

# **FORT MONROE AUTHORITY**

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

## **FINANCIAL STATEMENTS**

***As of and for the Year Ended June 30, 2020***

***And Report of Independent Auditor***

# FORT MONROE AUTHORITY

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## Report of Independent Auditor

To the Board of Trustees  
Fort Monroe Authority  
Fort Monroe, Virginia

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Fort Monroe Authority (the "Authority"), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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

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

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

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Authority, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority’s basic financial statements. The Schedule of Planning and Development Expenditures – General Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of 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 October 9, 2020, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority’s internal control over financial reporting and compliance.



Virginia Beach, Virginia  
October 9, 2020

**Fort Monroe Authority**  
**(A Component Unit of the Commonwealth of Virginia)**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS – (UNAUDITED)**

*June 30, 2020*

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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 Authority, as of and for the fiscal year ended June 30, 2020. 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 increased during the fiscal year by \$111K. The increase resulted from a net operating surplus from governmental activities of \$1.06M offset by a net operating deficit of \$945K from business-type activities.
- The net operating surplus from governmental activities decreased versus the prior fiscal year by \$2.25M. Program revenues increased by \$9K and general revenues decreased by \$839K, while expenses and transfers increased by \$1.42M compared to the prior year.
- The net operating deficit from business-type activities decreased by \$273K. Revenues increased by \$720K while expenses and transfers increased by \$459K compared to the prior fiscal year.
- For the fiscal year, the Authority had \$14.49M in total revenues compared to \$14.6M in the prior year. Governmental activities accounted for \$6.97M in revenue. The majority of these revenues came from state General Fund appropriations (\$6.15M), federal intergovernmental and other grants (\$379K), and other income (\$442K). Business-type charges for services, principally rental income, accounted for \$7.52M in revenue.
- Operating expenses of the Authority for the fiscal year totaled \$14.38M compared to \$12.51M in the prior year. Expenses for governmental activities (reuse and redevelopment planning) were \$5.91M compared to \$4.49M in the prior year. Expenses and transfers related to business-type activities (property leasing and maintenance, utility operations and special events) were \$8.47M compared to \$8.02M in the prior year.
- For fiscal years 2020 and 2019, the Authority’s capital assets were \$374K and \$1.39M, net of accumulated depreciation, respectively.
- As of June 30, 2019, the Authority had an outstanding balance of \$260,784 in a short-term construction loan with Old Point National bank. During the fiscal year, the associated construction project was completed and the construction loan was converted to a long-term amortizing note. The principal balance of the term loan as of June 30, 2020 was \$353,311.

**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.

**Fort Monroe Authority**  
**(A Component Unit of the Commonwealth of Virginia)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – (UNAUDITED)**

*June 30, 2020*

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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- and short-term information about the Authority's overall financial status. The fund financial statements (government and enterprise) focus on the individual parts of the Authority, reporting the Authority's operations in more detail than the government-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 it may have changed from year to year. 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.

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.

**Component Unit of the Commonwealth of Virginia**

Established by an Act of the 2011 General Assembly ("FMA Act"), on July 1, 2011 the Authority became the successor in interest by law to the Fort Monroe Federal Area Development Authority ("FMFADA"). Building on the work of the FMFADA, the Authority continues to focus on the transfer of property from the U.S. Army ("Army") to the Commonwealth of Virginia (Commonwealth) as well as the creation of business revenue through adaptive reuse of existing structures at Fort Monroe to reduce the future financial burden on the Commonwealth.

The FMA Act (Virginia Code § 2.2-2336 et seq.) established the Authority as a public body corporate and political subdivision of the Commonwealth to perform essential governmental functions of the Commonwealth. The FMA Act establishes the organization of the Board of Trustees of the Authority and also sets out certain powers and duties of the Authority. The FMA Act allows the Authority to manage its own financial activities subject to certain provisions, including the requirement that the accounts of the Authority be audited annually by the Auditor of Public Accounts. Since the Authority was created to serve as the Commonwealth's management agent, and since the Governor of the Commonwealth appoints a majority of the Authority's Board of Trustees, and since the Authority is largely dependent on General Fund appropriations to meet its obligations, the Authority is a component unit of the Commonwealth. The information contained in these audited financial statements will be discretely presented in the Commonwealth's annual financial reports.

Beginning in fiscal year 2011, the FMFADA first engaged in business-type activities, notably the sub-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 and manage the 177 residential units and commercial space to governmental and private tenants.

**Fort Monroe Authority**  
**(A Component Unit of the Commonwealth of Virginia)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – (UNAUDITED)**

*June 30, 2020*

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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 (buildings and infrastructure) and therein (underground utility systems) to Commonwealth ownership. A portion of the reversionary property totaling approximately 38.18 acres was not transferred due to potential environmental hazards covered under the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA").

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 created as an additional business-type activity.

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 improvements thereon and therein to the Authority under the terms of the Economic Development Conveyance Agreement ("EDC") between the parties executed on January 10, 2017. The Authority simultaneously deeded the property to the Commonwealth. A portion of the EDC property totaling approximately 9.37 acres was not transferred due to potential environmental hazards covered under CERCLA.

In 2018, the Army completed the remedial investigations, and in certain cases remedial actions, to address any environmental concerns governed by CERCLA. After approval of the remedial actions by the Department of Environmental Quality, the Army transferred 4.21 acres of reversionary property and all the improvements thereon and therein to the Commonwealth by deed signed on January 24, 2019. On March 12, 2019, the Army transferred 9.366 acres of EDC property and all the improvements thereon and therein to the Fort Monroe Authority. On April 15, 2019, the Army transferred 33.97 acres of reversionary property and all the improvements thereon and therein to the Commonwealth of Virginia.

During fiscal year 2018, the Fort Monroe Foundation made changes to its governance and By-Laws. As a result, the Authority is no longer required to report the Fort Monroe Foundation financial statements as a blended component unit of the Authority.

As of June 30, 2020, the Commonwealth owns 313± acres of property at Fort Monroe. The Army retains ownership of 4.97 acres of reversionary land. The reversion of this parcel, which contains the former Chamberlin Hotel, was delayed by a 2004 Act of the Assembly that deferred reversion of this property until December 31, 2087. The Army also retains ownership of 122.29± acres of federal surplus land that will be transferred directly to the Department of the Interior as part of the Fort Monroe National Monument.

**Fort Monroe Authority**  
**(A Component Unit of the Commonwealth of Virginia)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – (UNAUDITED)**

*June 30, 2020*

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**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:

General Fund -The General Fund is 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, 2020, the Commonwealth owns 313± acres of property and all the improvements thereon and therein. The portion of the property not used or designated to be used for revenue generating purposes will be reported in the government fund. The General Fund will also include operating and compliance costs associated with the natural gas, water, sewer, and stormwater infrastructure. The operation of the Casemate Museum and the new Visitor and Education Center are accounted for as part of the General Fund.

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

- The 313± acres owned by the Commonwealth contain approximately 460K square feet of residential structures and associated garages together with approximately 1.29M square feet of commercial and administrative space. 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, 2020, the electric utility contract with Dominion Energy has not been transferred to the Authority. Subsequent to 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.



**Fort Monroe Authority**  
**(A Component Unit of the Commonwealth of Virginia)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – (UNAUDITED)**

June 30, 2020

**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, 2020 and 2019**

	Governmental Activities		Business-type Activities		Government-wide Activities	
	2020	2019	2020	2019	2020	2019
Current and Other Assets	\$ 21,701.9	\$ 19,966.4	\$ (14,828.9)	\$ (14,276.1)	\$ 6,873.0	\$ 5,690.3
Capital Assets	69.5	973.3	304.6	395.7	374.1	1,369.0
Total Assets	21,771.4	20,939.7	(14,524.3)	(13,880.4)	7,247.1	7,059.3
Deferred Outflows of Resources	677.7	568.3	110.7	109.6	788.4	677.9
Current and Other Liabilities	2,552.9	2,755.2	1,903.3	1,603.0	4,456.2	4,358.2
Total Liabilities	2,552.9	2,755.2	1,903.3	1,603.0	4,456.2	4,358.2
Deferred Inflows of Resources	479.2	392.8	78.2	75.8	557.4	469.0
Net Position:						
Net investment in Capital Assets	69.5	973.2	(48.7)	134.9	20.8	1,108.1
Restricted	615.9	788.5	329.9	14.4	945.8	802.9
Unrestricted	18,731.5	16,598.1	(16,676.2)	(15,598.9)	2,055.3	999.2
Total Net Position	\$ 19,416.9	\$ 18,359.8	\$ (16,395.0)	\$ (15,449.6)	\$ 3,021.9	\$ 2,910.2

As of June 30, 2020, the Authority had total assets and deferred outflows of resources of \$8.04M compared to \$7.74M as of June 30, 2019. Total liabilities and deferred inflows of resources as of June 30, 2020 were \$5.01M compared to \$4.83M at the end of the prior fiscal year. For the current fiscal year-end, combined net position was \$3.02M compared to \$2.91M as of June 30, 2019.

During fiscal year 2020, the Authority's total assets and deferred outflows of resources increased by \$298K. Current and other assets, which consists primarily of cash, cash equivalents, and restricted cash, increased by \$1.18M over the prior year. Capital assets, net of depreciation, decreased by \$995K over the prior year, predominantly due to the transfer of construction projects costs to the Commonwealth at the end of the fiscal year. Deferred outflows of resources, which are related to the Authority's pension and other post-employment benefit ("OPEB") obligations increased by \$111K. During the fiscal year, the Authority's total liabilities and deferred inflows of resources increased by \$186K. For the fiscal year total liabilities increased by \$98K while deferred inflows of resources net pension and OPEB obligations increased by \$88K.

**Fort Monroe Authority**  
**(A Component Unit of the Commonwealth of Virginia)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – (UNAUDITED)**

June 30, 2020

Changes in Net Position:

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

**Table 2 - Changes in Net Position**  
**Years Ended June 30, 2020 and 2019**

	Governmental Activities		Business-type Activities		Government-wide Activities	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program Revenue:						
Charges for Services	\$ -	\$ -	\$ 7,524.6	\$ 6,804.7	\$ 7,524.6	\$ 6,804.7
Capital Grants and Contributions	379.3	370.7	-	-	379.3	370.7
General Revenues:						
Operating Appropriations	6,147.9	6,334.7	-	-	6,147.9	6,334.7
Other Revenues	442.4	1,094.3	-	-	442.4	1,094.3
Total Revenues	<u>6,969.6</u>	<u>7,799.7</u>	<u>7,524.6</u>	<u>6,804.7</u>	<u>14,494.2</u>	<u>14,604.4</u>
Expenses:						
Planning and Development	4,470.6	4,038.3	-	-	4,470.6	4,038.3
Property Admin and Maintenance	-	-	8,293.5	8,476.1	8,293.5	8,476.1
Contribution of buildings to the Commonwealth of Virginia	1,442.0	-	176.5	-	1,618.5	-
Total Expenses	<u>5,912.6</u>	<u>4,038.3</u>	<u>8,470.0</u>	<u>8,476.1</u>	<u>14,382.6</u>	<u>12,514.4</u>
Transfers	-	(453.3)	-	453.3	-	-
Change in Net Position	<u>1,057.0</u>	<u>3,308.1</u>	<u>(945.4)</u>	<u>(1,218.1)</u>	<u>111.6</u>	<u>2,090.0</u>
Net Position - Beginning of Year as previously reported	18,359.8	15,096.9	(15,449.6)	(14,231.5)	2,910.2	865.4
Restatement*	-	(45.2)	-	-	-	(45.2)
Net Position - Beginning of Year as restated	<u>18,359.8</u>	<u>15,051.7</u>	<u>(15,449.6)</u>	<u>(14,231.5)</u>	<u>2,910.2</u>	<u>820.2</u>
Net Position - End of Year	<u>\$ 19,416.9</u>	<u>\$ 18,359.8</u>	<u>\$ (16,395.0)</u>	<u>\$ (15,449.6)</u>	<u>\$ 3,021.9</u>	<u>\$ 2,910.2</u>

\* Effective for 2019, the Foundation's Bylaws were amended and the Authority was no longer deemed to be financially accountable to the Foundation and as such, the Foundation is no longer a part of the reporting entity of the Authority.

