FORT MONROE AUTHORITY

(A Component Unit of the Commonwealth of Virginia)

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2015

And Report of Independent Auditors

Cherry Bekaert LLP
CPAs & Advisors

Fort Monroe Authority

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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

The Board of Trustees
Fort Monroe Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Fort Monroe Authority (the “Authority”), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Authority, as of June 30, 2015, 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.

Emphasis of Matter

Restatement

As described in Note 11 to the financial statements, effective July 1, 2014, the Authority has restated beginning net position for the implementation of Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB 68*. Our opinions are not modified with respect to this matter.

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 accompanying schedule of expenditures of federal awards is also presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Such information 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 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2015, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Virginia Beach, Virginia
December 10, 2015

Fort Monroe Authority

Component Unit of the Commonwealth of Virginia

Management's Discussion and Analysis

This section of the Fort Monroe Authority's (the "Authority") annual financial report represents management's discussion and analysis of the Authority's financial performance during the fiscal year ended June 30, 2015. Please read it in conjunction with the Authority's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Authority's Net Position increased during fiscal year 2015 by $1.08M. The increase resulted from a net operating surplus from governmental activities of $3.41M offset by a net operating deficit of $2.33M from business-type activities. The increase in Net Position for the government activities was due to several factors:

  - The Authority's general fund appropriations increased to $6.48M compared to $5.76M in the prior fiscal year. As the same time operating expenses decreased from $4.92M in the prior fiscal year to $4.79M in the current fiscal year.

  - As of June 30, 2015, the Army and Dominion Virginia Power (DVP) are still in discussions about the termination of the Army's contract with DVP. The delay in the transfer of the account resulted in a $720K in savings to the Authority.

- The Authority had a total of $11.99M in revenue in the current fiscal year compared to $10.82M in revenues for the fiscal year ended June 30, 2014. Governmental activities accounted for $8.20M of the revenue. The majority of these revenues came from state general fund appropriations ($6.48M) and federal intergovernmental grants ($990K). Business-type charges for services, principally rental income, accounted for $3.79M in revenue.

- The Authority's component unit, the Fort Monroe Foundation, had donations and earned revenue of $184.9K.

- Operating expenses of the Authority for the fiscal year were $10.91M. Expenses for governmental activities (reuse and redevelopment planning) were $4.78M. Expenses related to business-type activities (property leasing and maintenance) were $6.12M.

- The Authority had planned to invest $1.1M to complete 2 major capital projects during the current fiscal year – the renovation of Building 83 as the new main office for the Fort Monroe Authority and the conversion of Building 80 from a 9-unit inn into 10 apartment homes. The work for Building 83 commenced in January but was not completed prior to fiscal year-end. The work on Building 80 began late in the fiscal year. This resulted in approximately $429K of capital spending deferred to the next fiscal year.

- For fiscal years 2015 and 2014, the Authority's capital assets were $1.01M and $318.1K, net of accumulated depreciation, respectively. During fiscal year 2015, the Authority invested $368.4K for capital assets related to governmental activities, the majority of which ($326.1K) was related to the construction in progress for the renovation of Building 83. During the fiscal year, the Authority invested $369.6K related to business-type activities for construction in progress related to the renovation of Building 80 into 10 apartment homes.

- The Authority has no long-term debt as of June 30, 2015.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

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

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

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

FUND FINANCIAL STATEMENTS

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

The Authority currently has two types of funds:

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

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

- Prior to the June 2013 property transfer, the Authority sub-leased residential properties to military families and the general public and commercial properties to various state and city entities as well as private businesses and religious organizations. When the Army transferred the 312.75 acres of reversionary property to Commonwealth ownership, the parcel included approximately 425,000 square feet of residential structures and associated garages together with approximately 592,000 square feet of commercial and administrative space. In order to make additional properties available, the Authority continues to lease residential and commercial properties from the Army on the approximately 249 acres of land remaining in federal ownership. These activities are accounted for in two sub-funds – residential leasing and commercial leasing.

- With the transfer of a portion of the property to Commonwealth ownership, the Authority took responsibility for natural gas, water and sewer utility systems and accounts. In November 2013, the Authority began billing third-party users for natural gas, water and sewer consumption. To track the utility revenue and costs the Authority has established a utility sub-fund. As of June 30, 2015, the Army and Dominion Virginia Power (DVP) have not completed the termination of the Army's electrical contract with DVP. It is expected that this termination will be completed in the next fiscal year at which time the Authority will establish a facility contract with DVP for the provision of electrical service. The billing for electric service will be reflected in the utility sub-fund.

- The Authority also provides free and ticketed special event activities and event space rentals to public and private parties. These activities are reported in a separate sub-fund of the enterprise fund.

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

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
As of June 30, 2015 and 2014

	Governmental Activities		Business-Type Activities		Government-Wide Activities	
	2015	2014*	2015	2014*	2015	2014*
Current and Other Assets	$ 10,758.6	$ 7,477.3	$ (4,766.0)	$ (2,787.8)	$ 5,992.6	$ 4,689.5
Capital Assets	605.0	266.9	406.2	51.2	1,011.2	318.1
Total Assets	11,363.6	7,744.2	(4,359.8)	(2,736.6)	7,003.8	5,007.6
Deferred Outflows of Resources	204.1	99.4	28.3	13.6	232.4	113.0
Current and Other Liabilities	2,260.0	2,244.4	1,334.0	648.3	3,594.0	2,892.7
Total Liabilities	2,260.0	2,244.4	1,334.0	648.3	3,594.0	2,892.7
Deferred Inflows of Resources	289.5	-	39.5	-	329.0	-
Net Position						
Net investment in Capital Assets	605.0	267.0	406.2	51.2	1,011.2	318.2
Restricted	8.9	11.4	-	-	8.9	11.4
Unrestricted	8,404.3	5,320.8	(6,111.2)	(3,422.5)	2,293.1	1,898.3
Total Net Position	$ 9,018.2	$ 5,599.2	$ (5,705.0)	$ (3,371.3)	$ 3,313.2	$ 2,227.9

* Restated

At June 30, 2015, the total assets of the Authority were $7.0M compared to $5.0M as of June 30, 2014. Total liabilities as of June 30, 2015 were $3.59M compared to $2.77M at the end of the prior fiscal year. For the current fiscal year combined net position was $3.31M compared to $2.22M as of June 30, 2014.

