

# **FORT MONROE AUTHORITY**

**(A Component Unit of the Commonwealth of Virginia)**

## **FINANCIAL STATEMENTS**

***As of and for the Year Ended June 30, 2016***

***And Report of Independent Auditors***

# Fort Monroe Authority

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## Report of Independent Auditor

The Board of Trustees  
Fort Monroe Authority

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Fort Monroe Authority (the "Authority"), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Authority, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows 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 management's discussion and analysis and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. 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 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.

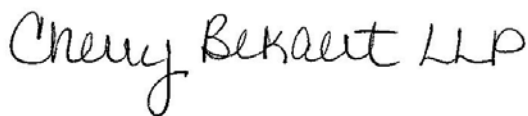
### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of planning and development expenditures – general fund is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is also not a required part of the basic financial statements.

The schedule of planning and development expenditures – general fund and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of planning and development expenditures – general fund and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2016, on our consideration of the Authority'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 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 Authority's internal control over financial reporting and compliance.



Virginia Beach, Virginia  
December 8, 2016

## **Fort Monroe Authority**

Component Unit of the Commonwealth of Virginia

### Management's Discussion and Analysis

This section of the Fort Monroe Authority's (the "Authority") annual financial report represents management's discussion and analysis of the Authority's financial performance during the fiscal year ended June 30, 2016. Please read it in conjunction with the Authority's financial statements, which follow this section.

#### **FINANCIAL HIGHLIGHTS**

- The Authority's Net Position decreased during fiscal year 2016 by \$1.41M. The decrease resulted from a net operating surplus from governmental activities of \$1.40M offset by a net operating deficit of \$2.81M from business-type activities.
  - The reduction in net operating surplus from the Government Fund compared to the previous year results from a reduction in the state appropriation from \$6.47M in FY15 to \$5.28M in FY16. The reduced net position for FY16 also reflects the expense for the asset transfer of \$677K for the capital improvement costs for the renovation of Building 83 as the Authority's main office.
  - The change in net operating surplus for the Enterprise Fund reflects an increase in revenue of \$1.01M compared to the previous fiscal year, resulting largely from a change in accounting practice for the recognition of revenue in the Utility Fund. During the fiscal year, expenses increased by \$1.49M compared to the prior year. The increase results from the change in accounting practices for the recognition of Utility Fund revenue (versus offsetting expenses in the prior year) and the asset transfer of \$628K for the capital improvement costs for the renovation of Building 80 into a 10-unit apartment building.
- The Authority had a total of \$11.69M of revenue in the current fiscal year. Governmental activities accounted for \$6.89M in revenue. The majority of these revenues came from state General Fund appropriations (\$5.28M) and federal intergovernmental grants (\$1.05M). Business-type charges for services, principally rental income, accounted for \$4.80M in revenue.
- The Authority's component unit, the Fort Monroe Foundation, had donations and earned revenue of \$106.3K for the period.
- Operating expenses of the Authority for the fiscal year were \$13.11M. Expenses for governmental activities (reuse and redevelopment planning) were \$5.49M. Expenses related to business-type activities (property leasing and maintenance, utility operations and special events) were \$7.61M.

## **Fort Monroe Authority**

Component Unit of the Commonwealth of Virginia

### Management's Discussion and Analysis

- During FY15, the Authority commenced work on two major capital projects – the renovation of Building 83 as the new main office for the Fort Monroe Authority and the conversion of Building 80 from a 9-unit inn into ten apartment homes. Both projects were substantially complete by the end of the FY16 fiscal year. The combined cost of both projects was \$1.3M.
- For fiscal years 2016 and 2015, the Authority's capital assets were \$323.2K and \$1.01M, net of accumulated depreciation, respectively. During fiscal year 2016, the Authority invested \$340.8K for the renovation of Building 83. During the fiscal year, the Authority invested \$243.5K related to business-type activities for the renovation of Building 80 into ten apartment homes. At the end of the fiscal year, the Authority transferred the capital costs of both completed renovations to the Virginia Department of Accounts totaling \$1,305,573 which included \$677,093 for the renovation of Building 83 as the Authority's main office and \$628,660 for the renovation of Building 80 into ten apartment units.
- The Authority has no long-term debt as of June 30, 2016.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of this annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, the notes to the financial statements, and other supplemental information.

The Authority's financial statements present two types of statements, each with a different snapshot of the Authority's finances. This focus is on both the Authority as a whole (government-wide) as well as on the individual funds. The government-wide financial statements provide both long-term and short-term information about the Authority's overall financial status. The fund financial statements (Governmental and Enterprise) focus on the individual parts of the Authority, reporting the Authority's operations in more detail than the entity-wide statements. Both perspectives (government-wide and fund) allow the user to address relevant questions, broaden the basis for comparison (year-to-year or entity-to-entity), and enhance the Authority's accountability to its public stakeholders.

### **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide financial statements report information about the Authority as a whole using accounting methods similar to those used by private-sector companies. The focus of the Statement of Net Position is to report the entity's Net Position and how they have changed. Net Position - the difference between assets plus deferred outflows and liabilities plus deferred inflows - is one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in an entity's Net Position are an indicator of whether its financial health is improving or deteriorating, respectively.

## **Fort Monroe Authority**

Component Unit of the Commonwealth of Virginia

### Management's Discussion and Analysis

The Statement of Activities is focused on both the gross and net cost of various functions, which are supported by program revenues. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid. This statement summarizes and simplifies the user's analysis of the cost of governmental activities.

Beginning in fiscal year 2011, the Authority engaged in business-type activities, notably the leasing of 118 apartments and 30 single-family residential units leased from the Army. During fiscal year 2012, the Authority expanded its business-type activities by leasing an additional 146 residential units and approximately 200,000 square feet of commercial and community space from the Army. During fiscal year 2013, the Authority deconstructed the 118 apartment units but continued to lease the 176 residential units and commercial space to government and private tenants.

Beginning in fiscal year 2013, the Authority was required to present the Fort Monroe Foundation as a blended component unit.

On June 14, 2013, the Army transferred 312.75 acres of reversionary property and all the improvements thereon and therein to Commonwealth ownership.

Beginning fiscal year 2014, the Authority took responsibility for the natural gas, water, and sewer master-metered accounts and began processing utility invoices to third-party tenants at Fort Monroe. As a result the Fort Monroe Utility Fund was incorporated into the business-type activities.

### **FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the Authority's significant funds - not the Authority as a whole. Funds are accounting devices the Authority uses to keep track of specific sources of funding and spending for particular purposes.

The Authority currently has two types of funds:

Governmental Funds - The Governmental Funds are used to account for the financial resources appropriated for the planning and development of a reuse plan of the federal property previously occupied by the Army at Fort Monroe. On June 14, 2013, the Army transferred 312.75 acres of reversionary property and all the improvements thereon and therein to Commonwealth ownership. The portion of the property not used or designated to be used for revenue generating purposes will be reported in the General Fund. The General Fund will also include operating and compliance costs associated with the natural gas, water, sewer, and stormwater infrastructure. The operation of the Casemate Museum is accounted for as part of the General Fund. The Authority's component unit, the Fort Monroe Foundation, is also included as a Governmental Fund.

## **Fort Monroe Authority**

Component Unit of the Commonwealth of Virginia

### Management's Discussion and Analysis

Enterprise Fund - The Enterprise Fund is used to account for the financial resources generated from business-type activities.

- Prior to the June 2013 property transfer, the Authority sub-leased residential properties to military families and the general public and commercial properties to various state and city entities as well as private businesses and religious organizations. When the Army transferred the 312.75 acres of reversionary property to Commonwealth ownership, the parcel included approximately 425,000 square feet of residential structures and associated garages together with approximately 592,000 square feet of commercial and administrative space. In order to make additional properties available, the Authority continues to lease residential and commercial properties from the Army on the approximately 249 acres of land remaining in federal ownership. These activities are accounted for in two sub-funds – residential leasing and commercial leasing.
- With the transfer of a portion of the property to Commonwealth ownership, the Authority took responsibility for natural gas, water, and sewer utility systems and accounts. In November 2013, the Authority began billing third-party users for natural gas, water, and sewer consumption. To track the utility revenue and costs, the Authority has established a utility sub-fund. As of June 30, 2016, the Army and Dominion Virginia Power (DVP) have not completed the termination of the Army's electrical contract with DVP. It is expected that this termination will be completed in the next fiscal year at which time the Authority will establish a facility contract with DVP for the provision of electrical service. The billing for electric service will be reflected in the utility sub-fund.
- The Authority also provides free and ticketed special event activities and event space rentals to public and private parties. These activities are reported in a separate sub-fund of the Enterprise Fund.

These four sub-funds are reported on a consolidated basis in the Enterprise Fund section of these financial statements.



