

**Sample Notes to the Financial Statements
Cost-Sharing Employer Plans –
Teacher Employee Virginia Local Disability Program
For the Fiscal Year Ended June 30, 2018**

***Instructions** – The Sample Notes to the Financial Statements for the Cost-Sharing Employer Plans – Teacher Employee Virginia Local Disability Program are based on the data in Illustration 2 of GASB Statement No. 75 and the related information in the Implementation Guide. These are provided by the Virginia Retirement System as a guide for employers in the development of their GASB 75 note disclosures. The GASB 75 schedules referenced in this document can be found in the “GASB Statement No. 75 Report for the Virginia Retirement System Prepared as of June 30, 2017” on the VRS Guidelines and Resources page of the VRS website at:*

<http://www.varetire.org/employers/financial-reporting/vrs-guidelines-and-resources.asp>

Within the sample Notes to the Financial Statements, the sample Required Supplementary Information and the sample Journal Entries there are a number of variable items which each employer must fill in using their own unique information. For each of these items, we have identified the source of the information.

We have also provided an analysis of the change in Net OPEB Liability VLDP-Teacher. This analysis includes the June 30, 2016 Net OPEB Liability VLDP-Teacher and elements impacting the 2017 Net Change in OPEB Liability VLDP-Teacher and the June 30, 2017 Net OPEB Liability VLDP-Teacher. Most of this data is also contained in the GASB 75 Report from the VRS actuary.

The information included in this document reflects the implementation of GASB Statement No. 85 by the plan. The implementation resolved two outstanding issues from GASB Statement No. 75 – the Presentation of Payroll Related Measures in RSI and the Classification of Employer-paid Member Contributions. Employers should include information in the Notes to Financial Statements indicating the early implementation of this Standard.

The information in this document is provided as an additional resource for employers, but each employer is responsible for their own Notes to the Financial Statements. Employers should review the language and other information provided with their auditors.

If you have any questions concerning this information, please contact me at (804) 344-3128 or send me an email at bfaison@varetire.org.

School Division Name
Notes to the Financial Statements
For the Year Ended June 30, 2018

Summary of Significant Accounting Policies

Teacher Employee Virginia Local Disability Program

The Virginia Retirement System (VRS) Teacher Employee Virginia Local Disability Program is a multiple-employer, cost-sharing plan. For purposes of measuring the net Teacher Employee Virginia Local Disability Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Teacher Employee Virginia Local Disability Program OPEB, and the Teacher Employee Virginia Local Disability Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Teacher Employee Virginia Local Disability Program; and the additions to/deductions from the VRS Teacher Employee Virginia Local Disability 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.

General Information about the Teacher Employee Virginia Local Disability Program

Plan Description

All full-time, salaried permanent (professional) employees of public school divisions who are in the VRS Hybrid Retirement Plan benefit structure and whose employer has not elected to opt out of the VRS-sponsored program are automatically covered by the VRS Teacher Employee Virginia Local Disability Program. This plan is administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for eligible public employer groups in the Commonwealth of Virginia. School divisions are required by Title 51.1 of the Code of Virginia, as amended to provide short-term and long-term disability benefits for their Hybrid employees either through a local plan or through the Virginia Local Disability Program (VLDP).

The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

TEACHER EMPLOYEE VIRGINIA LOCAL DISABILITY PROGRAM (VLDP) PLAN PROVISIONS
<p>Eligible Employees</p> <p>The Teacher Employee Virginia Local Disability Program was implemented January 1, 2014 to provide short-term and long-term disability benefits for non-work-related and work-related disabilities for employees with Hybrid retirement benefits</p>

Eligible employees are enrolled automatically upon employment, unless their employer has elected to provide comparable coverage. They include:

- Teachers and other full-time permanent (professional) salaried employees of public school divisions covered under VRS.

