Fort Monroe Authority

Financial Statements

Year Ended June 30, 2017

DIXON HUGHES GOODMAN LLP

Table of Contents

Table of Contents (continued)

Compliance Section:

DHG
DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

Board of Directors
Fort Monroe Authority
Fort Monroe, Virginia

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, 2017, and the related notes to the financial statements, which collectively comprise Fort Monroe 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specification for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications 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 auditors' 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.

Opinion
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, 2017, 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.

DIXON HUGHES GOODMAN LLP

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11 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 planning and development expenditures - general fund is the responsibility of management and was derived from and relates 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 is 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 11, 2017, 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 Authority's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Newport News, Virginia
December 11, 2017

Management's Discussion and Analysis - (Unaudited)

The management of the Fort Monroe Authority (Authority), offers readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Fort Monroe Authority for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the financial statements and accompanying notes.

Financial Highlights

- The Authority's net position decreased during the fiscal year by $1.16M. The decrease resulted from a net operating surplus from governmental activities of $2.61M offset by a net operating deficit of $3.77M from business-type activities (Enterprise Fund).
- The net operating surplus from the Government Fund increased over the prior fiscal year by $1.21M. Revenue increased by $399K while expenses decreased by $812K compared to the prior year.
- The net operating deficit from the Enterprise Fund increased by $957K. Revenue increased by $409.4K while expenses increased by $1.37M compared to the prior fiscal year.
- The Authority had a total of $12.51M of revenue in the current fiscal year. Governmental activities accounted for $7.21M in revenue. The majority of these revenues came from state General Fund appropriations ($5.10M) and federal intergovernmental grants ($0.76M) and other income ($1.04M). Business-type charges for services, principally rental income, accounted for $5.21M in revenue.
- The Authority's component unit, the Fort Monroe Foundation, had donations and earned revenue of $81.7K for the period.
- Operating expenses of the Authority for the fiscal year were $13.43M. Expenses for governmental activities (reuse and redevelopment planning) were $4.68M. Expenses related to business-type activities (property leasing and maintenance, utility operations and special events) were $8.75M.
- For fiscal years 2017 and 2016, the Authority's capital assets were $258.5K and $323.2K, net of accumulated depreciation, respectively. At the end of the fiscal year, the Authority transferred the capital costs of $234K to the Virginia Department of Accounts which represented capital improvements costs for the renovation of Building 12.
- The Authority has no long-term debt at June 30, 2017.

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 required and other supplementary 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.

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 147 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 177 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.

On August 25, 2015, the Commonwealth donated 121.1 acres and all the improvement thereon to the United States of America Department of the Interior as part of the Fort Monroe National Monument.

On April 14, 2017, the U.S. Army transferred 73.81 acres and all the improvement thereon and therein to the Fort Monroe Authority under the terms of the Economic Development Conveyance Agreement executed between the parties on January 10, 2017. The Fort Monroe Authority deeded the property to the Commonwealth of Virginia on the same date.

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. As of June 30, 2017 the Commonwealth of Virginia owns 265.5± acres of 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 storm water 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.

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 the general public and commercial properties to various state and city entities as well as private businesses and religious organizations. The 265.5± acres owned by the Commonwealth contain approximately 436,700 square feet of residential structures and associated garages together with approximately 1,137,700 square feet of commercial and administrative space. In order to make additional properties available, the Authority continues to lease approximately 385,600 square feet of residential and commercial properties from the Army. 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, 2017, the Army and Dominion Virginia Power (DVP) have reportedly completed the termination of the Army's electrical contract with DVP but the account has not been transferred to the Authority. With the property transfer in April 2017 the Army has been sending the electric bill to the Authority for payment. The Authority reports the billing for electric consumption in the utility fund as well.
- 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.

Financial Analysis of the Authority as a Whole

Net Position:

The following table reflects the condensed net position of the Authority (in thousands):

Table 1 - Net Position
At June 30, 2017 and 2016

	Governmental Activities		Business-Type Activities		Government-Wide Activities	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Current and other assets	$ 15,487.5	$ 12,711.4	$ (10,836.0)	$ (7,574.2)	$ 4,651.5	$ 5,137.2
Capital assets	258.4	234.1	0.1	89.1	258.5	323.2
Total assets	15,745.9	12,945.5	(10,835.9)	(7,485.1)	4,910.0	5,460.4
Deferred outflows of resources	357.7	299.4	39.7	34.0	397.4	333.4
Current and other liabilities	2,907.0	2,684.6	1,481.7	1,054.6	4,388.7	3,739.2
Total liabilities	2,907.0	2,684.6	1,481.7	1,054.6	4,388.7	3,739.2
Deferred inflows of resources	161.1	139.0	17.9	16.0	179.0	155.0
Net position						
Net investment in capital assets	258.4	234.1	0.1	89.1	258.5	323.2
Restricted	141.7	5.2	-	-	141.7	5.2
Unrestricted	12,635.3	10,182.1	(12,295.8)	(8,610.9)	339.5	1,571.2
Total net position	$ 13,035.4	$ 10,421.4	$ (12,295.7)	$ (8,521.8)	$ 739.7	$ 1,899.6

At June 30, 2017, the total assets of the Authority were $4.91M compared to $5.46M at June 30, 2016. Total liabilities as of June 30, 2017, were $4.39M compared to $3.74M at the end of the prior fiscal year. For the current fiscal year, combined net position was $0.74M compared to $1.90M at June 30, 2016.