**Fort Monroe Authority**  
Component Unit of the Commonwealth of Virginia  
Management's Discussion and Analysis

**FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE**

**Net Position:**

The following table reflects the condensed Net Position of the Authority (in thousands):

	Governmental Activities		Business-Type Activities		Government-Wide Activities	
	2016	2015	2016	2015	2016	2015
Current and Other Assets	\$ 12,711.4	\$ 10,758.6	\$ (7,574.2)	\$ (4,766.0)	\$ 5,137.2	\$ 5,992.6
Capital Assets	234.1	605.0	89.1	406.2	323.2	1,011.2
Total Assets	<u>12,945.5</u>	<u>11,363.6</u>	<u>(7,485.1)</u>	<u>(4,359.8)</u>	<u>5,460.4</u>	<u>7,003.8</u>
Deferred Outflows of Resources	<u>299.3</u>	<u>204.1</u>	<u>33.9</u>	<u>28.3</u>	<u>333.2</u>	<u>232.4</u>
Current and Other Liabilities	<u>2,684.6</u>	<u>2,260.0</u>	<u>1,054.6</u>	<u>1,334.0</u>	<u>3,739.2</u>	<u>3,594.0</u>
Total Liabilities	<u>2,684.6</u>	<u>2,260.0</u>	<u>1,054.6</u>	<u>1,334.0</u>	<u>3,739.2</u>	<u>3,594.0</u>
Deferred Inflows of Resources	<u>139.0</u>	<u>289.5</u>	<u>16.0</u>	<u>39.5</u>	<u>155.0</u>	<u>329</u>
Net Position						
Net investment in Capital Assets	234.1	605.0	89.1	406.2	323.2	1,011.2
Restricted	5.2	8.9	-	-	5.2	8.9
Unrestricted	10,182.1	8,404.3	(8,610.9)	(6,111.2)	1,571.2	2,293.1
Total Net Position	<u>\$ 10,421.4</u>	<u>\$ 9,018.2</u>	<u>\$ (8,521.8)</u>	<u>\$ (5,705.0)</u>	<u>\$ 1,899.6</u>	<u>\$ 3,313.2</u>

At June 30, 2016, the total assets of the Authority were \$5.4M compared to \$7.0M as of June 30, 2015. Total liabilities as of June 30, 2016 were \$3.73M compared to \$3.59M at the end of the prior fiscal year. For the current fiscal year, combined net position was \$1.89M compared to \$3.31M as of June 30, 2015.

During fiscal year 2016, the book value of the Authority's assets decreased by \$1.5M. The largest changes from the prior year were a decrease in cash and cash equivalents (\$1.84M), an increase in receivables (\$1.1M), and a decrease in net capital assets (\$688.0K). During the same period, the Authority's liabilities increased by \$145.2K. The change in total liabilities resulted principally from a decrease in accounts payable of \$140.5K and an increase in net pension liability of \$309.0K.

**Fort Monroe Authority**  
Component Unit of the Commonwealth of Virginia

Management's Discussion and Analysis

**Changes in Net Position:**

The following table shows revenue and expenses for the current and prior fiscal years (in thousands):

	Governmental Activities		Business-Type Activities		Government-Wide Activities	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenue						
Charges for Services	\$ -	\$ -	\$ 4,803.0	\$ 3,791.8	\$ 4,803.0	\$ 3,791.8
Operating Grants and Contributions	1,056.6	990.5	-	-	1,056.6	990.5
Capital Grants and Contributions	387.3	372.6	-	-	387.3	372.6
General Revenue						
Operating Appropriations	5,285.0	6,475.8	-	-	5,285.0	6,475.8
Other Revenue	167.7	368.4	-	-	167.7	368.4
Interest Income	-	-	-	-	-	-
<b>Total Revenues</b>	<b>6,896.6</b>	<b>8,207.3</b>	<b>4,803.0</b>	<b>3,791.8</b>	<b>11,699.6</b>	<b>11,999.1</b>
Expenses						
Planning and Development	4,816.4	4,788.3	-	-	4,816.4	4,788.3
Property Admin and Maintenance	-	-	6,991.1	6,125.5	6,991.1	6,125.5
Contribution of buildings to the Commonwealth of Virginia	677.1	-	628.7	-	1,305.8	-
<b>Total Expenses</b>	<b>5,493.5</b>	<b>4,788.3</b>	<b>7,619.8</b>	<b>6,125.5</b>	<b>13,113.3</b>	<b>10,913.8</b>
Change in Net Position	1,403.1	3,419.0	(2,816.8)	(2,333.7)	(1,413.7)	1,085.3
Net Position - Beginning of Year	9,018.2	5,599.2	(5,705.0)	(3,371.3)	3,313.2	2,227.9
<b>Net Position - End of Year</b>	<b>\$ 10,421.3</b>	<b>\$ 9,018.2</b>	<b>\$ (8,521.8)</b>	<b>\$ (5,705.0)</b>	<b>\$ 1,899.5</b>	<b>\$ 3,313.2</b>

## **Fort Monroe Authority**

Component Unit of the Commonwealth of Virginia

### Management's Discussion and Analysis

#### **Revenues:**

Revenues attributable to governmental activities were in the form of state appropriations from the Commonwealth of Virginia General Fund and federal grants from the Office of Economic Adjustment. For the year ended June 30, 2016, revenues totaled \$11.7M compared to \$12.0M in the prior fiscal year. Total grant and operating funds decreased from \$8.2M to \$6.8M due to a decrease in the state appropriation from the General Fund. Business-type activities generated \$4.8M in revenue during the current fiscal year compared to \$3.7M for the prior fiscal year. The increase in revenue resulted from a slight increase in commercial and residential rental revenues combined with a change in accounting treatment in the Utility Fund.

#### **Expenses:**

Expenses for the fiscal year ended June 30, 2016 totaled \$13.1M compared to \$10.9M in the previous fiscal year. These expenses represent the costs for the development of and planning for the implementation of the reuse plan for the 565-acre property formerly used by the Army at Fort Monroe, Virginia and the costs of operation for the residential and commercial interim leasing activities, the Utility Fund, and special events activities during the fiscal year.

For the fiscal year, Government Fund planning and development expenses increased by \$28.1K. Business activity expenses for property administration and maintenance expenses increased by \$865.6K. The significant changes that contributed to the large increase were an increase in the cost of sales for the Utility Fund of \$780.8K due to a change in accounting treatment, an increase in non-capital tenant improvement costs of \$186.9K due to an increase in commercial leasing activity, offset by a decrease in maintenance contract costs of \$171.7K. At the end of the fiscal year, the Authority transferred \$1.30M in capital improvement costs to the Department of Accounts for the renovation of Buildings 80 and 83.

## **Fort Monroe Authority**

Component Unit of the Commonwealth of Virginia

### Management's Discussion and Analysis

#### **FINANCIAL ANALYSIS OF THE AUTHORITY'S FUNDS**

The Authority's governmental fund activities reflect operations of its planning and development efforts that are funded by state appropriations and federal grants. The Authority's Enterprise Fund activities reflect business-related operations. The fund financial statements provide a more detailed look at the Authority's most significant activities by focusing on the individual activities of the major funds. A fund is a grouping of related accounts that is used to maintain accountability and control over resources that have been segregated for specific activities or objectives. For fiscal years 2016 and 2015, the Authority operated two funds - Governmental and Enterprise. For fiscal year 2016, Government Fund expenditures totaled \$4.8M and Enterprise Fund expenses totaled \$7.0M. In comparison, during fiscal year 2015, Government Fund expenditures totaled \$4.7M and Enterprise Fund expenses totaled \$6.1M. At the end of fiscal year 2016, the Authority transferred \$1.3M in capital expenditures to the Department of Accounts to account for the capital renovations done to Buildings 80 and 83.

#### **BUDGETARY HIGHLIGHTS**

The Authority submits its budget request as part of the Commonwealth's biennial budget process. In September 2013, the Authority submitted its request for state General Fund support for the biennial period beginning on July 1, 2014 and ending June 30, 2016 (FY15 and FY16). The original submittal requested \$6.71M for operations support and \$5.68M for capital projects in FY15. The request for FY16 was \$5.48M in operations support and \$5.30M for capital projects. The Authority provided a briefing on its funding request to representatives from the Department of Planning and Budget ("DPB") and the Department of Treasury. Subsequent to the meeting, the Treasury Department made a recommendation to the Governor that was incorporated in the Governor's budget released in December 2013. The Governor's budget included \$6.71M in general fund support for FY15 and \$5.48M in General Fund support in FY16. In addition, the Governor's budget authorized the Virginia Public Building Authority to issue \$22.5 million in state revenue bonds to be designated for the Authority to complete utility and infrastructure projects at Fort Monroe. The Governor's recommendation was approved by the 2014 General Assembly.

The Authority submits a budget to the Finance Committee and Board of Trustees at their June meetings for review and approval. The Authority must submit its annual budget to the Senate Finance Committee, House Appropriations Committee, and Department of Planning and Budget by July 1<sup>st</sup> of each year. Any significant changes to budgeted revenues and expenses are reflected in a revised budget that is submitted to the Finance Committee and Board of Trustees for approval. This process usually occurs at the December meetings of the two bodies.