**Fort Monroe Authority**  
**(A Component Unit of the Commonwealth of Virginia)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – (UNAUDITED)**

*June 30, 2020*

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**Revenues**

The majority of revenues attributable to governmental activities stem from state appropriations from the Commonwealth of Virginia's General Fund. For the year ended June 30, 2020, General Fund appropriations were \$6.15M compared to \$6.33M in the prior fiscal year. Total other revenues decreased from \$1.09M to \$442K. Other revenues for the current and prior fiscal years consists principally of donations and reimbursements from third parties for the design, fabrication, and installation of exhibits installed in the new Fort Monroe Visitor and Education Center ("FMVEC") that were not funded by the Virginia bond appropriations for the building renovation project. Business-type activities generated \$7.52M in revenues during the current fiscal year compared to \$6.80M for the prior fiscal year. Residential rental revenues was principally unchanged from the prior year due to continued high occupancy rates. Commercial rental revenues increased significantly due to new leases signed during FY19.

**Expenses**

Expenses for the fiscal year ended June 30, 2020 were \$14.38M compared to \$12.51M 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 313± acres of Commonwealth property 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, governmental activity expenses increased by \$1.87M. The transfer of construction project costs to the Commonwealth accounted for \$1.44M of the increase. Business-type activity expenses decreased by \$6K. Business-type activity expenses for the fiscal year included a \$177K transfer of construction project costs to the Commonwealth.

**Financial Analysis of the Authority's Funds**

For fiscal years 2020 and 2019, the Authority operated two funds - the General Fund and the Enterprise Fund. 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. The Authority's General Fund reflects operations of its planning and redevelopment efforts that are predominantly funded by Virginia appropriations. The Authority's Enterprise Fund reflects 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.

For fiscal year 2020, General Fund expenditures were \$4.90M. This amount includes the cost of staffing and benefits for the majority of the Authority's employees, the cost of the public works, site-wide security, and other consulting contracts, and the costs for the operation of the Casemate Museum and Visitor and Education Center.

Enterprise Fund expenses for the fiscal year were \$8.47M. These costs include the cost of staffing and benefits for Authority employees in residential and special events operations, as well as the costs for the repair and maintenance, insurance, utility, and payment in lieu of tax expenses for all building and structures not used by the Authority. The Enterprise Fund expenses include the net operating costs for electric, natural gas, water, and sewer utility systems. The Enterprise Fund also includes expenses related to the Authority's event production and venue rentals activities.

**Fort Monroe Authority**  
**(A Component Unit of the Commonwealth of Virginia)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – (UNAUDITED)**

*June 30, 2020*

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**Budgetary Highlights**

The Authority submits its budget request as part of the Commonwealth's biennial budget process. In September 2017, the Authority submitted its request for Virginia General Fund support for the biennial period beginning on July 1, 2018 and ending June 30, 2020 (FY19 and FY20). The original submittal requested \$5,686,915 for operations support for each year in biennial budget and \$2M in maintenance reserve funding in each fiscal year. The Governor's budget presented in December 2017 included the Authority's request for \$5.68M in General Fund support for FY19 and FY20 but only included \$2M in maintenance reserve funding for FY19.

During the 2018 General Assembly session, the Executive Director, working with Senator Locke and Delegate Hesel, was able to submit amendments to include \$2M in maintenance reserve for FY20 as well as increase in funding for the startup of the FMVEC of \$128,691 in FY19 and \$235,330 in FY20. During the FY18 special session, the General Assembly approved a final biennial budget that included \$5,686,915 in funding for FY19 and \$5,923,245 in funding for FY20, together with \$2M in maintenance reserve allocation for both FY19 and FY20.

During the 2019 General Assembly session, the Executive Director, working with the Governor and his staff, was able to increase the FY19 appropriation by \$500,000 for the design of a memorial park dedicated to the first landing of Africans in the English colonies in August 1619. In addition, the FY20 appropriation was increased to \$6,080,167.

In September 2019, the Authority submitted its request for Virginia General Fund support for the biennial period beginning on July 1, 2020 and ending June 30, 2022 ("FY21 and FY22"). The original submittal requested \$6,174,674 for operations support for each year in biennial budget, \$2M in maintenance reserve funding in each fiscal year, and \$27M for capital project funding. The Governor's budget presented in December 2019 included the Authority's request for \$6.17M in General Fund support for FY21 and FY22 and \$17.8M for capital project funding but did not include any maintenance reserve funding for FY21 or FY22.

During the 2020 General Assembly session, the Executive Director, working with Senator Locke, was able to submit an amendment to include \$2M in maintenance reserve for FY21 and FY22 in the Senate version of the budget bill. During the 2020 budget conference committee, the maintenance reserve allocation was reduced to \$1M per year. While the final budget bill signed by the Governor includes the \$6.17M in general fund appropriations for both years, \$1M in maintenance reserve allocations for both years, and \$17.8M in capital project funding, the General Assembly will reconsider the FY21-22 biennial budget in a 2020 special session due to the impact to state revenues resulting from the SARS-CoV-2 pandemic.

The Authority staff submits an annual budget proposal for the next fiscal year to the Finance Committee at its meeting in June for review and recommendation for adoption by the Board of Trustees. At its meeting on June 15, 2020, the Finance Committee reviewed the FY21 operating budget and recommended it to the Board of Trustees for adoption. At its meeting on June 18, 2020, the Authority Board of Trustees adopted the FY21 budget recommended by the Finance Committee. The Authority submitted its FY21 annual budget to the Senate Finance and Appropriations Committee, House Appropriations Committee, and Department of Planning and Budget as required by the FMA Act.

**Fort Monroe Authority**  
**(A Component Unit of the Commonwealth of Virginia)**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS – (UNAUDITED)**

June 30, 2020

**Capital Assets and Debt Administration Capital Assets**

As of June 30, 2020, the Authority had invested \$374K in net capital assets as reflected in Table 3 (reflected in thousands). This amount includes \$345K in leasing commissions, which are amortized over the life of the related leases, \$60K in non-depreciable donations, \$260K in depreciable assets, and \$290K in accumulated depreciation and amortization. At June 30, 2019, the Authority had net capital assets of \$1.37M. This amount included \$1.08M in non-depreciable construction in progress, \$231K in amortizable leasing commissions, \$60K in non-depreciable donations, \$241K in depreciable assets, and \$245K in accumulated depreciation and amortization. The Authority depreciates or amortizes assets based on straight-line methodology over the useful life of the asset.

**Table 3 - Capital Assets**  
**At June 30, 2020 and 2019**

	Governmental		Business-type		Government-wide	
	Activities		Activities		Activities	
	2020	2019	2020	2019	2020	2019
Donated Artifacts for Museum	\$ 59.7	\$ 59.7	\$ -	\$ -	\$ 59.7	\$ 59.7
Construction in Process	-	907.2	-	174.2	-	1,081.4
Leasing Commissions	-	-	344.5	231.8	344.5	231.8
Motor Vehicle Equipment	20.2	20.2	35.7	26.6	55.9	46.8
Furniture and Equipment	169.7	159.3	34.5	34.5	204.2	193.8
Accumulated Depreciation	(180.1)	(173.1)	(110.1)	(71.5)	(290.2)	(244.6)
Total Capital Assets, net	\$ 69.5	\$ 973.3	\$ 304.6	\$ 395.6	\$ 374.1	\$ 1,368.9

During the current fiscal year, the Authority incurred construction in process expenses for the renovation of Building 96 for a commercial tenant as well as the renovation of Building 138 for the new FMVEC. By agreement with the Commonwealth Department of Accounts, all capital project costs are transferred to the Commonwealth’s financial statements upon completion of the capital projects. At the end of the fiscal year, the Authority transferred to the Commonwealth \$1.6M in capital improvement costs related to the renovation of Building 96 and the renovation of Building 138 for the new FMVEC.

**Short and Long-Term Debt**

On June 27, 2017, the Authority executed a 15-year lease with the Department of General Services (“DGS”) for the entirety of Building 96 with an option to lease Building 265. The lease required the Authority to perform certain improvements to the building prior to occupancy by DGS or other state entity. The roof and HVAC replacements were to be funded by Maintenance Reserve funds allocated for the Authority. The interior improvements were believed to be ineligible for Maintenance Reserve or other bond funding. The Authority executed a construction loan agreement with Old Point National Bank in September 2017 in the principal amount of \$1.2M. Draws were made on the construction loan to pay for design fees and the first half of the leasing commission. Prior to the execution of the construction contract, the Department of Planning and Budget approved the Authority to use VPBA bond proceeds for the construction cost. As of June 30, 2019, the construction loan balance was \$260,784. During the current fiscal year, the second half of the leasing commission was funded by the construction loan and the construction loan was subsequently converted to an amortizing term loan. As of June 30, 2020, the outstanding principal balance was \$353,311.

**Fort Monroe Authority**  
**(A Component Unit of the Commonwealth of Virginia)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – (UNAUDITED)**

*June 30, 2020*

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**Economic Factors and Next Year's Budget**

During the redevelopment process, the Authority will be largely dependent on Virginia appropriations to bridge the gap between revenue received from business activities and the cost to maintain the property including the large inventory of vacant commercial buildings. The current state of the federal and state economy, particularly the current impact of the SARS-CoV-2 pandemic, may impact state revenues which, in turn, may limit the level of Virginia General Fund support available to the Authority.

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 95-98%. However, without adequate funds to address deferred maintenance repairs the properties the Authority may not be able to address maintain this level of occupancy. While the Authority experienced little impact to residential occupancy and revenues in the current fiscal year due to the SARS-CoV-2 pandemic, the continuation of the pandemic and the resulting economic impact might result in increasing unemployment and a decrease in occupancy and revenues if existing and/or future residents become unemployed

The Authority currently has 7 residential units that need significant repairs before the units are suitable for leasing. The Authority requested additional funding in FY19-20 to make repairs to these 7 units. The General Assembly approved \$2M in maintenance reserve allocations in FY19 and FY20 to support building renovation projects at Fort Monroe. However, even with the 7 additional units, the residential inventory will limit the Authority's ability to generate significant additional 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. A new multi-family apartment complex (Monroe Gates) has been approved and has begun construction in Phoebus which will supply a new inventory of residential units in the local area. This development is expected to be completed in late calendar year 2020.

The Authority, working with its commercial leasing contractor, continues to pursue new tenants for approximately 940 thousand square feet of vacant office, retail, and industrial 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, 2020, the Authority manages approximately 1.29M square feet of office, retail and industrial space on Fort Monroe. Of that inventory, approximately 215K is leased to tenants, another 41K is licensed to private entities, and another 96K is reserved for the Authority's use. That reflects a 27.2% occupancy for commercial buildings. The annual operating deficit for the commercial enterprise fund will continue to require significant general fund support unless and until private developers invest in long-term lease transactions. Additionally, the threat of the continued global pandemic may have a detrimental effect on business revenues for existing commercial tenants resulting in a reduction in or loss of occupied commercial space, while also limiting the potential for new commercial lease transactions

**Fort Monroe Authority**  
**(A Component Unit of the Commonwealth of Virginia)**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS – (UNAUDITED)**

*June 30, 2020*

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In response to the continued weakness in commercial leasing for the historic inventory, the Authority issued a Request for Qualifications and Statement of Interest in June 2018 to solicit input from private entities to propose future reuse alternatives for approximately 900K square feet of office, retail and industrial space. Statements of qualifications were received in October 2018. After review by a working group created by the Executive Director, the Board of Trustees concurred with the Executive Director’s recommendation on the qualified respondents invited to submit real estate proposals to enter into long-term leases for the redevelopment of certain properties. Upon the completion of the Army transfers in April 2019, the Authority issued a Request for Real Estate Proposals (“RFREP”) to those companies pre-qualified from the RFQ process. The same Executive Director’s working group reviewed the real estate proposals received in October 2019. At the November 2019 meeting of the Board of Trustees, the Board agreed with the Executive Director’s recommendation that four of the respondents offered proposals that reflected sufficient experience with historic redevelopment, a thorough understanding of the Authority’s governing documents, and consideration of the redevelopment on the visitor experience. At the February 2020 meeting of the Board, the Executive Director recommended that two of the proposals be approved for negotiation of long-term leases. The Board approved the Executive Director’s recommendation. Unfortunately, the economic impact of the SAR-CoV-2 pandemic on the lending and equity markets has delayed the negotiation of the long-term leases. As of June 30, 2020, the Authority is still in negotiation with the two developers. While the Authority believes that it will reach an agreement with the developers, and that the developers have the financial capacity to perform their obligations under the lease, both developers are using debt and equity financing that are dependent on the state of the financial markets.

