not yet been earned and advance ticket sales for athletic events.

#### Compensated Absences

Employees' compensated absences are accrued when earned. The liability and expense incurred are recorded at year-end as accrued compensated absences in the Statement of Net Position, and as a component of compensation and benefit expense in the Statement of Revenues, Expenses, and Changes in Net Position. The applicable share of employer related taxes payable on the eventual termination payments is also included.

#### Noncurrent Liabilities

Noncurrent liabilities include principal amounts of bonds payable, notes payable, capital lease payable and installment purchase agreements with contractual maturities greater than one year as well as estimated amounts for accrued compensated absences that will not be paid within the next fiscal year. Also included is pension liability for defined benefit plans and other postemployment benefits administered through the Virginia Retirement System and other postemployment benefits administered through the Department of Human Resource Management.

#### Pensions

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

## Other Postemployment Benefits

The Virginia Retirement System (VRS) Group Life Insurance Program is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. For purposes of measuring the net Group Life Insurance Program OPEB liability, deferred outflows of resources, deferred inflows of resources and OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Group Life Insurance program OPEB and the additions to/deductions from the VRS Group Life Insurance Program OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

The Virginia Retirement System (VRS) Disability Insurance Program (Virginia Sickness and Disability Program) is a single employer plan that is presented as a multiple-employer, cost-sharing plan. For purposes of measuring the net Disability Insurance Program OPEB liability (asset), deferred outflows of resources, deferred inflows of resources and OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Disability Insurance Program OPEB Plan and the additions to/deductions from the VRS Disability Insurance Program OPEB Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The Virginia Retirement System (VRS) Line of Duty Act Program (LODA) is a multiple-employer, cost-sharing plan. For purposes of measuring the net Line of Duty Act Program OPEB liability, deferred outflows of resources, deferred inflows of resources and OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Line of Duty Act Program OPEB Plan and the additions to/deductions from the VRS Line of Duty Act Program OPEB Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes, and is administered by the Department of Human Resource Management. The 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.

## Deferred Inflows of Resources

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

## Net Position

The university and college's net position is classified as follows:

Net Investment in Capital Assets – consists of total investment in capital assets, net of accumulated



depreciation and outstanding debt obligations.

Restricted Net Position – Nonexpendable – includes endowments and similar type assets whose use is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity.

Restricted Net Position – Expendable – represents funds that have been received for specific purposes and the university and college are legally or contractually obligated to spend the resources in accordance with restrictions imposed by external parties.

Unrestricted Net Position – represents resources derived from student tuition and fees, state appropriations, unrestricted gifts, interest income, and sales and services of educational departments and auxiliary enterprises. When an expense is incurred that can be paid using either restricted or unrestricted resources, the university and college's policy is to first apply the expense toward restricted resources, and then toward unrestricted.

### Scholarship Allowances

Student tuition and fee revenues and certain other revenues from charges to students are reported net of scholarship allowances in the Statement of Revenues, Expenses, and Changes in Net Position. Scholarship allowances are the difference between the actual charge for goods and services provided by the university and college, and the amount that is paid by students and/or third parties on the students' behalf. Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). The alternative method is a simple calculation that computes scholarship discounts and allowances on a university-wide basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid. Student financial assistance grants and other Federal, State or nongovernmental programs are recorded as either operating or non-operating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the university and college have recorded a scholarship allowance.

### Federal Financial Assistance Programs

The university and college participate in federally funded Pell Grants, Supplemental Educational Opportunity Grants (SEOG), Federal Work Study, Perkins Loans, and Direct Loans, which includes Stafford Loans, Parent Loans for Undergraduate Students (PLUS) and Graduate PLUS Loans. Federal programs are audited in accordance with 2 CFR 200, subpart F.

### Classification of Revenues and Expenses

The university and college present its revenues and expenses as operating or non-operating based on the following criteria:

Operating revenues - includes activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship allowances, (2) sales and services of auxiliary enterprises, (3) most Federal, State and Local grants and contracts and (4) interest on student loans.

Non-operating revenues - includes activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, and GASB Statement No. 34, such as State appropriations and investment income.

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

## 2. RESTATEMENT OF NET POSITION

|  |                       |
|--|-----------------------|
| Net position as previously reported at June 30, 2018       | \$ 593,652,881        |
| Richard Bland College audit adjustments for capital assets | <u>(304,970)</u>      |
| Net position at July 1, 2019                               | <u>\$ 593,347,911</u> |

## 3. CASH, CASH EQUIVALENTS AND INVESTMENTS

### Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et. seq., Code of Virginia, all state funds of the university and college are maintained by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody and investment of State funds. Cash held by the university and college is maintained in accounts that are collateralized in accordance with the Virginia Securities for Public Deposits Act, Section 2.2-4400, et. seq. Code of Virginia with the exception of cash held by the university and college in foreign currency, when applicable. The Virginia Security for Public Deposits Act eliminates any custodial credit risk for the university and college. The university has cash equivalents with the Virginia State Non-Arbitrage Program (SNAP). SNAP offers a professionally managed money market mutual fund, which provides a temporary pooled investment vehicle for proceeds pending expenditure, and with record keeping, depository and arbitrage rebate calculations. SNAP complies with all standards of GASB Statement 79. SNAP investments are reported using the net asset value per share, which is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

### Investments

The investment policy of the university and college is established by the Board of Visitors and monitored by the Board's Financial Affairs Committee. In accordance with the Board of Visitors' Resolution 6(R), November 16, 2001, Resolution 12(R) November 21-22, 2002, and as updated by the Board in April 2015 investments can be made in the following instruments: cash, U.S. Treasury and Federal agency obligations, commercial bank certificates of deposit, commercial paper, bankers' acceptances, corporate notes and debentures, money market funds, mutual funds, convertible securities and equities. Money market funds are cash equivalents and are presented at amortized cost.

### Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires the disclosure of the credit quality rating on any investments subject to credit risk.

### Concentration of Credit Risk

Concentration of credit risk requires the disclosure by amount and issuer of any investments in any one issuer that represents five percent or more of total investments. Investments explicitly guaranteed by the U.S. government and investments in mutual funds or external investment pools and other pooled investments are excluded from this requirement. The university and college's investment policy does not limit the amount invested in U.S. Government or Agency Securities. As of June 30, 2019, the university had 5.46% of its total investments in the Federal National Mortgage Association and 6.14% in the Federal Home Loan Mortgage Corporation.

### Custodial Credit Risk

Custodial credit risk is the risk that, in the event of failure of the counterparty, the university and college will not be able to recover the value of its investment or collateral securities that are in the possession of the outside party. All investments are registered and held in the name of the university and college, and therefore, the university and college

do not have this risk.

### Interest Rate Risk

The interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The university and college limit their exposure to interest rate risk by limiting its maximum maturity lengths of investments and structuring its portfolio to maintain adequate liquidity to ensure the university and college's ability to meet its operating requirements.

### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The university had no investments in foreign currency or foreign deposits as of June 30, 2019. The university does not have a foreign currency risk policy.

### Fair Value Measurement

Certain assets and liabilities of the university and college are reflected in the accompanying financial statements at fair value. The university and college follow the provisions in GASB Statement 72, *Fair Value Measurement and Application*. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). GASB 72 establishes a fair value hierarchy and specifies that the valuation techniques used to measure fair value shall maximize the use of observable inputs and minimize the use of unobservable inputs. Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under GASB 72 are described below:

*Level 1*—Quoted prices (unadjusted) in active markets for identical assets or liabilities that the university and college have the ability to access at the measurement date.

*Level 2*—Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, or inputs other than quoted prices that are observable (directly or indirectly) for the asset or liability.

*Level 3*—Prices, inputs or sophisticated modeling techniques, which are both significant to the fair value measurement and unobservable (supported by little or no market activity).

As required by GASB 72, assets and liabilities are classified within the level of the lowest significant input considered in determining fair value.

GASB 72 permits a governmental unit to establish the fair value of investments in non-governmental entities that do not have a readily determinable fair value by using the Net Asset Value ("NAV") per share (or its equivalent), such as member units or an ownership interest in partners' capital. The university and college use the NAV or its equivalent as provided by the investment funds to value its investments in certain limited partnerships. Investments valued using the NAV or its equivalent are not categorized within the fair value hierarchy.

The university and college categorize fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The following table presents investments as of June 30, 2019:

## Investments Measured at Fair Value

|   | <u>6/30/2019</u>      | <u>Level 1</u>     | <u>Level 2</u>    |
|---|-----------------------|--------------------|-------------------|
| Investments by Fair Value Level                   |                       |                    |                   |
| Debt Securities                                   |                       |                    |                   |
| Corporate Bonds                                   | \$ 28,761,248         | \$ -               | \$ 28,761,248     |
| Commercial Paper                                  | 3,787,773             | -                  | 3,787,773         |
| Agency Mortgage Backed Securities                 | 25,967,013            | 25,967,013         |                   |
| United States Treasury Notes                      | 2,912,470             | 2,912,470          |                   |
| Mutual Funds                                      | 611,112               | 611,112            | -                 |
| Fixed Income and Comingled Funds                  | <u>30,595,326</u>     | <u>30,595,326</u>  | <u>-</u>          |
| Total Debt Securities                             | <u>92,634,942</u>     | <u>60,085,921</u>  | <u>32,549,021</u> |
| Equity Securities                                 |                       |                    |                   |
| Common and Preferred Stocks                       | 4,348,255             | 4,348,255          | -                 |
| Equity Index Funds                                | 9,445,065             | 9,445,065          | -                 |
| Equity Index and Pooled Funds                     | 33,582,300            | 33,582,300         | -                 |
| Real Estate                                       | <u>1,882,365</u>      | <u>1,882,365</u>   | <u>-</u>          |
| Total Equity Securities                           | <u>49,257,985</u>     | <u>49,257,985</u>  | <u>-</u>          |
| Total Investments by Fair Value level             | <u>141,892,927</u>    | <u>109,343,906</u> | <u>32,549,021</u> |
| Other - Rare Coin                                 | 280                   |                    |                   |
| Investments measured at the Net Asset Value (NAV) |                       |                    |                   |
| Equity Hedge Long/Short                           | 1,342,564             |                    |                   |
| Diversified Event Driven                          | 684,098               |                    |                   |
| Managed Futures/Commodities                       | 529,417               |                    |                   |
| Relative Value                                    | 2,464,702             |                    |                   |
| Private Equity                                    | <u>555,590</u>        |                    |                   |
| Total Investments measured at the NAV             | <u>5,576,370</u>      |                    |                   |
| Total Investments                                 | <u>\$ 147,469,577</u> |                    |                   |

Securities traded on U.S. or foreign exchanges are valued at the last reported sales price or, if there are no sales, at the latest bid quotation. Mutual funds and exchange traded funds listed on U.S. or foreign exchanges are valued at the closing net asset value; mutual funds not traded on national exchanges are valued in good faith at the pro-rata interest in the net assets of these entities. Short-term government and agency bonds and notes are valued based on market-driven observations and securities characteristics including ratings, coupons and redemptions. The values of limited partnerships are determined in good faith at the pro-rata interest in the net assets of these entities. Investments held by these entities are valued at prices which approximate fair value. The estimated fair value of certain investments in the underlying entities, which may include private placements and other securities for which values are not readily available, are determined in good faith by the investment advisors or third party administrators of the respective entities and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. These investments are valued using valuation techniques such as the market approach, income approach, and cost approach. The estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments, and these differences could be material.

The following table summarizes liquidity provisions related to the university and college's investments measured at Net Asset Value:

Investments Measured at NAV

|                                   | <u>Fair Value</u>   | <u>Unfunded Commitments</u> | <u>Redemption Frequency</u> | <u>Redemption Notice Period</u> |
|-----------------------------------|---------------------|-----------------------------|-----------------------------|---------------------------------|
| Equity Hedge Long/Short           | \$ 1,342,564        | \$ -                        | Monthly, Quarterly          | 35-95 days                      |
| Diversified Event Driven          | 684,098             | -                           | Quarterly                   | 95 days                         |
| Managed Futures/Commodities       | 529,417             | -                           | Monthly                     | 10 days                         |
| Relative Value                    | 2,464,702           | -                           | Quarterly, Semi-Annual      | 65-100 days                     |
| Private Equity                    | <u>555,590</u>      | <u>1,768,159</u>            | Illiquid                    |                                 |
| Total Investments measured at NAV | <u>\$ 5,576,370</u> | <u>\$ 1,768,159</u>         |                             |                                 |

Interest Rate Risk: Maturities

| <u>Type of Investment</u>          | <u>June 30, 2019</u>  | <u>Less than 1 year</u> | <u>1-5 years</u>     | <u>6-10 years</u>   | <u>Greater than 10 years</u> |
|------------------------------------|-----------------------|-------------------------|----------------------|---------------------|------------------------------|
| Agency mortgage backed securities: |                       |                         |                      |                     |                              |
| Federal Home Loan Bank             | \$ 1,199,592          | \$ -                    | \$ 1,199,592         | \$ -                | \$ -                         |
| Federal Home Loan Mortgage Corp    | 13,107,409            | 3,247,228               | 7,936,869            | 1,923,312           | -                            |
| Federal National Mortgage Assn     | 11,660,012            | 2,017,695               | 5,540,505            | 1,077,402           | 3,024,410                    |
| United States Treasury Notes       | 2,912,470             | -                       | 2,912,470            | -                   | -                            |
| Commercial Paper                   | 3,787,773             | 3,787,773               | -                    | -                   | -                            |
| Corporate Bonds                    | 28,761,248            | 19,459,495              | 9,301,753            | -                   | -                            |
| Fixed Income and Commingled Funds  | 30,595,326            | -                       | 30,595,326           | -                   | -                            |
| Mutual and money market funds:     |                       |                         |                      |                     |                              |
| Money market                       | 29,615,971            | 29,615,971              | -                    | -                   | -                            |
| Mutual funds - Green Funds         | 202,534               | 202,534                 | -                    | -                   | -                            |
| Mutual funds - Wells Fargo         | 408,578               | -                       | 408,578              | -                   | -                            |
| State non-arbitrage program        | <u>36,325,870</u>     | <u>36,325,870</u>       | <u>-</u>             | <u>-</u>            | <u>-</u>                     |
|                                    | <u>\$ 158,576,783</u> | <u>\$ 94,656,566</u>    | <u>\$ 57,895,093</u> | <u>\$ 3,000,714</u> | <u>\$ 3,024,410</u>          |

Credit & Concentration of Credit Risks

|  | <u>June 30, 2019</u>  | <u>Moody's<br/>Credit Rating</u> | <u>S&amp;P Credit<br/>Rating</u> | <u>Fitch<br/>Credit Rating</u> | <u>Unrated</u>       |
|--|-----------------------|----------------------------------|----------------------------------|--------------------------------|----------------------|
| <u>Cash Equivalents</u>                    |                       |                                  |                                  |                                |                      |
| Money market - AAA                         | \$ 29,615,971         | \$ -                             | \$ 29,615,971                    | \$ -                           | \$ -                 |
| Commercial Paper                           | 3,787,773             | -                                | -                                | -                              | 3,787,773            |
| State non-arbitrage program - AAAM         | 36,325,870            | -                                | 36,325,870                       | -                              | -                    |
| Securities lending                         | 14,694                | -                                | -                                | -                              | 14,694               |
| Total cash equivalents                     | <u>69,744,308</u>     | <u>-</u>                         | <u>65,941,841</u>                | <u>-</u>                       | <u>3,802,467</u>     |
| <u>Investments</u>                         |                       |                                  |                                  |                                |                      |
| Agency mortgage backed securities:         |                       |                                  |                                  |                                |                      |
| Federal Home Loan Bank - AA+               | \$ 1,199,592          | \$ -                             | \$ 1,199,592                     | \$ -                           | \$ -                 |
| Federal Home Loan Mortgage Corp - AA+      | 13,107,409            | -                                | 13,107,409                       | -                              | -                    |
| Federal National Mortgage Assn - AA+       | 11,660,012            | -                                | 11,660,012                       | -                              | -                    |
| Corporate Bonds:                           |                       |                                  |                                  |                                |                      |
| AA+  | 997,860               | -                                | -                                | 997,860                        | -                    |
| AA-  | 3,601,284             | -                                | 2,403,096                        | 1,198,188                      | -                    |
| AA3  | 901,413               | 901,413                          | -                                | -                              | -                    |
| A1   | 3,336,329             | 3,336,329                        | -                                | -                              | -                    |
| A+   | 1,198,668             | -                                | 1,198,668                        | -                              | -                    |
| A  | 2,115,341             | -                                | 1,515,095                        | 600,246                        | -                    |
| A2   | 4,592,373             | 4,592,373                        | -                                | -                              | -                    |
| A3   | 6,130,003             | 6,130,003                        | -                                | -                              | -                    |
| A-   | 5,887,977             | -                                | 5,887,977                        | -                              | -                    |
| Fixed Income and Commingled Funds          | 30,595,326            | -                                | -                                | -                              | 30,595,326           |
| Mutual funds:                              |                       |                                  |                                  |                                |                      |
| Green Funds                                | 202,534               | -                                | -                                | -                              | 202,534              |
| Wells Fargo                                | 408,578               | -                                | -                                | -                              | 408,578              |
| Total investments                          | <u>\$ 85,934,699</u>  | <u>\$ 14,960,118</u>             | <u>\$ 36,971,849</u>             | <u>\$ 2,796,294</u>            | <u>\$ 31,206,438</u> |
| <u>Other Investments</u>                   |                       |                                  |                                  |                                |                      |
| Equity and other investments               | 57,750,225            |                                  |                                  |                                |                      |
| Rare coins                                 | 280                   |                                  |                                  |                                |                      |
| Property held as investment for endowments | 6,600                 |                                  |                                  |                                |                      |
| Total other investments                    | <u>57,757,105</u>     |                                  |                                  |                                |                      |
| Total cash equivalents and investments     | <u>\$ 213,436,112</u> |                                  |                                  |                                |                      |

4. DONOR RESTRICTED ENDOWMENTS

Investments of the university's endowment funds are pooled and consist primarily of gifts and bequests, the use of which is restricted by donor imposed limitations. The Uniform Management of Institutional Funds Act, Code of Virginia Title 55, Chapter 15 sections 268.1-268.10, permits the spending policy adopted by the Board of Visitors to

appropriate an amount of realized and unrealized endowment appreciation as the Board determines to be prudent. In determining the amount of appreciation to appropriate, the Board is required by the Act to consider such factors as long- and short-term needs of the institution, present and anticipated financial requirements, expected total return on investments, price level trends, and general economic conditions. The amount available for spending is determined by applying the payout percentage to the average market value of the investment portfolio for the three previous calendar year-ends. The payout percentage is reviewed and adjusted annually as deemed prudent.