During fiscal year 2017, the book value of the Authority's assets decreased by $550.4K. The change results largely from the decrease in grant reimbursement receivables of $540.8K. During the same period, the Authority's liabilities increased by $649.5K. The change in total liabilities resulted principally from an increase in accounts payable of $607.3K.

Changes in Net Position:

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

Table 2 - Changes in Net Position
At June 30, 2017 and 2016

	Governmental Activities		Business-Type Activities		Government-Wide Activities	
	2017	2016	2017	2016	2017	2016
Revenue						
Program revenue						
Charges for services	$ -	$ -	$ 5,212.4	$ 4,803.0	$ 5,212.4	$ 4,803.0
Operating grants and contributions	763.7	1,056.6	-	-	763.7	1,056.6
Capital grants and contributions	401.9	387.3	-	-	401.9	387.3
General revenue						
Operating appropriations	5,095.5	5,285.0	-	-	5,095.5	5,285.0
Other revenue	1,034.7	167.7	-	-	1,034.7	167.7
Total revenue	7,295.8	6,896.6	5,212.4	4,803.0	12,508.2	11,699.6
Expenses						
Planning and development	4,681.7	4,816.4	-	-	4,681.7	4,816.4
Property admin and maintenance	-	-	8,752.3	6,991.2	8,752.3	6,991.2
Contribution of buildings to the Commonwealth of Virginia	-	677.1	234.0	628.7	234.0	1,305.8
Total expenses	4,681.7	5,493.5	8,986.3	7,619.9	13,668.0	13,113.4
Change in net position	2,614.1	1,403.1	(3,773.9)	(2,816.9)	(1,159.8)	(1,413.8)
Net position - beginning of year	10,421.3	9,018.3	(8,521.8)	(5,705.0)	1,899.5	3,313.3
Net position - end of year	$ 13,035.4	$ 10,421.4	$ (12,295.7)	$ (8,521.8)	$ 739.7	$ 1,899.6

Revenue

Revenue 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, 2017, revenue was $12.51M compared to $11.70M in the prior fiscal year. Total grant and operating funds increased from $6.9M to $7.3M due to an increase in Other Revenue related to FEMA and state insurance settlements and advances of $867K offset by a decrease in the state appropriation from the General Fund of $189.5K and a decrease in grant reimbursements from the Office of Economic Adjustments of $278.3K. Business-type activities generated $5.2M in revenue during the current fiscal year compared to $4.8M for the prior fiscal year. The increase in revenue resulted from a slight increase in commercial and residential rental revenues combined with the full-year impact of a change in accounting treatment in the utility fund.

Expenses

Expenses for the fiscal year ended June 30, 2017, were $13.67M compared to $13.11M 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 decreased by $134.7K. Business activity expenses for property administration and maintenance expenses increased by $1.76M largely due to approximately $1.3M in repairs costs associated with damage caused by Hurricane Matthew in October 2016. The increase in Government Fund and Enterprise Fund activities were offset by the reduction in net capital contributions to the Commonwealth for capital improvements for Commonwealth-owned buildings. At the end of fiscal 2016, the Authority the Authority transferred $1.30M in capital improvement costs to the Department of Accounts for the renovation of Buildings 80 and 83. In comparison, at the end of fiscal year 2017 the Authority transferred only $234K for the renovation of Building 12.

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 2017 and 2016, the Authority operated two funds - Governmental and Enterprise. For fiscal year 2017, Government Fund expenditures were $4.68M and Enterprise Fund expenses were $8.99M. At the end of fiscal year 2017, the Authority transferred $234K in capital expenditures to the Department of Accounts to account for the capital renovations done to Building 12. In comparison, during fiscal year 2016, Government Fund expenditures were $4.82M and Enterprise Fund expenses were $6.99M. 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 2015, the Authority submitted its request for state General Fund support for the biennial period beginning on July 1, 2016 and ending June 30, 2018 (FY17 and FY18). The original submittal requested $5.3M for operations support for each year in biennial budget. The Governor's budget presented in December 2015 included the Authority's request for $5.3M in general fund support for FY17 and FY18. The General Assembly approved a final biennial budget that included the $5.3M in funding for each fiscal year.

The Authority submitted the proposed budget for FY17 to the Finance Committee at its meeting on June 9, 2016. The Finance Committee approved the budget and recommended it to the Board of Trustees for adoption. At the June 16, 2016 meeting of the Board of Trustees the budget was adopted as presented. The Authority submitted its annual budget to the Senate Finance Committee, House Appropriations Committee, and Department of Planning and Budget as required by the Fort Monroe Authority Act.

This original FY17 budget reflected the minimum grant funding from the Office of Economic Adjustment of $550,551 for FY17.The Authority staff worked to submit a grant application to the Office of Economic Adjustment (OEA) to request additional project funding. The grant application was approved on July 19, 2016, for an amount of $1,021,058.