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. Additionally, in recent years there have been several bills in the Virginia General Assembly to reduce or eliminate the state historic tax credits. Any significant change to either tax credit program may severely affect the Authority 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. The Authority submitted a capital request for \$32M for infrastructure improvements during the FY19 General Assembly session. No funding was allocated. In preparation for the FY20 General Assembly session, the Authority submitted a \$27M capital funding request. The \$17.8M in additional capital funding in the FY21-22 budget will allow the Authority to continue with the current projects in the capital improvement plan (“CIP”). However, 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.fortmonroe.org](http://www.fortmonroe.org).

## **BASIC FINANCIAL STATEMENTS**



**FORT MONROE AUTHORITY**  
**(A Component Unit of the Commonwealth of Virginia)**  
**STATEMENT OF NET POSITION**

JUNE 30, 2020

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total Primary Government</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,153,303	\$ 2,772,212	\$ 4,925,515
Restricted cash and cash equivalents	554,326	319,892	874,218
Grants and other receivables	76,095	467,992	544,087
Internal balances	18,850,816	(18,850,816)	-
Prepaid expenses	5,850	12,424	18,274
Lease receivable, straight-line	-	439,358	439,358
Net OPEB asset, VSDP	61,571	10,040	71,611
Capital assets:			
Nondepreciable capital assets	59,705	-	59,705
Depreciable capital assets, net	9,753	304,587	314,340
<b>Total Assets</b>	<b>21,771,419</b>	<b>(14,524,311)</b>	<b>7,247,108</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred pension amounts	509,014	83,176	592,190
Other postemployment benefit deferrals:			
Deferred VSDP OPEB amounts	21,699	3,539	25,238
Deferred DHRM OPEB amounts	74,838	12,204	87,042
Deferred GLIP OPEB amounts	33,762	5,506	39,268
Deferred HICP OPEB amounts	38,355	6,255	44,610
<b>Total Deferred Outflows of Resources</b>	<b>677,668</b>	<b>110,680</b>	<b>788,348</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 22,449,087</b>	<b>\$ (14,413,631)</b>	<b>\$ 8,035,456</b>

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

**FORT MONROE AUTHORITY**  
**(A Component Unit of the Commonwealth of Virginia)**  
**STATEMENT OF NET POSITION (CONTINUED)**

JUNE 30, 2020

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total Primary Government</b>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 64,219	\$ 627,382	\$ 691,601
Accrued salaries	54,247	14,443	68,690
Accrued payroll tax and benefits	37,097	-	37,097
Accrued annual leave - due within one year	75,965	14,328	90,293
Unearned revenues	-	172,364	172,364
Note payable, due within one year	-	24,606	24,606
Deposits payable	-	342,915	342,915
Net pension liability	1,889,824	308,179	2,198,003
Net OPEB liability, DHRM	154,161	25,140	179,301
Net OPEB liability, GLIP	105,353	17,180	122,533
Net OPEB liability, HICP	172,063	28,059	200,122
Note payable, long-term	-	328,705	328,705
<b>Total Liabilities</b>	<b>2,552,929</b>	<b>1,903,301</b>	<b>4,456,230</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred pension amounts	201,516	32,862	234,378
Other postemployment benefit deferrals:			
Deferred VSDP OPEB amounts	14,751	2,405	17,156
Deferred DHRM OPEB amounts	228,569	37,273	265,842
Deferred GLIP OPEB amounts	16,965	2,767	19,732
Deferred HICP OPEB amounts	17,420	2,841	20,261
<b>Total Deferred Inflows of Resources</b>	<b>479,221</b>	<b>78,148</b>	<b>557,369</b>
<b>NET POSITION</b>			
Net investment in capital assets	69,458	(48,724)	20,734
Restricted	615,897	329,932	945,829
Unrestricted (deficit)	18,731,582	(16,676,288)	2,055,294
<b>Total Net Position</b>	<b>19,416,937</b>	<b>(16,395,080)</b>	<b>3,021,857</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<b>\$ 22,449,087</b>	<b>\$ (14,413,631)</b>	<b>\$ 8,035,456</b>

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

**FORT MONROE AUTHORITY**  
**(A Component Unit of the Commonwealth of Virginia)**  
**STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2020

	Program Revenues				Net Revenues (Expenses) and Change in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total Primary Government
Functions/Programs:							
Governmental Activities:							
Planning and development	\$ 4,470,668	\$ -	\$ -	\$ 379,339	\$ (4,091,329)	\$ -	\$ (4,091,329)
Business-type Activities:							
Property administration and maintenance	8,293,482	7,524,556	-	-	-	(768,926)	(768,926)
Total	<u>\$ 12,764,150</u>	<u>\$ 7,524,556</u>	<u>\$ -</u>	<u>\$ 379,339</u>	(4,091,329)	(768,926)	(4,860,255)
General Revenues (Expenses):							
Operating appropriations from the Commonwealth of Virginia					6,147,947	-	6,147,947
Other revenues					442,426	-	442,426
Contributions to the Commonwealth of Virginia					(1,442,012)	(176,508)	(1,618,520)
Change in net position					1,057,032	(945,434)	111,598
Net position, beginning of year					18,359,905	(15,449,646)	2,910,259
Net position, end of year					<u>\$ 19,416,937</u>	<u>\$ (16,395,080)</u>	<u>\$ 3,021,857</u>

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

**FORT MONROE AUTHORITY**  
**(A Component Unit of the Commonwealth of Virginia)**  
**BALANCE SHEET – GENERAL FUND**

*JUNE 30, 2020*

	<u>General</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 2,153,303
Restricted cash and cash equivalents	554,326
Grants and other receivables	76,095
Due from other funds	18,850,816
Prepaid expenses	5,850
<b>Total Assets</b>	<b>\$ 21,640,390</b>
<b>LIABILITIES</b>	
Accounts payable	\$ 64,219
Accrued salaries	54,247
Accrued payroll tax and benefits	37,097
<b>Total Liabilities</b>	<b>155,563</b>
<b>FUND BALANCE</b>	
Nonspendable	5,850
Restricted	554,326
Unassigned	20,924,651
<b>Total Fund Balance</b>	<b>21,484,827</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$ 21,640,390</b>

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

## FORT MONROE AUTHORITY

(A Component Unit of the Commonwealth of Virginia)

### RECONCILIATION OF BALANCE SHEET OF THE GENERAL FUND TO THE STATEMENT OF NET POSITION

JUNE 30, 2020

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

Fund Balance - General Fund	\$ 21,484,827
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	69,458
The net pension liability is not due and payable in the current period and, therefore, is not reported as a liability in governmental funds.	(1,889,824)
The net OPEB asset is not a current financial resource and, therefore, is not reported as an asset in governmental funds.	61,571
The net OPEB liability is not due and payable in the current period and, therefore, is not reported as a liability in governmental funds.	(431,577)
Deferred outflows and inflows of resources related to the net pension obligations are not recognized in governmental funds.	307,498
Deferred outflows and inflows of resources related to the net OPEB obligations are not recognized in governmental funds.	(109,051)
Annual leave is not due and payable in the current period and, therefore, is not reported in governmental funds.	(75,965)
Net Position of Governmental Activities	<u>\$ 19,416,937</u>

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

**FORT MONROE AUTHORITY**  
**(A Component Unit of the Commonwealth of Virginia)**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –**  
**GENERAL FUND**

*YEAR ENDED JUNE 30, 2020*

	<u><b>General</b></u>
Revenues:	
Intergovernmental revenues:	
State	\$ 6,527,286
Other	473,934
Total Revenues	<u>7,001,220</u>
Expenditures:	
Planning and development	4,117,681
Capital outlay	783,210
Total Expenditures	<u>4,900,891</u>
Excess of Revenues over Expenditures	<u>2,100,329</u>
Net change in fund balance	2,100,329
Fund balance, beginning of year	<u>19,384,498</u>
Fund balance, end of year	<u><u>\$ 21,484,827</u></u>

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

**FORT MONROE AUTHORITY**

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

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GENERAL FUND TO THE STATEMENT OF ACTIVITIES**

*YEAR ENDED JUNE 30, 2020*

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

Net Change in Fund Balance - General Fund \$ 2,100,329

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense.

Capital outlays	545,266
Contributions of buildings to the Commonwealth of Virginia	(1,442,012)
Depreciation expense	(7,056)
	<u>(903,802)</u>

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. Unavailable revenues changed by this amount in the current year. (31,508)

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

Accrued annual leave	(23,990)
Pension	(90,775)
OPEB	6,778
	<u>(107,987)</u>

Change in Net Position \$ 1,057,032

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

**FORT MONROE AUTHORITY**  
**(A Component Unit of the Commonwealth of Virginia)**  
**STATEMENT OF NET POSITION – ENTERPRISE FUND**

*JUNE 30, 2020*

**ASSETS**

Current Assets:

Cash	\$ 2,772,212
Restricted cash, security deposits	319,892
Accounts receivables	467,992
Prepaid expenses	12,424
<b>Total Current Assets</b>	<u>3,572,520</u>

Noncurrent Assets:

Net OPEB asset, VSDP	10,040
Lease receivable, straight-line	439,358
Depreciable capital assets, net	304,587
<b>Total Noncurrent Assets</b>	<u>753,985</u>
<b>Total Assets</b>	<u>4,326,505</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred pension amounts	83,176
Deferred VSDP OPEB amounts	3,539
Deferred DHRM OPEB amounts	12,204
Deferred GLIP OPEB amounts	5,506
Deferred HICP OPEB amounts	6,255
<b>Total Deferred Outflows of Resources</b>	<u>110,680</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u>\$ 4,437,185</u>

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



**FORT MONROE AUTHORITY**  
**(A Component Unit of the Commonwealth of Virginia)**  
**STATEMENT OF NET POSITION – ENTERPRISE FUND (CONTINUED)**

*JUNE 30, 2020*

**LIABILITIES**

Current Liabilities:

Accounts payable and accrued expenses	\$ 627,382
Accrued salaries	14,443
Due to general fund	18,850,816
Accrued annual leave, current portion	14,328
Unearned revenues	172,364
Note payable, current portion	24,606
Deposits payable	342,915
<b>Total Current Liabilities</b>	<u>20,046,854</u>

Noncurrent Liabilities:

Note payable, less current portion	328,705
Net pension liability	308,179
Net OPEB liability, DHRM	25,140
Net OPEB liability, GLIP	17,180
Net OPEB liability, HICP	28,059
<b>Total Noncurrent Liabilities</b>	<u>707,263</u>
<b>Total Liabilities</b>	<u>20,754,117</u>

**DEFERRED INFLOWS OF RESOURCES**

Deferred pension amounts	32,862
Deferred VSDP OPEB amounts	2,405
Deferred DHRM OPEB amounts	37,273
Deferred GLIP OPEB amounts	2,767
Deferred HICP OPEB amounts	2,841
<b>Total Deferred Inflows of Resources</b>	<u>78,148</u>

**NET POSITION**

Net investment in capital assets	(48,724)
Restricted for other postemployment benefits	329,932
Unrestricted (deficit)	(16,676,288)
<b>Total Net Position</b>	<u>\$ (16,395,080)</u>

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

**FORT MONROE AUTHORITY**  
**(A Component Unit of the Commonwealth of Virginia)**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION –**  
**ENTERPRISE FUND**