## **Fort Monroe Authority**

Component Unit of the Commonwealth of Virginia

### Management's Discussion and Analysis

In August 2014, the Governor required each state entity to develop and submit budget savings strategies equal to 5% of the FY15 General Fund appropriation and 7% of the FY16 General Fund appropriation. The Authority developed the required budget savings strategies that were submitted to DPB. The targets were subsequently adjusted to acknowledge that the Authority could not reduce the PILOT fee to the City of Hampton by 5-7%. The revised strategies identified \$286.7K in savings for FY15 and \$315.3K in savings for FY16. The savings strategies were accepted by DPB and the Governor and incorporated into a revised budget approved by the Board of Trustees on December 18, 2014.

The original budget for the fiscal year was approved by the Board of Trustees at its meeting on June 18, 2015. The budget reflected an anticipated grant from the Office of Economic Adjustment (OEA) of \$550,151 based on the level of support in the previous fiscal year. The grant application was approved on July 21, 2015 for an amount of \$1,102,342.

On August 25, 2015, the Commonwealth of Virginia executed two deeds to donate three parcels of land totaling approximately 121.1 acres to the Department of the Interior to be managed by the National Park Service as part of the Fort Monroe National Monument. As part of the deed transfer, the National Park Service and the Fort Monroe Authority entered into a 5-year Cooperative Management Agreement ("CMA") to provide utility service, utility and infrastructure capital improvements, ground maintenance, building maintenance, and security patrols. A series of task agreements and modifications were also executed to provide for the reimbursement of the Authority's costs for providing services under the CMA. The total reimbursement amount authorized during the Authority's fiscal year (August 25, 2015 to June 30, 2016) was \$347,610.

On September 23, 2015, the National Park Service and the Fort Monroe Authority entered into another 5-year CMA for the development of a Master Plan for Fort Monroe identity, orientation, regulatory, and informational signage throughout the Old Point Comfort peninsula.

In December 2015, the Authority staff prepared a revised budget for review and consideration by the Finance Committee and the Board of Trustees. The revised budget reflected the 5% budget saving reduction, the increased OEA grant and both 5-year CMAs with the National Park Service. The Board of Trustees adopted the revised budget at its meeting on December 18, 2015.

At the end of each fiscal year, the Authority prepares a reforecast of the annual budget for the Finance Committee and Board of Trustees. The Authority staff may request that any surplus funds be committed to projects that were in progress but not completed by the end of the fiscal year. For FY16, the Authority staff requested no committed funds designation from the Board of Trustees.

**Fort Monroe Authority**  
Component Unit of the Commonwealth of Virginia

Management's Discussion and Analysis

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**CAPITAL ASSETS**

As of June 30, 2016, the Authority had invested \$587.4K in capital assets as reflected in Table 3 (reflected in thousands). As of June 30, 2015, the Authority had capital assets of \$1.22M. This amount included \$177.1K in non-depreciable construction in progress and \$350.6K in depreciable assets. The Authority depreciates or amortizes assets based on straight-line methodology over the useful life of the asset. As of June 30, 2016, the accumulated depreciation was \$264.2K compared to \$216.4K on June 30, 2015.

Table 3 Capital Assets As of June 30, 2016 and 2015						
	Governmental Activities		Business-Type Activities		Government-Wide Activities	
	2016	2015	2016	2015	2016	2015
Donated Artifacts for Museum	\$ 59.7	\$ 59.7	\$ -	\$ -	\$ 59.7	\$ 59.7
Construction in Process	96.0	432.2	81.1	385.1	177.1	817.3
Property and Improvement	99.8	99.8	-	-	99.8	99.8
Motor Vehicle Equipment	20.2	20.2	26.6	26.6	46.8	46.8
Furniture and Equipment	169.5	169.5	34.5	34.5	204.0	204.0
Accumulated Depreciation	(211.1)	(176.4)	(53.1)	(40.0)	(264.2)	(216.4)
Total Capital Assets, net	<u>\$ 234.1</u>	<u>\$ 605.0</u>	<u>\$ 89.1</u>	<u>\$ 406.2</u>	<u>\$ 323.2</u>	<u>\$ 1,011.2</u>

During the current fiscal year, the Authority incurred construction in process expenses for two projects: (1) the renovation of Building 83 for use as the Authority's new main office (\$340.8K) and (2) the conversion of Building 80 from a historic inn to a 10-unit apartment complex (\$243.5K). By agreement with the Commonwealth Department of Accounts, all capital project costs are transferred to the Commonwealth financial statements upon completion of the capital projects. On June 30, 2016, the Authority transferred \$1,305,753 in capital project costs to the Commonwealth. The Authority recorded a non-operating expense to record the transfer.

**LONG-TERM DEBT**

As of June 30, 2016, the Authority has no long-term debt in the form of bonds or capital leases.

**Fort Monroe Authority**  
Component Unit of the Commonwealth of Virginia  
Management's Discussion and Analysis

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

During the redevelopment process, the Authority will be largely dependent on state appropriations to bridge the gap between revenue received from rental operations and the cost to maintain the property including the large inventory of vacant commercial buildings. The current state of the federal and state economy may impact state revenues which, in turn, may limit the level of state General Fund support available to the Authority.

While the Authority has achieved great success in initially attracting tenants through the use of rental incentives. Over the last few years the Authority has eliminated the rental incentives. If the Authority is not successful in recruiting tenants without lease incentives, it may be required to restore rent incentives which will result in lower residential revenue.

As of the end of the fiscal year, the Authority had 170 residential units that were in leasable condition and 7 units that need significant repairs before the units are suitable for leasing. As funds become available, the Authority will make repairs to these 7 units. The lack of funds to repair the 7 "down" units and the limited additional residential inventory will limit the Authority's ability to generate residential leasing revenue.

Residential unit rents at Fort Monroe are susceptible to rental rates and available inventory in the surrounding communities. If the available inventory of leasable homes remains constrained it may result in higher rental rates due to the limited supply. However, if new residential inventory of comparable quality becomes available in the local market, it may put downward pressure on leasing rates which may result in lower residential revenue for the Authority.

The Authority, working with its commercial leasing contractor, continues to pursue new tenants for approximately 1.1 million square feet of vacant office and warehouse space. The majority of the vacant space is not fully ADA-accessible due to the lack of elevators. In addition, many of the buildings are subject to historic preservation standards that may limit the ability to reconfigure buildings to suit prospective tenant uses. To date, the Authority has been successful leasing buildings built after 2004 since these buildings have open floor plans and modern construction. Once the inventory of these modern buildings is fully leased, the Authority may be unable to generate additional commercial rental income without funds to renovate buildings for accessibility and usability.

## **Fort Monroe Authority**

Component Unit of the Commonwealth of Virginia

### Management's Discussion and Analysis

While there has been some improvement in the commercial leasing market, the vacancy rates remain above the historic average for commercial space in the local market area. When vacancy rates remain high for extended periods, landlords are more likely to lower lease rates to attract new tenants. The large inventory of vacant space at Fort Monroe, combined with the large inventory of comparable vacant space in the surrounding areas, may force the Authority to make below-market lease deals to entice tenants to occupy the commercial premises. This may result in commercial revenue levels that fall below budgeted expectations.

### **CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide users (citizens, taxpayers, customers, clients, investors, and creditors) with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the funds it receives.

Questions concerning this report or requests for additional information should be directed to Deputy Executive Director, Fort Monroe Authority, 20 Ingalls Road, Fort Monroe, Virginia, 23651, telephone (757) 637-7778, or visit the Authority's website at [www.fmauthority.com](http://www.fmauthority.com).



## **BASIC FINANCIAL STATEMENTS**

## Fort Monroe Authority

### Statement of Net Position June 30, 2016

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and Cash Equivalents	\$ 2,725,792	\$ 502,869	\$ 3,228,661
Restricted Cash and Cash Equivalents	5,179	283,924	289,103
Grants and Other Receivables	1,207,938	202,997	1,410,935
Internal Balances	8,682,657	(8,682,657)	-
Prepaid Expenses	89,891	118,624	208,515
Capital Assets:			
Donated Artifacts for Museum	59,705	-	59,705
Construction in Process	95,988	81,139	177,127
Property and Improvements	99,786	-	99,786
Motor Vehicle Equipment	20,210	26,609	46,819
Furniture and Equipment	169,546	34,520	204,066
Accumulated Depreciation	(211,185)	(53,150)	(264,335)
<b>Total Assets</b>	<b>12,945,507</b>	<b>(7,485,125)</b>	<b>5,460,382</b>
<b>Deferred Outflows of Resources</b>			
Difference Between Expected and Actual Pension Experience	13,448	1,552	15,000
Changes in Proportionate Share of Pension Contributions	127,311	14,689	142,000
Deferred Pension Contributions	158,595	17,749	176,344
<b>Total Deferred Outflows of Resources</b>	<b>299,354</b>	<b>33,990</b>	<b>333,344</b>
<b>Liabilities</b>			
Accounts Payable	619,122	518,529	1,137,651
Accrued Salaries	72,145	9,228	81,373
Accrued Payroll Tax and Benefits	14,211	-	14,211
Accrued Annual Leave - Due Within One Year	40,670	8,494	49,164
Unearned Revenues	9,942	-	9,942
Net Pension Liability	1,928,489	222,511	2,151,000
Deposits Payable	-	295,833	295,833
<b>Total Liabilities</b>	<b>2,684,579</b>	<b>1,054,595</b>	<b>3,739,174</b>
<b>Deferred Inflows of Resources</b>			
Deferred Pension Investment Experience	138,966	16,034	155,000
<b>Net Position</b>			
Net Investment in Capital Assets	234,050	89,118	323,168
Restricted	5,179	-	5,179
Unrestricted (Deficit)	10,182,087	(8,610,882)	1,571,205
<b>Total Net Position</b>	<b>\$ 10,421,316</b>	<b>\$ (8,521,764)</b>	<b>\$ 1,899,552</b>