In August 2016, the Governor issued a directive to every agency head to submit savings strategies to reduce appropriated funds by 5% for FY17. The Department of Planning and Budget (DPB) excluded the $983,960 annual PILOT payment from the calculation and provided the Authority with a budget savings target of $215,720 for FY17. The Authority staff provided budget reductions to meet the required target.

The Authority staff submitted a revised budget reflecting the 5% budget saving and the increased OEA grant to the Finance Committee at its meeting on October 13, 2016. The Finance Committee approved the budget revisions and recommended it to the Board of Trustees for adoption. The budget was adopted by the Board of Trustees at is meeting on October 20, 2016.

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 FY17, the Authority requested no committed funds designation from the Board of Trustees.

Capital Assets and Debt Administration Capital Assets

At June 30, 2017, the Authority had invested $565.4K in capital assets as reflected in Table 3 (reflected in thousands). This amount included $155.1K in non-depreciable construction in progress and $410.3K in depreciable assets. At June 30, 2016, the Authority had capital assets of $587.4K. This amount included $177.1K in non-depreciable construction in progress and $410.3K in depreciable assets. The Authority depreciates or amortizes assets based on straight-line methodology over the useful life of the asset. At June 30, 2017, the accumulated depreciation was $306.9K compared to $264.2K on June 30, 2016.

Table 3 - Capital Assets
At June 30, 2017 and 2016

	Governmental Activities		Business-Type Activities		Government-Wide Activities	
	2017	2016	2017	2016	2017	2016
Donated artifacts for Museum	$ 59.7	$ 59.7	$ -	$ -	$ 59.7	$ 59.7
Construction in progress	155.1	96.0	-	81.1	155.1	177.1
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	169.6	34.5	34.5	204.0	204.0
Accumulated depreciation	(245.9)	(211.2)	(61.0)	(53.1)	(306.9)	(264.2)
Total capital assets, net	$ 258.4	$ 234.1	$ 0.1	$ 89.1	$ 258.5	$ 323.2

During the current fiscal year, the Authority incurred construction in process expenses for the renovation of Building 12 for a commercial tenant. 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, 2017, the Authority transferred $234K in capital project costs to the Commonwealth. The Authority recorded a non-operating expense to record the transfer.

Long-Term Debt

At June 30, 2017, the Authority has no long-term debt in the form of bonds or capital leases.

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. For the FY19-20 biennial budget the Authority has requested additional funding compensate for the additional land transfer received from the Army in April 2017 and the final transfer of Army property to the Commonwealth during FY18.

As of the end of the fiscal year, the Authority had 170 residential units that were in leasable condition. The Authority has been successful in maintaining its residential occupancy over the last several years between 90-95%. However, without additional funds to address deferred maintenance repairs the properties may reach a condition with makes them unsuitable for occupancy.

The Authority currently has 7 residential units that need significant repairs before the units are suitable for leasing. The Authority has requested additional funding in FY19-20 to 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. While the FMA has been successful in leasing commercial buildings to state and local government and private tenants, the vast majority of that leasing has occurred in non-historic buildings. As of June 30, 2017 the Authority managed approximately 890.6K square feet of office, retail and industrial space on Fort Monroe. Of that inventory, approximately 149.5K is leased to tenants. That reflects a 16.7% occupancy for commercial buildings. However, if you consider the historic building inventory, only 44.0K of the 680.6K square feet of historic space is leased, an occupancy of 6.5%. The annual operating deficit for the commercial enterprise fund will continue to require significant general fund support unless private investors will invest in long-term ground lease or purchase transactions.

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.

The adaptive reuse of the large inventory of historic structures by private investors may be eligible for federal and state historic rehabilitation tax credits. However, recent federal tax reform has attempted to remove or reduce the benefit of the federal historic tax credits. In recent years there have been several bills in the Virginia General Assembly that have attempted to reduce or eliminate the state historic tax credits. Any significant change to either tax credit program may severely affect the Authority's ability to market the buildings for adaptive reuse by private investors.

Portions of the utility infrastructure at Fort Monroe may date back to as early as the 1890s. While the Authority has entered into a contract with a public works operator, the cost to maintain the utility infrastructure will continue to increase as the infrastructure continues to age. Without additional capital support from the General Assembly, the Authority may not be able to deliver adequate utility service for the adaptive reuse of existing buildings or to support the limited new construction that may be allowed at Fort Monroe.

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.

Government-Wide Financial Statements

Fort Monroe Authority
Component Unit of the Commonwealth of Virginia
Statement of Net Position
June 30, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	$ 2,755,110	$ 186,399	$ 2,941,509
Restricted cash and cash equivalents	141,741	331,334	473,075
Grants and other receivables	670,849	309,483	980,332
Internal balances	11,755,507	(11,755,507)	-
Prepaid expenses	164,257	92,301	256,558
Capital assets:			
Donated artifacts for Museum	59,705	-	59,705
Construction in progress	155,078	-	155,078
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	(245,928)	(60,985)	(306,913)
Total assets	15,745,861	(10,835,846)	4,910,015
Deferred outflows of resources:			
Difference between expected and actual pension experience	8,100	900	9,000
Changes in proportionate share of pension contributions	74,700	8,300	83,000
Deferred pension investment experience	123,300	13,700	137,000
Deferred pension contributions	151,570	16,841	168,411
Total deferred outflows of resources	357,670	39,741	397,411