*YEAR ENDED JUNE 30, 2020*

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Revenues:	
Charges for Services:	
Rental income and other tenant charges	\$ 5,219,543
Utility income	1,889,871
Other income	415,142
	<hr/>
Total Revenues	7,524,556
	<hr/>
Expenses:	
Facilities maintenance and operation	7,787,330
General and administrative	439,209
Depreciation	38,571
	<hr/>
Total Expenses	8,265,110
	<hr/>
Operating Loss	(740,554)
	<hr/>
Nonoperating Expenses:	
Other expenses	(28,372)
Contributions to the Commonwealth of Virginia	(176,508)
	<hr/>
Total Nonoperating Expenses	(204,880)
	<hr/>
Change in net position	(945,434)
Net position, beginning of year	(15,449,646)
	<hr/>
Net position, end of year	\$ (16,395,080)
	<hr/> <hr/>

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

**FORT MONROE AUTHORITY**  
**(A Component Unit of the Commonwealth of Virginia)**  
**STATEMENT OF CASH FLOWS – ENTERPRISE FUND**

*YEAR ENDED JUNE 30, 2020*

**Cash flows from operating activities:**

Cash received from tenants	\$ 7,375,471
Cash paid to employees	(801,912)
Cash payments to suppliers for goods and services	<u>(5,422,506)</u>
Net cash provided by operating activities	<u>1,151,053</u>

**Cash flows from capital and related financing activities:**

Purchase of capital assets	(124,008)
Proceeds from notes payable	111,899
Repayments of notes payable	(19,372)
Interest paid on long-term debt	(15,243)
PILOT fees	<u>(13,129)</u>
Net cash used in capital and related financing activities	<u>(59,853)</u>

Net increase in cash	1,091,200
Cash, beginning of year	<u>2,000,904</u>
Cash, end of year	<u>\$ 3,092,104</u>

**Supplemental disclosures:**

Cash	\$ 2,772,212
Restricted cash	<u>319,892</u>
	<u>\$ 3,092,104</u>

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

**FORT MONROE AUTHORITY**  
**(A Component Unit of the Commonwealth of Virginia)**  
**STATEMENT OF CASH FLOWS – ENTERPRISE FUND (CONTINUED)**

YEAR ENDED JUNE 30, 2020

**Reconciliation of operating loss to net cash provided by operating activities:**

Operating loss	<u>\$ (740,554)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	38,571
Changes in operating assets and liabilities:	
Accounts receivable	(39,469)
Prepaid expenses	94,052
Net OPEB asset	4,351
Lease receivable, straight-line	(203,278)
Deferred outflows of resources	(1,065)
Accounts payable and accrued expenses	146,869
Accrued salaries	12,599
Due to General Fund	1,788,349
Accrued annual leave	5,687
Unearned revenues	87,069
Deposits payable	6,593
Net pension liability	(17,808)
Net OPEB liability	(33,280)
Deferred inflows of resources	<u>2,367</u>
Total adjustments	<u>1,891,607</u>
Net cash provided by operating activities	<u>\$ 1,151,053</u>

**Noncash transactions affecting investing capital and related financing activities:**

Contributions of buildings to the Commonwealth of Virginia	<u>\$ 176,508</u>
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The accompanying notes to the financial statements are an integral part of this statement.

**FORT MONROE AUTHORITY**  
**(A Component Unit of the Commonwealth of Virginia)**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2020

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**Note 1—Nature and purpose of organization**

The Fort Monroe Authority (the “Authority”) is a political subdivision of the Commonwealth of Virginia (the “Commonwealth”), created by legislative action of the Virginia General Assembly in 2011 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 14-member Board of Trustees (the “Board”). The Board includes 12 voting members comprised of two members of the General Assembly, two appointees selected by the City of Hampton, Virginia (the “City”) and eight appointees selected by the Governor of Virginia, as well as two non-voting ex officio members of the Governor’s Cabinet.

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, when the Governor of Virginia signed a Quitclaim Deed transferring ownership of a 312.75-acre parcel of the Fort Monroe property from the Army to the Commonwealth, the Authority has been responsible for the operations of the utilities, maintenance, and security of the property while the Army and the Authority complete the conveyance process of the remainder of the 565-acre Fort Monroe property to the Commonwealth and National Park Service. As of June 30, 2020, the Army retains ownership of 4.97 acres of reversionary land as well as 122.29± acres of federal surplus land that will be transferred directly to the Department of the Interior as part of the Fort Monroe National Monument.

**Note 2—Summary of significant accounting policies**

*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. For 2020, 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.

**FORT MONROE AUTHORITY**  
**(A Component Unit of the Commonwealth of Virginia)**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2020*

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**Note 2—Summary of significant accounting policies (continued)**

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 General Fund and the Enterprise 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 Enterprise 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.

General 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.

Enterprise Fund distinguishes between operating revenues and expenses and non-operating items. Operating revenues result from providing residential housing and commercial space for rent as well as charges for utility and special events. 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), utility costs, 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 the 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* – Certain payments to vendors represent applicable to future periods and are recorded as prepaid items in the basic financial statements.

**FORT MONROE AUTHORITY**  
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**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2020

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**Note 2—Summary of significant accounting policies (continued)**

*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 and Enterprise Fund financial statements. Donated assets are recorded at acquisition value.

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

Motor vehicle equipment	5 years
Furniture and equipment	5 to 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.

*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.

*Pension and Other Postemployment Benefits ("OPEB")* – For purposes of measuring all financial statement elements related to pension and OPEB plans, information about the fiduciary net position of the Authority's plans and the additions to/deductions from the Authority's plans net fiduciary net position have been determined on the same basis as they were reported by the Virginia Retirement System ("VRS") and the Department of Human Resource Management ("DHRM"). 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.

*Deferred Outflows and Inflows of Resources* – Deferred outflows of resources represent a consumption of net position that applies to a future period, and so it will not be recognized as an expense until then. The Authority's deferred outflows of resources related to pensions and OPEB consist of the difference between expected and actual experience, changes of assumptions, changes in proportion and differences between employer contributions and proportionate share of contributions, and employer contributions subsequent to the measurement date.

Deferred inflows of resources represent an acquisition of net position that applies to a future period and so it will not be recognized as revenue until then. The Authority's deferred inflows of resources related to pensions and OPEB consist of the difference between expected and actual experience, changes of assumptions, the net difference between projected and actual earnings on plan investments, and changes in proportion and differences between employer contributions and proportionate share of contributions.

**FORT MONROE AUTHORITY**  
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**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2020*

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**Note 2—Summary of significant accounting policies (continued)**

Amounts reported as deferred outflows of resources related to pensions and OPEB resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the liability the following year. Other amounts reported as deferred inflows and deferred outflows of resources will be amortized according to the actuarial amortization calculation. See Notes 9, 10, and 11 for further details.

*Fund Balance* – In accordance with accounting principles generally accepted in the United States of America (“U.S. 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 U.S. GAAP 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 represents the residual interest in the Authority's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consist of three sections: net investment in capital assets; restricted; and unrestricted. Net investment in capital assets includes capital assets net of accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Net position is reported as restricted when constraints are imposed by third parties by enabling legislation.



**FORT MONROE AUTHORITY**  
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**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2020

**Note 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, 2020, the Authority had \$4,927,910 in bank deposits and \$876,342 in restricted deposits. \$1,526 represents flex spending accounts available for the employees. Security deposits of \$270,718 and \$51,298 represent deposits held for tenants who have leased the residential and commercial properties, respectively. The differences between these amounts and the balances reflected on the Statement of Net Position is comprised of checks written and deposits and transfers made before year-end that did not clear that bank until after year-end. Also included in deposits payable are deposits received for venue rentals, these deposits are generally non-refundable and are therefore not included in restricted cash.

	<u>June 30, 2020</u>
Operating Accounts:	
General Fund	\$ 2,153,303
Enterprise Fund	2,772,212
Total Operating Accounts	<u>4,925,515</u>
Restricted Accounts:	
General Fund:	
Flex spending accounts	1,526
Homeless support services	552,800
Enterprise Fund:	
Security deposits on residential leases	268,594
Security deposits on commercial leases	51,298
Total Restricted Accounts	<u>874,218</u>
Total Cash and Cash Equivalents	<u><u>\$ 5,799,733</u></u>

**FORT MONROE AUTHORITY**  
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JUNE 30, 2020

**Note 4—Capital assets**

The following is a summary of the Authority's change in capital assets for the year ended June 30, 2020:

	<b>Governmental Activities</b>			<b>Balance June 30, 2020</b>
	<b>Balance July 1, 2019</b>	<b>Increases</b>	<b>Decreases</b>	
Capital Assets Not Depreciated:				
Donated artifacts for museum	\$ 59,705	\$ -	\$ -	\$ 59,705
Construction in process	907,194	542,371	1,449,565	-
Total Capital Assets Not Depreciated	<u>966,899</u>	<u>542,371</u>	<u>1,449,565</u>	<u>59,705</u>
Capital Assets Being Depreciated:				
Motor vehicle equipment	20,210	-	-	20,210
Furniture and equipment	159,261	10,448	-	169,709
Total Capital Assets Being Depreciated	<u>179,471</u>	<u>10,448</u>	<u>-</u>	<u>189,919</u>
Less Accumulated Depreciation:				
Motor vehicle equipment	(20,210)	-	-	(20,210)
Furniture and equipment	(152,900)	(7,056)	-	(159,956)
Total Accumulated Depreciation	<u>(173,110)</u>	<u>(7,056)</u>	<u>-</u>	<u>(180,166)</u>
Total Capital Assets Being Depreciated, Net	<u>6,361</u>	<u>3,392</u>	<u>-</u>	<u>9,753</u>
Total Capital Assets	<u>\$ 973,260</u>	<u>\$ 545,763</u>	<u>\$ 1,449,565</u>	<u>\$ 69,458</u>
	<b>Business-type Activities</b>			
	<b>Balance July 1, 2019</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2020</b>
Capitalized Assets Not Depreciated:				
Leasing commissions	\$ 197,740	\$ -	\$ 197,740	\$ -
Construction in process	174,224	2,284	176,508	-
Total Capitalized Assets Not Depreciated	<u>371,964</u>	<u>2,284</u>	<u>374,248</u>	<u>-</u>
Capital Assets Being Depreciated				
Leasing commissions	34,106	310,407	-	344,513
Motor vehicle equipment	26,609	9,057	-	35,666
Furniture and equipment	34,520	-	-	34,520
Total Capital Assets Being Depreciated	<u>95,235</u>	<u>319,464</u>	<u>-</u>	<u>414,699</u>
Less Accumulated Depreciation				
Leasing commissions	(10,412)	(37,137)	-	(47,549)
Motor vehicle equipment	(26,609)	(1,434)	-	(28,043)
Furniture and equipment	(34,520)	-	-	(34,520)
Total Accumulated Depreciation	<u>(71,541)</u>	<u>(38,571)</u>	<u>-</u>	<u>(110,112)</u>
Total Capital Assets Being Depreciated, Net	<u>23,694</u>	<u>280,893</u>	<u>-</u>	<u>304,587</u>
Total Capital Assets	<u>\$ 395,658</u>	<u>\$ 283,177</u>	<u>\$ 374,248</u>	<u>\$ 304,587</u>

**FORT MONROE AUTHORITY**  
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JUNE 30, 2020

**Note 4—Capital assets (continued)**

As discussed in Note 1, all land, building, and infrastructure acquisitions with an individual cost of \$100,000 are transferred to the Commonwealth as capital assets. For governmental activities, \$1,442,012 of the \$1,449,565 decrease in construction in process was transferred to the Commonwealth and is included in Contributions to the Commonwealth of Virginia on the Statement of Activities, the remaining decrease was expensed. For business-type activities, the \$176,508 decrease in construction in process was transferred to the Commonwealth and is included in Contributions 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.

**Note 5—Accrued annual leave**

The following is a summary of the Authority's change in accrued annual leave for the year ended June 30, 2020:

	<b>Governmental Activities</b>			
	<b>Balance</b>			<b>Balance</b>
	<b>July 1, 2019</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30, 2020</b>
Accrued annual leave	\$ 51,975	\$ 47,464	\$ 23,474	\$ 75,965

  

	<b>Business-type Activities</b>			
	<b>Balance</b>			<b>Balance</b>
	<b>July 1, 2019</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30, 2020</b>
Accrued annual leave	\$ 8,641	\$ 10,294	\$ 4,607	\$ 14,328

Leave balances are renewed on an annual basis with maximum annual carry-over limitations; as such, the balances are deemed to be short-term in nature.