William & Mary, at FY19 year-end, had a net appreciation of \$15,245,483 which is available to be spent and is reported in the Statement of Net Position in the following categories: Restricted Expendable for Scholarships and Fellowships - \$8,303,502, Restricted Expendable for Capital Projects - \$203,808, Restricted Expendable for Research - \$57,253, Restricted Expendable for Departmental Uses - \$5,334,571 and Unrestricted - \$1,346,349. The amounts for Capital Projects and Research were reclassified to Unrestricted because the total net positions for Restricted Expendable for Capital Projects and Restricted Expendable for Research were negative for the university.

The college, at FY19 year-end, had a net appreciation of \$172,460 which is available to be spent and is reported in the Statement of Net Position in the Restricted Expendable for Scholarships and Fellowships category.

## 5. ACCOUNTS AND NOTES RECEIVABLES

Receivables include transactions related to accounts and notes receivable and are shown net of allowance for doubtful accounts for the year ending June 30, 2019 as follows:

Accounts receivable consisted of the following at June 30, 2019:

|  |                             |
|--|-----------------------------|
| Student Tuition and Fees                               | \$ 4,081,447                |
| Auxiliary Enterprises                                  | 2,507,624                   |
| Federal, State and Non-Governmental Grants & Contracts | 9,739,387                   |
| Other Activities                                       | <u>3,113,784</u>            |
| Gross Receivables                                      | 19,442,242                  |
| Less: allowance for doubtful accounts                  | <u>(60,662)</u>             |
| Net Receivables  | <u><u>\$ 19,381,580</u></u> |

Notes receivable consisted of the following at June 30, 2019:

|  |                            |
|--|----------------------------|
| Current portion:                           |                            |
| Federal student loans and promissory notes | <u><u>\$ 371,121</u></u>   |
| Non-current portion:                       |                            |
| Federal student loans and promissory notes | \$ 1,775,140               |
| Less: allowance for doubtful accounts      | <u>(95,525)</u>            |
| Net non-current notes receivable           | <u><u>\$ 1,679,615</u></u> |

## 6. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2019 consists of the following:

|   | Beginning<br>Balance  | Beginning<br>Balance<br>Adjustments | Additions            | Reductions             | Ending<br>Balance     |
|---|-----------------------|-------------------------------------|----------------------|------------------------|-----------------------|
| Non-depreciable capital assets:                   |                       |                                     |                      |                        |                       |
| Land  | \$ 25,086,767         | \$ -                                | \$ 325,639           | \$ -                   | \$ 25,412,406         |
| Inexhaustible artwork and<br>Historical treasures | 76,284,091            | -                                   | 1,432,542            | (72,294)               | 77,644,339            |
| Construction in Progress                          | <u>60,027,996</u>     | <u>-</u>                            | <u>57,189,947</u>    | <u>(64,865,942)</u>    | <u>52,352,001</u>     |
| Total non-depreciable<br>capital assets           | <u>161,398,854</u>    | <u>-</u>                            | <u>58,948,128</u>    | <u>(64,938,236)</u>    | <u>155,408,746</u>    |
| Depreciable capital assets:                       |                       |                                     |                      |                        |                       |
| Buildings   | 929,428,490           | 692,409                             | 50,295,692           | (19,101)               | 980,397,490           |
| Equipment   | 86,832,766            | (485,371)                           | 15,258,934           | (2,033,199)            | 99,573,130            |
| Infrastructure                                    | 82,445,072            | 158,732                             | 3,981,781            | -                      | 86,585,585            |
| Other improvements                                | 13,998,025            | -                                   | 496,227              | -                      | 14,494,252            |
| Library Materials                                 | 69,497,808            | 8,207                               | 835,385              | (1,014,633)            | 69,326,767            |
| Computer software                                 | <u>8,580,348</u>      | <u>-</u>                            | <u>919,516</u>       | <u>-</u>               | <u>9,499,864</u>      |
| Total depreciable<br>capital assets               | <u>1,190,782,509</u>  | <u>373,977</u>                      | <u>71,787,535</u>    | <u>(3,066,933)</u>     | <u>1,259,877,088</u>  |
| Less accumulated<br>depreciation for:             |                       |                                     |                      |                        |                       |
| Buildings   | 292,098,759           | 960,642                             | 26,413,748           | (19,101)               | 319,454,048           |
| Equipment   | 56,802,093            | (355,008)                           | 5,548,269            | (1,804,606)            | 60,190,748            |
| Infrastructure                                    | 39,977,010            | 68,143                              | 1,851,562            | -                      | 41,896,715            |
| Other improvements                                | 7,017,254             | -                                   | 737,972              | -                      | 7,755,226             |
| Library Materials                                 | 63,382,170            | 5,170                               | 1,185,691            | (1,014,634)            | 63,558,397            |
| Computer software                                 | <u>6,042,644</u>      | <u>-</u>                            | <u>675,299</u>       | <u>-</u>               | <u>6,717,943</u>      |
| Total accumulated<br>depreciation                 | <u>465,319,930</u>    | <u>678,947</u>                      | <u>36,412,541</u>    | <u>(2,838,341)</u>     | <u>499,573,077</u>    |
| Depreciable capital<br>assets, net                | <u>725,462,579</u>    | <u>(304,970)</u>                    | <u>35,374,994</u>    | <u>(228,592)</u>       | <u>760,304,011</u>    |
| Total capital assets, net                         | <u>\$ 886,861,433</u> | <u>\$ (304,970)</u>                 | <u>\$ 94,323,122</u> | <u>\$ (65,166,828)</u> | <u>\$ 915,712,757</u> |



## Capitalization of Library Books

The methods employed to value the general collections of W&M's Earl Gregg Swem Library, W&M's Marshall-Wythe Law Library, VIMS' Hargis Library, and RBC's Library are based on average cost determined by each library. The average cost of the Swem Library purchases of books was \$43.39 for FY19. The average cost of the Law Library purchases of books was \$89.87 for FY19. Special collections maintained by each library are valued at historical cost or acquisition value. The average cost of library books purchased for VIMS was \$51.80 for FY19. The average cost of library books purchased for RBC was \$27.81 for FY19. The changes reflected in the valuation are due to the recognition of depreciation in accordance with GASB Statements No. 34 and 35, as well as purchases, donations and disposals.

## 7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2019:

### Current Liabilities:

|  |                      |
|--|----------------------|
| Employee salaries, wages, and fringe benefits payable              | \$ 29,371,723        |
| Vendors and supplies accounts payable                              | 6,741,603            |
| Capital projects accounts and retainage payable                    | 11,467,400           |
| Accrued interest payable   | <u>2,694,483</u>     |
| Total current liabilities-accounts payable and accrued liabilities | <u>\$ 50,275,209</u> |

## 8. COMMITMENTS

At June 30, 2019, outstanding construction commitments totaled approximately \$216,167,000.

Commitments also exist under various operating leases for buildings, equipment and computer software. In general, the leases are for one to three year terms with renewal options on the buildings, equipment and certain computer software for additional one-year terms. In most cases, these leases will be replaced by similar leases. Rental expense for the fiscal year ending June 30, 2019, was \$5,134,008.

As of June 30, 2019, the following total future minimum rental payments are due under the above leases:

| <u>Year Ending June 30, 2019</u> | <u>Amount</u>        |
|----------------------------------|----------------------|
| 2020                             | \$ 4,072,593         |
| 2021                             | 3,308,867            |
| 2022                             | 2,076,728            |
| 2023                             | 1,838,100            |
| 2024                             | 1,797,970            |
| Total                            | <u>\$ 13,094,258</u> |

## 9. LONG-TERM LIABILITIES

The university and college's long-term liabilities consist of long-term debt (further described in Note 10), and other long-term liabilities. A summary of changes in long-term liabilities for the year ending June 30, 2019 is presented as follows:

|                                 | <u>Beginning</u><br><u>Balance</u> | <u>Additions</u>         | <u>Reductions</u>          | <u>Ending</u><br><u>Balance</u> | <u>Current</u><br><u>Portion</u> |
|---------------------------------|------------------------------------|--------------------------|----------------------------|---------------------------------|----------------------------------|
| Installment Purchases           | \$ 2,545,331                       | \$ 69,695                | \$ (452,488)               | \$ 2,162,538                    | \$ 458,922                       |
| Capital Leases Payable          | 21,027,070                         | 180,522                  | (848,313)                  | 20,359,279                      | 853,338                          |
| Other long-term obligations     | 658,768                            | -                        | (38,070)                   | 620,698                         | 22,319                           |
| Notes Payable                   | 165,045,984                        | 27,107,423               | (11,980,727)               | 180,172,680                     | 11,320,000                       |
| Bonds Payable                   | <u>65,591,424</u>                  | <u>14,467,736</u>        | <u>(5,092,743)</u>         | <u>74,966,417</u>               | <u>4,797,595</u>                 |
| <br>Total long-term debt        | <br>254,868,577                    | <br>41,825,376           | <br>(18,412,341)           | <br>278,281,612                 | <br>17,452,174                   |
| <br>Perkins Loan Fund Balance   | <br>2,306,325                      | <br>-                    | <br>-                      | <br>2,306,325                   | <br>-                            |
| Accrued compensated absences    | 11,439,247                         | 11,941,092               | (11,439,247)               | 11,941,092                      | 11,506,684                       |
| Software licenses               | 1,149,063                          | 919,517                  | (817,159)                  | 1,251,421                       | 930,651                          |
| Net Pension Liability           | 115,027,000                        |                          | (9,786,000) *              | 105,241,000                     | -                                |
| OPEB Liability                  | <u>74,596,511</u>                  |                          | <u>(6,818,946) *</u>       | <u>67,777,565</u>               | <u>1,138,765</u>                 |
| <br>Total long-term liabilities | <br><u>\$ 459,386,723</u>          | <br><u>\$ 54,685,985</u> | <br><u>\$ (47,273,693)</u> | <br><u>\$ 466,799,015</u>       | <br><u>\$31,028,274</u>          |

\* net decrease is shown

## 10. LONG-TERM DEBT

### Bonds Payable

William & Mary and Richard Bland College's bonds are issued pursuant to Section 9 of Article X of the Constitution of Virginia. Section 9(c) bonds are general obligation bonds issued by the Commonwealth of Virginia on behalf of the university and college, and are backed by the full faith, credit and taxing power of the Commonwealth and are issued to finance capital projects which, when completed, will generate revenue to repay the debt. Listed below are the bonds outstanding at year-end:

| <u>Description</u>                         | <u>Interest Rates (%)</u> | <u>Fiscal year Maturity</u> | <u>Balance as of June 30, 2019</u> |
|--|---------------------------|-----------------------------|------------------------------------|
| Section 9(c) bonds payable:                |                           |                             |                                    |
| Dormitory, Series 2009C                    | 4.000                     | 2021                        | \$ 370,921                         |
| Dormitory, Series 2009C                    | 4.000                     | 2022                        | 1,045,462                          |
| Dormitory, Series 2009D                    | 5.000                     | 2022                        | 1,040,000                          |
| Renovate Residence Halls, Series 2010A2    | 3.050 - 4.400             | 2030                        | 2,745,000                          |
| Dormitory, Series 2012A                    | 5.000                     | 2024                        | 779,720                            |
| Dormitory, Series 2013A                    | 2.000 - 5.000             | 2033                        | 3,625,000                          |
| Dormitory, Series 2013B                    | 4.000                     | 2026                        | 844,462                            |
| Dormitory, Series 2014A                    | 3.000 - 5.000             | 2034                        | 7,455,000                          |
| Dormitory, Series 2014B                    | 5.000                     | 2020                        | 321,176                            |
| Dormitory, Series 2015A                    | 3.000 - 5.000             | 2035                        | 9,530,000                          |
| Dormitory, Series 2018A                    | 3.000 - 5.000             | 2038                        | <u>13,065,000</u>                  |
| Renovation of Dormitories                  |                           |                             | 40,821,741                         |
| Graduate Housing, Series 2009D             | 5.000                     | 2022                        | 800,000                            |
| Graduate Housing, Series 2013B             | 4.000                     | 2026                        | 1,200,361                          |
| Graduate Housing, Series 2015B             | 4.000 - 5.000             | 2028                        | <u>1,365,021</u>                   |
| Graduate Housing                           |                           |                             | 3,365,382                          |
| Construct New Dormitory, Series 2010A2     | 3.050 - 4.400             | 2030                        | 1,250,000                          |
| Construct New Dormitory, Series 2011A      | 2.700 - 5.000             | 2031                        | 10,240,000                         |
| Construct New Dormitory, Series 2013A      | 2.000 - 5.000             | 2033                        | <u>6,820,000</u>                   |
| Construct New Dormitory                    |                           |                             | 18,310,000                         |
| Renovate Commons Dining Hall, Series 2009D | 5.000                     | 2022                        | 1,715,000                          |
| Renovate Commons Dining Hall, Series 2012A | 5.000                     | 2024                        | 1,289,537                          |
| Renovate Commons Dining Hall, Series 2013B | 4.000                     | 2026                        | <u>1,389,450</u>                   |
| Commons Dining Hall                        |                           |                             | 4,393,987                          |
| RBC Student Housing Conversion 2016A       | 3.000 - 5.000             | 2036                        | 2,290,000                          |
| Total bonds payable                        |                           |                             | 69,181,110                         |
| Net unamortized premiums (discounts)       |                           |                             | <u>5,785,307</u>                   |
| Net bonds payable                          |                           |                             | <u>\$ 74,966,417</u>               |

### Notes Payable

Section 9(d) bonds, issued through the Virginia College Building Authority's Pooled Bond Program, are backed by pledges against the general revenues of William & Mary and Richard Bland College are issued to finance other capital projects. The principal and interest on bonds and notes are secured by the net income of specific auxiliary activities or from designated fee allocations. The following are notes outstanding at year-end:

| <u>Description</u>                              | <u>Interest Rates (%)</u> | <u>Fiscal year Maturity</u> | <u>Outstanding Balance as of June 30, 2019</u> |
|---|---------------------------|-----------------------------|--|
| Section 9(d) Bonds:                             |                           |                             |  |
| Barksdale Dormitory, Series 2010B               | 5.000                     | 2021                        | \$ 235,000                                     |
| Barksdale Dormitory, Series 2012A               | 5.000                     | 2024                        | 365,000  |
| Barksdale Dormitory, Series 2012A               | 3.000 - 5.000             | 2025                        | 4,265,000                                      |
| Barksdale Dormitory, Series 2012A               | 3.000 - 5.000             | 2025                        | 4,965,000                                      |
| Barksdale Dormitory, Series 2014B               | 4.000                     | 2026                        | 980,000  |
| Barksdale Dormitory, Series 2014B               | 5.000                     | 2024                        | 545,000  |
| Barksdale Dormitory, Series 2016A               | 3.000                     | 2027                        | 375,000  |
| Barksdale Dormitory                             |                           |                             | <u>11,730,000</u>                              |
| Parking Deck, Series 2010B                      | 5.000                     | 2021                        | 500,000  |
| Parking Deck, Series 2012A                      | 5.000                     | 2024                        | 770,000  |
| Parking Deck, Series 2012A                      | 3.000 - 5.000             | 2025                        | 915,000  |
| Parking Deck, Series 2012A                      | 3.000 - 5.000             | 2025                        | 2,460,000                                      |
| Parking Deck, Series 2014B                      | 4.000                     | 2026                        | 485,000  |
| Parking Deck                                    |                           |                             | <u>5,130,000</u>                               |
| Recreation Sports Center, Series 2010B          | 5.000                     | 2021                        | 115,000  |
| Recreation Sports Center, Series 2012A          | 5.000                     | 2024                        | 180,000  |
| Recreation Sports Center, Series 2012A          | 3.000 - 5.000             | 2025                        | 3,020,000                                      |
| Recreation Sports Center, Series 2012A          | 3.000 - 5.000             | 2025                        | 960,000  |
| Recreation Sports Center, Series 2014B          | 4.000                     | 2026                        | 190,000  |
| Recreation Sports Center                        |                           |                             | <u>4,465,000</u>                               |
| Improve Athletics Facilities, Series 2012A      | 3.000 - 5.000             | 2025                        | 1,295,000                                      |
| Improve Athletics Facilities, Series 2014B      | 4.000                     | 2026                        | 260,000  |
| Improve Athletics Facilities, Series 2014B      | 5.000                     | 2024                        | 210,000  |
| Improve Athletics Facilities, Series 2016A      | 3.000                     | 2027                        | 150,000  |
| Improve Athletics Facilities II, Series 2013A&B | 2.000 - 5.000             | 2034                        | 1,315,000                                      |
| Improve Athletics Facilities II, Series 2017A   | 2.125 - 5.000             | 2038                        | 2,075,000                                      |
| Improve Athletics Facilities                    |                           |                             | <u>5,305,000</u>                               |
| Marshall-Wythe Library, Series 2014B            | 5.000                     | 2020                        | 125,000  |
| Law School Library, Series 2010B                | 5.000                     | 2021                        | 135,000  |
| Law School Library, Series 2012A                | 5.000                     | 2024                        | 220,000  |
| Law School Library, Series 2014B                | 4.000 - 5.000             | 2026                        | 1,470,000                                      |
| Law School Renovations, Series 2013A&B          | 2.000 - 5.000             | 2034                        | 5,575,000                                      |
| Law School Library, Series 2016A                | 3.000 - 5.000             | 2028                        | 525,000  |
| Law School Library                              |                           |                             | <u>8,050,000</u>                               |
| Magnet Facility, Series 2010B                   | 5.000                     | 2021                        | 300,000  |
| Magnet Facility, Series 2012A                   | 5.000                     | 2024                        | 455,000  |
| Magnet Facility                                 |                           |                             | <u>755,000</u>                                 |