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Accounts payable	848,281	891,317	1,739,598
Accrued salaries	22,192	19,860	42,052
Accrued payroll tax and benefits	38,968	-	38,968
Accrued annual leave - due within one year	41,428	8,757	50,185
Unearned revenue	22,932	-	22,932
Net pension liability	1,933,200	214,800	2,148,000
Deposits payable	-	346,962	346,962
Total liabilities	2,907,001	1,481,696	4,388,697
Deferred inflows of resources:			
Difference between expected and actual pension experience	52,200	5,800	58,000
Changes in proportionate share of pension contributions	108,900	12,100	121,000
Total deferred inflows of resources	161,100	17,900	179,000
NET POSITION			
Net investment in capital assets	258,397	144	258,541
Restricted	141,741	-	141,741
Unrestricted (deficit)	12,635,292	(12,295,845)	339,447
Total net position	$ 13,035,430	$ (12,295,701)	$ 739,729

Fort Monroe Authority
Component Unit of the Commonwealth of Virginia
Statement of Activities
Year Ended June 30, 2017

		Program Revenue			Net (Expense) Revenue and Change in Net Position		
	Expenses	**Charge for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-Type Activities**	**Total**
Functions/Programs							
Government activities:							
Planning and development	$ (4,681,687)	$ -	$ 763,727	$ 401,921	$ (3,516,039)	$ -	$ (3,516,039)
Business-type activities:							
Property admininstration							-
and maintenance	(8,752,342)	5,212,366	-	-	-	(3,539,976)	(3,539,976)
Operating loss	$ (13,434,029)	$ 5,212,366	$ 763,727	$ 401,921	(3,516,039)	(3,539,976)	(7,056,015)
General Revenue:							
Operating appropriates from Primary Government					5,095,508	-	5,095,508
Other revenue					1,034,645	-	1,034,645
Contribution of buildings to the Commonwealth of Virginia					-	(233,962)	(233,962)
Change in net position					2,614,114	(3,773,938)	(1,159,824)
Net position, beginning of year					10,421,316	(8,521,763)	1,899,553
Net position, end of year					$ 13,035,430	$ (12,295,701)	$ 739,729

See accompanying notes.

Governmental Fund Financial Statements

Fort Monroe Authority
Component Unit of the Commonwealth of Virginia
Balance Sheet - Governmental Funds
June 30, 2017

	General	Special Revenue Fort Monroe Foundation	Total Governmental Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 2,644,796	$ 110,314	$ 2,755,110
Restricted cash and cash equivalents	141,741	-	141,741
Grants and other receivables	670,849	-	670,849
Due from other funds	11,755,507	-	11,755,507
Prepaid expenses	145,195	19,062	164,257
Total assets	$ 15,358,088	$ 129,376	$ 15,487,464
LIABILITIES			
Accounts payable	$ 840,979	$ 7,302	$ 848,281
Accrued salaries	22,192	-	22,192
Accrued payroll tax and benefits	38,968	-	38,968
Unearned revenue	-	22,932	22,932
Total liabilities	902,139	30,234	932,373
Deferred inflows of resources:			
Unavailable revenue	494,602	-	494,602
FUND BALANCE			
Nonspendable	145,195	19,062	164,257
Restricted	141,741	80,080	221,821
Unassigned	13,674,411	-	13,674,411
Total fund balance	13,961,347	99,142	14,060,489
Total liabilities, deferred inflows of resources and fund balance	$ 15,358,088	$ 129,376	$ 15,487,464

Reconciliation of Balance Sheet of the Governmental Funds to the Statement of Net Position

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

Fund Balance - Governmental Funds	$ 14,060,489
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	258,397
Other noncurrent assets are not available to pay for current expenditures and are deferred in the funds.	494,602
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.	(1,736,630)
Annual leave is no due and payable in the current year and, therefore, is not reported in the funds.	(41,428)
Net position of Governmental activities	$ 13,035,430

Fort Monroe Authority
Component Unit of the Commonwealth of Virginia
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds
June 30, 2017

	General	Special Revenue Fort Monroe Foundation	Total Governmental Total
REVENUE			
Intergovernmental revenue:			
State	$ 5,497,429	$ -	$ 5,497,429
Federal	1,304,316	-	1,304,316
Other	952,900	81,745	1,034,645
Total revenue	7,754,645	81,745	7,836,390
Expenditures:			
Planning and development	3,651,137	106,953	3,758,090
Capital outlay	978,657	-	978,657
Total expenditures	4,629,794	106,953	4,736,747
Excess of revenue over (under) expenditures	3,124,851	(25,208)	3,099,643
Fund balance, beginning of year	10,836,496	124,350	10,960,846
Fund balance, end of year	$ 13,961,347	$ 99,142	$ 14,060,489

See accompanying notes.