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

## Fort Monroe Authority

Statement of Activities  
Year Ended June 30, 2016

<u>Functions/Programs</u>	Program Revenues				Net (Expense) Revenue and Change in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Planning and Development	\$ (4,816,443)	\$ -	\$ 1,056,555	\$ 387,313	\$ (3,372,575)	\$ -	\$ (3,372,575)
Business-Type Activities:							
Property Administration and Maintenance	(6,991,150)	4,803,037	-	-	-	(2,188,113)	(2,188,113)
<b>Total</b>	<b>\$ (11,807,593)</b>	<b>\$ 4,803,037</b>	<b>\$ 1,056,555</b>	<b>\$ 387,313</b>	<b>(3,372,575)</b>	<b>(2,188,113)</b>	<b>(5,560,688)</b>
<u>General Revenues</u>							
Operating Appropriations from Primary Government					5,285,036	-	5,285,036
Other Revenues					167,708	-	167,708
Contribution of Buildings to the Commonwealth of Virginia					(677,093)	(628,660)	(1,305,753)
<b>Change in Net Position</b>					1,403,076	(2,816,773)	(1,413,697)
<b>Net Position, Beginning of Year</b>					9,018,240	(5,704,991)	3,313,249
<b>Net Position, End of Year</b>					<b>\$ 10,421,316</b>	<b>\$ (8,521,764)</b>	<b>\$ 1,899,552</b>

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

## Fort Monroe Authority

Balance Sheet – Governmental Funds  
June 30, 2016

	General	Special Revenue Fort Monroe Foundation	Total Governmental Funds
<b>Assets</b>			
Cash and Cash Equivalents	\$ 2,612,778	\$ 113,014	\$ 2,725,792
Restricted Cash and Cash Equivalents	5,179	-	5,179
Grants and Other Receivables	1,205,518	2,420	1,207,938
Due from Other Funds	8,682,657	-	8,682,657
Prepaid Expenditures	70,130	19,761	89,891
<b>Total Assets</b>	<b>\$ 12,576,262</b>	<b>\$ 135,195</b>	<b>\$ 12,711,457</b>
<b>Liabilities</b>			
Accounts Payable	\$ 618,219	\$ 903	\$ 619,122
Accrued Salaries	72,145	-	72,145
Accrued Payroll Tax and Benefits	14,211	-	14,211
Unearned Revenues	-	9,942	9,942
<b>Total Liabilities</b>	<b>704,575</b>	<b>10,845</b>	<b>715,420</b>
<b>Deferred Inflows of Resources</b>			
Unavailable Revenues	1,035,191	-	1,035,191
<b>Total Deferred Inflows of Resources</b>	<b>1,035,191</b>	<b>-</b>	<b>1,035,191</b>
<b>Fund Balance</b>			
Nonspendable	70,130	19,761	89,891
Restricted	5,179	104,589	109,768
Unassigned	10,761,187	-	10,761,187
<b>Total Fund Balance</b>	<b>10,836,496</b>	<b>124,350</b>	<b>10,960,846</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b>	<b>\$ 12,576,262</b>	<b>\$ 135,195</b>	<b>\$ 12,711,457</b>

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

## Fort Monroe Authority

### Reconciliation of Balance Sheet of the Governmental Funds to the Statement of Net Position June 30, 2016

Amounts reported in the Statement of Net Position differ from fund amounts as follows:

<b>Fund Balance - Governmental Funds</b>	\$ 10,960,846
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	234,050
Other noncurrent assets are not available to pay for current expenditures and are deferred in the funds.	1,035,191
Net pension liability and related deferred inflows and outflows are not due and payable in the current period and, therefore, are not reported as a liability in the governmental funds.	(1,768,101)
Annual leave is not due and payable in the current year and, therefore, is not reported in the funds.	<u>(40,670)</u>
<b>Net Position of Governmental Activities</b>	<u><u>\$ 10,421,316</u></u>

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

## Fort Monroe Authority

### Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds Year Ended June 30, 2016

	<b>General</b>	<b>Special Revenue Fort Monroe Foundation</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>			
Intergovernmental Revenues:			
State	\$ 5,525,413	\$ -	\$ 5,525,413
Federal	469,799	-	469,799
Other Income	61,380	106,328	167,708
	<b>6,056,592</b>	<b>106,328</b>	<b>6,162,920</b>
<b>Expenditures</b>			
Planning and Development	3,991,190	99,457	4,090,647
Capital Outlay	968,250	-	968,250
	<b>4,959,440</b>	<b>99,457</b>	<b>5,058,897</b>
<b>Excess of Revenues Over Expenditures</b>	<b>1,097,152</b>	<b>6,871</b>	<b>1,104,023</b>
<b>Fund Balance, Beginning of Year</b>	<b>9,739,344</b>	<b>117,479</b>	<b>9,856,823</b>
<b>Fund Balance, End of Year</b>	<b>\$ 10,836,496</b>	<b>\$ 124,350</b>	<b>\$ 10,960,846</b>

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

## Fort Monroe Authority

### Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2016

Amounts reported in the Statement of Activities differ from fund amounts as follows:

**Excess of Revenues Over Expenditures - Governmental Funds** \$ 1,104,023

The fund reports capital outlays as expenditures; however, in the Statement of Activities, these costs are capitalized and depreciated over their estimated useful lives.

Capital Outlays	340,896
Contribution of Buildings to Commonwealth of Virginia	(677,093)
Depreciation Expense	(34,743)
	<u>(370,940)</u>

Some revenues are not collected for several months after the Authority's fiscal year end and, therefore, are not considered "available" revenues and are deferred in the governmental fund. Deferred inflows of resources decreased by this amount this year.

733,692

Some expenses reported in the Statement of Activities do not require the use of current resources and, therefore, are not reported as expenditures in the fund.

Accrued annual leave increased by this amount this year	(1,571)
Pension Cost	<u>(62,128)</u>

**Change in Net Position** \$ 1,403,076

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

## Fort Monroe Authority

### Statement of Net Position – Enterprise Fund June 30, 2016

#### Assets

##### Current Assets:

Cash	\$ 502,869
Restricted Cash	283,924
Other Receivables	202,997
Prepaid Expenses	118,624
<b>Total Current Assets</b>	<b>1,108,414</b>

##### Non-Current Assets:

##### Capital Assets:

Construction in Progress	81,139
Motor Vehicle Equipment	26,609
Furniture and Equipment	34,520
Accumulated Depreciation	(53,150)
<b>Net Capital Assets</b>	<b>89,118</b>

##### **Total Assets**

**1,197,532**

#### Deferred Outflows of Resources

##### Difference Between Expected and Actual

Pension Experience 1,552

##### Changes in Proportionate Share of

Pension Contributions 14,689

##### Deferred Pension Contributions

17,749

##### **Total Deferred Outflows of Resources**

**33,990**

#### Liabilities

##### Current Liabilities:

Accounts Payable	518,529
Due to Other Fund	8,682,657
Accrued Salaries	9,228
Accrued Annual Leave - Current Portion	8,494
Deposits Payable	295,833

##### **Total Current Liabilities**

**9,514,741**

##### Non-Current Liabilities:

Net Pension Liability 222,511

##### **Total Liabilities**

**9,737,252**

#### Deferred Inflows of Resources

Deferred Pension Investment Experience 16,034

#### Net Position

Net Investment in Capital Assets 89,118

Unrestricted (Deficit) (8,610,882)

##### **Total Net Position**

**\$ (8,521,764)**

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



## Fort Monroe Authority

### Statement of Revenues, Expenses, and Changes in Net Position – Enterprise Fund Year Ended June 30, 2016

#### Revenues

##### Charges for Services:

Rental Income	\$ 3,501,531
Utility Income	<u>1,301,506</u>

**Total Revenues** 4,803,037

#### Expenses

Facilities Maintenance and Operation	6,701,333
General and Administrative	276,669
Depreciation	<u>13,148</u>

**Total Expenses** 6,991,150

**Operating Loss** (2,188,113)

#### Nonoperating expenses:

Contribution of Buildings to the Commonwealth of Virginia	<u>(628,660)</u>
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**Change in Net Position** (2,816,773)