| <u>Description</u>                               | <u>Interest Rates (%)</u> | <u>Fiscal year Maturity</u> | <u>Outstanding Balance as of June 30, 2019</u> |
|--|---------------------------|-----------------------------|--|
| School of Business, Series 2014B                 | 4.000 - 5.000             | 2026                        | 9,475,000                                      |
| School of Business, Series 2016A                 | 3.000 - 5.000             | 2028                        | <u>3,425,000</u>                               |
| School of Business                               |                           |                             | 12,900,000                                     |
| Integrated Science Center, Series 2009A          | 3.250 - 5.000             | 2021                        | 345,000  |
| Integrated Science Center, Series 2014B          | 4.000 - 5.000             | 2026                        | 4,970,000                                      |
| Integrated Science Center, Series 2015B          | 3.000 - 5.000             | 2029                        | 3,755,000                                      |
| Integrated Science Center, Series 2016A          | 3.000 - 5.000             | 2028                        | <u>1,800,000</u>                               |
| Integrated Science Center                        |                           |                             | 10,870,000                                     |
| Cooling Plant & Utilities, Series 2009B          | 5.000                     | 2020                        | 550,000  |
| Cooling Plant & Utilities, Series 2010A1&A2      | 3.750 - 5.500             | 2031                        | 7,625,000                                      |
| Cooling Plant & Utilities, Series 2016A          | 3.000 - 5.000             | 2030                        | <u>7,360,000</u>                               |
| Cooling Plant & Utilities                        |                           |                             | 15,535,000                                     |
| Power Plant Renovations, Series 2014B            | 4.000 - 5.000             | 2026                        | 1,950,000                                      |
| Power Plant Renovations, Series 2016A            | 3.000 - 5.000             | 2028                        | <u>700,000</u>                                 |
| Power Plant Renovations                          |                           |                             | 2,650,000                                      |
| Busch Field Astroturf Replacement, Series 2009B  | 5.000                     | 2020                        | 65,000   |
| Busch Field Astroturf Replacement, Series 2016A  | 3.000 - 5.000             | 2030                        | <u>860,000</u>                                 |
| Busch Field Astroturf                            |                           |                             | 925,000  |
| Improve Aux Facilities Project 2017A             | 2.125 - 5.000             | 2038                        | 7,775,000                                      |
| West Utilities Plant 2017A                       | 2.125 - 5.000             | 2038                        | 13,400,000                                     |
| Williamsburg Hospital/School of Education 2014B  | 5.000                     | 2024                        | 685,000  |
| Williamsburg Hospital/School of Education, 2016A | 3.000                     | 2027                        | <u>470,000</u>                                 |
| Williamsburg Hospital/School of Education        |                           |                             | 1,155,000                                      |
| J. Laycock Football Facility, Series 2014B       | 5.000                     | 2024                        | 1,570,000                                      |
| J. Laycock Football Facility, Series 2016A       | 3.000                     | 2027                        | <u>1,100,000</u>                               |
| J. Laycock Football Facility                     |                           |                             | 2,670,000                                      |
| Residence Hall Fire Safety Systems, Series 2014B | 5.000                     | 2024                        | 550,000  |
| Residence Hall Fire Safety Systems, Series 2016A | 3.000                     | 2027                        | <u>375,000</u>                                 |
| Residence Hall Fire Safety Systems               |                           |                             | 925,000  |
| Ash Lawn-Highland Barn, Series 2010A1&A2         | 3.750 - 5.500             | 2031                        | 530,000  |
| Expand Sadler Center, Series 2012B               | 3.000 - 5.000             | 2033                        | 5,665,000                                      |
| Expand Sadler Center, Series 2013A&B             | 2.000 - 5.000             | 2034                        | 825,000  |
| Sadler Center West, Series 2018A&B               | 4.000 - 5.000             | 2039                        | <u>24,580,000</u>                              |
| Sadler Center                                    |                           |                             | 31,070,000                                     |

| <u>Description</u>                   | <u>Interest Rates (%)</u> | <u>Fiscal year Maturity</u> | <u>Outstanding Balance as of June 30, 2019</u> |
|--------------------------------------|---------------------------|-----------------------------|--|
| One Tribe Place, Series 2013A&B      | 2.000 - 5.000             | 2034                        | 18,885,000                                     |
| Integrative Wellness Center 2015A    | 3.000 - 5.000             | 2036                        | 8,675,000                                      |
| RBC Student Housing Conversion 2017A | 2.125 - 5.000             | 2038                        | 1,545,000                                      |
| Total 9(d) bonds                     |                           |                             | 164,945,000                                    |
| Net unamortized premiums (discounts) |                           |                             | 15,227,680                                     |
| Net notes payable                    |                           |                             | <u>\$ 180,172,680</u>                          |

### Installment Purchases

At June 30, 2019, installment purchases consist of the current and long-term portions of obligations resulting from various contracts used to finance energy performance contracts and the acquisition of equipment. The lengths of purchase agreements range from two to fifteen years, and the interest rate charges are from 1.27 to 4.70 percent. The outstanding balance of William & Mary's Energy Conservation Program installment purchase as of June 30, 2019 is \$214,624. Under the terms of this agreement, the university may not dispose of any item of the equipment without prior written consent of lessor, notwithstanding the fact that proceeds constitute a part of the equipment. The university has agreed to provide insurance in the amount of full replacement cost of the equipment against the risk of any direct physical loss or damage to the equipment as well as comprehensive general liability insurance. Prepayments cannot be made unless the university shall have given lessor not less than thirty days' prior notice. In the event of default, the lessor may retake possession of the equipment or items thereof.

VIMS has two outstanding installment purchases; one for energy efficient equipment and one for video conferencing equipment. Both of these are sub-contracts of the Commonwealth's MELP (Master Equipment Leasing Program). For these agreements, The Commonwealth of Virginia is the lessee. The amount outstanding at June 30, 2019 is \$1,243,832.

RBC has an outstanding installment purchase which was used to finance energy efficient equipment. This is also a sub-contract of the Commonwealth's MELP (Master Equipment Leasing Program). The amount outstanding at June 30, 2019 is \$704,082.

### Capital Leases

Richard Bland College (RBC) has entered into a thirty year capital lease with Richard Bland College Foundation (RBCF) for the provision of a student housing complex with two dormitories on the RBC campus. RBC has accounted for the acquisition of the complex and its furniture and equipment as a capital lease, and therefore has recorded the facility and furnishings as depreciable capital assets and has also recorded a corresponding lease liability in long-term debt on the Statement of Net Position. The RBC student housing complex is included in depreciable capital assets in the amount of \$24,148,380. Accumulated amortization on the assets acquired under the capital lease is included with depreciation expense in the Statement of Revenues, Expenses and Changes in Net Position. The outstanding balance of the lease liability as of June 30, 2019 is \$20,078,728. RBC has also recorded an Other Long-Term Obligation which is payable to RBCF for repayment of the bonds for the dormitories for the amount due on the bonds which is greater than the total fair value of assets received. The outstanding balance as of June 30, 2019 is \$620,698. William & Mary has entered into capital lease agreements for the purchase of printers and copiers. The outstanding balance of these agreements as of June 30, 2019 is \$280,551.

## Lines of Credit and Other Debt Related Items

At this time, the university has no outstanding or unused lines of credit. The university has no assets that are pledged as collateral for debt.

Long-term debt matures as follows:

| Fiscal Year          | Bonds and Notes       |                      |                      |                            | Capital Leases       | Direct Borrowings               |                   |
|----------------------|-----------------------|----------------------|----------------------|----------------------------|----------------------|---------------------------------|-------------------|
|                      | Principal             | Interest             | BAB Interest Subsidy | Net Bond and Note Interest |                      | Installment Purchases Principal | Interest          |
| 2020                 | \$ 16,117,595         | \$ 9,649,578         | \$ 189,953           | \$ 9,459,625               | \$ 875,655           | \$ 458,922                      | \$ 62,435         |
| 2021                 | 16,774,543            | 8,894,334            | 178,665              | 8,715,669                  | 837,544              | 348,951                         | 57,744            |
| 2022                 | 17,120,472            | 8,085,409            | 166,559              | 7,918,850                  | 863,543              | 315,340                         | 41,011            |
| 2023                 | 17,565,252            | 7,231,971            | 153,575              | 7,078,396                  | 879,869              | 323,779                         | 32,570            |
| 2024                 | 18,428,819            | 6,351,223            | 139,654              | 6,211,569                  | 885,716              | 332,499                         | 23,852            |
| 2025-2029            | 77,649,428            | 21,020,304           | 446,472              | 20,573,832                 | 4,997,515            | 383,047                         | 22,239            |
| 2030-2034            | 49,170,000            | 8,448,139            | 37,556               | 8,410,583                  | 6,163,018            | -                               | -                 |
| 2035-2039            | 21,300,000            | 1,673,725            | -                    | 1,673,725                  | 5,477,117            | -                               | -                 |
| Unamortized premiums | 21,012,987            |                      |                      |                            |                      |                                 |                   |
| <b>Total</b>         | <b>\$ 255,139,097</b> | <b>\$ 71,354,683</b> | <b>\$ 1,312,434</b>  | <b>\$ 70,042,249</b>       | <b>\$ 20,979,977</b> | <b>\$ 2,162,538</b>             | <b>\$ 239,851</b> |

The interest subsidies for the Build America Bonds (BAB) being paid to the university by the federal government are subject to change in future years. In the event of a reduction or elimination of the subsidies, the university would be responsible for paying the full interest due on the BAB bonds.

### Prior Year Defeasance of Debt

The Commonwealth of Virginia, on behalf of the university, issued bonds in previous and current fiscal years for which the proceeds were deposited into irrevocable trusts with escrow agents to provide for all future debt service on the refunded bonds. Accordingly, the trust account assets and the related liability for the defeased bonds are not included in the university's financial statements. At June 30, 2019, \$8,170,000 of the defeased bonds was outstanding.

## 11. EXPENSES BY NATURAL CLASSIFICATIONS

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

|                                       | Salaries,<br>Wages and<br>Fringe Benefits | Services and<br>Supplies | Scholarships<br>and<br>Fellowships | Plant and<br>Equipment | Depreciation      | Total              |
|---------------------------------------|---|--------------------------|------------------------------------|------------------------|-------------------|--------------------|
| Instruction                           | 120,116,374                               | 9,940,071                | 1,534,278                          | 3,397,980              | -                 | 134,988,703        |
| Research                              | 36,391,241                                | 14,739,850               | 365,568                            | 341,549                | -                 | 51,838,208         |
| Public service                        | 9,105                                     | 60,321                   | 8,461                              | 4,737                  | -                 | 82,624             |
| Academic support                      | 29,456,216                                | 5,646,239                | 178,731                            | 3,680,319              | -                 | 38,961,505         |
| Student services                      | 10,452,989                                | 7,186,513                | 210,357                            | 239,509                | -                 | 18,089,368         |
| Institutional support                 | 36,938,363                                | 8,896,176                | 195,864                            | 648,509                | -                 | 46,678,912         |
| Operation and<br>maintenance of plant | 4,112,024                                 | 20,792,779               | -                                  | 2,870,272              | -                 | 27,775,075         |
| Scholarships and<br>related expenses  | 3,021,966                                 | 82,690                   | 14,370,303                         | 1,397                  | -                 | 17,476,356         |
| Auxiliary enterprises                 | 28,376,744                                | 64,732,442               | 18,431                             | 2,184,167              | -                 | 95,311,784         |
| Depreciation                          | -   | -                        | -                                  | -                      | 36,412,541        | 36,412,541         |
| Other                                 | 25,195                                    | 4,375                    | 20                                 | 472                    | -                 | 30,062             |
| <b>Total</b>                          | <b>268,900,217</b>                        | <b>132,081,456</b>       | <b>16,882,013</b>                  | <b>13,368,911</b>      | <b>36,412,541</b> | <b>467,645,138</b> |

## 12. STATE APPROPRIATIONS

The following is a summary of state appropriations received by W&M, VIMS and RBC including all supplemental appropriations and reversions from the General Fund of the Commonwealth.

|  |               |
|--|---------------|
| Chapter 854 - 2019 Acts of Assembly (Educational and General Programs) | \$ 73,889,255 |
| Student financial assistance   | 5,684,870     |
| Supplemental appropriations:   |               |
| VIVA libraries   | 21,755        |
| Marine Science Resources and Environmental Research                    | 160,501       |
| Central Appropriations distribution benefit changes                    | 687,463       |
| Biomedical research  | 75,000        |
| Credit card rebates  | 299,213       |
| Clinical faculty grant   | 49,340        |
|  | 1,293,272     |
| Reductions:  |               |
| Central non-general fund cash transfers                                | (11,279)      |
| Reversion to General Fund  | (101,504)     |
| Appropriations as adjusted   | \$ 80,754,614 |



### 13. COMPONENT UNIT FINANCIAL INFORMATION

The university and college have eight discretely presented component units – the William & Mary Foundation, the Marshall-Wythe School of Law Foundation, the William & Mary Alumni Association, the William & Mary Athletic Educational Foundation, the William & Mary School of Business Foundation, the Virginia Institute of Marine Science Foundation, the William & Mary Real Estate Foundation, and the Richard Bland College Foundation. These organizations are separately incorporated entities and other auditors examine the related financial statements. Summary financial statements and related disclosures follow for the component units.

Summary of Statement of Net Position - Component Units

|   | William & Mary<br>Foundation | Marshall-Wythe<br>School of Law<br>Foundation | William & Mary<br>Business School<br>Foundation | William & Mary<br>Alumni Association |
|---|------------------------------|---|---|--------------------------------------|
| <b>ASSETS</b>                                   |                              |   |   |                                      |
| <b>Current assets</b>                           |                              |   |   |                                      |
| Cash and cash equivalents                       | \$ 30,368,097                | \$ 95,141                                     | \$ 2,070,461                                    | \$ 336,286                           |
| Investments                                     | 26,083,299                   | 5,022,055                                     | 3,218,781                                       | -                                    |
| Pledges receivable, net - current portion       | 5,379,456                    | 980,515                                       | 657,496   | 21,250                               |
| Receivables, net                                | 1,320,079                    | 32,457  | 232,458   | 81,979                               |
| Inventories                                     | -                            | -   | -   | 12,947                               |
| Prepays   | 290,553                      | 2,163   | 87,534  | 12,553                               |
| Due from the University                         | 141,396                      | 17,100  | 57,693  | 685                                  |
| Other assets                                    | -                            | -   | -   | -                                    |
| Total current assets                            | <u>63,582,880</u>            | <u>6,149,431</u>                              | <u>6,324,423</u>                                | <u>465,700</u>                       |
| <b>Non-current assets</b>                       |                              |   |   |                                      |
| Restricted cash and cash equivalents            | 30,197                       | 5,424,345                                     | 948,750   | -                                    |
| Restricted investments                          | 334,329,057                  | 39,900,194                                    | 58,876,246                                      | 778,583                              |
| Restricted other assets                         | 174,894,630                  | 494,414                                       | 1,485,103                                       | -                                    |
| Investments                                     | 289,077,289                  | 7,174,198                                     | 506,968   | 8,933,758                            |
| Pledges receivable, net                         | 10,058,504                   | 1,942,333                                     | 5,364,224                                       | 225,973                              |
| Capital assets, nondepreciable                  | 9,459,171                    | 325,127                                       | -   | -                                    |
| Capital assets, net of accumulated depreciation | 5,507,361                    | 801   | 2,792   | 71,361                               |
| Due from the University                         | -                            | -   | -   | -                                    |
| Other assets                                    | 2,276,233                    | -   | -   | -                                    |
| Total non-current assets                        | <u>825,632,442</u>           | <u>55,261,412</u>                             | <u>67,184,083</u>                               | <u>10,009,675</u>                    |
| Total assets                                    | <u>889,215,322</u>           | <u>61,410,843</u>                             | <u>73,508,506</u>                               | <u>10,475,375</u>                    |
| <b>LIABILITIES</b>                              |                              |   |   |                                      |
| <b>Current liabilities</b>                      |                              |   |   |                                      |
| Accounts payable and accrued expenses           | 193,393                      | 2,097,563                                     | 290,539   | 109,517                              |
| Deferred revenue                                | 32,862                       | 212,002                                       | 53,336  | -                                    |
| Deposits held in custody for others             | 283,159                      | -   | 19,147  | -                                    |
| Long-term liabilities - current portion         | 764,809                      | -   | -   | -                                    |
| Due to the University                           | 1,267,118                    | -   | -   | -                                    |
| Due to other foundations                        | 24,996                       | -   | -   | 19,931                               |
| Other liabilities                               | -                            | -   | -   | 39,800                               |
| Total current liabilities                       | <u>2,566,337</u>             | <u>2,309,565</u>                              | <u>363,022</u>                                  | <u>169,248</u>                       |
| <b>Non-current liabilities</b>                  |                              |   |   |                                      |
| Other long-term liabilities                     | 626,215                      | 219,995                                       | -   | -                                    |
| Long-term liabilities                           | 28,089,197                   | -   | -   | -                                    |
| Total liabilities                               | <u>31,281,749</u>            | <u>2,529,560</u>                              | <u>363,022</u>                                  | <u>169,248</u>                       |
| <b>NET POSITION</b>                             |                              |   |   |                                      |
| Net investment in capital assets                | 5,735,627                    | 325,928                                       | 2,792   | 71,361                               |
| <b>Restricted for:</b>                          |                              |   |   |                                      |
| <b>Nonexpendable:</b>                           |                              |   |   |                                      |
| Scholarships and fellowships                    | 137,479,591                  | 9,216,843                                     | 4,004,078                                       | -                                    |
| Research  | 10,435,263                   | -   | 1,037,500                                       | -                                    |
| Loans   | -                            | -   | 24,230  | -                                    |
| Departmental uses                               | 131,033,826                  | 8,557,185                                     | 33,705,217                                      | -                                    |
| Other   | 226,640,901                  | -   | 127,448   | -                                    |
| <b>Expendable:</b>                              |                              |   |   |                                      |
| Scholarships and fellowships                    | 107,546,542                  | 10,553,021                                    | 2,601,492                                       | -                                    |
| Research  | 7,426,465                    | -   | 321,583   | -                                    |
| Capital projects                                | 31,493,272                   | 4,540,305                                     | 341,137   | -                                    |
| Loans   | -                            | -   | -   | -                                    |
| Departmental uses                               | 137,738,543                  | 15,016,827                                    | 25,680,354                                      | 956,959                              |
| Other   | 29,346,579                   | 768,280                                       | 72,164  | -                                    |
| Unrestricted                                    | 33,056,964                   | 9,902,894                                     | 5,227,489                                       | 9,277,807                            |
| Total net position                              | <u>\$ 857,933,573</u>        | <u>\$ 58,881,283</u>                          | <u>\$ 73,145,484</u>                            | <u>\$ 10,306,127</u>                 |