Reconciliation of Balance Sheet of the Governmental Funds to the Statement of Net Position

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

Excess of revenue over expenditures - Governmental funds	$ 3,099,643
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	59,090
Depreciation expense	(34,743)
	24,347
Some revenue is not collected for several months after the Authority's fiscal year end, therefore, is not considered "available" revenue and is deferred in the governmental fund. Deferred inflows of resources decreased by this amount this year.	(540,589)
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	(758)
Pension cost	31,471
Change in net position	$ 2,614,114

Fort Monroe Authority
Component Unit of the Commonwealth of Virginia
Statement of Net Position - Enterprise Fund
June 30, 2017

ASSETS		
Current assets:		
Cash	$	186,399
Restricted cash		331,334
Accounts receivables		309,483
Prepaid expenses		92,301
Total current assets		919,517
Noncurrent assets:		
Capital assets:		
Motor vehicle equipment		26,609
Furniture and equipment		34,520
Accumulated depreciation		(60,985)
Total noncurrent assets		144
Total assets		919,661
Deferred outflows of resources:		
Difference between expected and actual pension experience		900
Changes in proportionate share of pension contributions		8,300
Deferred pension investment experience		13,700
Deferred pension contributions		16,841
Total deferred outflows of resources		39,741
LIABILITIES		
Current liabilities:		
Accounts payable		891,317
Due to other fund		11,755,507
Accrued salaries		19,860
Accrued annual leave - current portion		8,757
Deposits payable		346,962
Total current liabilities		13,022,403
Noncurrent liabilities:		
Net pension		214,800
Total liabilities		13,237,203

Deferred inflows of resources:	
Difference between expected and actual pension experience	5,800
Changes in proportionate share of pension contributions	12,100
Total deferred inflows of resources	17,900
NET POSITION	
Net investment in capital assets	144
Unrestricted (deficit)	(12,295,845)
Total net position	$ (12,295,701)

Fort Monroe Authority
Component Unit of the Commonwealth of Virginia
Statement of Revenues, Expenses and Changes in Net Position - Enterprise Funds
Year Ended June 30, 2017

Revenue:	
Charges for services:	
Rental income	$ 3,697,385
Utility income	1,514,981
Total revenue	5,212,366
Expenses:	
Facilities maintenace and operation	8,212,459
General and administrative	532,048
Depreciation	7,835
Total expenses	8,752,342
Operating loss	(3,539,976)
Nonoperating expenses:	
Contribution of buildings to the Commonwealth of Virginia	(233,962)
Change in net position	(3,773,938)
Net position, beginning of year	(8,521,763)
Net position, end of year	$ (12,295,701)

See accompanying notes.

Fort Monroe Authority
Component Unit of the Commonwealth of Virginia
Statement of Cash Flows - Enterprise Funds
Year Ended June 30, 2017

Cash flows from by operating activities:		
Cash received from tenants	$	5,157,009
Cash paid to employees		(785,390)
Cash payments to suppliers for goods and services		(4,487,856)
Net cash used by operating activities		(116,237)
Cash flows from capital and related financing activities:		
Acquisition of capital assets		(152,823)
Net decrease in cash		(269,060)
Cash, beginning of year		786,793
Cash, end of year	$	517,733
Supplemental disclosure of cash flow information:		
Cash	$	186,399
Restricted cash		331,334
	$	517,733
Supplemental disclosures of noncash transactions:		
Contribution of buildings to the Commonwealth of Virginia	$	233,962
Operating loss	$	(3,539,976)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation		7,835
Change in assets and liabilities:		
Accounts receivable		(106,486)
Prepaid expenses		26,323
Accounts payable		372,789
Due to other fund		3,072,850
Accrued liabilities		10,895
Net pension liability		(11,596)
Deposits payable		51,129
Total adjustments		3,423,739
Net cash used by operating activities	$	(116,237)

See accompanying notes.

Notes to Financial Statements

1. Organization and Purpose

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 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 2017, 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.

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.

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 in the required supplementary information 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.

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 $397,411 of deferred outflows of resources at June 30, 2017, 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 $179,000 of deferred inflows of resources at June 30, 2017, 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 Balance Sheet - Governmental Funds 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
>
> 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 and assumptions.

Net position

Net position is the difference between assets and liabilities. Net position invested in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets.

Subsequent events

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through December 11, 2017, the date the financial statements were available to be issued.

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, 2017, the Authority had $2,939,306 in bank deposits and $473,283 in restricted deposits. $3,749 represents flex spending accounts available for the employees. $138,200 represents money restricted under the Authority's homeless support services agreement with the City of Hampton and a non-profit homeless provider. Security deposits of $275,973 and $55,361 represent deposits held for tenants who have leased the residential and commercial properties, respectively.

Operating accounts:	
Government Fund	$ 2,755,110
Enterprise Fund	186,399
Total operating accounts	2,941,509
Restricted Accounts:	
Government Fund:	
Flex spending accounts	3,541
Homeless support services	138,200
Enterprise Fund:	
Security deposits on residential leases	275,973
Security deposits on commercial leases	55,361
Total restricted accounts	473,075
Total cash and cash equivalents	$ 3,414,584

4. Capital Assets

The following is a summary of the Authority's change in capital assets for the year ended June 30, 2017:

	Governmental Activities			
	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital assets not depreciated:				
Donated artifacts for museum	$ 59,705	$ -	$ -	**$ 59,705**
Construction in process	95,988	59,090	-	**155,078**
Total capital assets not depreciated	155,693	59,090	-	**214,783**
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**
Total capital assets being depreciated	289,542	-	-	**289,542**
Accumulated depreciation:				
Property and improvements	(99,786)	-	-	**(99,786)**
Motor vehicle equipment	(20,210)	-	-	**(20,210)**
Furniture and equipment	(91,189)	(34,743)	-	**(125,932)**
Total accumulated depreciation	(211,185)	(34,743)	-	**(245,928)**
Total capital assets being depreciated, net	78,357	(34,743)	-	**43,614**
Total capital assets	$ 234,050	$ 24,347	$ -	**$ 258,397**

	Business-type Activities			
	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capitalized assets not depreciated:				
Construction in process	$ 81,139	$ 152,823	$ (233,962)	**$ -**
Total capitalized assets not depreciated	81,139	152,823	(233,962)	
Capital assets being depreciated:				
Motor vehicle equipment	26,609	-	-	**26,609**
Furniture and equipment	34,520	-	-	**34,520**
Total capital assets being depreciated	61,129	-	-	**61,129**
Accumulated depreciation:				
Motor Vehicle Equipment	(22,381)	(4,084)	-	**(26,465)**
Furniture and Equipment	(30,769)	(3,751)	-	**(34,520)**
Total accumulated depreciation	(53,150)	(7,835)	-	**(60,985)**
Total capital assets being depreciated, net	7,979	(7,835)	-	**144**
Total capital assets	$ 89,118	$ 144,988	$ (233,962)	**$ 144**

As discussed in Note 2, all land, building, and infrastructure acquisitions with an individual cost of $100,000 are transferred to the Commonwealth as capital assets. The $233,962 decrease in construction in progress was transferred to the Commonwealth and is included in contribution of buildings to the Commonwealth of Virginia on the statement of activities.

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.

5. Accrued Annual Leave

The following is a summary of the Authority's change in accrued annual leave for the year ended June 30, 2017:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
	Governmental Activities			
Accrued annual leave				
Governmental activities	$ 40,670	$ 48,271	$ 47,513	**$ 41,428**
	Business-Type Activities			
Accrued annual leave				
Business-type activities	$ 8,494	$ 7,162	$ 6,899	**$ 8,757**

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 $11,755,507 at June 30, 2017 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. The total internal balances due from the Commercial Division, totaling $11,832,974 at June 30, 2017, are not anticipated to be repaid within one year.

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.

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 below:

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1	**About Plan 2**	**About the Hybrid Retirement Plan**
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.	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.	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"). • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

<table>
<tr><th>VRS PLAN 1</th><th>VRS PLAN 2</th><th>HYBRID RETIREMENT PLAN</th></tr>
<tr><td>Eligible Members</td><td>Eligible Members</td><td>Eligible Members</td></tr>
<tr><td>Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

Hybrid Opt-In Election
VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</td><td>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.

Hybrid Opt-In Election
Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</td><td>Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:
• State employees*
• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014

*Non-Eligible Members
Some employees are not eligible to participate in the Hybrid Retirement Plan.

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</td></tr>
<tr><td>Retirement Contributions</td><td>Retirement Contributions</td><td>Retirement Contributions</td></tr>
<tr><td>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.</td><td>State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.</td><td>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.</td></tr>
</table>

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Creditable Service	**Creditable Service**	**Creditable Service**
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.	Same as Plan 1.	**Defined Benefit Component:** 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. **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
Vesting	**Vesting**	**Vesting**
Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	Same as Plan 1.	**Defined Benefit Component:** 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.

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Vesting	**Vesting**	**Vesting**
		Defined Contributions Component: Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. * After two years, a member is 50% vested and may withdraw 50% of employer contributions. *After three years, a member is 75% vested and may withdraw 75% of employer contributions. *After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit	**Calculating the Benefit**	**Calculating the Benefit**
The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.	See definition under Plan 1.	**Defined Benefit Component:** See definition under Plan 1. **Defined Contribution Component:** 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.

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Calculating the Benefit	**Calculating the Benefit**	**Calculating the Benefit**
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.		
Average Final Compensation	**Average Final Compensation**	**Average Final Compensation**
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.
Service Retirement Multiplier	**Service Retirement Multiplier**	**Service Retirement Multiplier**
The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.	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.	**Defined Benefit Component:** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **Defined Contribution Component:** Not applicable.
Normal Retirement Age	**Normal Retirement Age**	**Normal Retirement Age**
Age 65.	Normal Social Security retirement age.	**Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility	**Earliest Unreduced Retirement Eligibility**	**Earliest Unreduced Retirement Eligibility**
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.	Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.

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

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in	**Cost-of-Living Adjustment (COLA) in**	**Cost-of-Living Adjustment (COLA) in**
*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.		
Disability Coverage	**Disability Coverage**	**Disability Coverage**
Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	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. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	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. 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.

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Purchase of Prior Service	**Purchase of Prior Service**	**Purchase of Prior Service**
Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts 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.	Same as Plan 1.	**Defined Benefit Component:** Same as Plan 1, with the following exceptions: *Hybrid Retirement Plan members are ineligible for ported service. *The cost of purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. *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. **Defined Contribution Component:** Not applicable.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to 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, 2017, was 13.49% of covered employee compensation for employees in the VRS State Employee Retirement Plan. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. 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, 2017. Additional funding provided by the General Assembly moved the contribution rate to 90% of the actuarial rate effective August 10, 2015. Contributions from the state agency to the VRS State Employee Retirement Plan were $168,411 for the year ended June 30, 2017.