**Note 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 \$18,850,816 at June 30, 2020, primarily represents property insurance, utilities, and PILOT fees (payments in lieu of taxes) paid from the General Fund for the residential, commercial, public events, marina, and utility fund business-type divisions and to fund the operations of the Commercial Division. The total internal balances due from the Commercial Division and Utilities Division, totaling \$17,777,540 and \$7,732,422, respectively, at June 30, 2020, are not anticipated to be repaid within one year.

**Note 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 VRS. 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.

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**NOTES TO THE FINANCIAL STATEMENTS**

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**Note 8—Note payable**

On September 18, 2017, the Authority obtained a commercial promissory note for the purpose of funding the costs of the Building 96 renovation project. The promissory note acts as a line of credit with a total maximum balance of \$1,200,000. On August 23, 2019, the loan was converted to a permanent loan and payment terms of the loan changed as follows: monthly installments of \$3,432 of principal and interest at 4.85% beginning September 23, 2019, through the maturity date of August 23, 2031. The following is a summary of the Authority's change in long-term debt for the year ended June 30, 2020:

	<b>Business-type Activities</b>				
	<b>Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance</b>	<b>Due Within</b>
	<b>July 1, 2019</b>			<b>June 30, 2020</b>	<b>One Year</b>
Promissory note	\$ 260,784	\$ 111,899	\$ (19,372)	\$ 353,311	\$ 24,606

The following is a summary of the repayment schedule for fiscal years:

<b>Years Ended June 30,</b>	<b>Business-type Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2021	\$ 24,606	\$ 16,582	\$ 41,188
2022	25,827	15,361	41,188
2023	27,108	14,080	41,188
2024	28,452	12,736	41,188
2025	29,863	11,325	41,188
2026-2030	173,054	32,886	205,940
2031-2035	44,401	1,282	45,683
	<b>\$ 353,311</b>	<b>\$ 104,252</b>	<b>\$ 457,563</b>

**Note 9—Pension plans**

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

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

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**Note 9—Pension plans (continued)**

<b>RETIREMENT PLAN PROVISIONS</b>		
<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p><b>About Plan 1</b>  Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, service credit and average final compensation at retirement using a formula.</p>	<p><b>About Plan 2</b>  Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, service credit and average final compensation at retirement using a formula.</p>	<p><b>About the Hybrid Retirement Plan</b>  The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</p> <ul style="list-style-type: none"> <li>• The defined benefit is based on a member's age, service credit and average final compensation at retirement using a formula.</li> <li>• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.</li> <li>• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.</li> </ul>
<p><b>Eligible Members</b>  Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.</p> <p><i>Hybrid Opt-In Election</i>  VRS Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p>	<p><b>Eligible Members</b>  Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p><i>Hybrid Opt-In Election</i>  Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p>	<p><b>Eligible Members</b>  Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> <li>• State employees*</li> <li>• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014</li> </ul> <p><i>*Non-Eligible Members</i>  Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> <li>• Members of the Virginia Law Officers' Retirement System (VaLORS)</li> </ul>

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<p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p><b>Retirement Contributions</b>  State employees, excluding state elected officials, and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pretax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p><b>Retirement Contributions</b>  Same as Plan 1.</p>	<p><b>Retirement Contributions</b>  A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>
<p><b>Service Credit</b>  Service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p><b>Service Credit</b>  Same as Plan 1.</p>	<p><b>Service Credit</b>  <b>Defined Benefit Component:</b> Under the defined benefit component of the plan, service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit 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.  <b>Defined Contributions Component:</b> Under the defined contribution component, service credit is used to determine vesting for the employer contribution portion of the plan.</p>

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<p><b>Vesting</b>  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 service credit. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p><b>Vesting</b>  Same as Plan 1.</p>	<p><b>Vesting</b>  <i>Defined Benefit Component:</i>  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 service credit. Plan 1 or Plan 2 members with at least five years (60 months) of service credit who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><i>Defined Contributions Component:</i>  Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> <p>Distributions not required, except as governed by law.</p>
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<p><b>Calculating the Benefit</b>  The basic benefit is determined using the average final compensation, service credit and plan multiplier. An early retirement reduction is applied to this amount if the member is retiring with a reduced benefit. In cases where the member has elected an optional form of retirement payment, an option factor specific to the option chosen is then applied.</p>	<p><b>Calculating the Benefit</b>  See definition under Plan 1.</p>	<p><b>Calculating the Benefit</b>  <i>Defined Benefit Component:</i>  See definition under Plan 1</p> <p><i>Defined Contribution Component:</i>  The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p><b>Average Final Compensation</b>  A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b>  A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b>  Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p><b>Service Retirement Multiplier</b>  The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p>	<p><b>Service Retirement Multiplier</b>  Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for service credit earned, purchased or granted on or after January 1, 2013.</p>	<p><b>Service Retirement Multiplier</b>  <i>Defined Benefit Component:</i>  The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p><i>Defined Contribution Component:</i>  Not applicable.</p>
<p><b>Normal Retirement Age</b>  Age 65.</p>	<p><b>Normal Retirement Age</b>  Normal Social Security retirement age.</p>	<p><b>Normal Retirement Age</b>  <i>Defined Benefit Component:</i>  Same as Plan 2.</p> <p><i>Defined Contribution Component:</i>  Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Earliest Unreduced Retirement Eligibility</b>  Age 65 with at least five years (60 months) of service credit or at age 50 with at least 30 years of service credit.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b>  Normal Social Security retirement age with at least five years (60 months) of service credit or when their age and service equal 90.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b>  <i>Defined Benefit Component:</i>  Normal Social Security retirement age and have at least five years (60 months) of service credit or when their age and service equal 90.</p> <p><i>Defined Contribution Component:</i>  Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>



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<p><b>Earliest Reduced Retirement Eligibility</b>  Age 55 with at least five years (60 months) of service credit or age 50 with at least 10 years of service credit.</p>	<p><b>Earliest Reduced Retirement Eligibility</b>  Age 60 with at least five years (60 months) of service credit.</p>	<p><b>Earliest Reduced Retirement Eligibility</b>  <i>Defined Benefit Component:</i>  Age 60 with at least five years (60 months) of service credit.</p> <p><i>Defined Contribution Component:</i>  Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b>  The COLA matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><i>Eligibility:</i>  For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of service credit, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of service credit, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><i>Exceptions to COLA Effective Dates:</i>  The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> <li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li> <li>• The member retires on disability.</li> <li>• The member retires directly from short-term or long-term disability.</li> <li>• The member is involuntarily separated from employment for</li> </ul>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b>  The COLA matches the first 2% increase in the CPIU and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><i>Eligibility:</i>  Same as Plan 1</p> <p><i>Exceptions to COLA Effective Dates:</i>  Same as Plan 1</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b>  <i>Defined Benefit Component:</i>  Same as Plan 2.</p> <p><i>Defined Contribution Component:</i>  Not applicable.</p> <p><i>Eligibility:</i>  Same as Plan 1 and Plan 2.</p> <p><i>Exceptions to COLA Effective Dates:</i>  Same as Plan 1 and Plan 2.</p>

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<p>causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.</p> <ul style="list-style-type: none"> <li>• The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit.</li> </ul> <p>The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.</p>		
<p><b>Disability Coverage</b>  Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p><b>Disability Coverage</b>  Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p><b>Disability Coverage</b>  State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>
<p><b>Purchase of Prior Service</b>  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 service credit in their plan. Prior service credit counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.</p>	<p><b>Purchase of Prior Service</b>  Same as Plan 1.</p>	<p><b>Purchase of Prior Service</b>  Same as Plan 1.</p>

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**Note 9—Pension plans (continued)**

*Contributions*

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Each state agency's contractually required contribution rate for the year ended June 30, 2020, was 13.52% 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, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the Authority to the VRS State Employee retirement plan were \$204,850 and \$199,743 for the years ended June 30, 2020 and June 30, 2019 respectively.

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

At June 30, 2020, the Authority reported a liability of \$2,198,003 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2018. The Authority's proportion of the Net Pension Liability was based on the Authority's actuarially determined employer contributions to the pension plan for the year ended June 30, 2019, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the Authority's proportion of the VRS State Employee Retirement Plan was 0.03478% as compared to 0.03724% at June 30, 2018.

For the year ended June 30, 2020, the Authority recognized pension expense of \$255,729 for the VRS State Employee Retirement Plan. Since there was a change in proportionate share between June 30, 2018 and June 30, 2019, 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, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 45,800	\$ 59,130
Change in assumptions	173,255	-
Net difference between projected and actual earnings on pension plan investments	-	54,954
Changes in proportion and differences between employer contributions and proportionate share of contributions	168,285	120,294
Employer contributions subsequent to measurement date	204,850	-
	<u>\$ 592,190</u>	<u>\$ 234,378</u>

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**Note 9—Pension plans (continued)**

\$204,850 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Years Ended June 30,**

2021	\$ 91,540
2022	30,911
2023	26,154
2024	4,357
	<u>\$ 152,962</u>

*Actuarial Assumptions*

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2018, 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, 2019.

Inflation	2.5%
Salary increases, including Inflation	3.5% – 5.35%
Investment rate of return	6.75%, 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 U.S. GAAP purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of pension liabilities.

**Mortality rates:**

**Pre-Retirement:**

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

**Post-Retirement:**

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

**Post-Disablement:**

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

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**Note 9—Pension plans (continued)**

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted to better match experience
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 25%
Discount Rate	Decrease rate from 7.00% to 6.75%

*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 U.S. GAAP, less that system’s fiduciary net position. As of June 30, 2019, NPL amounts for the VRS State Employee Retirement Plan are as follows (amounts expressed in thousands):

**State Employee Retirement Plan**

Total pension liability	\$ 25,409,842
Plan fiduciary net position	<u>19,090,110</u>
Employers' Net Pension Liability	<u>\$ 6,319,732</u>

Plan fiduciary net position as a percentage of the total pension liability 75.13%

The total pension liability is calculated by the System’s actuary and each plan’s fiduciary net position is reported in the System’s financial statements. The net pension liability is disclosed in accordance with the requirements of U.S. GAAP in the System’s notes to the financial statements and required supplementary information.

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**Note 9—Pension plans (continued)**

*Long-Term Expected Rate of Return*

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

<u>Assets Class Strategy</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return *</u>
Public equity	34.00%	5.61%	1.91%
Fixed income	15.00%	0.88%	0.13%
Credit strategies	14.00%	5.13%	0.72%
Real assets	14.00%	5.27%	0.74%
Private equity	14.00%	8.77%	1.23%
MAPS - Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP - Private Investment Partnerships	3.00%	6.29%	0.19%
Total	100.00%		5.13%
Inflation			2.50%
Expected arithmetic nominal return*			7.63%

\* The above allocation provides a one-year expected return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the pension system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

*Discount Rate*

The discount rate used to measure the total pension liability was 6.75%. 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, 2019, 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, 2019 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.

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**Note 9—Pension plans (continued)**

*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 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

	<b>1.00% Decrease (5.75%)</b>	<b>Current Discount Rate (6.75%)</b>	<b>1.00% Increase (7.75%)</b>
Authority’s proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	\$ 3,228,848	\$ 2,198,003	\$ 1,331,435

*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 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at [varetire.org/Pdf/Publications/2019-annual-report.pdf](http://varetire.org/Pdf/Publications/2019-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, 2020, no amounts were payable to VRS.

**Note 10—Other postemployment benefit plans – VRS plans**

The Authority participates in one multiple employer, cost-sharing plans offered by VRS: Group Life Insurance Program (“GLIP”), and two single employer plans that are presented as multiple-employer, cost-sharing plans: State Employee Health Insurance Credit Program (“HICP”) and Virginia Sickness and Disability Program (“VSDP”).

*Fiduciary Net Position*

Detailed information about the GLIP, HICP, and VSDP Fiduciary Net Position is available in the separately issued VRS 2019 CAFR. A copy of the 2019 VRS CAFR may be downloaded from the VRS website at [varetire.org/publications/2019-annual-report.pdf](http://varetire.org/publications/2019-annual-report.pdf), or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, Virginia 23218-2500.