**Net Position, Beginning of Year** (5,704,991)

**Net Position, End of Year** \$ (8,521,764)

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

## Fort Monroe Authority

### Statement of Cash Flows – Enterprise Fund Year Ended June 30, 2016

<b>Cash Flows from Operating Activities</b>	
Cash Received from Tenants	\$ 4,723,909
Cash Payments to Suppliers for Goods and Services	<u>(4,112,540)</u>
<b>Net Cash Provided by Operating Activities</b>	611,369
<b>Cash Flows from Capital and Related Financing Activities</b>	
Acquisition of Capital Assets	<u>(324,696)</u>
<b>Net Increase in Cash</b>	286,673
<b>Cash, Beginning of Year</b>	<u>500,120</u>
<b>Cash, End of Year</b>	<u><u>\$ 786,793</u></u>
<b>Reported in the Statement of Net Position as follows:</b>	
Cash	\$ 502,869
Restricted Cash	<u>283,924</u>
	<u><u>\$ 786,793</u></u>
<b>Significant Non-cash Transactions</b>	
Contribution of Buildings to the Commonwealth of Virginia	<u><u>\$ 628,660</u></u>

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

## Fort Monroe Authority

### Statement of Cash Flows – Enterprise Fund (continued) Year Ended June 30, 2016

<b>Operating Loss</b>	<u>\$ (2,188,113)</u>
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation Expense	13,148
Changes in:	
Accounts Receivable	(94,151)
Prepaid Expenses	(22,953)
Accounts Payable	(292,520)
Due to Other Fund	3,211,977
Accrued Liabilities	(3,031)
Net Pension Liability	(28,011)
Deposits Payable	<u>15,023</u>
Total Adjustments	<u>2,799,482</u>
<b>Net Cash Provided by Operating Activities</b>	<u><u>\$ 611,369</u></u>

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

# Fort Monroe Authority

Notes to the Financial Statements  
Year Ended June 30, 2016

## 1. Nature of the Organization

The Fort Monroe Authority (the "Authority") is a political subdivision of the Commonwealth of Virginia (the "Commonwealth"), created by legislative action of the Virginia General Assembly in 2010 to preserve, protect, and manage Fort Monroe and Old Point Comfort after the federal Base Realignment and Closure Commission (BRAC) closure in September 2011. It is a separate and distinct legal entity that is governed by a 12-member appointed Board of Trustees (the "Board"). The Board includes three members of the Governor's Cabinet, two members of the General Assembly, two appointees selected by the City of Hampton and five appointees selected by the Governor of Virginia.

The Authority is considered a component unit of the Commonwealth, as its Board is primarily appointed by the Commonwealth and, as such, the Authority is included as a discretely presented component unit in the basic financial statements of the Commonwealth.

The Authority has been funded primarily through intergovernmental revenues provided by the Commonwealth and the Federal Office of Economic Adjustment. In August 2010, through leases with the United States Army (the "Army"), the Authority began subleasing residential and commercial properties on Fort Monroe for business-type revenues.

On June 14, 2013, the Governor of Virginia signed a Quitclaim Deed and Memorandum of Understanding transferring ownership of a 312.75-acre parcel of the Fort Monroe property from the Army to the Commonwealth. The Memorandum of Understanding outlines the joint operations of the utilities, maintenance, and security of the property during the period of time the Army and the Authority complete the economic development conveyance process of the remainder of the 565-acre Fort Monroe property to the Commonwealth and National Park Service.

## 2. Summary of Significant Accounting Policies

**Reporting Entity** - The accompanying financial statements present the Authority and its component unit, the Fort Monroe Foundation (the "Foundation"), an entity for which the Authority is considered to be financially accountable. The Authority's component unit is a blended component unit, which in substance is part of the Authority's operations, even though it is a legally separate entity. The Authority's blended component unit is appropriately presented as a fund of the Primary Government.

# Fort Monroe Authority

Notes to the Financial Statements  
Year Ended June 30, 2016

## 2. Summary of Significant Accounting Policies (continued)

Fort Monroe Foundation - Virginia Acts of Assembly, 2010 Session, §15.2-7204 (B)(8), the Fort Monroe Authority Act stipulates the Authority shall have the powers to “establish nonprofit corporations as instrumentalities to assist in administering the affairs of the Authority”. On February 9, 2010, the State Corporation Commission registered Old Point Comfort Foundation on its records with its By-Laws and Articles of Incorporation. On March 28, 2011, the State Corporation Commission accepted the Articles of Restatement of Incorporation of Fort Monroe Foundation (formerly Old Point Comfort Foundation) and registered Fort Monroe Foundation on its records. On May 23, 2011, the Internal Revenue Service granted exemption from federal income tax under Section 501(c)(3) to Fort Monroe Foundation. On March 6, 2014, the Foundation voted to adopt a calendar year for budget and tax return purposes. The Internal Revenue Service has not been asked to approve this request and the Foundation is aware that the vote is not made permanent until they do so.

The Foundation is a legally separate entity organized to support and further the public purposes of the Authority, foster the Authority’s goal to preserve the historic and natural resources of the property, and organize and promote programs for the enjoyment, education, and enrichment of the general public. The Foundation’s Bylaws dictate that the Authority’s Board appoints the Foundation’s Board of Directors. The Foundation is considered to be a blended component unit because the governing board and management of the Authority and Foundation are substantively the same and the Authority is deemed to have operational responsibility for the Foundation. The Foundation is reported as a governmental fund and does not issue separate financial statements.

**Government-wide and Fund Financial Statements** - The basic financial statements include both government-wide (based upon the Authority as a whole) and fund financial statements. These statements distinguish between the governmental and business-type activities of the Authority. In 2016, in addition to its blended component unit, the Authority had two funds:

**General Fund** - The General Fund is the primary operating fund of the Authority. It accounts for the Authority’s financial resources from State and Federal funding. In general, the General Fund is used to account for all financial resources except those required to be accounted for in another fund.

**Enterprise Fund** - The Enterprise Fund accounts for the Authority’s financial resources generated from leasing residential and commercial rental properties. Beginning in January 2014, activities also include billing the tenants, both commercial and residential, for natural gas, water, and sewer.

# Fort Monroe Authority

Notes to the Financial Statements  
Year Ended June 30, 2016

## 2. Summary of Significant Accounting Policies (continued)

The government-wide Statement of Net Position reports all financial and capital resources of the Authority's governmental and business-type activities. It is presented in a net position format (assets plus deferred outflows less liabilities and deferred inflows equal net position) and shown with three components: net investment in capital assets, restricted net position, and unrestricted net position.

Activity between funds that are representative of lending/borrowing arrangements are referred to as "internal balances" and represent the amount outstanding at the end of the fiscal year between governmental and business-type activities.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The program revenues must be directly associated with the function.

Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Revenues that are not classified as program revenues are presented as general revenues.

Separate fund financial statements are provided for the governmental funds and the proprietary fund activities and report additional and detailed information about the Authority's operations. A reconciliation is provided that converts the results of the governmental fund accounting to the government-wide presentation.

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

Governmental fund financial statements are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Authority considers all revenues available if collected within 60 days after year-end. Expenditures are recognized when the related fund liability is incurred.

# Fort Monroe Authority

Notes to the Financial Statements  
Year Ended June 30, 2016

## 2. Summary of Significant Accounting Policies (continued)

Proprietary funds distinguish between operating revenues and expenses and non-operating items. Operating revenues result from providing residential housing and commercial space for rent. Operating expenses for these operations include all costs related to providing the service - facilities maintenance and operation, general and administrative (salaries and benefits, telecommunications, supplies, postage, insurance), and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

In both funds, when both restricted and unrestricted resources are available for a particular use, it is the Authority's policy to use restricted resources first.

The Authority adopts an annual budget for its General Fund. The budget has been prepared on a basis consistent with the modified accrual basis of accounting and accounting principles generally accepted in the United States of America. A budgetary comparison schedule has been provided to demonstrate compliance with the budget.

**Cash and Cash Equivalents** - The Authority has defined cash and cash equivalents to include cash on hand, security deposits, and certificates of deposit, regardless of maturity date.

**Prepaid Expenses/Expenditures** - Certain payments to vendors represent costs applicable to future periods and are recorded as prepaid items in the basic financial statements.

**Capital Assets** - The Authority defines capital assets as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost in the government-wide financial statements. Donated assets are recorded at acquisition value.

Capital assets are depreciated using the straight-line method over the estimated lives as follows:

Property and improvements	3 years
Motor vehicle equipment	5 years
Furniture and equipment	5 - 7 years

The Commonwealth, not the Authority, owns the Fort Monroe property; however, the Authority in the course of its operations and management is responsible for the upkeep and improvement of the property. At the advisement of the Commonwealth, all equipment acquisitions with an individual cost of \$50,000 and all land, building, and infrastructure acquisitions with an individual cost of \$100,000 will be transferred to the Commonwealth as capital assets. All acquisitions not meeting these thresholds will be expensed on the Authority's books. Construction in process represents assets under construction expected to meet the transfer threshold.