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

At June 30, 2017, the Authority reported a liability of $2,148,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2016 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, 2016 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the Authority's proportion of the VRS State Employee Retirement Plan was 0.03259% as compared to 0.03513% at June 30, 2016.

For the year ended June 30, 2017, the Authority recognized pension expense of $185,000 for the VRS State Employee Retirement Plan. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 9,000	$ 58,000
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	137,000	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	83,000	121,000
Employer contributions subsequent to the measurement date	168,411	-
Total	$ 397,411	$ 179,000

$168,411 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2018	$ (6,000)
2019	(36,000)
2020	35,000
2021	57,000
	$ 50,000

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2015, 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, 2016.

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 four years and females were set back two years.

Post-Retirement:
RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 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.

The actuarial assumptions used in the June 30, 2015 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 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, 2016, NPL amounts for the VRS State Employee Retirement Plan are as follows (amounts expressed in thousands):

State Employee Retirement Plan

Total pension liability	$ 22,958,593
Plan fiduciary net position	16,367,842
Employers' net pension liability	$ 6,590,751
Plan fiduciary net position as a percentage of the total pension liability	71.29%

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.

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:

Assets Class Strategy	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
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	100.00%		5.83%
Inflation			2.50%
Expected arithmetic nominal return			8.33%

* 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%.

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:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Authority's proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	$ 3,023,000	$ 2,148,000	$ 1,414,000

Pension Plan Fiduciary Net Position

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2016-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, 2017, 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."

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.

	General Fund	Special Revenue Fort Monroe Foundation	Total
Nonspendable:			
Prepaid expenditures	$ 145,195	$ 19,062	$ 164,257
Restricted:			
Flex savings cash account, homeless support	141,741	80,080	221,821
Unassigned	13,674,411	-	13,674,411
Total fund balance	$ 13,961,347	$ 99,142	$ 14,060,489

11. Insurance Recoveries

During 2017, the Authority received insurance proceeds totaling $892,464 as reimbursement for hurricane damages and a broken water main. These insurance proceeds are included in other revenue in the General Fund within the governmental activities.

Required Supplementary Information

Fort Monroe Authority
Component Unit of the Commonwealth of Virginia
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual - General Fund
Year Ended June 30, 2017

	Budget Original	Final	Actual	Variance with Final Budget Positive (Negative)
Revenue:				
Intergovernmental revenue:				
State	$5,328,616	$5,112,896	$5,497,429	$ 384,533
Federal	1,521,971	1,992,478	1,304,316	(688,162)
Other revenue	-	820,525	952,900	132,375
Total revenue	6,850,587	7,925,899	7,754,645	(171,254)
Expenditures:				
Planning and development	6,576,487	7,456,124	3,651,137	(3,804,987)
Capital outlay	274,100	469,775	978,657	508,882
Total expenditures	6,850,587	7,925,899	4,629,794	(3,296,105)
Excess revenue over expenditures	$ -	$ -	$ 3,124,851	$ 3,124,851

Fort Monroe Authority
Component Unit of the Commonwealth of Virginia
Schedule of Employer's Share of Net Pension Liability VRS State Employee Retirement Plan
Year Ended June 30, 2017

	2017	2016	2015
Employer's proportion of the net pension liability	**0.03259%**	0.03513%	0.03291%
Employer's proportionate share of the net pension liability	**$ 2,148,000**	$ 2,151,000	$ 1,842,000
Employer's covered-employee payroll	**1,248,414**	1,296,643	1,353,818
Employer's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	**172.05831%**	165.88992%	136.05965%
Plan fiduciary net position as a percentage of the total pension liability	**71.29%**	72.81%	74.28%

Schedule is intended to show information for 10 years. Since 2017 is the third year for this presentation, only two additional years 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.

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contribution as a % of Covered Employee Payroll
2017	$ 168,411	$ 168,411	$ -	$ 1,248,414	13.49%
2016	$ 176,344	$ 176,344	$ -	$ 1,296,643	13.60%
2015	$ 163,461	$ 163,461	$ -	$ 1,353,818	12.07%

Schedule is intended to show information for 10 years. Since 2017 is the third year for this presentation, only two additional years of data is available. However, additional years will be included as they become available.