| William & Mary<br>Athletic Educational<br>Foundation | Virginia Institute of<br>Marine Science<br>Foundation | Richard Bland<br>College Foundation | William & Mary<br>Real Estate<br>Foundation | Total Component<br>Units |
|--|---|-------------------------------------|---|--------------------------|
| \$ 1,492,608   | \$ 538,590  | \$ -                                | \$ 4,068,073                                | \$ 38,969,256            |
| -  | -   | -                                   | -   | 34,324,135               |
| 824,138  | 236,920   | 1,800                               | -   | 8,101,575                |
| -  | -   | -                                   | 145,550                                     | 1,812,523                |
| -  | -   | -                                   | -   | 12,947                   |
| -  | -   | -                                   | 32,812                                      | 425,615                  |
| 70,420   | 535   | 854,584                             | 109,724                                     | 1,252,137                |
| -  | -   | -                                   | 54,008                                      | 54,008                   |
| 2,387,166  | 776,045   | 856,384                             | 4,410,167                                   | 84,952,196               |
| -  | 643,908   | 376,686                             | -   | 7,423,886                |
| 3,271,813  | 14,407,494  | 5,956,272                           | -   | 457,519,659              |
| -  | -   | -                                   | 44,739                                      | 176,918,886              |
| -  | 1,519,491   | -                                   | -   | 307,211,704              |
| 459,963  | 3,787,543   | 4,400                               | -   | 21,842,940               |
| -  | -   | 20,415                              | 5,546,582                                   | 15,351,295               |
| 58,665   | -   | 244,285                             | 15,884,420                                  | 21,769,685               |
| -  | -   | 19,945,996                          | -   | 19,945,996               |
| -  | -   | -                                   | 6,051                                       | 2,282,284                |
| 3,790,441  | 20,358,436  | 26,548,054                          | 21,481,792                                  | 1,030,266,335            |
| 6,177,607  | 21,134,481  | 27,404,438                          | 25,891,959                                  | 1,115,218,531            |
| -  | -   | 116,483                             | 157,801                                     | 2,965,296                |
| 11,805   | -   | 2,915                               | 100,916                                     | 413,836                  |
| -  | -   | -                                   | -   | 302,306                  |
| -  | -   | 743,948                             | 461,548                                     | 1,970,305                |
| -  | -   | -                                   | -   | 1,267,118                |
| -  | -   | -                                   | -   | 44,927                   |
| -  | -   | -                                   | -   | 39,800                   |
| 11,805   | -   | 863,346                             | 720,265                                     | 7,003,588                |
| -  | -   | -                                   | -   | 846,210                  |
| -  | -   | 19,945,996                          | 12,058,546                                  | 60,093,739               |
| 11,805   | -   | 20,809,342                          | 12,778,811                                  | 67,943,537               |
| 58,665   | -   | 264,700                             | 8,910,908                                   | 15,369,981               |
| -  | -   | 3,226,221                           | -   | 153,926,733              |
| -  | 13,858,119  | -                                   | -   | 25,330,882               |
| -  | -   | -                                   | -   | 24,230                   |
| -  | -   | -                                   | -   | 173,296,228              |
| -  | -   | -                                   | -   | 226,768,349              |
| -  | -   | -                                   | -   | 120,701,055              |
| -  | -   | -                                   | -   | 7,748,048                |
| -  | -   | -                                   | -   | 36,374,714               |
| -  | -   | -                                   | -   | -                        |
| 5,137,047  | 5,147,025   | -                                   | -   | 189,676,755              |
| -  | -   | 2,207,645                           | 44,739                                      | 32,439,407               |
| 970,090  | 2,129,337   | 896,530                             | 4,157,501                                   | 65,618,612               |
| \$ 6,165,802   | \$ 21,134,481   | \$ 6,595,096                        | \$ 13,113,148                               | \$ 1,047,274,994         |

Summary of Statement of Revenues, Expenses, and Changes in Net Position - Component Units

|  | William & Mary<br>Foundation | Marshall-Wythe<br>School of Law<br>Foundation | William & Mary<br>Business School<br>Foundation | William & Mary<br>Alumni Association |
|--|------------------------------|---|---|--------------------------------------|
| Operating revenues:                      |                              |   |   |                                      |
| Gifts and contributions                  | \$ 6,187,232                 | \$ 3,783,190                                  | \$ 3,450,040                                    | \$ 706,554                           |
| Other                                    | 3,902,969                    | 788,728                                       | 1,082,218                                       | 684,822                              |
| Total operating revenues                 | <u>10,090,201</u>            | <u>4,571,918</u>                              | <u>4,532,258</u>                                | <u>1,391,376</u>                     |
| Operating expenses:                      |                              |   |   |                                      |
| Instruction                              | 5,891,424                    | 837,531                                       | 98,565  | -                                    |
| Research                                 | 658,509                      | -   | 21,524  | -                                    |
| Public service                           | 40,109                       | 88,677  | 544,419   | -                                    |
| Academic support                         | 2,628,016                    | 745,436                                       | 489,932   | -                                    |
| Student services                         | 197,889                      | 35,937  | 746,781   | -                                    |
| Institutional support                    | 10,561,132                   | 632,845                                       | 1,653,261                                       | 328,528                              |
| Operation and maintenance of plant       | 9,788,844                    | 985,886                                       | -   | -                                    |
| Scholarships & fellowships               | 10,459,516                   | 3,758,085                                     | 832,750   | -                                    |
| Auxiliary enterprises                    | 1,162,053                    | -   | 20,309  | -                                    |
| Depreciation                             | 497,289                      | 1,374   | 2,561   | 7,820                                |
| Independent operations                   | -                            | -   | -   | -                                    |
| Other                                    | 1,436,057                    | -   | 28,650  | 1,364,337                            |
| Total operating expenses                 | <u>43,320,838</u>            | <u>7,085,771</u>                              | <u>4,438,752</u>                                | <u>1,700,685</u>                     |
| Operating gain/(loss)                    | <u>(33,230,637)</u>          | <u>(2,513,853)</u>                            | <u>93,506</u>                                   | <u>(309,309)</u>                     |
| Non-operating revenues and expenses:     |                              |   |   |                                      |
| Net investment revenue (expense)         | 31,142,686                   | 2,605,544                                     | 450,666   | 438,109                              |
| Interest on capital asset related debt   | (303,630)                    | -   | -   | -                                    |
| Other non-operating revenue              | 24,584,219                   | -   | -   | -                                    |
| Net non-operating revenues               | <u>55,423,275</u>            | <u>2,605,544</u>                              | <u>450,666</u>                                  | <u>438,109</u>                       |
| Income before other revenues             | 22,192,638                   | 91,691  | 544,172   | 128,800                              |
| Other revenues:                          |                              |   |   |                                      |
| Capital grants and contributions         | 15,200,000                   | -   | 12,127  | -                                    |
| Additions to permanent endowments        | 26,621,145                   | 964,696                                       | 3,989,374                                       | -                                    |
| Net other revenues                       | <u>41,821,145</u>            | <u>964,696</u>                                | <u>4,001,501</u>                                | <u>-</u>                             |
| Change in net position, before transfers | <u>64,013,783</u>            | <u>1,056,387</u>                              | <u>4,545,673</u>                                | <u>128,800</u>                       |
| Contribution between Foundations         | <u>(1,406,003)</u>           | <u>-</u>                                      | <u>553</u>                                      | <u>212,584</u>                       |
| Transfers                                | <u>(1,406,003)</u>           | <u>-</u>                                      | <u>553</u>                                      | <u>212,584</u>                       |
| Change in net position                   | 62,607,780                   | 1,056,387                                     | 4,546,226                                       | 341,384                              |
| Net position - beginning of year         | <u>795,325,793</u>           | <u>57,824,896</u>                             | <u>68,599,258</u>                               | <u>9,964,743</u>                     |
| Net position - end of year               | <u>\$ 857,933,573</u>        | <u>\$ 58,881,283</u>                          | <u>\$ 73,145,484</u>                            | <u>\$ 10,306,127</u>                 |

Summary of Statement of Revenues, Expenses, and Changes in Net Position - Component Units

|  | William & Mary<br>Foundation | Marshall-Wythe<br>School of Law<br>Foundation | William & Mary<br>Business School<br>Foundation | William & Mary<br>Alumni Association |
|--|------------------------------|---|---|--------------------------------------|
| Operating revenues:                      |                              |   |   |                                      |
| Gifts and contributions                  | \$ 6,187,232                 | \$ 3,783,190                                  | \$ 3,450,040                                    | \$ 706,554                           |
| Other                                    | 3,902,969                    | 788,728                                       | 1,082,218                                       | 684,822                              |
| Total operating revenues                 | <u>10,090,201</u>            | <u>4,571,918</u>                              | <u>4,532,258</u>                                | <u>1,391,376</u>                     |
| Operating expenses:                      |                              |   |   |                                      |
| Instruction                              | 5,891,424                    | 837,531                                       | 98,565  | -                                    |
| Research                                 | 658,509                      | -   | 21,524  | -                                    |
| Public service                           | 40,109                       | 88,677  | 544,419   | -                                    |
| Academic support                         | 2,628,016                    | 745,436                                       | 489,932   | -                                    |
| Student services                         | 197,889                      | 35,937  | 746,781   | -                                    |
| Institutional support                    | 10,561,132                   | 632,845                                       | 1,653,261                                       | 328,528                              |
| Operation and maintenance of plant       | 9,788,844                    | 985,886                                       | -   | -                                    |
| Scholarships & fellowships               | 10,459,516                   | 3,758,085                                     | 832,750   | -                                    |
| Auxiliary enterprises                    | 1,162,053                    | -   | 20,309  | -                                    |
| Depreciation                             | 497,289                      | 1,374   | 2,561   | 7,820                                |
| Independent operations                   | -                            | -   | -   | -                                    |
| Other                                    | 1,436,057                    | -   | 28,650  | 1,364,337                            |
| Total operating expenses                 | <u>43,320,838</u>            | <u>7,085,771</u>                              | <u>4,438,752</u>                                | <u>1,700,685</u>                     |
| Operating gain/(loss)                    | <u>(33,230,637)</u>          | <u>(2,513,853)</u>                            | <u>93,506</u>                                   | <u>(309,309)</u>                     |
| Non-operating revenues and expenses:     |                              |   |   |                                      |
| Net investment revenue (expense)         | 31,142,686                   | 2,605,544                                     | 450,666   | 438,109                              |
| Interest on capital asset related debt   | (303,630)                    | -   | -   | -                                    |
| Other non-operating revenue              | 24,584,219                   | -   | -   | -                                    |
| Net non-operating revenues               | <u>55,423,275</u>            | <u>2,605,544</u>                              | <u>450,666</u>                                  | <u>438,109</u>                       |
| Income before other revenues             | 22,192,638                   | 91,691  | 544,172   | 128,800                              |
| Other revenues:                          |                              |   |   |                                      |
| Capital grants and contributions         | 15,200,000                   | -   | 12,127  | -                                    |
| Additions to permanent endowments        | 26,621,145                   | 964,696                                       | 3,989,374                                       | -                                    |
| Net other revenues                       | <u>41,821,145</u>            | <u>964,696</u>                                | <u>4,001,501</u>                                | <u>-</u>                             |
| Change in net position, before transfers | <u>64,013,783</u>            | <u>1,056,387</u>                              | <u>4,545,673</u>                                | <u>128,800</u>                       |
| Contribution between Foundations         | <u>(1,406,003)</u>           | <u>-</u>                                      | <u>553</u>                                      | <u>212,584</u>                       |
| Transfers                                | <u>(1,406,003)</u>           | <u>-</u>                                      | <u>553</u>                                      | <u>212,584</u>                       |
| Change in net position                   | 62,607,780                   | 1,056,387                                     | 4,546,226                                       | 341,384                              |
| Net position - beginning of year         | <u>795,325,793</u>           | <u>57,824,896</u>                             | <u>68,599,258</u>                               | <u>9,964,743</u>                     |
| Net position - end of year               | <u>\$ 857,933,573</u>        | <u>\$ 58,881,283</u>                          | <u>\$ 73,145,484</u>                            | <u>\$ 10,306,127</u>                 |

| William & Mary<br>Athletic Educational<br>Foundation | Virginia Institute of<br>Marine Science<br>Foundation | Richard Bland<br>College Foundation | William & Mary Real<br>Estate Foundation | Total Component<br>Units |
|--|---|-------------------------------------|--|--------------------------|
| \$ 4,394,781   | \$ 1,060,035  | \$ 213,924                          | \$ 169,927                               | \$ 19,965,683            |
| 399,725  | -   | 700,658                             | 2,222,700                                | 9,781,820                |
| 4,794,506  | 1,060,035   | 914,582                             | 2,392,627                                | 29,747,503               |
| -  | 88,072  | -                                   | -  | 6,915,592                |
| -  | 262,966   | -                                   | -  | 942,999                  |
| -  | 50,804  | -                                   | -  | 724,009                  |
| -  | 45,871  | -                                   | -  | 3,909,255                |
| -  | -   | -                                   | -  | 980,607                  |
| 755,963  | 464,827   | 167,465                             | (163,126)                                | 14,400,895               |
| -  | -   | 16,562                              | -  | 10,791,292               |
| -  | 222,323   | 270,998                             | -  | 15,543,672               |
| 5,213,614  | -   | 6,771                               | 441,181                                  | 6,843,928                |
| 7,007  | -   | 27,599                              | 438,779                                  | 982,429                  |
| -  | -   | -                                   | 522,993                                  | 522,993                  |
| -  | 221,996   | 664,522                             | -  | 3,715,562                |
| 5,976,584  | 1,356,859   | 1,153,917                           | 1,239,827                                | 66,273,233               |
| (1,182,078)  | (296,824)   | (239,335)                           | 1,152,800                                | (36,525,730)             |
| 95,048   | 818,194   | 292,922                             | 6,085                                    | 35,849,254               |
| -  | -   | -                                   | (420,607)                                | (724,237)                |
| -  | -   | -                                   | -  | 24,584,219               |
| 95,048   | 818,194   | 292,922                             | (414,522)                                | 59,709,236               |
| (1,087,030)  | 521,370   | 53,587                              | 738,278                                  | 23,183,506               |
| -  | -   | -                                   | -  | 15,212,127               |
| -  | 317,893   | 1,200                               | -  | 31,894,308               |
| -  | 317,893   | 1,200                               | -  | 47,106,435               |
| (1,087,030)  | 839,263   | 54,787                              | 738,278                                  | 70,289,941               |
| (553)  | -   | -                                   | 1,193,419                                | -                        |
| (553)  | -   | -                                   | 1,193,419                                | -                        |
| (1,087,583)  | 839,263   | 54,787                              | 1,931,697                                | 70,289,941               |
| 7,253,385  | 20,295,218  | 6,540,309                           | 11,181,451                               | 976,985,053              |
| \$ 6,165,802   | \$ 21,134,481   | \$ 6,595,096                        | \$ 13,113,148                            | \$ 1,047,274,994         |

## Investments

Each component unit holds various investments based on the investment policies established by the governing board of the individual foundation. The following table shows the various investment types held by each component unit.

|                                     | William & Mary Foundation | Marshall-Wythe School of Law Foundation | William & Mary Business School Foundation | William & Mary Alumni Association | William & Mary Athletic Educational Foundation | Virginia Institute of Marine Science Foundation | Richard Bland College Foundation | Total                 |
|-------------------------------------|---------------------------|---|---|-----------------------------------|--|---|----------------------------------|-----------------------|
| Certificates of deposit             | \$ -                      | \$ -                                    | \$ 203,332                                | \$ -                              | \$ 3,250,141                                   | \$ -  | \$ -                             | \$ 3,453,473          |
| Mutual and money market funds       | 4,466,757                 | 67,626                                  | -   | 9,712,341                         | 21,672   | -   | 5,956,272                        | 20,224,668            |
| U.S. treasury and agency securities | 37,440,019                | 5,022,055                               | 13,044,909                                | -                                 | -  | -   | -                                | 55,506,983            |
| Common and preferred stocks         | 547,685                   | -                                       | 1,077,604                                 | -                                 | -  | -   | -                                | 1,625,289             |
| Notes receivable                    | 750,000                   | -                                       | -   | -                                 | -  | -   | -                                | 750,000               |
| Pooled investments                  | 604,739,352               | 47,006,766                              | 47,708,846                                | -                                 | -  | 15,926,985                                      | -                                | 715,381,949           |
| Real estate                         | 987,982                   | -                                       | -   | -                                 | -  | -   | -                                | 987,982               |
| Other                               | 557,850                   | -                                       | 567,304                                   | -                                 | -  | -   | -                                | 1,125,154             |
| <b>Total Investments</b>            | <b>\$ 649,489,645</b>     | <b>\$ 52,096,447</b>                    | <b>\$ 62,601,995</b>                      | <b>\$ 9,712,341</b>               | <b>\$ 3,271,813</b>                            | <b>\$ 15,926,985</b>                            | <b>\$ 5,956,272</b>              | <b>\$ 799,055,498</b> |

## Pledges Receivable

Unconditional promises to give (pledges) are recorded as receivables and revenues and are assigned net asset categories in accordance with donor imposed restrictions. Pledges expected to be collected within one year are recorded at net realizable value. Pledges that are expected to be collected in future years are recorded at net present value of their estimated future cash flows. The discounts on these amounts are computed using risk free interest rates applicable to the years in which the payments will be received. The foundations record an allowance against pledges receivable for estimated uncollectible amounts. The William & Mary Real Estate Foundation did not have any pledges receivable at year end.