# Fort Monroe Authority

Notes to the Financial Statements  
Year Ended June 30, 2016

## 2. Summary of Significant Accounting Policies (continued)

**Deposits Payable** - The Authority collects deposits as follows on rental activities: (1) refundable security deposits from tenants for residential and commercial leases and (2) event deposits from other individuals for public use of properties, specifically the gazebo and picnic areas. The Authority records the security deposits as an obligation until such time as the contract is completed and the deposits are either returned or forfeited.

**Accrued Annual Leave** - Employees accrue leave each pay period based on years of service. Unused accrued leave is paid to employees upon resignation, retirement, permanent disability, or other termination of employment, provided the employee has supplied proper and timely notice of such action and employee has more than six months service. The Authority has established maximums for annual carryforward balances and for maximum payment of unused leave, based on years of service. The current portion of accrued leave is based on historical annual leave used.

**Deferred Outflows and Inflows of Resources** - Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Authority has \$333,344 of deferred outflows of resources at June 30, 2016, related to pension activities. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Authority has \$155,000 of deferred inflows of resources at June 30, 2016, related to pension activities. Under the modified accrual basis of accounting, the Authority's deferred inflows of resources consist of revenues which are applicable to a future period, and will not be recognized until the period they become available. These amounts are recorded on the governmental funds' Balance Sheet as deferred inflow of resources.

**Fund Balance** - In accordance with accounting principles generally accepted in the United States of America (GAAP) the Authority may classify fund balance as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Authority has spending constraints imposed upon the use of the resources in the governmental fund.

Nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.



# Fort Monroe Authority

Notes to the Financial Statements  
Year Ended June 30, 2016

## 2. Summary of Significant Accounting Policies (continued)

Restricted fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of governments or is imposed by law through constitutional provisions or enabling legislation. The Authority can be compelled by an external party to use resources only for the purposes specified.

Committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action of Commonwealth of Virginia Legislature or the Authority's Board. Those committed amounts cannot be used for any other purpose unless the same type of formal action is taken to remove or change the specified commitment. Committed fund balance classification may be redeployed for other purposes with appropriate formal action.

Assigned fund balance amount classification is intended to be used by the Authority for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Commissioners, appointed in accordance with the provisions of the Enabling Act.

Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications.

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## 3. Cash and Cash Equivalents

All cash of the Authority is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the *Code of Virginia* or covered by Federal Depository Insurance.

At June 30, 2016, the Authority had \$3,228,661 in bank deposits and \$289,103 in restricted deposits. \$5,179 represents flex spending accounts available for the employees. Security deposits of \$241,107 and \$42,817 represent deposits held for tenants who have leased the residential and commercial properties.

## Fort Monroe Authority

Notes to the Financial Statements  
Year Ended June 30, 2016

### 3. Cash and Cash Equivalents (continued)

	<u>June 30, 2016</u>
Operating Accounts	
Government Fund	\$ 2,725,792
Enterprise Fund	<u>502,869</u>
Total Operating Accounts	<u>3,228,661</u>
Restricted Accounts	
Government Fund:	
Flex Spending Accounts	5,179
Enterprise Fund:	
Security Deposits on Residential Leases	241,107
Security Deposits on Commercial Leases	<u>42,817</u>
Total Restricted Accounts	<u>289,103</u>
Total Cash and Cash Equivalents	<u>\$ 3,517,764</u>

## Fort Monroe Authority

### Notes to the Financial Statements Year Ended June 30, 2016

#### 4. Capital Assets

The following is a summary of the Authority's change in capital assets for the year ended June 30, 2016:

#### Governmental Activities

	<b>Balance July 1, 2015</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2016</b>
Capital Assets Not Depreciated				
Donated Artifacts for Museum	\$ 59,705	\$ -	\$ -	\$ 59,705
Construction in Process	432,185	340,896	677,093	95,988
<b>Total Capital Assets Not Depreciated</b>	<b>491,890</b>	<b>340,896</b>	<b>677,093</b>	<b>155,693</b>
Capital Assets Being Depreciated				
Property and Improvements	99,786	-	-	99,786
Motor Vehicle Equipment	20,210	-	-	20,210
Furniture and Equipment	169,546	-	-	169,546
<b>Total Capital Assets Being Depreciated</b>	<b>289,542</b>	<b>-</b>	<b>-</b>	<b>289,542</b>
Less Accumulated Depreciation				
Property and Improvements	(99,786)	-	-	(99,786)
Motor Vehicle Equipment	(20,210)	-	-	(20,210)
Furniture and Equipment	(56,446)	(34,743)	-	(91,189)
<b>Total Accumulated Depreciation</b>	<b>(176,442)</b>	<b>(34,743)</b>	<b>-</b>	<b>(211,185)</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>113,100</b>	<b>(34,743)</b>	<b>-</b>	<b>78,357</b>
<b>Total Capital Assets</b>	<b>\$ 604,990</b>	<b>\$ 306,153</b>	<b>\$ 677,093</b>	<b>\$ 234,050</b>

## Fort Monroe Authority

Notes to the Financial Statements  
Year Ended June 30, 2016

### 4. Capital Assets (continued)

#### Business-type Activities

	<u>Balance July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2016</u>
Capitalized Assets Not Depreciated				
Construction in Process	\$ 385,103	\$ 324,696	\$ 628,660	\$ 81,139
Total Capitalized Assets Not Depreciated	<u>385,103</u>	<u>324,696</u>	<u>628,660</u>	<u>81,139</u>
Capital Assets Being Depreciated				
Motor Vehicle Equipment	26,609	-	-	26,609
Furniture and Equipment	<u>34,520</u>	<u>-</u>	<u>-</u>	<u>34,520</u>
Total Capital Assets Being Depreciated	<u>61,129</u>	<u>-</u>	<u>-</u>	<u>61,129</u>
Less Accumulated Depreciation				
Motor Vehicle Equipment	(17,059)	(5,322)	-	(22,381)
Furniture and Equipment	<u>(22,943)</u>	<u>(7,826)</u>	<u>-</u>	<u>(30,769)</u>
Total Accumulated Depreciation	<u>(40,002)</u>	<u>(13,148)</u>	<u>-</u>	<u>(53,150)</u>
Total Capital Assets Being Depreciated, Net	<u>21,127</u>	<u>(13,148)</u>	<u>-</u>	<u>7,979</u>
Total Capital Assets	<u>\$ 406,230</u>	<u>\$ 311,548</u>	<u>\$ 628,660</u>	<u>\$ 89,118</u>

Depreciation on assets of governmental activities is charged to the Authority's planning and development expense function and depreciation on assets of business-type activities is charged to the Authority's property administration and maintenance function.

## Fort Monroe Authority

Notes to the Financial Statements  
Year Ended June 30, 2016

### 5. Accrued Annual Leave

The following is a summary of the Authority's change in accrued annual leave for the year ended June 30, 2016:

#### Governmental Activities

	<u>Balance July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2016</u>	<u>Due Within One Year</u>
Accrued Annual Leave					
Governmental Activities	\$ 39,099	\$ 55,278	\$ (53,707)	\$ 40,670	\$ 40,670

#### Business-Type Activities

	<u>Balance July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2016</u>	<u>Due Within One Year</u>
Accrued Annual Leave					
Business-type Activities	\$ 6,485	\$ 4,799	\$ (2,790)	\$ 8,494	\$ 8,494

### 6. Internal Balances

In general, invoices received that encompass expenditures from both funds are paid from the General Fund, creating an internal balance with the Enterprise Fund. The outstanding balance of \$8,682,657 at June 30, 2016 primarily represents property insurance, utilities and PILOT fees (payments in lieu of taxes) paid from the General Fund for the residential, commercial, public events, and utility fund business-type divisions and to fund the operations of the Commercial Division.

### 7. Deferred Compensation Plan

The Authority's employees are eligible to participate in the Commonwealth of Virginia's 457 Deferred Compensation Plan (the "Plan") available through the Virginia Retirement System. The Plan permits employees to defer a portion of their salary to future years. Participation in the Plan is optional. The deferred compensation is not available to employees until separation from service, retirement, death, disability, financial hardship, and/or reaching age 70½. The Plan offers a selection of investment options to participants.