Notes to Required Supplementary Information

Changes of Benefit Terms

There have been no significant changes to the System benefit provisions since the prior actuarial valuation. The 2015 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, 2016 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
Component Unit of the Commonwealth of Virginia
Schedule of Planning and Development Expenditures - General Fund
Year Ended June 30, 2017

Planning and development expenditures:		
Salaries and wages	$	1,214,534
Site operating costs		1,025,503
Employee benefits		472,494
Architectural and engineering services		260,606
Security		190,742
Public information and relations services		110,578
Utilities and trash disposal		83,284
Management services		80,652
Office supplies and postage		42,412
Public programs signage and special events		40,953
Telephone and communications		39,911
Dues, subscriptions and seminars		25,740
Rentals and leases		15,769
Miscellaneous		15,273
Travel		8,341
Pilot fees		7,998
Fees - banking and payroll processing		7,035
Legal services		5,730
Meetings		3,582
	$	3,651,137

Compliance Section

DIXON HUGHES GOODMAN LLP

Independent Auditors' Report 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
Fort Monroe, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and business-type activities and each major fund of the Fort Monroe Authority (the "Authority") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Fort Monroe Authority's basic financial statements, and have issued our report thereon dated December 11, 2017.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify the below deficiency in internal control that we consider to be a material weakness:

DIXON HUGHES GOODMAN LLP

Material Adjusting Journal Entries

The Authority posted a number of adjusting journal entries impacting multiple accounts after year-end closing. There was a high volume of net immaterial adjustments in the General Fund and a material adjustment required in the Commercial Enterprise Fund. We understand there was high turnover in the Authority's accounting department during 2017; however, without timely review of account reconciliations, the monthly reports management and the Board rely upon could be misleading. We recommend a monthly review of significant accounts to ensure any necessary adjusting entries are posted on a timely basis.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 Authority'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.

Dixon Hughes Goodman LLP

Newport News, Virginia
December 11, 2017

Independent Auditors' Report on Compliance with Commonwealth of Virginia Laws, Regulations, Contracts and Grants

The Board of Trustees
Fort Monroe Authority
Fort Monroe, Virginia

We have audited the financial statements of the Fort Monroe Authority (the "Authority"), as of and for the year ended June 30, 2017, and have issued our report thereon dated December 11, 2017.

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 *Specifications for Audits of Boards, Commissions and Authorities*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement.

Compliance with Commonwealth of Virginia laws, regulations, contracts and grants applicable to the Authority, is the responsibility of the Authority's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Authority's compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Following is a summary of the Commonwealth of Virginia's laws, regulations, contracts and grants for which we performed tests of compliance:

Code of Virginia

- Cash and Investments
- Conflicts of Interest
- Retirement Systems
- Procurement
- Unclaimed Property

DIXON HUGHES GOODMAN LLP

The results of our tests disclosed an instance of noncompliance with the provisions referred to in the preceding paragraph. This instance is discussed in the Schedule of Findings and Responses as Finding 17-001. With respect to items not tested, nothing came to our attention that caused us to believe that the Authority had not complied, in all material respects, with those provisions.

This report is intended solely for the information and use of the Members and management of Fort Monroe Authority and the Auditor of Public Accounts and all applicable state agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Dixon Hughes Goodman LLP

Newport News, Virginia
December 11, 2017

1. Summary of Auditors' Results

(a) The type of report issued on the financial statements: **unmodified opinion**

(b) Significant deficiencies in internal control over financial reporting disclosed by the audit of the financial statements:
See material weakness noted below. No other deficiencies noted.

(c) Material weaknesses in internal disclosed over financial reporting disclosed by the audit of the financial statements:
The Authority posted a number of adjusting journal entries impacting multiple accounts after year-end closing. There was a high volume of net immaterial adjustments in the General Fund and a material adjustment required in the Commercial Enterprise Fund. We understand there was high turnover in the Authority's accounting department during 2017; however, without timely review of account reconciliations, the monthly reports management and the Board rely upon could be misleading. We recommend a monthly review of each significant account to ensure any necessary adjusting entries are posted on a timely basis

(d) Noncompliance which is material to the financial statements: **none noted**

2. Findings and Responses for Commonwealth of Virginia Laws, Regulations, Contracts, and Grants:

Finding 17-001

Condition: A disclosure statement was not filed for two Board of Trustees members as required by the Virginia Code.

Criteria: The State and Local Government Conflict of Interests Act contained in Chapter 31 of Title 2.2 of the Code of Virginia requires certain local government officials to file a disclosure statement of their personal interests with the clerk of the governing body by January 17th for 2017, unless the governing body of the jurisdiction that appoints the members requires that the members file the Statement of Economic Interests.

Effect: The Authority was not in compliance with the State and Local Government Conflict of Interest Act.

Cause: Unknown

Recommendation: The Authority should take steps to ensure that each local official files the required forms in a timely manner.

Management's response: We will ensure compliance by all Board members going forward.

3. Status of Prior Year Findings

See Client's Status of Prior Year Findings

FORT MONROE
Where Freedom Lives

December 5, 2017

Dixon Hughes Goodman LLP
Fountain Plaza One
701 Town Center Drive, Suite 700
Newport News, VA 23606

In connection with your examination of the Fort Monroe Authority's compliance with the Management response to the prior year Single Audit findings for the Office of the Adjustment Community Planning Assistance Funds, the first semi-annual report was submitted by the Authority's Procurement Manager and approved by the deadline of January 31, 2017. The second semi-annual report was due on July 31, 2017 and was scheduled to be the final performance report. When the grant period was extended by six months with no additional funding, the Office of Economic Adjustment agreed to delay the due date for the final performance report until January 31, 2018.

John K. Hutcheson

John K. Hutcheson
Deputy Executive Director
Fort Monroe Authority

Crystal L. DeAngelis

Crystal DeAngelis
Deputy Director of Finance
Fort Monroe Authority