Benefit Amounts

The Teacher Employee Virginia Disability Local Program (VLDP) provides the following benefits for eligible employees:

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. Employees become eligible for non-work-related short-term disability coverage after one year of continuous participation in VLDP with their current employer.
- During the first five years of continuous participation in VLDP with their current employer, employees are eligible for 60% of their pre-disability income if they go out on non-work-related or work-related disability.
- Once the eligibility period is satisfied, employees are eligible for higher income replacement levels

Long-Term Disability –

- The VLDP program provides a long-term disability benefit beginning after 125 workdays of short-term disability. Members are eligible if they are unable to work at all or are working fewer than 20 hours per week.
- Members approved for long-term disability will receive 60% of their pre-disability income. If approved for work-related long-term disability, the VLDP benefit will be offset by the workers' compensation benefit. Members will not receive a VLDP benefit if their workers' compensation benefit is greater than the VLDP benefit.

Virginia Local Disability Program Notes:

- Members approved for short-term or long-term disability at age 60 or older will be eligible for a benefit, provided they remain medically eligible.
- VLDP Long-Term Care Plan is a self-funded program that assists with the cost of covered long-term care services.

Contributions

The contribution requirement for active Hybrid employees is governed by §51.1-1178(C) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Each school division's contractually required employer contribution rate for the year ended June 30, 2018 was 0.31% of covered employee compensation for employees in the VRS Teacher Employee Virginia Local Disability Program.

This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the school division to the VRS Teacher Employee Virginia Local Disability Program were \$ [Insert amount] and \$ [Insert amount] for the years ended June 30, 2018 and June 30, 2017, respectively.

Teacher Employee Virginia Local Disability Program OPEB Liabilities, Teacher Employee Virginia Local Disability Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Teacher Employee Virginia Local Disability Program OPEB

At June 30, 2018, the school division reported a liability of \$ [Schedule D – Net OPEB Liability – Virginia Local Disability Program - Teachers, 6/30/2017 Net OPEB Liability] for its proportionate share of the VRS Teacher Employee Virginia Local Disability Program Net OPEB Liability. The Net VRS Teacher Employee Virginia Local Disability Program OPEB Liability was measured as of June 30, 2017 and the total VRS Teacher Employee Virginia Local Disability Program OPEB liability used to calculate the Net VRS Teacher Employee Virginia Local Disability Program OPEB Liability was determined by an actuarial valuation as of that date. The school division’s proportion of the Net VRS Teacher Employee Virginia Local Disability Program OPEB Liability was based on the school division’s actuarially determined employer contributions to the VRS Teacher Employee Virginia Local Disability Program OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the school division’s proportion of the VRS Teacher Employee Virginia Local Disability Program was [Schedule A – Proportionate Share of Contributions – Virginia Local Disability Program - Teachers, 2017 Employer Allocation Percentage] % as compared to [Schedule A – Proportionate Share of Contributions – Virginia Local Disability Program - Teachers, 2016 Employer Allocation Percentage] %.

For the year ended June 30, 2018, the school division recognized VRS Teacher Employee Virginia Local Disability Program OPEB expense of \$ [Schedule B – Deferred Inflows and Outflows and OPEB Expense – Virginia Local Disability Program - Teachers, Total Employer OPEB Expense]. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017 a portion of the VRS Teacher Employee Virginia Local Disability Program Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the school division reported deferred outflows of resources and deferred inflows of resources related to the VRS Teacher Employee Virginia Local Disability Program OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	1	5
Net difference between projected and actual earnings on Teacher VLDP OPEB plan investments	2	6
Change in assumptions	3	7
Changes in proportion and differences between Employer contributions and proportionate share of contributions	4	8
Employer contributions subsequent to the measurement date	[Insert amount]	-
Total	\$ -	\$ -

Source of Data for Deferred Outflows and Deferred Inflows Schedule:

Schedule B – Schedule of Deferred Inflows and Outflows and OPEB Expense – Virginia Local Disability Program - Teachers

- 1 – \$ [Deferred Outflows of Resources - Difference Between Expected and Actual Exp.]
- 2 – \$ [Deferred Outflows of Resources - Net Difference Between Projected and Actual Inv...]
- 3 – \$ [Deferred Outflows of Resources - Change of Assumptions.]
- 4 – \$ [Deferred Outflows of Resources - Changes in Proportionate Share]
- 5 – \$ [Deferred Inflows of Resources - Difference Between Expected and Actual Exp.]
- 6 – \$ [Deferred Inflows of Resources - Net Difference Between Projected and Actual Inv...]
- 7 – \$ [Deferred Inflows of Resources - Change of Assumptions.]
- 8 – \$ [Deferred Inflows of Resources - Changes in Proportionate Share]