## Fort Monroe Authority

Notes to the Financial Statements  
Year Ended June 30, 2016

### 8. Defined Benefit Pension and Other Postemployment Benefit Plans

#### *Pensions*

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

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

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

# Fort Monroe Authority

## Notes to the Financial Statements Year Ended June 30, 2016

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p><b>About Plan 1</b></p> <p>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. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p><b>About Plan 2</b></p> <p>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. Employees are eligible for 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>About the Hybrid Retirement Plan</b></p> <p>The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members").</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></p> <p>Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p><b>Eligible Members</b></p> <p>Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p><b>Eligible Members</b></p> <p>Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> <li>• State employees*</li> <li>• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1- April 30, 2014; the plan's effective date for opt-in members was July 1, 2014</li> </ul> <p><b>*Non-Eligible Members</b> Some employees are not eligible to participate in the Hybrid Retirement Plan.</p> <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>

# Fort Monroe Authority

## Notes to the Financial Statements Year Ended June 30, 2016

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



# Fort Monroe Authority

## Notes to the Financial Statements Year Ended June 30, 2016

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Vesting</b></p> <p>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></p> <p>Same as Plan 1.</p>	<p><b>Vesting</b></p> <p><b>Defined Benefit Component:</b> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><b>Defined Contributions Component:</b> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</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.                      * After two years, a member is 50% vested and may withdraw 50% of employer contributions.                      *After three years, a member is 75% vested and may withdraw 75% of employer contributions.                      *After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</p> <p>Distribution is not required by law until age 70½.</p>
<p><b>Calculating the Benefit</b></p> <p>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></p> <p>See definition under Plan 1.</p>	<p><b>Calculating the Benefit</b></p> <p><b>Defined Benefit Component:</b> See definition under Plan 1.</p> <p><b>Defined Contribution Component:</b> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>

# Fort Monroe Authority

## Notes to the Financial Statements Year Ended June 30, 2016

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<b>Average Final Compensation</b>	<b>Average Final Compensation</b>	<b>Average Final Compensation</b>
A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	A member's average final compensation is the average of the 60 consecutive months of highest compensation as a covered employee.	Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
<b>Service Retirement Multiplier</b>	<b>Service Retirement Multiplier</b>	<b>Service Retirement Multiplier</b>
The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.	Same as Plan 1 of 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><b>Defined Benefit Component:</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>Defined Contribution Component:</b> Not applicable.</p>
<b>Normal Retirement Age</b>	<b>Normal Retirement Age</b>	<b>Normal Retirement Age</b>
Age 65.	Normal Social Security retirement age.	<p><b>Defined Benefit Component:</b> Same as Plan 2.</p> <p><b>Defined Contribution Component:</b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<b>Earliest Unreduced Retirement Eligibility</b>	<b>Earliest Unreduced Retirement Eligibility</b>	<b>Earliest Unreduced Retirement Eligibility</b>
Age 65 with a least five years (60 months) of creditable service or age 50 with at least 30 years of creditable service.	Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.	<p><b>Defined Benefit Component:</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>Defined Contribution Component:</b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<b>Earliest Reduced Retirement Eligibility</b>	<b>Earliest Reduced Retirement Eligibility</b>	<b>Earliest Reduced Retirement Eligibility</b>
Age 55 with a least five years (60 months) of creditable service or age 30 with at least 10 years of creditable service.	Age 60 with at least five years (60 months) of creditable service.	<p><b>Defined Benefit Component:</b> Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p><b>Defined Contribution Component:</b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

# Fort Monroe Authority

## Notes to the Financial Statements Year Ended June 30, 2016

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b></p> <p>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>Eligibility:</b> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit or 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>Exceptions to COLA Effective Dates:</b> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: * The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. *The member retires on disability. *The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). *The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. *The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b></p> <p>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>Eligibility:</b> Same as Plan 1</p> <p><b>Exceptions to COLA Effective Dates:</b> Same as Plan 1</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b></p> <p><b>Defined Benefit Component:</b> Same as Plan 2.</p> <p><b>Defined Contribution Component:</b> Not applicable.</p> <p><b>Eligibility:</b> Same as Plan 1 and Plan 2.</p> <p><b>Exceptions to COLA Effective Dates:</b> Same as Plan 1 and Plan 2.</p>

# Fort Monroe Authority

## Notes to the Financial Statements Year Ended June 30, 2016

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Disability Coverage</b></p> <p>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 one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p><b>Disability Coverage</b></p> <p>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 one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p><b>Disability Coverage</b></p> <p>State employees (including Plan 1 or 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 benefits.</p>
<p><b>Purchase of Prior Service</b></p> <p>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 towards vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p><b>Purchase of Prior Service</b></p> <p>Same as Plan 1.</p>	<p><b>Purchase of Prior Service</b></p> <p><b>Defined Benefit Component:</b> Same as Plan 1, with the following exceptions:</p> <p>*Hybrid Retirement Plan members are ineligible for ported service.</p> <p>*The cost of purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.</p> <p>*Plan members have on year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.</p> <p><b>Defined Contribution Component:</b> Not applicable.</p>

## Fort Monroe Authority

Notes to the Financial Statements  
Year Ended June 30, 2016

### 8. Defined Benefit Pension and Other Postemployment Benefit Plans (continued)

#### *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. Prior to July 1, 2012, the 5.00% member contribution was paid by the employer. Beginning July 1, 2012, state employees were required to pay the 5.00% member contribution and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each state agency's contractually required contribution rate for the year ended June 30, 2016 was 12.33% of covered employee compensation for employees in the VRS State Employee Retirement Plan for July 2015, 13.28% for August 2015 and 14.22% for September 2015 through June 2016. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarial rate for the VRS State Employee Retirement Plan was 15.80%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions for the VRS State Employee Retirement Plan were funded at 78.02% of the actuarial rate for the year ended June 30, 2016. Additional funding provided by the General Assembly moved the contribution rate to 90% of the actuarial rate by September 2015 and the remainder of FY 2016. Contributions from the state agency to the VRS State Employee Retirement Plan were \$176,344 and \$163,461 for the years ended June 30, 2016 and June 30, 2015, respectively.

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

At June 30, 2016, the Authority reported a liability of \$2,151,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The state agency's proportion of the Net Pension Liability was based on the state agency's actuarially determined employer contributions to the pension plan for the year ended June 30, 2015 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2015, the Authority's proportion of the VRS State Employee Retirement Plan was 0.03513% as compared to 0.03291% at June 30, 2014.

For the year ended June 30, 2016, the Authority recognized pension expense of \$200,000 for the VRS State Employee Retirement Plan. Since there was a change in proportionate share between June 30, 2014 and June 30, 2015, 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.

## Fort Monroe Authority

Notes to the Financial Statements  
Year Ended June 30, 2016

### 8. Defined Benefit Pension and Other Postemployment Benefit Plans (continued)

At June 30, 2016, the Authority 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	\$ 15,000	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	155,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	142,000	-
Employer contributions subsequent to the measurement date	<u>176,344</u>	<u>-</u>
Total	<u>\$ 333,344</u>	<u>\$ 155,000</u>

\$176,344 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2017	\$ 4,000
2018	\$ 1,000
2019	\$ (29,000)
2020	\$ 26,000

## Fort Monroe Authority

Notes to the Financial Statements  
Year Ended June 30, 2016

### 8. Defined Benefit Pension and Other Postemployment Benefit Plans (continued)

#### *Actuarial Assumptions*

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2014, 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, 2015.

Inflation	2.5%
Salary increases, including Inflation	3.5% – 5.35%
Investment rate of return	7.0%, net of pension plan investment expense, 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 GAAP 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-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward two years and females were set back three years.

##### Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with females set back one year.

##### Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back three years and no provision for future mortality improvement.

## Fort Monroe Authority

Notes to the Financial Statements  
Year Ended June 30, 2016

### 8. Defined Benefit Pension and Other Postemployment Benefit Plans (continued)

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of withdrawals for less than 10 years of service
- Decrease in rates of male disability retirement
- Reduce rates of salary increase by 0.25% per year

#### *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, 2015, NPL amounts for the VRS State Employee Retirement Plan are as follows (amounts expressed in thousands):

#### **State Employee Retirement Plan**

Total Pension Liability	\$22,521,130
Plan Fiduciary Net Position	<u>16,398,575</u>
Employers' Net Pension Liability	<u>\$ 6,122,555</u>

Plan Fiduciary Net Position as a Percentage of the Total Pension Liability 72.81%

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 GAAP in the System's notes to the financial statements and required supplementary information.



## Fort Monroe Authority

Notes to the Financial Statements  
Year Ended June 30, 2016

### 8. Defined Benefit Pension and Other Postemployment Benefit Plans (continued)

#### *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>Assets Class Strategy</u>	<u>Target Allocation</u>	<u>Aritmetic 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	1.00%	-1.50%	-0.02%
Total	<u>100.00%</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 provides a median return of 7.44%, including expected inflation of 2.50%.

## Fort Monroe Authority

Notes to the Financial Statements  
Year Ended June 30, 2016

### 8. Defined Benefit Pension and Other Postemployment Benefit Plans (continued)

#### *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 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, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

#### *Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the Authority'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 Authority'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:

	<b>1.00% Decrease (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1.00% Increase (8.00%)</b>
Authority's proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	\$ 3,089,000	\$ 2,151,000	\$ 1,364,000

## Fort Monroe Authority

Notes to the Financial Statements  
Year Ended June 30, 2016

### 8. Defined Benefit Pension and Other Postemployment Benefit Plans (continued)

#### *Pension Plan Fiduciary Net Position*

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2014 Comprehensive Annual Financial Report (CAFR). A copy of the 2015 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2015-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*

At June 30, 2016, no amounts were payable to VRS.