The actuarial assumptions, long-term expected rate of return, and discount rate are the same for the VRS OPEB programs. As such, the presentation of the actuarial assumptions and long-term expected rate of return are combined below. Specific information for the OPEB plans will be presented after this section.

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**Note 10—Other postemployment benefit plans – VRS plans (continued)**

*Actuarial Assumptions*

The VRS OPEB liability for the VRS OPEB was based on an actuarial valuation as of June 30, 2018, 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, 2019.

Inflation	2.5%
Salary increases, including inflation	3.5% – 5.35%
Investment rate of return	6.75%, 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 U.S. GAAP purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of OPEB liabilities.

Mortality rates used for the VRS OPEB plans are the same as those used for the actuarial valuations of the VRS pension plans. The mortality rates are discussed in detail at Note 9.

*Long-Term Expected Rate of Return*

Long-term expected rate of return used for the VRS OPEB plans are the same as those used for the actuarial valuations of the VRS pension plans. The long-term expected rate of return are discussed in detail at Note 9.

*Discount Rate*

The discount rate used to measure the VRS OPEB liabilities was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by the Authority for the VRS OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the VRS OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore; the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total VRS OPEB liability.



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**Note 10—Other postemployment benefit plans – VRS plans (continued)**

**Health Insurance Credit Program**

*Plan Description*

All full-time, salaried permanent employees of state agencies are automatically covered by the VRS HICP. This plan is administered by the VRS, along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information about the State HICP OPEB, including eligibility, coverage and benefits is set out in the table below:

<b>HICP Plan Provisions</b>
<p><b>Eligible Employees</b>            The HICP was established January 1, 1990 for retired state employees covered under VRS, SPORS, VaLORS and JRS who retire with at least 15 years of service credit.</p> <p>Eligible employees are enrolled automatically upon employment. They include:</p> <ul style="list-style-type: none"> <li>• Full-time and part-time permanent salaried state employees covered under VRS, SPORS, VaLORS and JRS.</li> </ul>
<p><b>Benefit Amounts</b>            The HICP provides the following benefits for eligible employees:</p> <ul style="list-style-type: none"> <li>• <i>At Retirement:</i> For State employees who retire with at least 15 years of service credit, the monthly benefit is \$4.00 per year of service per month with no cap on the benefit amount.</li> <li>• <i>Disability Retirement:</i> For State employees, other than state police officers, who retire on disability or go on long-term disability under the VSDP, the monthly benefit is \$120.00 or \$4.00 per year of service, whichever is higher.</li> </ul> <p>For State police officer employees with a non-work-related disability who retire on disability or go on long-term disability under the VSDP, the monthly benefit is \$120.00 or \$4.00 per year of service, whichever is higher.</p> <p>For State police officers with a work-related disability, there is no benefit provided under the HICP if the premiums are being paid under the Virginia Line of Duty Act. However, they may receive the credit for premiums paid for other qualified health plans.</p>
<p><b>HICP Notes</b></p> <ul style="list-style-type: none"> <li>• The monthly Health Insurance Credit benefit cannot exceed the individual's premium amount.</li> <li>• Employees who retire after being on long-term disability under VSDP must have at least 15 years of service credit to qualify for the Health Insurance Credit as a retiree.</li> </ul>

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**Note 10—Other postemployment benefit plans – VRS plans (continued)**

*Contributions*

The contribution requirement for active employees is governed by §51.1-1400(D) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each state agency's contractually required employer contribution rate for the year ended June 30, 2020 was 1.17% of covered employee compensation for employees in the VRS HICP. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the Authority to the VRS HICP were \$17,809 and \$17,286 for the years ended June 30, 2020 and 2019, respectively.

*OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB*

At June 30, 2020, the Authority reported a liability of \$200,122 for its proportionate share of the VRS HICP Net OPEB Liability. The Net VRS HICP OPEB Liability was measured as of June 30, 2019 and the total VRS HICP OPEB liability used to calculate the Net VRS HICP OPEB Liability was determined by an actuarial valuation performed as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. The Authority's proportion of the Net VRS HICP OPEB Liability was based on the Authority's actuarially determined employer contributions to the VRS HICP OPEB plan for the year ended June 30, 2019, relative to the total of the actuarially determined employer contributions for all participating state employers. At June 30, 2019, the Authority's proportion of the VRS HICP was 0.02168% as compared to 0.02331% at June 30, 2018.

For the year ended June 30, 2020, the Authority recognized VRS HICP OPEB expense of \$19,125. Since there was a change in proportionate share between measurement dates, a portion of the VRS HICP Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to the VRS HICP OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Change in assumptions	\$ 4,118	\$ 1,370
Differences between expected and actual experience	109	2,431
Net difference between projected and actual earnings on OPEB plan investments	-	79
Changes in proportion and differences between employer contributions and proportionate share of contributions	22,574	16,381
Employer contributions subsequent to the measurement date	17,809	-
	<u>\$ 44,610</u>	<u>\$ 20,261</u>

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**Note 10—Other postemployment benefit plans – VRS plans (continued)**

\$17,809 reported as deferred outflows of resources related to the HICP OPEB resulting from the Authority’s contributions subsequent to the measurement date will be recognized as a reduction of the Net HICP OPEB Liability in the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HICP OPEB will be recognized in the HICP OPEB expense in future reporting periods as follows:

**Years Ended June 30,**

2021	\$ 1,639
2022	1,638
2023	1,760
2024	3,027
2025	(1,247)
Thereafter	(277)
	<u>\$ 6,540</u>

*Net HICP OPEB Liability*

The net OPEB liability (“NOL”) for the HICP represents the program’s total OPEB liability determined in accordance with U.S. GAAP, less the associated fiduciary net position. As of June 30, 2019, NOL amounts for the VRS State Employee HICP is as follows (amounts expressed in thousands):

**State Employee HICP OPEB Plan**

Total HICP OPEB liability	\$ 1,032,094
Plan fiduciary net position	109,023
Net HICP OPEB liability	<u>\$ 923,071</u>

Plan fiduciary net position as a percentage of the total HICP OPEB liability 10.56%

The total HICP OPEB liability is calculated by the System’s actuary, and the plan’s fiduciary net position is reported in the System’s financial statements. The net HICP OPEB liability is disclosed in accordance with the requirements of U.S. GAAP in the System’s notes to the financial statements and required supplementary information.

*Sensitivity of the Authority’s Proportionate Share of the HICP Net OPEB Liability to Changes in the Discount Rate*

The following presents the Authority’s proportionate share of the VRS net HICP OPEB liability using the discount rate of 6.75%, as well as what the Authority’s proportionate share of the net HICP OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point higher (7.75%) than the current rate:

	<u>1.00% Decrease (5.75%)</u>	<u>Current Discount Rate (6.75%)</u>	<u>1.00% Increase (7.75%)</u>
Authority’s proportionate share of the VRS State Employee HIC OPEB Plan Net HIC OPEB Liability	\$ 221,801	\$ 200,122	\$ 181,491

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**Note 10—Other postemployment benefit plans – VRS plans (continued)**

**Group Life Insurance Program**

*Plan Description*

All full-time, salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions are automatically covered by the VRS GLIP upon employment. This plan is administered by the VRS, along with pensions and other OBEB plans, for public employer groups in the Commonwealth of Virginia.

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

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

<b>GLIP Plan Provisions</b>
<p><b>Eligible Employees</b>            The GLIP was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:</p> <ul style="list-style-type: none"> <li>• City of Norfolk</li> <li>• City of Portsmouth</li> <li>• City of Richmond</li> <li>• City of Roanoke</li> <li>• Roanoke City School Board</li> </ul> <p>Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.</p>
<p><b>Benefit Amounts</b>            The benefits payable under the GLIP have several components.</p> <ul style="list-style-type: none"> <li>• <i>Natural Death Benefit:</i> The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.</li> <li>• <i>Accidental Death Benefit:</i> The accidental death benefit is double the natural death benefit.</li> <li>• <i>Other Benefit Provisions:</i> In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:               <ul style="list-style-type: none"> <li>○ Accidental dismemberment benefit</li> <li>○ Safety belt benefit</li> <li>○ Repatriation benefit</li> <li>○ Felonious assault benefit</li> <li>○ Accelerated death benefit option</li> </ul> </li> </ul>
<p><b>Reduction in Benefit Amounts</b>            The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.</p>
<p><b>Minimum Benefit Amount and COLA</b>            For covered members with at least 30 years of service credit, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$8,463 as of June 30, 2020.</p>

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**Note 10—Other postemployment benefit plans – VRS plans (continued)**

*Contributions*

The contribution requirements for the GLIP are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLIP was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2020, was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the GLIP from the entity were \$7,915 and \$7,682 for the years ended June 30, 2020 and 2019, respectively.

*OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB*

At June 30, 2020, the Authority reported a liability of \$122,533 for its proportionate share of the Net GLIP OPEB Liability. The Net GLIP OPEB Liability was measured as of June 30, 2019, and the total GLIP OPEB liability used to calculate the Net GLIP OPEB Liability was determined by an actuarial valuation as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. The covered employer's proportion of the Net GLIP OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLIP for the year ended June 30, 2019, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the participating employer's proportion was 0.00753% as compared to 0.00825% at June 30, 2018.

For the year ended June 30, 2020, the Authority recognized GLIP OPEB expense of \$3,893. Since there was a change in proportionate share between measurement dates, a portion of the GLIP OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2020, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 8,149	\$ 1,589
Change in assumptions	7,736	3,695
Net difference between projected and actual earnings on OPEB program investments	-	2,517
Changes in proportion and differences between employer contributions and proportionate share of contributions	15,468	11,931
Employer contributions subsequent to measurement date	7,915	-
	<u>\$ 39,268</u>	<u>\$ 19,732</u>

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**Note 10—Other postemployment benefit plans – VRS plans (continued)**

\$7,915 reported as deferred outflows of resources related to the GLIP OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLIP OPEB Liability in the fiscal year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLIP OPEB will be recognized in the GLIP OPEB expense in future reporting periods as follows:

**Years Ended June 30,**

2021	\$	1,495
2022		1,495
2023		2,561
2024		3,904
2025		2,059
Thereafter		107
	<b>\$</b>	<b>11,621</b>

*Net OPEB Liability*

The NOL for the GLIP represents the program's total OPEB liability determined in accordance with U.S. GAAP, less the associated fiduciary net position. As of June 30, 2019, NOL amounts for the GLIP is as follows (amounts expressed in thousands):

**Group Life Insurance OPEB Plan**

Total GLIP OPEB liability	\$	3,390,238
Plan fiduciary net position		1,762,972
Employer's net GLI OPEB liability	<b>\$</b>	<b>1,627,266</b>
Plan fiduciary net position as a percentage of the total GLI OPEB liability		52.00%

The total GLIP OPEB liability is calculated by the System's actuary, and the plan's fiduciary net position is reported in the System's financial statements. The net GLIP OPEB liability is disclosed in accordance with the requirements of U.S. GAAP in the System's notes to the financial statements and required supplementary information.