\$(Insert amount) reported as deferred outflows of resources related to the Teacher Employee VLDP OPEB resulting from the school division’s contributions subsequent to the measurement date will be recognized as a reduction of the Net Teacher Employee VLDP OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Teacher Employee VLDP OPEB will be recognized in the Teacher Employee VLDP OPEB expense in future reporting periods as follows:

Year ended June 30

FY 2019	\$ [Schedule C, Year 1]
FY 2020	\$ [Schedule C, Year 2]
FY 2021	\$ [Schedule C, Year 3]
FY 2022	\$ [Schedule C, Year 4]
FY 2023	\$ [Schedule C, Year 5]
Thereafter	\$ [Schedule C, Thereafter]

**Source of Data for Amortization of Deferred Outflows and Deferred Inflows Schedule:
Schedule C – Amortization of Deferred Inflows and Outflows – Virginia Local Disability
Program - Teachers**

Actuarial Assumptions

The total Teacher Employee VLDP OPEB liability for the VRS Teacher Employee Virginia Local Disability Program was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including inflation – Teacher Employees	3.5 percent – 5.95 percent
Investment rate of return	7.0 percent, net of plan investment expenses, including inflation*

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

Mortality rates – Teachers

Pre-Retirement:

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

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Health Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to

90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

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

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

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

Net Teacher Employee VLDP OPEB Liability

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

	Teacher Employee VLDP OPEB Plan
Total Teacher Employee VLDP OPEB Liability	\$ 873
Plan Fiduciary Net Position	<u>279</u>
Teacher Employee net VLDP OPEB Liability (Asset)	<u>\$ 594</u>
Plan Fiduciary Net Position as a Percentage of the Total Teacher Employee VLDP OPEB Liability	31.96%

The total Teacher Employee VLDP 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 Teacher Employee VLDP OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System’s notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

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

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

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

Discount Rate

The discount rate used to measure the total Teacher Employee VLDP OPEB was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by the school division for the VRS Teacher Employee Virginia Local Disability Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed

to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the Teacher Employee VLDP 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 Teacher Employee VLDP OPEB liability.

Sensitivity of the School Division’s Proportionate Share of the Teacher Employee VLDP Net OPEB Liability to Changes in the Discount Rate

The following presents the school division’s proportionate share of the VRS Teacher Employee Virginia Local Disability Program net VLDP OPEB liability using the discount rate of 7.00%, as well as what the school division’s proportionate share of the net VLDP 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:

	(6.00%)	Rate (7.00%)	(8.00%)
School division’s proportionate share of the VRS Teacher Employee VLDP OPEB Plan Net VLDP OPEB Liability	\$ [Schedule D – Net OPEB Liability – Virginia Local Disability Program - Teacher, Net OPEB Liability 1% Decrease	\$ [Schedule D – Net OPEB Liability – Virginia Local Disability Program - Teacher, 6/30/2017 Net OPEB Liability]	\$ [Schedule D – Net OPEB Liability – Virginia Local Disability Program - Teacher, Net OPEB Liability 1% Increase

Teacher Employee VLDP OPEB Fiduciary Net Position

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

Payables to the Teacher Employee Virginia Local Disability Program OPEB Plan

[If the school division reported payables to the VRS, it should disclose information required by paragraph 142 of GASB 75. It is the school division’s responsibility to calculate this amount and complete the required disclosure.]

**Required Supplementary Information (RSI) Template
Cost-Sharing Employer Plans –
VRS Teacher Employee Virginia Local Disability Program
For the Fiscal Year Ended June 30, 2018**

Instructions – *This template includes two sample schedules and the language for Notes to RSI to be used as a guide in the development of the RSI section of your financial statements:*

- *Schedule of Employer’s Share of Net VLDP OPEB Liability*
- *Schedule of Employer Contributions*
- *Notes to Required Supplementary Information*

The sample schedules presented in this section will each eventually show a 10-year history of data related to GASB 75. You may create your own tables based on the examples VRS has provided. Each year, VRS will update the data highlighted in accordance with the legend. However, the employer is responsible for providing the remainder of the information and calculation as indicated.

Each employer is responsible for maintaining its own schedules, retaining prior year data, and updating the schedules each year based on the new information.