|                                      | William & Mary Foundation | Marshall-Wythe School of Law Foundation | William & Mary Business School Foundation | William & Mary Alumni Association Foundation | William & Mary Athletic Educational Foundation | Virginia Institute of Marine Science Foundation | Richard Bland College Foundation | Total         |
|--------------------------------------|---------------------------|---|---|--|--|---|----------------------------------|---------------|
| Total pledges receivable             | \$ 16,799,461             | \$ 3,161,258                            | \$ 6,432,790                              | \$ 247,223                                   | \$ 1,641,151                                   | \$ 4,465,532                                    | \$ 6,200                         | \$ 32,753,615 |
| Less:                                |                           |   |   |  |  |   |                                  |               |
| Allowance for uncollectibles         | (542,791)                 | (169,281)                               | (21,000)                                  | -  | (281,514)                                      | -   | -                                | (1,014,586)   |
| Discounting to present value         | (818,710)                 | (69,129)                                | (390,070)                                 | -  | (75,536)                                       | (441,069)                                       | -                                | (1,794,514)   |
| Net pledges receivable               | 15,437,960                | 2,922,848                               | 6,021,720                                 | 247,223                                      | 1,284,101                                      | 4,024,463                                       | 6,200                            | 29,944,515    |
| Less:                                |                           |   |   |  |  |   |                                  |               |
| Current pledges receivable           | (5,379,456)               | (980,515)                               | (657,496)                                 | (21,250)                                     | (824,138)                                      | (236,920)                                       | (1,800)                          | (8,101,575)   |
| Total non-current pledges receivable | \$ 10,058,504             | \$ 1,942,333                            | \$ 5,364,224                              | \$ 225,973                                   | \$ 459,963                                     | \$ 3,787,543                                    | \$ 4,400                         | \$ 21,842,940 |

Capital Assets

|   | William & Mary Foundation | Marshall-Wythe School of Law Foundation | Mary Business School Foundation | William & Mary Alumni Association | William & Mary Athletic Educational Foundation | Richard Bland College Foundation | William & Mary Real Estate Foundation | Total                |
|---|---------------------------|---|---------------------------------|-----------------------------------|--|----------------------------------|---------------------------------------|----------------------|
| Nondepreciable:                                     |                           |   |                                 |                                   |  |                                  |                                       |                      |
| Land  | \$ 3,365,927              | \$ 262,916                              | \$ -                            | \$ -                              | \$ -   | \$ 5,500                         | \$ 5,414,153                          | \$ 9,048,496         |
| Construction in progress                            |                           |   |                                 |                                   |  |                                  | 132,429                               | 132,429              |
| Historical treasures and inexhaustible works of art | 6,093,244                 | 62,211                                  | -                               | -                                 | -  | 14,915                           | -                                     | 6,170,370            |
| Total nondepreciable capital assets                 | <u>\$ 9,459,171</u>       | <u>\$ 325,127</u>                       | <u>\$ -</u>                     | <u>\$ -</u>                       | <u>\$ -</u>                                    | <u>\$ 20,415</u>                 | <u>\$ 5,546,582</u>                   | <u>\$ 15,351,295</u> |
| Depreciable:  |                           |   |                                 |                                   |  |                                  |                                       |                      |
| Building  | \$ 7,431,415              | \$ -                                    | \$ -                            | \$ 378,914                        | \$ -   | \$ 271,884                       | \$ 18,002,339                         | \$ 26,084,552        |
| Equipment, vehicles and furniture                   | 7,423,132                 | 84,722                                  | 13,029                          | 337,767                           | 65,672   |                                  | 272,979                               | 8,197,301            |
| Improvements, other than building                   | 338,138                   | -                                       | -                               | -                                 | -  | -                                | -                                     | 338,138              |
|   | 15,192,685                | 84,722                                  | 13,029                          | 716,681                           | 65,672   | 271,884                          | 18,275,318                            | 34,619,991           |
| Less accumulated depreciation                       | (9,685,324)               | (83,921)                                | (10,237)                        | (645,320)                         | (7,007)  | (27,599)                         | (2,390,898)                           | (12,850,306)         |
| Total depreciable capital assets                    | <u>\$ 5,507,361</u>       | <u>\$ 801</u>                           | <u>\$ 2,792</u>                 | <u>\$ 71,361</u>                  | <u>\$ 58,665</u>                               | <u>\$ 244,285</u>                | <u>\$ 15,884,420</u>                  | <u>\$ 21,769,685</u> |

Long-term Liabilities

|                             | William & Mary Foundation | Richard Bland College Foundation | William & Mary Real Estate Foundation | Total                |
|-----------------------------|---------------------------|----------------------------------|---------------------------------------|----------------------|
| Compensated absences        | \$ 258,887                | \$ -                             | \$ -                                  | \$ 258,887           |
| Notes payable               | 634,560                   | -                                | 8,722,900                             | 9,357,460            |
| Bonds payable               | 8,068,628                 | 20,689,944                       | 3,797,194                             | 32,555,766           |
| Trust & Annuity Obligations | 2,459,222                 | -                                | -                                     | 2,459,222            |
| Other liabilities           | 17,432,709                | -                                | -                                     | 17,432,709           |
| Total long-term liabilities | 28,854,006                | 20,689,944                       | 12,520,094                            | 62,064,044           |
| Less current portion        | 764,809                   | 743,948                          | 461,548                               | 1,970,305            |
| Total long-term liabilities | <u>\$ 28,089,197</u>      | <u>\$ 19,945,996</u>             | <u>\$ 12,058,546</u>                  | <u>\$ 60,093,739</u> |



## WILLIAM & MARY FOUNDATION

### Long-term Liabilities

During the fiscal year ended June 30, 2009, the Foundation entered into a borrowing arrangement with SunTrust Bank in the amount of \$2,636,140 for renovation of the university's Admissions Office. The terms of the loan were revised during the fiscal year ended June 30, 2011. Under the revised terms, interest accrues at a rate of 4.99% and is payable monthly. Principal is payable annually over a ten-year term, with the final amount due on February 1, 2021. SunTrust is granted a security interest in all deposits and investments maintained with SunTrust and any of its affiliates. The terms of the note require the Foundation to maintain at all times unrestricted and temporarily restricted net assets in excess of 200% of the Foundation's total funded debt. The balance outstanding at June 30, 2019 and 2018 was \$634,560 and \$929,404, respectively. Interest paid during the fiscal years ended June 30, 2019 and 2018, on the loans was \$40,891 and \$55,390, respectively.

The Foundation and its affiliates are in compliance with all debt covenants.

### Bonds Payable

In December 2011, the Economic Development Authority of James City County, Virginia ("Authority") issued a revenue refunding bond in the amount of \$8,090,000 ("Series 2011 Bond"), and loaned the proceeds to the Foundation and College of William & Mary Foundation Ventures ("Obligors"). The Series 2011 Bond was acquired by SunTrust Bank, as Series 2011 Bondholder. Proceeds from sale of the Series 2011 Bond were used to redeem bonds issued in December 2006 by the Authority to finance the cost of property acquisition, construction and equipping of a three-story building in New Town in James City County, Virginia, for use by the Foundation, CWMF Ventures or the university. The Series 2011 Bond bears interest at a fixed rate of 2.96% per annum through December 31, 2017. As of January 1, 2018, the series 2011 Bonds bore interest at a fixed rate of 3.59752% per annum, subject to the put rights of the Series 2011 Bondholder. The Series 2011 Bondholder has the option to tender the Series 2011 Bond for payment on December 1, 2021, the first optional put date, unless extended under the terms of the loan agreement to not earlier than December 1, 2026. An additional extension may be made to not earlier than December 1, 2031. The final maturity date is December 1, 2036. The Obligors are required to maintain assets so that at all times, net assets without donor restrictions and net assets restricted by the donor due to the passage of time or for a specified purpose and subject to the Foundation's spending policy and appropriation in excess of 200% of the total funded debt of the Obligors.

The Foundation is in compliance with all bond covenants.

## The MARSHALL-WYTHE SCHOOL OF LAW FOUNDATION

### Law Library Bond Issuance

The construction and renovations of the Wolf Law Library and Hixon Center at the Marshall-Wythe School of Law were funded by proceeds allocated to the Marshall-Wythe School of Law from William & Mary's 2007A(9D) Bond Issue ("Bond") and the 2013 A&B(9d) Bond Issue (the "Bonds"). The Foundation makes principal and interest payments to the university on the Bonds using private contributions restricted for the Law Library and Hixon Center additions. However, the Bonds were issued to and in the name of the university, and the Foundation is not obligated to make these debt service payments.

Bond payments made to the university totaled \$985,886, including principal and interest, in 2019 and are included in law school bond payments on the Foundation's statement of activities.

## RICHARD BLAND COLLEGE FOUNDATION, INC.

### Bonds Payable

During December 2006, the Foundation entered into loan agreements with the Industrial Development Authorities (“Authorities”) of Dinwiddie County, Virginia, Isle of Wight, Virginia, Prince George County, Virginia and Sussex County, Virginia to borrow the proceeds of the Authorities' \$27,000,000 Series 2006 Revenue Bonds (Richard Bland College Foundation Student Housing Facilities). The loan was refinanced in October 2012 to lower the interest rate charged to the Foundation. The loan agreement interest rate was 4.23% and refinanced to 2.40%. The interest rate will adjust at the 10-year anniversary of the refinancing and every 5 years thereafter at 70% of the 5-year U. S. Treasury Note plus 120 basis points. The bonds are due November 5, 2038. The primary purpose of this loan is to refund and redeem in full the outstanding principal amount of the Authorities' \$27,000,000 Series 2006 Revenue Bonds (Richard Bland College Foundation Student Housing Facilities), the proceeds of which were used to finance the costs of construction and equipping of a student housing facility located in Dinwiddie, Virginia.

In 2017 the Foundation amended the bond notes with Towne Bank to adjust the payments from February and August to May and October to better align with revenue streams.

### Investment in Direct Financing Lease

The Foundation has an investment in a direct financing lease in connection with its long-term leasing arrangement with the college. The terms of the lease include the leasing of a student housing facility located in Dinwiddie, Virginia originally constructed by the Foundation for the college. The lease is due in semi-annual installments and expires in August 2038. At June 30, 2019 the college had a liability of \$20,772,704 due to the foundation.

## WILLIAM & MARY REAL ESTATE FOUNDATION

### Tribe Square

The Foundation leases the Tribe Square student housing to the university pursuant to a lease agreement dated August 1, 2011 for a five-year term ending June 30, 2016, with an automatic renewal for an additional five-year term ending on June 30, 2021. Annual base rent is \$459,816, payable in two equal installments on September 1 and March 1 of each lease year. The base rent may be increased annually by a percentage equal to the increase in the Consumer Price Index. In no event shall the base rent be less than the base rent payable for the preceding year. Rental income received under this lease was \$513,740 and \$499,261 for 2019 and 2018, respectively.

### Discovery II

The property is being leased to the university for use as office space under an agreement with an initial lease term ending June 30, 2018 with the right to renew the lease for up to five additional consecutive one-year terms. The university exercised the lease option during 2019 to extend the lease period through June 30, 2020. Annual base rent is \$382,200, payable in 12 equal installments, with each monthly installment due on the first business day of the month. The base rent may be increased annually by two percent. Rental income received under this lease was \$421,980 and \$413,706 for 2019 and 2018, respectively.

### Richmond Hall

The property is being leased to the university for use under an agreement with an initial lease term ending July 31, 2022 and the option to renew for five renewal terms of one year each. Annual base rent of \$1,176,861, payable in two equal semiannual installments on September 1 and March 1 of each year. The base rent may be increased annually by a percentage equal to the increase in the Consumer Price Index. In no event shall the base rent be less than the base rent payable for the preceding year. Rental income received under this lease was \$1,208,146 and \$1,078,789 for 2019 and 2018, respectively.

### 327 Richmond Road

The Foundation leases office space at 327 Richmond Road in Williamsburg, Virginia to the university under a five-year lease through December 31, 2021. Rental income under this lease agreement was \$33,452 during both 2019 and 2018. The rate remains the same throughout the lease.

### Construction Project

Construction of the Jewish Community Center was completed in November 2018. During 2019 and 2018, the William & Mary Foundation reimbursed the Real Estate Foundation \$1,294,948 and \$408,789, respectively, for construction costs related to the Center, which is recorded in the financial statements as contributions from the William & Mary Foundation.

### Bonds Payable

The Foundation obtained a tax-exempt student housing facilities revenue bond, dated September 16, 2011, twenty-five (25) year term. The bond bears interest at a fixed rate of 3.75%. Required monthly payments of principal and interest total \$25,855. The outstanding principal balance is \$3,919,798 at June 30, 2019.

The bond was issued through the Economic Development Authority of the City of Williamsburg for a principal amount of \$5 million. The proceeds of this bond were used to finance the costs to acquire, construct, and equip the student apartment portion of Tribe Square, and pay certain expenses of issuing the bond. The bond is secured by the rents and revenues of Tribe Square, and the property itself.

The bond, which is bank held, has an option for the bank to require the Foundation to repurchase the bond once the bond is 10 years past the issuance date. If this option is exercised the Foundation would pay the aggregate unpaid principal plus accrued interest through the date of such payment. The bank must give the Foundation 120 days' notice prior to the tender date if this option is exercised.

### Promissory Note

The Foundation obtained a promissory note, dated June 3, 2013, ten (10) year term. The note bears interest at a fixed rate of 3.22%. Required monthly payments of principal and interest total \$18,007. The outstanding principal balance is \$3,055,560 at June 30, 2019.

The promissory note was issued through a private lender for a principal amount of \$3,689,000. The proceeds of this note were used to finance the costs to acquire Discovery II, and pay certain expenses of issuing the note. The note is secured by the rents and revenues of Discovery II, and substantially all of the assets of WMREF Ventures, a subsidiary of the Foundation. A balloon payment in the amount of \$2,570,410 is due at note maturity on June 1, 2023.

The Foundation obtained a promissory note August 4, 2017, five (5) year term. The note bears interest at a fixed rate of 2.65%. Required monthly payments of principal and interest total \$27,373. The outstanding principal balance is \$5,684,543 at June 30, 2019.

The promissory note was issued through a private lender for a principal amount of \$6,000,000. The proceeds of this note were used to repay a line of credit issued May 2017 with a principal amount of \$4,000,000 and to finance the costs for the renovation and remodeling of Richmond Hall. The note requires certain covenants to be met. At June 30, 2019, the Foundation was in compliance with these covenants. A balloon installment payment for all unpaid principal and the interest is due at note maturity on August 4, 2022. Amounts outstanding are collateralized by the Foundation's deposits with the lender.

## Significant activity between the university and component units

Direct Payments to the university from the William & Mary Foundation, the Marshall-Wythe School of Law Foundation, the William & Mary Athletic Educational Foundation, and the William & Mary School of Business Foundation for the year ended June 30, 2019 totaled \$29,325,211; \$6,071,588; \$4,587,161; and \$2,535,277 respectively. This includes gift transfers, payments for facilities and payments for services. Direct payments from the university to the William & Mary Foundation for the year ended June 30, 2019 totaled \$3,388,653 for services provided by College Enterprises Inc. and rent for facilities.

## 14. RETIREMENT PLANS

### Optional Retirement Plan

Full-time faculty and certain administrative staff may participate in a retirement annuity program through various optional retirement plans other than the Virginia Retirement System. As of January 1, 2018 TIAA-CREF is the university's plan administrator. Employees who became a member prior to January 1, 2018 have the option to choose either TIAA-CREF or Fidelity Investments as their investment provider. This is a fixed-contribution program where the retirement benefits received are based upon the employer's contributions of approximately 10.4 percent or 8.5 percent depending on whether the employee is in Plan 1 or Plan 2, plus interest and dividends. Plan 1 consists of employees who became a member prior to July 1, 2010. Plan 2 consists of employees who became a member on or after July 1, 2010 and are required to make a 5% contribution to their retirement account.

Individual contracts issued under the plan provide for full and immediate vesting of contributions of William & Mary, including the Virginia Institute of Marine Science, and Richard Bland College and their employees. Total pension costs under this plan were \$10,065,005 for the year ended June 30, 2019. Contributions to the optional retirement plans were calculated using the base salary amount of \$104,819,528 for fiscal year 2019. William & Mary, which includes the Virginia Institute of Marine Science, and Richard Bland College's total payroll for fiscal year 2019 was \$211,156,533.

### Deferred Compensation

Employees of the university and college are employees of the Commonwealth of Virginia. State employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to \$20 per pay period. The dollar amount of the match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were approximately \$664,330 for fiscal year 2019.