*Sensitivity of the Employer's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate*

The following presents the employer's proportionate share of the net GLIP OPEB liability using the discount rate of 6.75%, as well as what the employer's proportionate share of the net GLIP OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	<b>1.00% Decrease (5.75%)</b>	<b>Current Discount Rate (6.75%)</b>	<b>1.00% Increase (7.75%)</b>
Authority's proportionate share of the GLIP Net OPEB Liability	\$ 160,974	\$ 122,533	\$ 91,358

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**Note 10—Other postemployment benefit plans – VRS plans (continued)**

**Virginia Sickness and Disability Program**

*Plan Description*

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

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

<b>VSDP Plan Provisions</b>
<p><b>Eligible Employees</b>            The VSDP, also known as the Disability Insurance Trust Fund was established January 1, 1999, to provide short-term and long-term disability benefits for non-work-related and work-related disabilities.</p> <p>Eligible employees are enrolled automatically upon employment. They include:</p> <ul style="list-style-type: none"> <li>• Full-time and part-time permanent salaried state employees covered under VRS, SPORS and ValORS (members new to ValORS following its creation on October 1, 1999, have been enrolled since the inception of VSDP).</li> <li>• State employees hired before January 1, 1999, who elected to transfer to VSDP rather than retain their eligibility to be considered for VRS disability retirement.</li> <li>• Public college and university faculty members who elect the VRS defined benefit plan. They may participate in VSDP or their institution's disability program, if offered. If the institution does not offer the program or the faculty member does not make an election, he or she is enrolled in VSDP.</li> </ul>
<p><b>Benefit Amounts</b>            The VSDP provides the following benefits for eligible employees:</p> <ul style="list-style-type: none"> <li>• <i>Leave:</i> Sick, family and personal leave. Eligible leave benefits are paid by the employer.</li> <li>• <i>Short-Term Disability:</i> The program provides a short-term disability benefit beginning after a seven-calendar-day waiting period from the first day of disability. The benefit provides income replacement beginning at 100% of the employee's pre-disability income, reducing to 80% and then 60% based on the period of the disability and the length of service of the employee. Short-term disability benefits are paid by the employer.</li> <li>• <i>Long-Term Disability (LTD):</i> The program provides a long-term disability benefit beginning after 125 workdays of short-term disability and continuing until the employee reaches his or her normal retirement age. The benefit provides income replacement of 60% of the employee's pre-disability income. If an employee becomes disabled within five years of his or her normal retirement age, the employee will receive up to five years of VSDP benefits, provided he or she remains medically eligible. Long-term disability benefits are paid for by the VSDP OPEB Plan.</li> <li>• <i>Income Replacement Adjustment:</i> The program provides for an income replacement adjustment to 80% for catastrophic conditions.</li> <li>• <i>VSDP Long-Term Care Plan:</i> The program also includes a self-funded long-term care plan that assists with the cost of covered long-term care services.</li> </ul>

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**Note 10—Other postemployment benefit plans – VRS plans (continued)**

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

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

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

- During periods an employee receives long-term disability benefits, the LTD benefit may be increased annually by an amount recommended by the actuary and approved by the Board.
  - Plan 1 employees vested as of 1/1/2013 – 100% of the VRS Plan 1 COLA (The first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%).
  - Plan 1 employee non-vested as of 1/1/2013, Plan 2 and Hybrid Plan employees – 100% of the VRS Plan 2 and Hybrid COLA (The first 2% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 2%) up to a maximum COLA of 3%).
- For participating full-time employees taking service retirement, the creditable compensation may be increased annually by an amount recommended by the actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement.
  - 100% of the increase in the pay over the previous plan year for continuing VSDP members in the State, SPORS and VaLORS Plans, with a maximum COLA of 4.00%
- For participating full-time employees receiving supplemental (work-related) disability benefits, the creditable compensation may be increased annually by an amount recommended by the actuary and approved by the Board, from the date of the commencement of the disability to the date of retirement.
  - 100% of the increase in the pay over the previous plan year for continuing VSDP members in the State, SPORS and VaLORS Plans, with a maximum COLA of 4.00%.

**Contributions**

The contribution requirements for the VSDP are governed by §51.1-1140 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer's contractually required employer contribution rate for the VSDP for the year ended June 30, 2020, was 0.62% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate was expected to finance the costs of benefits payable during the year, with an adjustment to amortize the accrued OPEB assets. Contributions to the VSDP from the Authority were \$9,437 and \$9,160 for the years ended June 30, 2020 and 2019, respectively.

***OPEB Assets, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

At June 30, 2020, the Authority reported an asset of \$71,611 for its proportionate share of the Net VSDP OPEB Asset. The Net VSDP OPEB Asset was measured as of June 30, 2019, and the total VSDP OPEB liability used to calculate the Net VSDP OPEB Asset was determined by an actuarial valuation as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. The Authority's proportion of the Net VSDP OPEB Asset was based on the agency's actuarially determined employer contributions to the VSDP OPEB plan for the year ended June 30, 2019, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the Authority's proportion was 0.03650% as compared 0.03981% at June 30, 2018.



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**Note 10—Other postemployment benefit plans – VRS plans (continued)**

For the year ended June 30, 2020, the Authority recognized VSDP OPEB expense of \$5,240. Since there was a change in proportionate share between measurement dates, a portion of the VSDP OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to the VSDP OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 9,169	\$ 2,884
Change in assumptions	1,300	4,078
Net difference between projected and actual earnings on OPEB plan investments	-	2,765
Changes in proportion and differences between employer contributions and proportionate share of contributions	5,332	7,429
Employer contributions subsequent to measurement date	9,437	-
	<u>\$ 25,238</u>	<u>\$ 17,156</u>

\$9,437 reported as deferred outflows of resources related to the VSDP OPEB resulting from the Authority's contributions subsequent to the measurement date will be recognized as an adjustment of the Net VSDP OPEB Asset in the fiscal year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the VSDP OPEB will be recognized in VSDP OPEB expense in future reporting periods as follows:

**Years Ended June 30,**

2021	\$ (1,658)
2022	(1,657)
2023	(188)
2024	(78)
2025	387
Thereafter	1,839
	<u>\$ (1,355)</u>

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**Note 10—Other postemployment benefit plans – VRS plans (continued)**

*Net OPEB Asset*

The net OPEB asset (NOA) for the VSDP represents the program's total OPEB liability determined in accordance with U.S. GAAP, less the associated fiduciary net position. As of June 30, 2019, NOA amounts for the VSDP is as follows (amounts expressed in thousands):

**Disability Insurance Program**

Total VSDP OPEB liability	\$ 292,046
Plan fiduciary net position	488,241
Employer's net OPEB asset	<u>\$ (196,195)</u>
Plan fiduciary net position as a percentage of the total VSDP OPEB liability	167.18%

The total VSDP OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net OPEB asset is disclosed in accordance with the requirements of U.S. GAAP in the System's notes to the financial statements and required supplementary information.

*Sensitivity of the Authority's Proportionate Share of the OPEB Asset to Changes in the Discount Rate*

The following presents the Authority's proportionate share of the net VSDP OPEB asset using the discount rate of 6.75%, as well as what the Authority's proportionate share of the net VSDP OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	<b>1.00% Decrease (5.75%)</b>	<b>Current Discount Rate (6.75%)</b>	<b>1.00% Increase (7.75%)</b>
Authority's proportionate share of the VSDP Net OPEB Asset	\$ (65,022)	\$ (71,611)	\$ (77,449)

**Note 11—Other postemployment benefit plans – DHRM plan**

*Plan Description*

Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes. This program was established by Title 2.2, Chapter 28 of the *Code of Virginia* for retirees who are not yet eligible to participate in Medicare. It is the same health insurance program offered to active employees and managed by the Virginia Department of Human Resource Management ("DHRM"). After retirement, the Authority no longer subsidizes the retiree's premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, retiree rates are effectively lower than what might otherwise be available outside of this benefit.

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**Note 11—Other postemployment benefit plans – DHRM plan (continued)**

*Plan Provisions*

DHRM is an agency of the Commonwealth of Virginia. DHRM is the administrator of the Commonwealth's employee health insurance program. The Commonwealth provides a healthcare plan established by Title 2.2, Chapter 28 of the *Code of Virginia* for retirees who are not yet eligible to participate in Medicare.

Following are eligibility requirements for Virginia Retirement System retirees:

- He or she is a retiring state employee who is eligible for a monthly retirement benefit from the VRS, and
- He or she starts receiving (do not defer) your retirement benefit immediately upon retirement\*, and
- His or her last employer before retirement was the Commonwealth of Virginia, and
- He or she is eligible for (even if you were not enrolled) coverage as an active employee in the State Health Benefits Program until your retirement date (not including Extended Coverage/COBRA), and
- He or she enrolls no later than 31 days from your retirement date.

\* For VRS retirees, this means that the employing agency reported a retirement contribution or leave without pay status for retirement in the month immediately prior to their retirement date. Some faculty members may also be eligible if they are paid on an alternate pay cycle but maintain eligibility for active coverage until their retirement date.

Effective January 1, 2017\*\*, following are eligibility requirements for Optional Retirement Plan retirees:

- He or she is a terminating state employee who participates in one of the qualified Optional Retirement Plans, and
- His or her last employer before termination was the Commonwealth of Virginia, and
- He or she is eligible for (even if they were not enrolled) coverage in the State Employee Health Benefits Program for active employees at the time of their termination, and
- He or she meet the age and service requirements for an immediate retirement benefit under the non-ORP Virginia Retirement System plan that you would have been eligible for on your date of hire had he or she not elected the ORP, and
- He or she enroll in the State Retiree Health Benefits Program no later than 31 days from the date you lose coverage (or lose eligibility coverage) in the State Health Benefits Program for active employees due to their termination of employment.

\*\* This change applies to ORP terminations effective January 1, 2017, or later. Eligibility for those who terminated employment prior to January 1 should be determined based on the policy in place at time of their termination.

The employer does not pay a portion of the retirees' healthcare premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, this generally results in a higher rate for active employees. Therefore, the employer effectively subsidizes the costs of the participating retirees' healthcare through payment of the employer's portion of the premiums for active employees.

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**Note 11—Other postemployment benefit plans – DHRM plan (continued)**

This fund is reported as part of the Commonwealth’s Healthcare Internal Service Fund. Benefit payments are recognized when due and payable in accordance with the benefit terms. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes, and is administered by the Department of Human Resource Management. There were approximately 4,800 retirees and 89,000 active employees in the program in fiscal year 2019. There are no inactive employees entitled to future benefits who are not currently receiving benefits. There are no assets accumulated in a trust to pay benefits.

*Actuarial Assumptions and Methods*

The total Pre-Medicare Retiree Healthcare OPEB liability was based on an actuarial valuation with a valuation date of June 30, 2019. The DHRM selected the economic, demographic and healthcare claim cost assumptions. The actuary provided guidance with respect to these assumptions. Initial healthcare costs trend rates used were 7.00% for medical and pharmacy and 4.0% for dental. The ultimate trend rates used were 4.50% for medical and pharmacy and 4.0% for dental.

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar, Closed
Effective Amortization Period	6.25 years
Discount Rate	3.51%
Projected Salary Increases	4.0%
Medical Trend Under 65	Medical & Rx: 7.00% to 4.50% Dental: 4:00%
	Before reflecting excise tax
Year of Ultimate Trend	2029
Mortality	Mortality rates vary by participant status
Pre-Retirement	RP-2014 Employee Rates, males setback 1 year, 85% of rates; females setback 1 year
Post-Retirement	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females setback 1 year
Post-Disablement	RP-2014 Disabled Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates

The discount rate was based on the Bond Buyers GO 20 Municipal Bond Index as of the measurement date; which is June 30, 2019.

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**Note 11—Other postemployment benefit plans – DHRM plan (continued)**

*Changes of Assumptions:* The following assumptions were updated since the June 30, 2018 valuation based recent experience:

- Spousal coverage - reduced the rate from 35% to 25%
- Retiree participation - reduced the rate from 60% to 50%

Spousal coverage and retiree participation were both reduced based on a blend of recent experience and the prior year assumptions. The mortality assumption was modified slightly to reflect modified pre-retirement Mortality base rates to exclude age over 65 instead of apply mortality improvement projection scale BB. The excise tax was modified to reflect updated projection of the tax thresholds. Trend rates were updated based on economic conditions as of June 30, 2019. Additionally, the discount rate was decreased from 3.87% to 3.51% based on the Bond Buyers GO 20 Municipal Bond Index.

*OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources*

At June 30, 2020, the employer reported a liability of \$179,301 for its proportionate share of the collective total Pre-Medicare Retiree Healthcare OPEB liability of \$678.9 million. The Pre-Medicare Retiree Healthcare OPEB liability was measured as of June 30, 2019 and was determined by an actuarial valuation as of that date. The covered employer’s proportion of the Pre-Medicare Retiree Healthcare OPEB liability was based on each employer’s healthcare premium contributions as a percentage of the total employer’s healthcare premium contributions for all participating employers. At June 30, 2019, the participating employer’s proportion was 0.02641% as compared to 0.03014% at June 30, 2018. For the year ended June 30, 2020, the Authority recognized Pre-Medicare Retiree Healthcare OPEB expense of \$8,859.