### 9. Contingencies

#### *Payments in lieu of taxes*

Virginia Acts of Assembly 2013 Session, §2.2.2342 B, stipulates "that the Authority shall pay to the City of Hampton, Virginia (City) a fee on the total assessed value of all real property interests in the Authority's Area of Operation, public and private as provided by law, divided by \$100, multiplied by the then-current real estate tax rate set by the City of Hampton, minus the real estate taxes owed to the City of Hampton from taxpayers within the Authority's Area of Operation". Additionally, this Section stipulates "that properties at Fort Monroe that would not be taxed by the City if privately held shall be exempt from the fee."

## Fort Monroe Authority

Notes to the Financial Statements  
Year Ended June 30, 2016

### 10. Fund Balance Classifications

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the Authority is bound to observe constraints imposed upon the use of the resources in the government funds.

	<b>General Fund</b>	<b>Special Revenue Fort Monroe Foundation</b>	<b>Total</b>
Nonspendable			
Prepaid Expenditures	\$ 70,130	\$ 19,761	\$ 89,891
Total Nonspendable	70,130	19,761	89,891
Restricted			
Flex Savings Cash Account	5,179	104,589	109,768
Total Restricted	5,179	104,589	109,768
Unassigned	10,761,187	-	10,761,187
Total Fund Balance	\$ 10,836,496	\$ 124,350	\$ 10,960,846

**REQUIRED SUPPLEMENTARY INFORMATION**

## Fort Monroe Authority

Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget to Actual – General Fund  
Year Ended June 30, 2016

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental Revenues:				
State	\$ 5,330,121	\$ 4,733,188	\$ 5,525,413	\$ 792,225
Federal	718,851	1,270,642	469,799	(800,843)
Other Revenues	-	-	61,380	61,380
<b>Total Revenues</b>	<u>6,048,972</u>	<u>6,003,830</u>	<u>6,056,592</u>	<u>52,762</u>
<b>Expenditures</b>				
Current:				
Planning and Development	5,639,872	5,594,730	3,991,190	1,603,540
Capital Outlay	409,100	409,100	968,250	(559,150)
<b>Total Expenditures</b>	<u>6,048,972</u>	<u>6,003,830</u>	<u>4,959,440</u>	<u>1,044,390</u>
<b>Excess of Revenues over Expenditures</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,097,152</u>	<u>\$ 1,097,152</u>

## Fort Monroe Authority

Schedule of Employer's Share of Net Pension Liability  
VRS State Employee Retirement Plan  
Year Ended June 30, 2016

	<u>2016</u>	<u>2015</u>
Employer's Proportion of the Net Pension Liability	0.03513%	0.03291%
Employer's Proportionate Share of the Net Pension Liability	\$ 2,151,000	\$ 1,842,000
Employer's Covered-Employee Payroll	\$ 1,296,643	\$ 1,353,818
Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	165.88992%	136.05965%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.81%	74.28%

Schedule is intended to show information for 10 years. Since 2016 is the second year for this presentation, only one additional 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.

## Fort Monroe Authority

### Schedule of Employer Contributions Year Ended June 30, 2016

<b>Date</b>	<b>Contractually Required Contribution</b>	<b>Contributions in Relation to Contractually Required Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Employer's Covered Employee Payroll</b>	<b>Contribution as a % of Covered Employee Payroll</b>
<b>2016</b>	\$ 176,344	\$ 176,344	\$ -	\$ 1,296,643	13.60%
<b>2015</b>	\$ 163,461	\$ 163,461	\$ -	\$ 1,353,818	12.07%

Schedule is intended to show information for 10 years. Since 2016 is the second year for this presentation, only one additional year of data is available. However, additional years will be included as they become available.



## Fort Monroe Authority

### Notes to Required Supplemental Information Year Ended June 30, 2016

*Changes of Benefit Terms* – There have been no significant changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 are not material.

*Changes of Assumptions* – The following changes in actuarial assumptions were made for the VRS – State Employee Retirement Plan effective June 30, 2013 based on the most recent experience study of the System for the four-year period ended June 30, 2012:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of withdrawals for less than 10 years of service
- Decrease in rates of male disability retirement
- Reduce rates of salary increase by 0.25% per year

## **OTHER SUPPLEMENTARY INFORMATION**

## Fort Monroe Authority

### Schedule of Planning and Development Expenditures – General Fund Year Ended June 30, 2016

#### Planning and Development Expenditures

Salaries and Wages	\$ 1,194,419
Employee Benefits	472,881
Architectural and Engineering Services	338,298
Legal Services	171,448
Management Services	83,869
Dues, Subscriptions and Seminars	39,669
Fees - Banking and Payroll Processing	4,790
Meetings	3,028
Miscellaneous	16,090
Office Supplies and Postage	69,130
PILOT Fees	7,550
Public Information and Relations Services	104,668
Public Programs Signage and Special Events	68,696
Rentals and Leases	14,171
Security	220,567
Site Operating Costs	1,049,324
Telephone and Communications	45,561
Travel	9,436
Utilities and Trash Disposal	77,595
	<hr/>
	\$ 3,991,190
	<hr/> <hr/>

## **COMPLIANCE SECTION**

**Report of Independent Auditor on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

The Board of Trustees  
Fort Monroe Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, business-type activities and each major fund of the Fort Monroe Authority (the "Authority"), as of and for the year ended June 30, 2016, and the related notes to the financial statements and have issued our report thereon dated December 8, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cheryl Bekant LLP

Virginia Beach, Virginia  
December 8, 2016

**Report of Independent Auditor on Compliance for the Major  
Federal Program and on Internal Control over Compliance  
Required by the Uniform Guidance**

The Board of Trustees  
Fort Monroe Authority

**Report on Compliance for Each Major Federal Program**

We have audited Fort Monroe Authority's (the "Authority") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2016. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

**Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2016-001. Our opinion on each major federal program is not modified with respect to this matter.

The Authority's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Cheryl Bekant LLP*

Virginia Beach, Virginia  
December 8, 2016



## Fort Monroe Authority

### Schedule of Expenditures of Federal Awards Year Ended June 30, 2016

	Federal Catalog Number	Expenditures
<b>Direct Payments</b>		
Office of Economic Adjustment Community Planning Assistance Funds	12.607	\$ 1,056,555
<b>Total Expenditures of Federal Awards</b>		<u>\$ 1,056,555</u>

#### Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

#### Subrecipients

The Authority does not have any subrecipients.

#### Indirect Costs

The Authority does not elect to use a 10% de minimis indirect cost rate allowed under Section 2 CF 200.331(a)(4).

# Fort Monroe Authority

## Schedule of Findings and Questioned Costs Year Ended June 30, 2016

### A. Summary of Auditors' Results

#### Financial Statements:

Type of auditor's report issued on the financial statements:	<b>Unmodified</b>
Internal control over financial reporting:	
• Material weaknesses identified:	<b>No</b>
• Significant deficiencies identified:	<b>None reported</b>
Noncompliance which is material to the financial statements noted?	<b>No</b>

#### Federal Awards:

Type of auditor's report issued on compliance for major programs:	<b>Unmodified</b>
Internal control over major programs:	
• Material weaknesses identified:	<b>No</b>
• Significant deficiencies identified:	<b>None reported</b>
Any audit findings disclosed that are required to be reported in Accordance with Section 200.516(a) of the <i>Uniform Guidance</i> ?	<b>Yes</b>

Identification of major federal programs:

CFDA #    Program Name

12.607    Community Planning Assistance Funds

Dollar threshold to distinguish between type A and type B program:	<b>\$750,000</b>
The Authority was qualified as a low risk auditee?	<b>No</b>

# Fort Monroe Authority

## Schedule of Findings and Questioned Costs Year Ended June 30, 2016

### **B. Findings - Financial Statement Audit**

None

### **C. Findings and Questioned Costs - Major Federal Program**

2016-001 – Non-Material Non-Compliance  
Community Planning Assistance Funds, CFDA 12.607

#### **Criteria**

Per the grant agreement (CL0592-15-08), Section V.K.(1) "OEA General Terms and Conditions – Post-Award Monitoring", Interim Performance Reports are to be completed semi-annually and are due after the period end.

#### **Condition/Context**

Our testing disclosed that one out of two Interim Performance Reports were not filed for the first half of the year.

#### **Cause**

Per Authority management, due to the Authority's small finance staff, resources were focused on maintaining financial operations resulting in the Authority filing the reports after the deadline.

#### **Effect**

The grantor agency has delayed reimbursement of the Authority's grant expenditures.

#### **Recommendation**

We recommend that management of the Authority allocate the appropriate resources to oversee the timely preparation and submission of these reports on a quarterly basis. In addition, we recommend the Authority timely respond to questions and rejections, if any, of these quarterly reports to prevent future delays in reimbursements.

#### **Management's Response**

Due to the current workload of the finance department, the Director of Operations has directed the Authority's Procurement Manager to take primary responsibility for ensuring that the quarterly reports are submitted on time. The Procurement Manager works on the grant application process and has thorough knowledge of the grant process. The finance staff will still be involved in the preparation and review of the report.

### **D. Findings and Questioned Costs - Commonwealth of Virginia**

None

### **E. Summary Schedule of Prior Audit Findings**

None