### General Information about the Pension Plan

#### Plan Description

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

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

| <b>RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE</b>   |   |  |
|---|---|--|
| <b>PLAN 1</b>   | <b>PLAN 2</b>   | <b>HYBRID RETIREMENT PLAN</b>  |
| <p><b>About Plan 1</b><br/>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.</p>  | <p><b>About Plan 2</b><br/>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.</p>  | <p><b>About the Hybrid Retirement Plan</b><br/>The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</p> <ul style="list-style-type: none"> <li>• The defined benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula.</li> <li>• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.</li> <li>• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.</li> </ul> |
| <p><b>Eligible Members</b><br/>Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.</p> <p><b>Hybrid Opt-In Election</b><br/>VRS non-hazardous duty</p> | <p><b>Eligible Members</b><br/>Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b><br/>VRS non-hazardous duty covered</p> | <p><b>Eligible Members</b><br/>Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> <li>• State employees*</li> <li>• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan’s effective date for opt-in members was July 1, 2014</li> </ul>  |

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

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

|   |   |   |
|---|---|---|
|   |   | <p>defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> <p>Distribution is not required by law until age 70½.</p> |
| <p><b>Calculating the Benefit</b><br/>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.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p> | <p><b>Calculating the Benefit</b><br/>See definition under Plan 1.</p>  | <p><b>Calculating the Benefit</b><br/><b><u>Defined Benefit Component:</u></b><br/>See definition under Plan 1</p> <p><b><u>Defined Contribution Component:</u></b><br/>The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>  |
| <p><b>Average Final Compensation</b><br/>A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>   | <p><b>Average Final Compensation</b><br/>A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p> | <p><b>Average Final Compensation</b><br/>Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>  |



|   |  |   |
|---|--|---|
| <p><b>Service Retirement Multiplier</b><br/> <b>VRS:</b> The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p> <p><b>VaLORS:</b> The retirement multiplier for VaLORS employees is 1.70% or 2.00%.</p>                | <p><b>Service Retirement Multiplier</b><br/> <b>VRS:</b> Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p> <p><b>VaLORS:</b> The retirement multiplier for VaLORS employees is 2.00%.</p> | <p><b>Service Retirement Multiplier</b><br/> <b>Defined Benefit Component:</b><br/> <b>VRS:</b> The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p><b>VaLORS:</b> Not applicable.</p> <p><b>Defined Contribution Component:</b><br/> Not applicable.</p> |
| <p><b>Normal Retirement Age</b><br/> <b>VRS:</b> Age 65.</p> <p><b>VaLORS:</b> Age 60.</p>  | <p><b>Normal Retirement Age</b><br/> <b>VRS:</b> Normal Social Security retirement age.</p> <p><b>VaLORS:</b> Same as Plan 1.</p>  | <p><b>Normal Retirement Age</b><br/> <b>Defined Benefit Component:</b><br/> <b>VRS:</b> Same as Plan 2.</p> <p><b>VaLORS:</b> Not applicable.</p> <p><b>Defined Contribution Component:</b><br/> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>  |
| <p><b>Earliest Unreduced Retirement Eligibility</b><br/> <b>VRS:</b> Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p><b>VaLORS:</b> Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p> | <p><b>Earliest Unreduced Retirement Eligibility</b><br/> <b>VRS:</b> Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p><b>VaLORS:</b> Same as Plan 1.</p>  | <p><b>Earliest Unreduced Retirement Eligibility</b><br/> <b>Defined Benefit Component:</b><br/> <b>VRS:</b> Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p><b>VaLORS:</b> Not applicable.</p> <p><b>Defined Contribution</b></p>   |

|   |   |  |
|---|---|--|
|   |   | <p><b><u>Component:</u></b><br/>Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>  |
| <p><b>Earliest Reduced Retirement Eligibility</b><br/><b>VRS:</b> Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p><b>VaLORS:</b> 50 with at least five years of creditable service.</p>  | <p><b>Earliest Reduced Retirement Eligibility</b><br/><b>VRS:</b> Age 60 with at least five years (60 months) of creditable service.</p> <p><b>VaLORS:</b> Same as Plan 1.</p>  | <p><b>Earliest Reduced Retirement Eligibility</b><br/><b><u>Defined Benefit Component:</u></b><br/><b>VRS:</b> Age 60 with at least five years (60 months) of creditable service.</p> <p><b>VaLORS:</b> Not applicable.</p> <p><b><u>Defined Contribution Component:</u></b><br/>Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p> |
| <p><b>Cost-of-Living Adjustment (COLA) in Retirement</b><br/>The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><b><u>Eligibility:</u></b><br/>For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> | <p><b>Cost-of-Living Adjustment (COLA) in Retirement</b><br/>The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><b><u>Eligibility:</u></b><br/>Same as Plan 1</p> | <p><b>Cost-of-Living Adjustment (COLA) in Retirement</b><br/><b><u>Defined Benefit Component:</u></b><br/>Same as Plan 2.</p> <p><b><u>Defined Contribution Component:</u></b><br/>Not applicable.</p> <p><b><u>Eligibility:</u></b><br/>Same as Plan 1 and Plan 2.</p>  |

|  |   |  |
|--|---|--|
| <p><b><u>Exceptions to COLA Effective Dates:</u></b><br/> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> <li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li> <li>• The member retires on disability.</li> <li>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).</li> <li>• The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.</li> <li>• The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.</li> </ul> | <p><b><u>Exceptions to COLA Effective Dates:</u></b><br/> Same as Plan 1</p>  | <p><b><u>Exceptions to COLA Effective Dates:</u></b><br/> Same as Plan 1 and Plan 2.</p>   |
| <p><b>Disability Coverage</b><br/> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a</p>   | <p><b>Disability Coverage</b><br/> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a</p> | <p><b>Disability Coverage</b><br/> State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability</p> |

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

### Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Each state agency’s contractually required employer contribution rate for the fiscal year ended June 30, 2019 was 13.52% of covered employee compensation for employees in the VRS State Employee Retirement Plan. For employees in the VaLORS Retirement Plan, the contribution rate was 21.61% of covered employee compensation. These rates were based on an actuarially determined rates 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 university and college to the VRS State Employee Retirement Plan were \$10,172,038 and \$10,190,870 for the years ended June 30, 2019 and June 30, 2018, respectively. Contributions from the university and college to the VaLORS Retirement Plan were \$267,451 and \$217,273 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 university and college reported a liability of \$103,164,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability and a liability of \$2,077,000 for its proportionate share of the VaLORS 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 university and college’s proportion of the Net Pension Liability was based on the university and college’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 university and college’s proportion of the VRS State Employee Retirement Plan was 1.46% for William & Mary, 0.32% for VIMS, and 0.12% for RBC as compared to 1.48% for William & Mary, 0.33% for VIMS, and 0.13% for RBC at June 30, 2017. At June 30, 2018, the university and college’s proportion of the VaLORS Retirement Plan was 0.28% for William & Mary, and 0.05% for RBC as compared to 0.29% for William & Mary, and 0.05% for RBC at June 30, 2017.

For the year ended June 30, 2019, the university and college recognized pension expense of \$5,760,000 for the VRS State Employee Retirement Plan and \$209,000 for the VaLORS 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 university and college reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**VRS Retirement Plan**

|   | <u>Deferred Outflows of<br/>Resources</u> | <u>Deferred Inflows of<br/>Resources</u> |
|---|---|--|
| Differences between expected and actual experience  | -   | 6,236,000                                |
| Net difference between projected and actual earnings on pension plan investments                              | -   | 2,694,000                                |
| Change in assumptions   | 690,000                                   | -  |
| Changes in proportion and differences between Employer contributions and proportionate share of contributions | 1,157,000                                 | 1,698,000                                |
| Employer contributions subsequent to the measurement date   | 10,172,038                                | -  |
| Total   | <u>\$ 12,019,038</u>                      | <u>\$ 10,628,000</u>                     |

**VaLORS Retirement Plan**

|   | <u>Deferred Outflows of<br/>Resources</u> | <u>Deferred Inflows of<br/>Resources</u> |
|---|---|--|
| Differences between expected and actual experience  | 1,000                                     | 56,000                                   |
| Net difference between projected and actual earnings on pension plan investments                              | -   | 35,000                                   |
| Change in assumptions   | -   | 73,000                                   |
| Changes in proportion and differences between Employer contributions and proportionate share of contributions | 173,000                                   | 39,000                                   |
| Employer contributions subsequent to the measurement date   | 267,451                                   | -  |
| <b>Total</b>  | <u><u>\$ 441,451</u></u>                  | <u><u>\$ 203,000</u></u>                 |

The university and college had \$10,439,489 reported as deferred outflows of resources related to pensions resulting from the university and college’s contributions subsequent to the measurement date that 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:

(\$ thousands)

|         | <u>VRS Retirement Plan</u> | <u>VaLors Retirement Plan</u> |
|---------|----------------------------|-------------------------------|
| FY 2020 | \$ (1,061)                 | \$ 46                         |
| FY 2021 | \$ (2,346)                 | \$ (29)                       |
| FY 2022 | \$ (5,086)                 | \$ (44)                       |
| FY 2023 | \$ (288)                   | \$ (2)                        |
| FY 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 pension plan investment expenses, including inflation* |

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

Mortality rates:

Pre-Retirement:

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

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB 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) | Update to a more current mortality table – RP-2014 projected to 2020                            |
| Retirement Rates  | Lowered rates at older ages and changed final retirement from 70 to 75                          |
| Withdrawal Rates  | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates  | Adjusted rates to better match experience   |
| Salary Scale  | No change   |
| Line of Duty Disability   | Increase rate from 14% to 25%   |

The total pension liability for the VaLORS Retirement Plan was based on an actuarial valuation as of June 30, 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 – 4.75 percent   |
| Investment rate of return             | 7.0 percent, net of pension plan investment expenses, including inflation* |

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

Mortality rates:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system’s total pension liability determined in accordance with GASB Statement No. 67, less that system’s fiduciary net position. As of June 30, 2018, NPL amounts for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan are as follows (amounts expressed in thousands):

|   | <b>State<br/>Employee<br/>Retirement<br/>Plan</b> | <b>VaLORS<br/>Retirement<br/>Plan</b> |
|---|---|---------------------------------------|
| Total Pension Liability   | \$ 23,945,821                                     | \$ 2,047,161                          |
| Plan Fiduciary Net Position   | <u>18,532,189</u>                                 | <u>1,423,980</u>                      |
| Employers’ Net Pension Liability (Asset)                                      | <u>\$ 5,413,632</u>                               | <u>\$ 623,181</u>                     |
| Plan Fiduciary Net Position as a Percentage<br>of the Total Pension Liability | 77.39%  | 69.56%                                |

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



## Long-Term Expected Rate of Return

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

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

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

## Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the state agency for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly 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 University and College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the university and college's proportionate share of the VRS State Employee Retirement Plan net pension liability using the discount rate of 7.00%, as well as what the university and college'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:

| (\$ thousands)   | <b>1.00% Decrease<br/>(6.00%)</b> | <b>Current Discount<br/>Rate (7.00%)</b> | <b>1.00% Increase<br/>(8.00%)</b> |
|--|-----------------------------------|--|-----------------------------------|
| The university and college's proportionate share of the VRS State Employee Retirement Plan Net Pension Liability | \$ 156,195                        | \$ 103,164                               | \$ 58,523                         |

The following presents the university and college's proportionate share of the VaLORS Retirement Plan net pension liability using the discount rate of 7.00%, as well as what the university and college'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:

| (\$ thousands)  | <b>1.00% Decrease<br/>(6.00%)</b> | <b>Current Discount<br/>Rate (7.00%)</b> | <b>1.00% Increase<br/>(8.00%)</b> |
|---|-----------------------------------|--|-----------------------------------|
| The university and college's proportionate share of the VaLORS Employee Retirement Plan Net Pension Liability | \$ 2,949                          | \$ 2,077                                 | \$ 1,357                          |

#### Pension Plan Fiduciary Net Position

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position or the VaLORS Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://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.

#### Payables to the Pension Plan

The university and college reported \$375,596 in payables to VRS.

### 15. OTHER POSTEMPLOYMENT BENEFITS

The university and college participate in postemployment benefit programs that are sponsored by the Commonwealth and administered by the Virginia Retirement System. These programs include the Group Life Insurance Program, Virginia Sickness and Disability Program, Retiree Health Insurance Credit Program, and the Line of Duty Act Program. The university and college also participate in the Pre-Medicare Retiree Healthcare Plan, which is sponsored by the Commonwealth and administered by the Department of Human Resource Management.

#### General Information about the Group Life Insurance Program

##### Plan Description

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

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

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

| <b>GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS</b>  |
|--|
| <p><b>Eligible Employees</b></p> <p>The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:</p> <ul style="list-style-type: none"> <li>• City of Richmond</li> <li>• City of Portsmouth</li> <li>• City of Roanoke</li> <li>• City of Norfolk</li> <li>• Roanoke City Schools Board</li> </ul> <p>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 accumulated retirement member contributions and accrued interest.</p>   |
| <p><b>Benefit Amounts</b></p> <p>The benefits payable under the Group Life Insurance Program have several components.</p> <ul style="list-style-type: none"> <li>• <b>Natural Death Benefit</b> – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.</li> <li>• <b>Accidental Death Benefit</b> – The accidental death benefit is double the natural death benefit.</li> <li>• <b>Other Benefit Provisions</b> – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include: <ul style="list-style-type: none"> <li>○ Accidental dismemberment benefit</li> <li>○ Safety belt benefit</li> <li>○ Repatriation benefit</li> <li>○ Felonious assault benefit</li> <li>○ Accelerated death benefit option</li> </ul> </li> </ul> |
| <p><b>Reduction in Benefit Amounts</b></p> <p>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.</p>   |

### **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 state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 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 to the Group Life Insurance Program from the university and college were \$967,560 and \$965,839 for the years ended June 30, 2019 and June 30, 2018, respectively.

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

At June 30, 2019, the university and college reported a liability of \$14,867,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2018 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The university and college's proportion of the Net GLI OPEB Liability was based on the university and college'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 university and college's proportion was 0.83% for William & Mary, 0.11% for VIMS, and 0.04% for RBC as compared to 0.81% for William & Mary, 0.11% for VIMS, and 0.04% for RBC at June 30, 2017.

For the year ended June 30, 2019, the university and college recognized GLI OPEB expense of \$180,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2019, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

|  | <b>Deferred Outflows of<br/>Resources</b> | <b>Deferred Inflows of<br/>Resources</b> |
|--|---|--|
| Differences between expected and actual experience                                   | 727,000                                   | 268,000                                  |
| Net difference between projected and actual earnings on GLI OPEB program investments | -   | 483,000                                  |
| Changes in assumptions   | -   | 619,000                                  |
| Changes in proportions   | 442,000                                   | 83,000                                   |
| Employer contributions subsequent to the measurement date                            | 967,560                                   | -  |
| Total  | <u>\$ 2,136,560</u>                       | <u>\$ 1,453,000</u>                      |

The university and college had \$967,560 reported as deferred outflows of resources related to the GLI OPEB resulting from the university and college's contributions subsequent to the measurement date that will be recognized as a reduction of the Net GLI 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 GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

**Year ended June 30**

(\$thousands)

|            |    |       |
|------------|----|-------|
| FY 2020    | \$ | (146) |
| FY 2021    | \$ | (146) |
| FY 2022    | \$ | (146) |
| FY 2023    | \$ | (7)   |
| FY 2024    | \$ | 104   |
| Thereafter | \$ | 57    |

Actuarial Assumptions

The total GLI 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 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 Health Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

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

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

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

**Mortality rates – SPORS Employees**

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 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   | Decreased rate from 50% to 35%  |

**Mortality rates – JRS Employees**

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

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

Pre-Retirement:

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

Post-Retirement:

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



Post-Disablement:

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

The actuarial assumptions used in the June 30, 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   | Decreased rate from 60% to 45%   |

Net GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the

Measurement Date of June 30, 2018, NOL amounts for the Group Life Insurance Program are as follows (amounts expressed in thousands):

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

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

#### Long-Term Expected Rate of Return

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

| <u>Asset Class (Strategy)</u> | <u>Target<br/>Allocation</u>         | <u>Arithmetic<br/>Long-Term<br/>Expected<br/>Rate of Return</u> | <u>Weighted<br/>Average<br/>Long-Term<br/>Expected<br/>Rate of Return</u> |
|-------------------------------|--------------------------------------|---|---|
| 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%   |
| <br>Total                     | <br><u>100.00%</u>                   |   | <br><u>4.80%</u>  |
|                               | <br>Inflation                        |   | <br><u>2.50%</u>  |
|                               | * Expected arithmetic nominal return |   | <u>7.30%</u>  |

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

#### Discount Rate

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

contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the university and college for the GLI 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 GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

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

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

| (\$thousands)   | <u>1.00% Decrease<br/>(6.00)%</u> | <u>Current Discount<br/>Rate (7.00%)</u> | <u>1.00% Increase<br/>(8.00)%</u> |
|---|-----------------------------------|--|-----------------------------------|
| Employer's proportionate share of the Group Life Insurance Program Net OPEB liability | \$ 19,429                         | \$ 14,867                                | \$ 11,163                         |

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 <http://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.

Payables to the VRS Group Life Insurance OPEB Plan

The university and college reported \$93,545 in payables to the VRS Group Life Insurance OPEB plan.

General Information about the State Employee Health Insurance Credit Program

Plan Description

All full-time, salaried permanent employees of state agencies are automatically covered by the VRS State Employee Health Insurance Credit Program. This plan is administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse of 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:

- **At Retirement** – 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.
- **Disability Retirement** – For State employees, other than state police officers, who retire on disability or go on long-term disability under the Virginia Sickness and Disability Program (VSDP), the monthly benefit is \$120.00 or \$4.00 per year of service, whichever is higher.

For State police officers employees with a non-work-related disability who retire on disability or go on long-term disability under the Virginia Sickness and Disability Program (VSDP) the monthly benefit is \$120.00 or \$4.00 per year of service, whichever is higher.

For State police officers 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 state agencies by the Virginia General Assembly. Each state agency'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 university and college to the VRS State Employee Health Insurance Credit Program were \$2,153,476 and \$2,171,883 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 university and college reported a liability of \$25,184,000 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 university and college's proportion of the Net VRS State Employee Health Insurance Credit Program OPEB Liability was based on the university and college'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 state employers. At June 30, 2018, the university and college's proportion of the VRS State Employee Health Insurance Credit Program was 2.35% for William & Mary, 0.31% for VIMS, and 0.11% for RBC as compared to 2.32% for William & Mary, 0.32% for VIMS, and 0.11% for RBC at June 30, 2017.

For the year ended June 30, 2019, the university and college recognized VRS State Employee Health Insurance Credit Program OPEB expense of \$2,227,000. 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 university and college 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:

|   | <b>Deferred Outflows of<br/>Resources</b> | <b>Deferred Inflows of<br/>Resources</b> |
|---|---|--|
| Differences between expected and actual experience                                      | 20,000                                    | -  |
| Net difference between projected and actual earnings on State HIC OPEB plan investments | -   | 42,000                                   |
| Change in assumptions   | -   | 229,000                                  |
| Changes in proportionate share  | 498,000                                   | 162,000                                  |
| Employer contributions subsequent to the measurement date                               | 2,153,476                                 | -  |
| Total   | <u>\$ 2,671,476</u>                       | <u>\$ 433,000</u>                        |

The university and college had \$2,153,476 reported as deferred outflows of resources related to the State Employee HIC OPEB resulting from the university and college's contributions subsequent to the measurement date that 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**

(\$thousands)

|            |    |     |
|------------|----|-----|
| FY 2020    | \$ | 12  |
| FY 2021    | \$ | 12  |
| FY 2022    | \$ | 12  |
| FY 2023    | \$ | 27  |
| FY 2024    | \$ | 24  |
| Thereafter | \$ | (2) |

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   | Decreased rate from 50% to 35%  |

**Mortality rates – JRS Employees**

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

Net State Employee HIC OPEB Liability

The net OPEB liability (NOL) for the State Employee Health Insurance Credit Program represents the program’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2018, NOL amounts for the VRS State Employee Health Insurance Credit Program is as follows (amounts expressed in thousands):

|   |   |
|---|---|
|   | <b>State<br/>Employee<br/>HIC OPEB<br/>Plan</b> |
| 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 asset class are summarized in the following table:

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

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

Discount Rate

The discount rate used to measure the total State Employee HIC OPEB was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2018, the rate contributed by the university and college 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 University and College’s Proportionate Share of the State Employee HIC Net OPEB Liability to Changes in the Discount Rate

The following presents the university and college’s proportionate share of the VRS State Employee Health Insurance Credit Program net HIC OPEB liability using the discount rate of 7.00%, as well as what the university and college’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:

| (\$thousands)  | <b>1.00% Decrease<br/>(6.00%)</b> | <b>Current Discount<br/>Rate (7.00%)</b> | <b>1.00% Increase<br/>(8.00%)</b> |
|--|-----------------------------------|--|-----------------------------------|
| State agency’s proportionate share of the VRS State Employee HIC OPEB Plan | \$ 27,850                         | \$ 25,184                                | \$ 22,891                         |
| Net HIC OPEB Liability   |                                   |  |                                   |

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 <http://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.