Note: *The definition in GASB 75 for Covered Employee Payroll included the total payroll for employees covered under the VLDP OPEB plan whether that payroll is subject to VLDP OPEB coverage or not. This definition has been modified in GASB Statement No. 85 and now is the payroll on which contributions to a VLDP OPEB plan are based. The ratios that are presented use the same measure.*

- *Employer’s Covered Payroll referenced in the GASB 75 schedules in the template represent the total covered payroll for employees covered under the VLDP OPEB plan. Both of these schedules will now have multiple years of data. The periods for the additions to the schedules for FY 2018 are as follows:*
 - *Schedule of Employer’s Share of Net VLDP OPEB Liability for the Year Ended June 30, 2017 – Covered Payroll is for the measurement period of July 1, 2016 through June 30, 2017. This schedule will only have one year because this is the first year for this presentation.*
 - *Schedule of Employer Contributions – Covered Payroll is for the fiscal year ended June 30, 2018. This schedule should have ten years. Pre-GASB Statement No. 75 information can be taken from the RSI data previously required under GASB Statement No. 45.*

Sample Schedule of Employer's Share of Net VLDP OPEB Liability

**Schedule of Employer's Share of Net OPEB Liability
Virginia Local Disability Program (VLDP)
For the Year Ended June 30, 2018***

	2018
Employer's Proportion of the Net VLDP OPEB Liability (Asset)	[Schedule A - Proportionate Share of Contributions - Teacher VLDP, 2017 Employer Allocation Percentage] %
Employer's Proportionate Share of the Net VLDP OPEB Liability (Asset)	\$ [Schedule D - Net OPEB Liability -Teacher VLDP, 6/30/2017 Net OPEB Liability]
Employer's Covered Payroll	\$ [Inset Amount]
Employer's Proportionate Share of the Net VLDP OPEB Liability (Asset) as a Percentage of its Covered Payroll	[Calculation: Line 2 divided by Line 3] %
Plan Fiduciary Net Position as a Percentage of the Total VLDP OPEB Liability	31.96%

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

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

For Reference Only: The Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability for the Virginia Local Disability (VLDP) for each year is presented on page 116 of the VRS 2017 Comprehensive Annual Financial Report (CAFR).

Sample Schedule of Employer Contributions

Schedule of Employer Contributions For the Years Ended June 30, 2009 through 2018					
		Contributions in Relation to			Contributions
	Contractually Required Contribution	Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	as a % of Covered Payroll
Date	(1)	(2)	(3)	(4)	(5)
2018	\$ [Insert Amount]	\$ [Insert Amount]	Col (1) - (2)	\$ [Insert Amount]	Col (2) / (4)
2017	\$ [Insert Amount]	\$ [Insert Amount]	Col (1) - (2)	\$ [Insert Amount]	Col (2) / (4)
2016	\$ [Insert Amount]	\$ [Insert Amount]	Col (1) - (2)	\$ [Insert Amount]	Col (2) / (4)
2015	\$ [Insert Amount]	\$ [Insert Amount]	Col (1) - (2)	\$ [Insert Amount]	Col (2) / (4)
2014	\$ [Insert Amount]	\$ [Insert Amount]	Col (1) - (2)	\$ [Insert Amount]	Col (2) / (4)
2013	\$ [Insert Amount]	\$ [Insert Amount]	Col (1) - (2)	\$ [Insert Amount]	Col (2) / (4)
2012	\$ [Insert Amount]	\$ [Insert Amount]	Col (1) - (2)	\$ [Insert Amount]	Col (2) / (4)
2011	\$ [Insert Amount]	\$ [Insert Amount]	Col (1) - (2)	\$ [Insert Amount]	Col (2) / (4)
2010	\$ [Insert Amount]	\$ [Insert Amount]	Col (1) - (2)	\$ [Insert Amount]	Col (2) / (4)
2009	\$ [Insert Amount]	\$ [Insert Amount]	Col (1) - (2)	\$ [Insert Amount]	Col (2) / (4)

For Reference Only:

Column 1 – Employer contribution rate multiplied by the employer’s covered payroll

Column 2 – Actual employer contribution remitted to VRS

Column 4 – Employer’s covered payroll amount for the fiscal year.

Sample Notes to Required Supplementary Information

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

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

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

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