At June 30, 2020, the employer reported deferred outflows or resources and deferred inflows of resources related to Pre-Medicare Retiree Healthcare from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 90,979
Change in assumptions	-	124,221
Changes in proportion and differences between employer contributions and proportionate share of contributions	87,042	50,642
	<u>\$ 87,042</u>	<u>\$ 265,842</u>

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**Note 11—Other postemployment benefit plans – DHRM plan (continued)**

The amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pre-Medicare Retiree Healthcare OPEB will be recognized in the Pre-Medicare Retiree Healthcare OPEB expense in future reporting periods as follows:

**Years Ended June 30,**

2021	\$ (41,530)
2022	(41,530)
2023	(41,530)
2024	(33,983)
2025	(16,717)
Thereafter	(3,510)
	<u>\$ (178,800)</u>

*Sensitivity of the Authority's Proportionate Share of the OPEB Liability to Changes in the Discount Rate*

The following presents the Authority's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using the discount rate of 3.51%, as well as what the Authority's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.51%) or one percentage point higher (4.51%) than the current rate:

	<b>1.00% Decrease (2.51%)</b>	<b>Current Discount Rate (3.51%)</b>	<b>1.00% Increase (4.51%)</b>
Authority's proportionate share of the total Pre-Medicare Retiree Healthcare OPEB Liability	\$ 191,793	\$ 179,301	\$ 167,575

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

The following presents the Authority's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using the healthcare cost trend rate of 7.00% decreasing to 4.50%, as well as what the Authority's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (6.00% decreasing to 3.50%) or one percentage point higher (8.00% decreasing to 5.50%) than the current rate:

	<b>1.00% Decrease (6.00% decreasing to 3.50%)</b>	<b>Current Healthcare Cost Trend Rate (7.00% decreasing to 4.50%)</b>	<b>1.00% Increase (8.00% decreasing to 5.50%)</b>
Authority's proportionate share of the total Pre-Medicare Retiree Healthcare OPEB Liability	\$ 201,988	\$ 179,301	\$ 160,127

**FORT MONROE AUTHORITY**  
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*JUNE 30, 2020*

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**Note 12—Commitments and 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 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, minus the real estate taxes owed to the City 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".

*Commitments*

The Authority had entered into various agreements and construction contracts during the fiscal year ended June 30, 2020. As of June 30, 2020, the balance outstanding on the agreements and contract was \$163,567.

**Note 13—Fund balance classification**

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 General Fund.

	<u><b>General Fund</b></u>
Nonspendable:	
Prepaid expenditures	\$ 5,850
Restricted:	
Flex savings cash account, homeless support, and Visitor Center	554,326
Unassigned	<u>20,924,651</u>
Total fund balance	<u><u>\$ 21,484,827</u></u>

**REQUIRED SUPPLEMENTARY INFORMATION**



**FORT MONROE AUTHORITY**  
**(A 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, 2020

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Operating Revenues:				
Intergovernmental revenues:				
State	\$ 6,520,112	\$ 6,520,112	\$ 6,527,286	\$ 7,174
Other revenues	461,000	461,000	473,934	12,934
Total Revenues	<u>6,981,112</u>	<u>6,981,112</u>	<u>7,001,220</u>	<u>20,108</u>
Operating Expenses:				
Planning and development	4,930,623	4,930,623	4,117,681	812,942
Capital outlay	499,145	499,145	783,210	(284,065)
Total Expenditures	<u>5,429,768</u>	<u>5,429,768</u>	<u>4,900,891</u>	<u>528,877</u>
Excess of Revenues over Expenditures	<u>\$ 1,551,344</u>	<u>\$ 1,551,344</u>	<u>\$ 2,100,329</u>	<u>\$ 548,985</u>

See accompanying report of independent auditor.

**FORT MONROE AUTHORITY**  
**(A Component Unit of the Commonwealth of Virginia)**  
**SCHEDULE OF AUTHORITY'S SHARE OF NET PENSION LIABILITY**  
**VRS STATE EMPLOYEE RETIREMENT PLAN**

YEAR ENDED 30, 2020

	Plan Year				
	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability	0.03478%	0.03724%	0.03139%	0.03259%	0.03513%
Employer's proportionate share of the net pension liability	\$ 2,198,003	\$ 2,016,000	\$ 1,830,000	\$ 2,148,000	\$ 2,151,000
Employer's covered payroll	\$ 1,477,394	\$ 1,569,830	\$ 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 payroll	148.77568%	128.42155%	146.58599%	172.05831%	165.88992%
Plan fiduciary net position as a percentage of the total pension liability	75.13%	77.39%	75.33%	71.29%	72.81%

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

Note: The amounts presented have a measurement date of the previous fiscal year-end.

See accompanying report of independent auditor.

**FORT MONROE AUTHORITY**  
**(A Component Unit of the Commonwealth of Virginia)**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS – PENSION**  
**VRS STATE EMPLOYEE RETIREMENT PLAN**

YEAR ENDED JUNE 30, 2020

<b>Date</b>	<b>Contractually Required Contribution</b>	<b>Contribution in Relation to Contractually Required Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Employer's Covered Employee Payroll</b>	<b>Contribution as a % of Covered Employee Payroll</b>
2020	\$ 204,850	\$ 204,850	\$ -	\$ 1,522,109	13.52%
2019	199,743	199,743	-	1,477,394	13.52%
2018	211,770	211,770	-	1,569,830	13.49%
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 2020 is the sixth year for this presentation, only five additional year of data is available. However, additional years will be included as they become available.

See accompanying report of independent auditor.

**FORT MONROE AUTHORITY**  
**(A Component Unit of the Commonwealth of Virginia)**  
**SCHEDULE OF AUTHORITY'S SHARE OF NET OPEB LIABILITIES (ASSETS)**

YEAR ENDED JUNE 30, 2020

	Plan Year		
	2019	2018	2017
<b>Health Insurance Credit Program</b>			
Employer's proportion of the net OPEB liability	0.02168%	0.02331%	0.01973%
Employer's proportionate share of the net OPEB liability	\$ 200,122	\$ 213,000	\$ 179,000
Employer's covered payroll	\$ 1,477,394	\$ 1,569,830	\$ 1,248,414
Employer's proportionate share of the net OPEB liability as a percentage of its covered payroll	13.55%	13.57%	14.34%
Plan fiduciary net position as a percentage of the total OPEB liability	10.56%	9.51%	8.03%
<b>Group Life Insurance Program</b>			
Employer's proportion of the net OPEB liability	0.00753%	0.00825%	0.00691%
Employer's proportionate share of the net OPEB liability	\$ 122,533	\$ 125,000	\$ 104,000
Employer's covered payroll	\$ 1,477,394	\$ 1,569,830	\$ 1,248,414
Employer's proportionate share of the net OPEB liability as a percentage of its covered payroll	8.29%	7.96%	8.33%
Plan fiduciary net position as a percentage of the total OPEB liability	52.00%	51.22%	48.86%
<b>Disability Insurance Program</b>			
Employer's proportion of the net OPEB asset	0.03650%	0.03981%	0.03380%
Employer's proportionate share of the net OPEB asset	71611	\$ 89,000	\$ 70,000
Employer's covered payroll	\$ 1,477,394	\$ 1,569,830	\$ 1,248,414
Employer's proportionate share of the net OPEB asset as a percentage of its covered payroll	4.85%	5.67%	5.61%
Plan fiduciary net position as a percentage of the total OPEB asset	167.18%	194.74%	186.63%
<b>State Health Plans Programs for Pre-Medicare Retirees</b>			
Employer's proportion of the collective OPEB liability	0.02641%	0.03014%	0.02230%
Employer's proportionate share of the collective OPEB liability	\$ 179,301	\$ 303,055	\$ 288,745
Employer's covered-employee payroll	\$ 1,477,394	\$ 1,569,830	\$ 1,248,414
Employer's proportionate share of the collective OPEB liability as a percentage of its covered payroll	12.14%	19.30%	23.13%

\*Schedule is intended to show information for 10 years. Since 2020 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.

Note: The amounts presented have a measurement date of the previous fiscal year-end.

See accompanying report of independent auditor.

**FORT MONROE AUTHORITY**  
**(A Component Unit of the Commonwealth of Virginia)**  
**SCHEDULE OF AUTHORITY'S CONTRIBUTIONS – OPEB**

YEAR ENDED 30, 2020

<u>Date</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Employer's Covered Payroll</u>	<u>Contribution as a % of Covered Payroll</u>
<b>HEALTH INSURANCE CREDIT PROGRAM</b>					
2020	\$ 17,809	\$ 17,809	\$ -	\$ 1,522,109	1.17%
2019	17,286	17,286	-	1,477,394	1.17%
2018	18,524	18,524	-	1,569,830	1.18%
<b>GROUP LIFE INSURANCE PROGRAM</b>					
2020	\$ 7,915	\$ 7,915	\$ -	\$ 1,522,109	0.52%
2019	7,682	7,682	-	1,477,394	0.52%
2018	8,163	8,163	-	1,569,830	0.52%
<b>DISABILITY INSURANCE PROGRAM</b>					
2020	\$ 9,437	\$ 9,437	\$ -	\$ 1,522,109	0.62%
2019	9,160	9,160	-	1,477,394	0.62%
2018	10,361	10,361	-	1,569,830	0.66%

**STATE HEALTH PLANS PROGRAMS FOR PRE-MEDICARE RETIREES**

Contributions to this program are not based on covered payroll.

Schedule is intended to show information for 10 years. Since 2020 is the third year for this presentation, only two additional year of data is available. However, additional years will be included as they become available.

See accompanying report of independent auditor.

**FORT MONROE AUTHORITY**  
**(A Component Unit of the Commonwealth of Virginia)**  
**NOTES TO REQUIRED SUPPLEMENTAL INFORMATION**

YEAR ENDED JUNE 30, 2020

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**Note 1—Pension Plan and VRS OPEB Plans**

*Changes in Benefit Terms* – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

*Changes of assumptions* – The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the changes in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 25%
Discount Rate	Decrease rate from 7.00% to 6.75%

**Note 2—DHRM OPEB Plan**

*Changes in Benefit Terms* – There have been no actuarially material changes to the benefit provisions since the prior actuarial valuation.

*Changes of Assumptions* – The following assumptions were updated since the June 30, 2017 valuation based on recent experience:

- Spousal coverage - reduced the rate from 50% to 35%
- Retiree Participation - reduced the rate from 70% to 60%

Spousal coverage and retiree participation were both reduced based on a blend of recent experience and the prior year assumptions. The mortality assumption was modified slightly to reflect mortality improvement projection scale BB to 2020. Additionally, the discount rate was increased from 3.58% to 3.87% on the Bond Buyers GO 20 Municipal Bond Index.

**OTHER SUPPLEMENTARY INFORMATION**

**FORT MONROE AUTHORITY**  
**(A Component Unit of the Commonwealth of Virginia)**  
**SCHEDULE OF PLANNING AND DEVELOPMENT EXPENDITURES – GENERAL FUND**

YEAR ENDED JUNE 30, 2020

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Salaries and wages	\$ 1,405,548
Employee benefits	542,674
Architectural and engineering services	98,970
Legal services	77,755
Management services	34,316
Dues, subscriptions, and seminars	28,777
Fees - banking and payroll processing	8,750
Meetings	2,675
Miscellaneous	144,156
Office supplies and postage	34,061
PILOT fees	29,804
Public information and relations services	103,490
Public programs signage and special events	62,488
Rentals and leases	10,322
Security	213,268
Site operating costs	1,136,438
Telephone and communications	48,558
Travel	7,977
Utilities and trash disposal	127,654
	<u>\$ 4,117,681</u>



## **COMPLIANCE SECTION**

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

To the Board of Trustees  
Fort Monroe Authority  
Fort Monroe, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, business-type activities and each major fund of the Fort Monroe Authority (the "Authority"), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2020, and the related notes to the financial statements and have issued our report thereon dated October 9, 2020.

**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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the financial statements. 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* or the *Specifications for Audits of Authorities, Boards, and Commissions*.

**Purpose of this Report**

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

A handwritten signature in black ink that reads "Cheryl Bekaert LLP". The signature is written in a cursive, flowing style.

Virginia Beach, Virginia  
October 9, 2020