Payables to the State Employee Health Insurance Credit Program OPEB Plan

The university and college reported \$85,652 in payables to the Health Insurance Credit Program OPEB Plan.

General Information about the VRS Disability Insurance Program

Plan Description

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

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

| <b>DISABILITY INSURANCE PROGRAM (VSDP) PLAN PROVISIONS</b>   |
|--|
| <p><b>Eligible Employees</b><br/>                     The Virginia Sickness and Disability Program (VSDP), also known as the Disability Insurance Trust Fund was established January 1, 1999 to provide short-term and long-term disability benefits for non-work-related and work-related disabilities.</p> <p>Eligible employees are enrolled automatically upon employment. They include:</p> |

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

### **Benefit Amounts**

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

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

### **Disability Insurance Program (VSDP) Plan Notes:**

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

### **Cost-of-Living Adjustment (COLA)**

- During periods an employee receives long-term disability benefits, the LTD benefit may be increased annually by an amount recommended by the actuary and approved by the Board.
  - Plan 1 employees vested as of 1/1/2013 – 100% of the VRS Plan 1 COLA (The first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%).
  - Plan 1 employee non-vested as of 1/1/2013, Plan 2 and Hybrid Plan employees – 100% of the VRS Plan 2 and Hybrid COLA (The first 2% increase in the Consumer Price

Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 2%) up to a maximum COLA of 3%).

- For participating full-time employees taking service retirement, the creditable compensation may be increased annually by an amount recommended by the actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement.
  - 100% of the increase in the pay over the previous plan year for continuing VSDP members in the State, SPORS and VaLORS Plans, with a maximum COLA of 4.00%
- For participating full-time employees receiving supplemental (work-related) disability benefits, the creditable compensation may be increased annually by an amount recommended by the actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement
  - 100% of the increase in the pay over the previous plan year for continuing VSDP members in the State, SPORS and VaLORS Plans, with a maximum COLA of 4.00%.

### Contributions

The contribution requirements for the Disability Insurance Program (VSDP) are governed by §51.1-1140 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer's contractually required employer contribution rate for the Disability Insurance Program (VSDP) for the year ended June 30, 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 to the Disability Insurance Program (VSDP) from the entity were \$403,834 and \$415,658 for the years ended June 30, 2019 and June 30, 2018, respectively.

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

At June 30, 2019, the university and college reported an asset of \$2,969,000 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 VSDP OPEB Asset was determined by an actuarial valuation as of that date. The university and college's proportion of the Net VSDP OPEB Asset was based on the university and college'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 university and college's proportion was 1.05% for William & Mary, 0.22% for VIMS, and 0.05% for RBC as compared to 1.14% for William & Mary, 0.22% for VIMS, and 0.04% for RBC at June 30, 2017.

For the year ended June 30, 2019, the university and college recognized VSDP OPEB expense of \$203,000. 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 university and college reported deferred outflows of resources and deferred inflows of resources related to the VSDP OPEB from the following sources:

|  | <b>Deferred Outflows of<br/>Resources</b> | <b>Deferred Inflows of<br/>Resources</b> |
|--|---|--|
| Differences between expected and actual experience                                 | -   | 127,000                                  |
| Net difference between projected and actual earnings on VSDP OPEB plan investments | -   | 175,000                                  |
| Change in assumptions  | -   | 175,000                                  |
| Changes in proportion  | 277,000                                   | 19,000                                   |
| Employer contributions subsequent to the measurement date                          | 403,834                                   | -  |
| <b>Total</b>   | <b>\$ 680,834</b>                         | <b>\$ 496,000</b>                        |

The university and college had \$403,834 reported as deferred outflows of resources related to the VSDP OPEB resulting from the university and college's contributions subsequent to the measurement date that will be recognized as an adjustment 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**

(\$thousands)

|            |    |      |
|------------|----|------|
| FY 2020    | \$ | (67) |
| FY 2021    | \$ | (65) |
| FY 2022    | \$ | (65) |
| FY 2023    | \$ | (11) |
| FY 2024    | \$ | (7)  |
| Thereafter | \$ | (4)  |

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 OPEB plan investment expenses, including inflation* |

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

### Mortality rates – General State Employees

**Pre-Retirement:**

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

**Post-Retirement:**

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

**Post-Disablement:**

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

The actuarial assumptions used in the June 30, 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   | Decreased rate from 50% to 35%  |

### Net VSDP OPEB Liability (Asset)

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

|                                       |  |
|---------------------------------------|--|
|                                       | <b><u>Disability<br/>Insurance<br/>Program</u></b> |
| 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 each plan’s fiduciary net position is reported in the System’s financial statements. The net OPEB asset is disclosed in accordance with the requirements of GASB Statement No. 74 in the System’s notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

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

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

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

Discount Rate

The discount rate used to measure the total VSDP OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2018, the rate contributed by participating employers to the VSDP OPEB Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly 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 University and College’s Proportionate Share of the Net VSDP OPEB Asset to Changes in the Discount Rate

The following presents the university and college’s proportionate share of the net VSDP OPEB asset using the discount rate of 7.00%, as well as what the university and college’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:

| (\$thousands)   | <b>1.00% Decrease<br/>(6.00%)</b> | <b>Current Discount<br/>Rate (7.00%)</b> | <b>1.00% Increase<br/>(8.00%)</b> |
|---|-----------------------------------|--|-----------------------------------|
| Employer’s proportionate share of the total VSDP Net OPEB Liability (Asset) | \$ (2,862)                        | \$ (2,969)                               | \$ (3,060)                        |

VSDP OPEB Fiduciary Net Position

Detailed information about the Disability Insurance Program (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 <http://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.

Payables to the Disability Insurance Program (VSDP) OPEB Plan

The university and college reported \$6,170 in payables to the VSDP OPEB Plan.

General Information about the Line of Duty Act Program

Plan Description

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

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

| <b>LINE OF DUTY ACT PROGRAM (LODA) PLAN PROVISIONS</b>   |
|--|
| <p><b>Eligible Employees</b><br/>The eligible employees of the Line of Duty Act Program (LODA) are paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the Virginia Retirement System (VRS), the State Police Officers’ Retirement System (SPORS), or the Virginia Law Officers’ Retirement System (VaLORS).</p> |
| <p><b>Benefit Amounts</b><br/>The Line of Duty Act Program (LODA) provides death and health insurance benefits for eligible individuals:</p>   |

- **Death** – The Line of Duty Act program death benefit is a one-time payment made to the beneficiary or beneficiaries of a covered individual. Amounts vary as follows:
  - \$100,000 when a death occurs as the direct or proximate result of performing duty as of January 1, 2006, or after.
  - \$25,000 when the cause of death is attributed to one of the applicable presumptions and occurred earlier than five years after the retirement date.
  - An additional \$20,000 benefit is payable when certain members of the National Guard and U.S. military reserves are killed in action in any armed conflict on or after October 7, 2001.
- **Health Insurance** – The Line of Duty Act program provides health insurance benefits.
  - Prior to July 1, 2017, these benefits were managed through the various employer plans and maintained the benefits that existed prior to the employee’s death or disability. These premiums were reimbursed to the employer by the LODA program.
  - Beginning July 1, 2017, the health insurance benefits are managed through the Virginia Department of Human Resource Management (DHRM). The health benefits are modeled after the State Employee Health Benefits Program plans and provide consistent, premium-free continued health plan coverage for LODA-eligible disabled individuals, survivors and family members. Individuals receiving the health insurance benefits must continue to meet eligibility requirements as defined by the Line of Duty Act.

### Contributions

The contribution requirements for the Line of Duty Act Program (LODA) are governed by §9.1-400.1 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer’s contractually required employer contribution rate for the Line of Duty Act Program (LODA) for the year ended June 30, 2019 was \$705.77 per covered full-time-equivalent employee. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017 and represents the pay-as-you-go funding rate and not the full actuarial cost of the benefits under the program. The actuarially determined pay-as-you-go rate was expected to finance the costs and related expenses of benefits payable during the year. Contributions to the Line of Duty Act Program (LODA) from the university and college were \$15,527 and \$14,184 for the years ended June 30, 2019 and June 30, 2018, respectively.

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

At June 30, 2019, the university and college reported a liability of \$418,000 for its proportionate share of the Net LODA OPEB Liability. The Net LODA OPEB Liability was measured as of June 30, 2018 and the total LODA OPEB liability used to calculate the Net LODA OPEB Liability was determined by an actuarial valuation as of that date. The university and college’s proportion of the Net LODA OPEB Liability was based on the university and college’s actuarially determined pay-as-you-go employer contributions to the LODA OPEB plan for the year ended June 30, 2018 relative to the total of the actuarially determined pay-as-you-go employer contributions for all participating employers. At June 30, 2018, the university and college’s proportion was 0.07% for William & Mary, and 0.06% for RBC as compared to 0.08% for William & Mary, and 0.04% for RBC at June 30, 2017.

For the year ended June 30, 2019, the university and college recognized LODA OPEB expense of \$38,000. Since there was a change in proportionate share between measurement dates, a portion of the LODA OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2019, the university and college reported deferred outflows of resources and deferred inflows of resources related to the LODA OPEB from the following sources:

|  | <b>Deferred Outflows of<br/>Resources</b> | <b>Deferred Inflows of<br/>Resources</b> |
|--|---|--|
| Differences between expected and actual experience                                 | 60,000                                    | 1,000                                    |
| Net difference between projected and actual earnings on LODA OPEB plan investments | -   | 1,000                                    |
| Change in assumptions  | -   | 48,000                                   |
| Changes in proportion  | 56,000                                    | 25,000                                   |
| Employer contributions subsequent to the measurement date                          | 15,527                                    | -  |
| <b>Total</b>   | <b>\$ 131,527</b>                         | <b>\$ 75,000</b>                         |

The university and college had \$15,527 reported as deferred outflows of resources related to the LODA OPEB resulting from the university and college's contributions subsequent to the measurement date that will be recognized as a reduction of the Net LODA 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 LODA OPEB will be recognized in LODA OPEB expense in future reporting periods as follows:

**Year ended June 30**

(\$thousands)

|            |    |    |
|------------|----|----|
| FY 2020    | \$ | 5  |
| FY 2021    | \$ | 5  |
| FY 2022    | \$ | 5  |
| FY 2023    | \$ | 6  |
| FY 2024    | \$ | 6  |
| Thereafter | \$ | 14 |

Actuarial Assumptions

The total LODA 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                               | 2.50 percent                |
| Salary increases, including Inflation – |                             |
| General state employees                 | 3.50 percent – 5.35 percent |
| SPORS employees                         | 3.50 percent – 4.75 percent |
| VaLORS employees                        | 3.50 percent – 4.75 percent |
| Locality employees                      | 3.50 percent – 4.75 percent |
| Medical cost trend rates assumption –   |                             |
| Under age 65                            | 7.75 percent – 5.00 percent |

Ages 65 and older 5.75 percent – 5.00 percent

Year of ultimate trend rate Fiscal year ended 2024

Investment rate of return 3.89 Percent, net of OPEB plan  
Investment expenses, including inflation\*

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 3.89%. However, since the difference was minimal, a more conservative 3.89% investment return assumption has been used. Since LODA is funded on a current-disbursement basis, the assumed annual rate of return of 3.89% was used since it approximates the risk-free rate of return.

**Mortality rates – General State Employees**

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 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   | Decreased rate from 50% to 35%  |

**Mortality rates – Largest Ten Locality Employers With Public Safety Employees**

Pre-Retirement:

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

Post-Retirement:

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

**Post-Disablement:**

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

The actuarial assumptions used in the June 30, 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 With Public Safety Employees**

**Pre-Retirement:**

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

**Post-Retirement:**

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

**Post-Disablement:**

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

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

Changes to the LODA Program Associated with HB 1345 (2016) and HB 2243 (2017)

The following changes were made to the LODA Program as a result of legislation in 2016 and 2017, but were specifically not considered in the June 30, 2017 actuarial valuation results which were rolled forward to the measurement date of June 30, 2018. There is limited actuarial experience on which to base the adjustments and the

combined impact of the changes was not considered to be material to the final results. These changes will be monitored and factored into future actuarial valuations for the LODA Program if and when sufficient experience develops:

- The discontinuance of spouse health care coverage, if a covered spouse divorces a disabled employee or a covered surviving spouse remarries.
- The potential for the periodic review of the disability status of a disabled employee.
- For those beneficiaries who become eligible for health care benefits as the result of a disability occurring after June 30, 2017, the suspension of health care benefits in years when the System certifies current income exceeds salary at the time of the disability, indexed for inflation.

Net LODA OPEB Liability

The net OPEB liability (NOL) for the Line of Duty Act Program (LODA) represents the program’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the Measurement Date of June 30, 2018, NOL amounts for the Line of Duty Act Program (LODA) are as follows (amounts expressed in thousands):

|   | <b><u>Line of<br/>Duty Act<br/>Program</u></b> |
|---|--|
| Total LODA OPEB Liability   | \$ 315,395                                     |
| Plan Fiduciary Net Position   | <u>1,889</u>                                   |
| Employers’ Net OPEB Liability (Asset)   | <u>\$ 313,506</u>                              |
| <br>Plan Fiduciary Net Position as a Percentage<br>of the Total LODA OPEB Liability | <br>0.60%                                      |

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

Long-Term Expected Rate of Return

The long-term expected rate of return on LODA OPEB Program’s investments was set at 3.89% for this valuation. Since LODA is funded on a current-disbursement basis, it is not able to use the VRS Pooled Investments 7.00% assumption. Instead, the assumed annual rate of return of 3.89% was used since it approximates the risk-free rate of return. This Single Equivalent Interest Rate (SEIR) is the applicable municipal bond index rate based on the Bond Buyer General Obligation 20-year Municipal Bond Index as of the measurement date of June 30, 2018.

Discount Rate

The discount rate used to measure the total LODA OPEB liability was 3.89%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2018, the rate contributed by participating employers to the LODA OPEB Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly.

Sensitivity of the University and College’s Proportionate Share of the Net LODA OPEB Liability to Changes in the Discount Rate

The following presents the university and college’s proportionate share of the net LODA OPEB liability using the discount rate of 3.89%, as well as what the university and college’s proportionate share of the net LODA OPEB



liability would be if it were calculated using a discount rate that is one percentage point lower (2.89%) or one percentage point higher (4.89%) than the current rate:

| (\$thousands)   | <b>1.00% Decrease<br/>(2.89%)</b> | <b>Current Discount<br/>Rate (3.89%)</b> | <b>1.00% Increase<br/>(4.89%)</b> |
|---|-----------------------------------|--|-----------------------------------|
| Covered employer's proportionate share of the total LODA Net OPEB Liability | 479                               | 418                                      | 369                               |

Sensitivity of the University and College's Proportionate Share of the Net LODA OPEB Liability to Changes in the Health Care Trend Rate

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

| (\$thousands)   | <b>1.00% Decrease<br/>(6.75% decreasing<br/>to 4.00%)</b> | <b>Health Care Trend<br/>Rates (7.75%<br/>decreasing to<br/>5.00%)</b> | <b>1.00% Increase<br/>(8.75% decreasing<br/>to 6.00%)</b> |
|---|---|--|---|
| Covered employer's proportionate share of the total LODA Net OPEB Liability | 357   | 418  | 495   |

LODA OPEB Plan Fiduciary Net Position

Detailed information about the Line of Duty Act Program (LODA) Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://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.

General Information about the Pre-Medicare Retiree Healthcare Plan

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 retirees:

- You are a retiring state employee who is eligible for a monthly retirement benefit from the Virginia Retirement System (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 from 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.

#### 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%<br>Before reflecting Excise tax  |

|                        |   |
|------------------------|---|
| Year of Ultimate Trend | 2025  |
| Mortality              | 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; 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 Disabled Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates                                      |

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

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

At June 30, 2019 the university and college reported a liability of \$27,308,565 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 university and college’s proportion of the Pre-Medicare Retiree Healthcare OPEB liability was based on each employer’s healthcare premium contributions as a percentage of the total employer’s healthcare premium contributions for all participating employers. At June 30, 2018, the participating employer’s proportion was 2.25% for William & Mary, 0.33% for VIMS, and 0.13% for RBC as compared to 2.20% for William & Mary, 0.34% for VIMS, and 0.13% for RBC at June 30, 2017. For the year ended June 30, 2019, the participating employer recognized Pre-Medicare Retiree Healthcare OPEB expense of \$879,007.

