

**NOTES TO BASIC FINANCIAL STATEMENTS, Continued**

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**6. Defined Benefit Pension Plan, continued:**

**Actuarial Assumptions - General Employees, continued:**

Changes to the actuarial assumptions as a result of the experience study are as follows:

**Largest 10 - Non-LEOS:**

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

**All Others (Non 10 Largest) - Non-LEOS:**

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

**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:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	<u>1.00%</u>	(1.50%)	<u>(0.02%)</u>
<b>Total</b>	<u>100%</u>		<u>5.83%</u>
Inflation			<u>2.50%</u>
Expected arithmetic nominal return*			<u>8.33%</u>

\*Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provided a median return of 7.44%, including expected inflation of 2.50%.

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**NOTES TO BASIC FINANCIAL STATEMENTS, Continued**

**6. Defined Benefit Pension Plan, continued:**

**Discount Rate:**

The discount rate used to measure the total pension asset/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 employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

**Changes in Net Pension (Asset)/Liability:**

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset)/Liability (a) - (b)
Balances at June 30, 2013	\$ 1,941,023	\$ 1,810,782	\$ 130,241
Changes for the year:			
Service cost	\$ 79,162	\$ -	\$ 79,162
Interest	133,759	-	133,759
Differences between expected and actual experience	-	-	-
Contributions - employer	-	64,406	(64,406)
Contributions - employee	-	30,611	(30,611)
Net investment income	-	289,436	(289,436)
Benefit payments, including refunds of employee contributions	60,366	(60,366)	-
Administrative expenses	-	(1,515)	1,515
Other changes	-	15	(15)
Net changes	\$ 152,555	\$ 322,587	\$ (170,032)
Balances at June 30, 2014	\$ 2,093,578	\$ 2,133,369	\$ (39,791)

**Sensitivity of the Net Pension (Asset)/Liability to Changes in the Discount Rate:**

The following presents the net pension (asset)/liability of the Board using the discount rate of 7.00%, as well as what the political subdivision's net pension (asset)/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%
Political subdivision's Net Pension (Asset)/Liability	\$ 243,690	\$ (39,791)	\$ (275,609)

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**NOTES TO BASIC FINANCIAL STATEMENTS, Continued**

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**6. Defined Benefit Pension Plan, continued:**

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

For the year ended June 30, 2015, the Board recognized pension expense of \$23,591. At June 30, 2015, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	129,217
Employer contributions subsequent to the measurement date	<u>71,405</u>	<u>-</u>
Total	<u>\$ 71,405</u>	<u>\$ 129,217</u>

\$71,405 reported as deferred outflows of resources related to pensions resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension (Asset)/Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30</u>		
2016	\$	(32,304)
2017	\$	(32,305)
2018	\$	(32,304)
2019	\$	(32,304)
Thereafter	\$	-

**7. Nonboard Income:**

Nonboard income for the year ended June 30, 2015, consists of the following:

	<u>Governmental Activities</u>
Newton B. Shingleton Trust	\$ 2,091
Henry H. Lynch Trust	<u>13,234</u>
Totals	<u>\$ 15,325</u>

The Board is an income beneficiary of the Newton B. Shingleton Trust and the Henry H. Lynch Trust.