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

|   | <b>Deferred Outflows of<br/>Resources</b> | <b>Deferred Inflows of<br/>Resources</b> |
|---|---|--|
| Differences between expected and actual experience                      | -   | 5,506,192                                |
| Change in assumptions   | -   | 10,922,118                               |
| Changes in proportion   | 1,890,422                                 | 139,966                                  |
| Amounts associated with transactions subsequent to the measurement date | 1,122,765                                 | -  |
| Total   | <u>\$ 3,013,187</u>                       | <u>\$ 16,568,276</u>                     |

The university and college had \$1,122,765 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, 2020. 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 End June 30:**

|                  |             |
|------------------|-------------|
| 2020             | (3,029,829) |
| 2021             | (3,029,829) |
| 2022             | (3,029,829) |
| 2023             | (3,029,829) |
| 2024             | (2,244,607) |
| Total Thereafter | (313,932)   |

**Sensitivity of the University and College's Proportionate Share of the OPEB Liability to Changes in the Discount Rate**

The following presents the university and college's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using the discount rate of 3.87%, as well as what the university and college'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:

|                | <b>1% Decrease<br/>(2.87%)</b> | <b>Current Rate<br/>(3.87%)</b> | <b>1% Increase<br/>(4.87%)</b> |
|----------------|--------------------------------|---------------------------------|--------------------------------|
| OPEB Liability | \$29,219,406                   | \$27,308,565                    | \$25,491,526                   |

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

The following presents the university and college's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using healthcare cost trend rate of 8.21% decreasing to 5%, as well as what the university and college'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 4.0%) or one percentage point higher (9.21% decreasing to 6.0%) than the current rate:

|                | <b>1% Decrease<br/>(7.21%<br/>decreasing<br/>to 4.00%)</b> | <b>Trend Rate<br/>(8.21%<br/>decreasing<br/>to 5.00%)</b> | <b>1% Increase<br/>(9.21%<br/>decreasing<br/>to 6.00%)</b> |
|----------------|--|---|--|
| OPEB Liability | \$24,357,486   | \$27,308,565  | \$30,777,387   |

## 16. CONTINGENCIES

### Grants and Contracts

The university and college receive assistance from non-state grantor agencies in the form of grants and contracts. Entitlement to these resources is conditional upon compliance with the terms and conditions of the agreements, including the expenditure of resources for eligible purposes. Substantially all grants and contracts are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability. As of June 30, 2019, the university and college estimate that no material liabilities will result from such audits.

### Litigation

Neither the university nor college are involved in any litigation at this time.

## 17. RISK MANAGEMENT

The university and college are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The university and college participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The university and college pay premiums to each of these departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

## 18. ADVANCE FROM THE TREASURER OF VIRGINIA

Section 4-3.02 of the Appropriation Act describes the circumstances under which agencies and institutions may borrow funds from the state treasury, including prefunding for capital projects in anticipation of bond sale proceeds and operating funds in anticipation of federal revenues. As of June 30, 2019, there was \$796,803 in outstanding Advances from the Treasurer. These funds represent an advance to William & Mary from the Commonwealth of Virginia for working capital pending the receipt of funds from bond sale proceeds. These funds were used to renovate Landrum Hall Dormitory.

|                  | <u>Beginning<br/>Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending<br/>Balance</u> |
|------------------|------------------------------|------------------|-------------------|---------------------------|
| Renovate Landrum | \$ 3,674,524                 | 2,720,328        | (5,598,049)       | \$ 796,803                |

## 19. SUBSEQUENT EVENTS

In August of 2019, the Commonwealth of Virginia issued Series 2019A General Obligation Bonds in which William & Mary was a participating institution. The university received \$5,432,621 in proceeds to finance renovations of various dormitories. The bonds were issued with interest rates varying from 2 to 5 percent and will mature in 2039.

In December of 2019, the Virginia College Building Authority issued Series 2019A Bonds in which William & Mary was a participating institution. The university received \$4,916,236 in proceeds to finance improvements to various athletic facilities. The bonds were issued with a coupon rate of 5 percent and will mature in 2029.

Subsequent to June 30, 2019, due to the COVID-19 pandemic, the financial markets have experienced volatility resulting in reductions in equity values. The university has reviewed the market value of its investments as of March 31, 2020 noting a market decline of approximately 9 percent or \$13 million. The university's affiliated foundations, collectively represented as "Component Units" in the university's statements, have also experienced a drop in market value of their investments. Foundation management estimates that investments have declined approximately 6.5 percent or \$46 million.

**Required Supplementary Information (RSI)  
For the Fiscal Year Ended June 30, 2019**

**Required Supplementary Information (RSI)**  
**Cost-Sharing Employer Plans – VRS State Employee Retirement Plan**  
**And VaLORS Retirement Plan**  
**For the Fiscal Year Ended June 30, 2019**

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

|  | <b>2018</b>    | <b>2017</b>    | <b>2016</b>    | <b>2015</b>    | <b>2014</b>   |
|--|----------------|----------------|----------------|----------------|---------------|
| Employer's Proportion of the Net Pension Liability (Asset)   | 1.90%          | 1.94%          | 1.93%          | 1.87%          | 1.78%         |
| Employer's Proportionate Share of the Net Pension Liability (Asset)  | \$ 103,164,000 | \$ 112,835,000 | \$ 127,302,000 | \$ 114,809,000 | \$ 99,411,000 |
| Employer's Covered Payroll   | \$ 75,543,886  | \$ 69,557,841  | \$ 73,645,076  | \$ 70,307,029  | \$ 66,605,228 |
| Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll | 136.56%        | 162.22%        | 172.86%        | 163.30%        | 149.25%       |
| 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.



Schedule of Employer's Share of Net Pension Liability

VaLORS Retirement Plan

For the Measurement Dates of June 30, 2018, 2017, 2016, 2015, and 2014

|  | <b>2018</b>  | <b>2017</b>  | <b>2016</b>  | <b>2015</b>  | <b>2014</b>  |
|--|--------------|--------------|--------------|--------------|--------------|
| Employer's Proportion of the Net Pension Liability (Asset)   | 0.33%        | 0.34%        | 0.28%        | 0.28%        | 0.30%        |
| Employer's Proportionate Share of the Net Pension Liability (Asset)  | \$ 2,077,000 | \$ 2,192,000 | \$ 2,180,000 | \$ 1,968,000 | \$ 2,024,000 |
| Employer's Covered Payroll   | \$ 1,032,174 | \$ 1,147,028 | \$ 1,048,421 | \$ 989,861   | \$ 1,101,243 |
| Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll | 201.23%      | 191.10%      | 207.93%      | 198.82%      | 183.79%      |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability                                 | 69.56%       | 67.22%       | 61.01%       | 62.64%       | 63.05%       |

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.

**Schedule of Employer Contributions**  
**VRS State Employee Retirement Plan**  
**For the Years Ended June 30, 2015 through 2019**

| <b>Date</b> | <b>Contractually<br/>Required<br/>Contribution<br/>(1)</b> | <b>Contributions in<br/>Relation to<br/>Contractually<br/>Required<br/>Contribution<br/>(2)</b> | <b>Contribution<br/>Deficiency<br/>(Excess)<br/>(3)</b> | <b>Employer's<br/>Covered<br/>Payroll<br/>(4)</b> | <b>Contributions<br/>as a % of<br/>Covered<br/>Payroll<br/>(5)</b> |
|-------------|--|---|---|---|--|
| 2019        | 10,172,038   | 10,172,038  | -   | 75,292,682  | 13.51%   |
| 2018        | 10,190,870   | 10,190,870  | -   | 75,543,886  | 13.49%   |
| 2017        | 9,383,353  | 9,383,353   | -   | 69,557,841  | 13.49%   |
| 2016        | 10,163,204   | 10,163,204  | -   | 73,645,076  | 13.80%   |
| 2015        | 8,668,857  | 8,668,857   | -   | 70,307,029  | 12.33%   |

Schedule is intended to show information for 10 years. Since 2019 is the fifth year for this presentation, there are only five years available. However, additional years will be included as they become available.

**Schedule of Employer Contributions**  
**VaLORS Retirement Plan**  
**For the Years Ended June 30, 2015 through 2019**

| <b>Date</b> | <b>Contractually<br/>Required<br/>Contribution<br/>(1)</b> | <b>Contributions in<br/>Relation to<br/>Contractually<br/>Required<br/>Contribution<br/>(2)</b> | <b>Contribution<br/>Deficiency<br/>(Excess)<br/>(3)</b> | <b>Employer's<br/>Covered<br/>Payroll<br/>(4)</b> | <b>Contributions<br/>as a % of<br/>Covered<br/>Payroll<br/>(5)</b> |
|-------------|--|---|---|---|--|
| 2019        | 267,451  | 267,451   | -   | 1,296,489   | 20.63%   |
| 2018        | 217,273  | 217,273   | -   | 1,032,174   | 21.05%   |
| 2017        | 241,450  | 241,450   | -   | 1,147,028   | 21.05%   |
| 2016        | 196,427  | 196,427   | -   | 1,048,421   | 18.74%   |
| 2015        | 174,908  | 174,908   | -   | 989,861   | 17.67%   |

Schedule is intended to show information for 10 years. Since 2019 is the fifth year for this presentation, there are only five years available. However, additional years will be included as they become available.

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

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

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

**Required Supplementary Information (RSI)**  
**Cost-Sharing Employer Plans – Group Life Insurance Program**  
**For the Fiscal Year Ended June 30, 2019**

**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 GLI OPEB Liability (Asset)   | 0.98%          | 0.96%          |
| Employer's Proportionate Share of the Net GLI OPEB Liability (Asset)  | \$ 14,867,000  | \$ 14,527,000  |
| Employer's Covered Payroll  | \$ 184,013,488 | \$ 175,510,982 |
| Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of its Covered Payroll | 8.08%          | 8.28%          |
| Plan Fiduciary Net Position as a Percentage of the Total GLI 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**  
**For the Years Ended June 30, 2018 through 2019**

| Date | Contractually<br>Required<br>Contribution<br>(1) | Contributions in<br>Relation to<br>Contractually<br>Required<br>Contribution<br>(2) | Contribution<br>Deficiency<br>(Excess)<br>(3) | Employer's<br>Covered<br>Payroll<br>(4) | Contributions<br>as a % of<br>Covered<br>Payroll<br>(5) |
|------|--|---|---|---|---|
| 2019 | 967,560  | 967,560   | -   | 187,141,287                             | 0.52%   |
| 2018 | 965,839  | 965,839   | -   | 184,013,488                             | 0.52%   |

Schedule is intended to show information for 10 years. Since 2019 is the second year for this presentation, only two years of data is available. However, additional years will be included as they become available.

**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   |

**SPORS Employees**

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

**VaLORS Employees**

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

|                         |                                |
|-------------------------|--------------------------------|
| Line of Duty Disability | Decreased rate from 50% to 35% |
|-------------------------|--------------------------------|

**JRS Employees**

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

**Largest Ten Locality Employers - General Employees**

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

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

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

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

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

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

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

|                         |   |
|-------------------------|---|
| Disability Rates        | Adjusted rates to better match experience |
| Salary Scale            | No change                                 |
| Line of Duty Disability | Decreased rate from 60% to 45%            |

**Required Supplementary Information (RSI)**  
**Cost-Sharing Employer Plans –**  
**VRS State Employee Health Insurance Credit Program**  
**For the Fiscal Year Ended June 30, 2019**

**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)   | 2.77%          | 2.75%          |
| Employer's Proportionate Share of the Net HIC OPEB Liability (Asset)  | \$ 25,184,000  | \$ 25,046,000  |
| Employer's Covered Payroll  | \$ 183,775,112 | \$ 175,302,286 |
| Employer's Proportionate Share of the Net HIC OPEB Liability (Asset) as a Percentage of its Covered Payroll | 13.70%         | 14.29%         |
| 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**  
**For the Years Ended June 30, 2018 through 2019**

| Date | Contractually<br>Required<br>Contribution<br>(1) | Contributions in<br>Relation to<br>Contractually<br>Required<br>Contribution<br>(2) | Contribution<br>Deficiency<br>(Excess)<br>(3) | Employer's<br>Covered<br>Payroll<br>(4) | Contributions<br>as a % of<br>Covered<br>Payroll<br>(5) |
|------|--|---|---|---|---|
| 2019 | 2,153,476  | 2,153,476   | -   | 186,449,156                             | 1.15%   |
| 2018 | 2,171,883  | 2,171,883   | -   | 183,775,112                             | 1.18%   |

Schedule is intended to show information for 10 years. Since 2019 is the second year for this presentation, only two years of data are available. However, additional years will be included as they become available.



**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%  |

**VaLORS Employees:**

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

**JRS Employees:**

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

**Required Supplementary Information (RSI)**  
**Cost-Sharing Employer Plans – Disability Insurance Program (VSDP)**  
**For the Fiscal Year Ended June 30, 2019**

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

|  | 2018           | 2017           |
|--|----------------|----------------|
| Employer's Proportion of the Net VSDP OPEB Liability (Asset)   | (1.32%)        | (1.40%)        |
| Employer's Proportionate Share of the Net VSDP OPEB Liability (Asset)  | \$ (2,969,000) | \$ (2,878,000) |
| Employer's Covered Payroll   | \$ 48,325,541  | \$ 50,320,184  |
| Employer's Proportionate Share of the Net VSDP OPEB Liability (Asset) as a Percentage of its Covered Payroll | (6.14%)        | (5.72%)        |
| Plan Fiduciary Net Position as a Percentage of the Total VSDP 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.

**Schedule of Employer Contributions**  
**For the Years Ended June 30, 2018 through 2019**

| Date | Contractually<br>Required<br>Contribution<br>(1) | Contributions in<br>Relation to<br>Contractually<br>Required<br>Contribution<br>(2) | Contribution<br>Deficiency<br>(Excess)<br>(3) | Employer's<br>Covered<br>Payroll<br>(4) | Contributions<br>as a % of<br>Covered<br>Payroll<br>(5) |
|------|--|---|---|---|---|
| 2019 | 403,834  | 403,834   | -   | 62,759,406                              | 0.64%   |
| 2018 | 415,658  | 415,658   | -   | 48,325,541                              | 0.86%   |

Schedule is intended to show information for 10 years. Since 2019 is the second year for this presentation, only two years of data is available. However, additional years will be included as they become available.

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

**SPORS Employees:**

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

**VaLORS Employees:**

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

**Required Supplementary Information (RSI)**  
**Cost-Sharing Employer Plans – Line of Duty Act Program (LODA)**  
**For the Fiscal Year Ended June 30, 2019**

**Schedule of Employer's Share of Net OPEB Liability**  
**Line of Duty Act Program (LODA)**  
**For the Measurement Dates of June 30, 2018 and 2017**

|   | <b>2018</b>  | <b>2017</b>  |
|---|--------------|--------------|
| Employer's Proportion of the Net LODA OPEB Liability (Asset)  | 0.13%        | 0.12%        |
| Employer's Proportionate Share of the Net LODA OPEB Liability (Asset)   | \$ 418,000   | \$ 318,000   |
| Covered-Employee Payroll *  | \$ 1,336,159 | \$ 1,246,761 |
| Employer's Proportionate Share of the Net LODA OPEB Liability (Asset) as a Percentage of its Covered-Employee Payroll | 31.28%       | 25.51%       |
| Plan Fiduciary Net Position as a Percentage of the Total LODA OPEB Liability  | 0.60%        | 1.30%        |

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.

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

**Schedule of Employer Contributions  
For the Years Ended June 30, 2018 through 2019**

| <b>Date</b> | <b>Contractually<br/>Required<br/>Contribution<br/>(1)</b> | <b>Contributions in<br/>Relation to<br/>Contractually<br/>Required<br/>Contribution<br/>(2)</b> | <b>Contribution<br/>Deficiency<br/>(Excess)<br/>(3)</b> | <b>Covered-<br/>Employee<br/>Payroll<br/>(4)</b> | <b>Contributions<br/>as a % of<br/>Covered-<br/>Employee<br/>Payroll<br/>(5)</b> |
|-------------|--|---|---|--|--|
| 2019        | 15,527   | 15,527  | -   | 1,195,615  | 1.30%  |
| 2018        | 14,184   | 14,184  | -   | 1,336,159  | 1.06%  |

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

Schedule is intended to show information for 10 years. Since 2019 is the second year for this presentation, only two years of data are available. However, additional years will be included as they become available.

**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% |

**VaLORS Employees:**

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

**Employees In The Largest Ten Locality Employers With Public Safety Employees**

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

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

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

**Required Supplementary Information  
Commonwealth of Virginia State Health Plans Program  
for Pre-Medicare Retirees  
For the Fiscal Year Ended June 30, 2019**

| <b>Schedule of Employer's Share of Total OPEB Liability</b>  | <b>2019*</b>  | <b>2018*</b>  |
|--|---------------|---------------|
| Employer's proportion of the collective total OPEB liability   | 2.72%         | 2.67%         |
| Employer's proportionate share of the collective total OPEB liability  | \$27,308,565  | \$34,705,511  |
| Employer's covered-employee payroll  | \$179,447,798 | \$167,819,342 |
| Employer's proportionate share of the collective total OPEB liability as a percentage of its covered-employee payroll  | 15.22%        | 20.68%        |
| <p>Schedule is intended to show information for 10 years. Since 2018 was the first year for this presentation, only two years of data is available. However, additional years will be included as they become available.</p> <p>* The amounts presented have a measurement date of the previous fiscal year end.</p> |               |               |

**Notes to Required Supplementary Information  
For the Fiscal 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 increased 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

May 14, 2020

The Honorable Ralph S. Northam  
Governor of Virginia

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

Board of Visitors  
The College of William and Mary in Virginia

## INDEPENDENT AUDITOR'S REPORT

### **Report on Financial Statements**

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of **The College of William and Mary in Virginia**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

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

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

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, which are discussed in Notes 1 and 13. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the



component units, is based on the reports of the other auditors. We did not obtain audited financial statements for the Richard Bland College Foundation, which represents 2.45 percent, 0.63 percent, and 0.88 percent of assets, net position, and revenues, respectively, of the aggregate discretely presented component units, as the audit as of and for the year ended June 30, 2019, was not complete as of the date of this report. Our opinion is not modified with respect to this matter.

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

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

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

### *Opinion*

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of The College of William and Mary in Virginia as of June 30, 2019, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the following be presented to supplement the basic financial statements: Management's Discussion and

Analysis on pages 1 through 10; 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 102 through 105; the Schedule of Employer’s Share of Net OPEB Liability, the Schedule of Employer Contributions, and the Notes to the Required Supplementary Information for the Health Insurance Credit, Group Life Insurance, Disability Insurance and Line of Duty Act programs on pages 106 through 116; 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 page 117. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated May 14, 2020, on our consideration of The College of William and Mary in Virginia’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 entity’s internal control over financial reporting and compliance.

Martha S. Mavredes  
AUDITOR OF PUBLIC ACCOUNTS

EMS/clj

**The College of William & Mary in Virginia  
Richard Bland College**

**June 30, 2019**

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Kayla M. Hand - Richard Bland College

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Matthew J. Smith - Richard Bland College

**Staff Liaison**

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