During fiscal year 2015, the book value of the Authority's assets increased by $2.0M. The largest changes from the prior year were increases in cash on deposit ($1.33M) and net capital assets ($693.1K). During the same period, the Authority's liabilities increased by $814.3K. For the year, accounts payable increased by $829.5K and deposits payable increased by $51.0K.

Changes in Net Position:

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

Table 2
Changes in Net Position
Year Ended June 30, 2015 and 2014

	Governmental Activities		Business-Type Activities		Government-Wide Activities	
	2015	2014*	2015	2014*	2015	2014*
Revenues						
Program Revenue						
Charges for Services	$ -	$ -	$ 3,791.8	$ 3,239.2	$ 3,791.8	$ 3,239.2
Operating Grants and Contributions	990.5	1,338.1	-	-	990.5	1,338.1
Capital Grants and Contributions	372.6	362.6	-	-	372.6	362.6
General Revenue						
Operating Appropriations	6,475.8	5,766.7	-	-	6,475.8	5,766.7
Other Revenue	368.4	119.0	-	-	368.4	119.0
Interest Income	-	-	-	0.1	-	0.1
Total Revenues	8,207.3	7,586.4	3,791.8	3,239.3	11,999.1	10,825.7
Expenses						
Planning and Development	4,788.3	4,920.8	-	-	4,788.3	4,920.8
Property Admin and Maintenance	-	-	6,125.5	5,196.5	6,125.5	5,196.5
Total Expenses	4,788.3	4,920.8	6,125.5	5,196.5	10,913.8	10,117.3
Change in Net Position	3,419.0	2,665.6	(2,333.7)	(1,957.2)	1,085.3	708.4
Net Position - Beginning of Year (restated)	5,599.2	2,933.6	(3,371.3)	(1,414.1)	2,227.9	1,519.5
Net Position - End of Year	$ 9,018.2	$ 5,599.2	$ (5,705.0)	$ (3,371.3)	$ 3,313.2	$ 2,227.9

* Restated

Revenues:

Revenues attributable to governmental activities were in the form of state appropriations from the Commonwealth of Virginia General Fund and federal grants from the Office of Economic Adjustment. For the year ended June 30, 2015, revenues totaled $11.99M compared to $10.82M in the prior fiscal year. Total grant and operating funds increased from $7.46M to $7.83M due to an increase in the state appropriation from the General Fund. Business-type activities generated $3.79M in revenue during the current fiscal year compared to $3.23M for the prior fiscal year. The increase in revenue resulted in continuing success in residential leasing, an improvement in commercial leasing and the commencement of the utility fund for water, sewer, and natural gas charges to governmental and private entities.

Expenses:

Expenses for the fiscal year ended June 30, 2015 totaled $10.91M compared to $10.11M in the previous fiscal year. These expenses represent the costs for the development of and planning for the implementation of the reuse plan for the 565-acre property formerly used by the U.S. Army at Fort Monroe, Virginia and the costs of operation for the residential and commercial interim leasing activities during the planning period.

For the fiscal year, government fund planning and development expenses decreased by $132.5K. In general, expenses increased slightly across the board compared to the prior year. However, there were two notable variances that resulted in the overall decrease in expenses. Architectural and engineering services decreased by approximately $550K compared to the prior year as a result of two major building condition assessment projects completed in the prior fiscal year. Site Operating Costs increased by approximately $194K as a result of an amendment to the Veolia public works contract to increase staffing to six full-time employees and to include natural gas system management to the Veolia scope of services.

Business activity expenses for property administration and maintenance expenses continued to increase versus the prior year. Overall, business activity expenses increased by $929.0K. The Cost of Sales for the Utility Fund increased by approximately $85K due to a full year of reporting in the current fiscal year. General and Administrative expenses decreased by approximately $15K. Facilities Maintenance and Operations expenses increased by approximately $859K due to the repair activities as the Authority began to repair systems impacted by deferred maintenance during the transfer from federal to state ownership.

FINANCIAL ANALYSIS OF THE AUTHORITY'S FUNDS

The Authority's government fund activities reflect operations of its planning and development efforts that are funded by state appropriations and federal grants. The Authority's Enterprise Fund activities reflect business-related operations. The fund financial statements provide a more detailed look at the Authority's most significant activities by focusing on the individual activities of the major funds. A fund is a grouping of related accounts that is used to maintain accountability and control over resources that have been segregated for specific activities or objectives. For fiscal years 2015 and 2014, the Authority operated two funds - Governmental and Enterprise. For fiscal year 2015, government fund expenditures totaled \$5.13M and Enterprise Fund expenditures totaled \$6.12M. In comparison, during fiscal year 2014, government fund expenditures totaled \$4.94M and Enterprise Fund expenditures totaled \$5.19M.

BUDGETARY HIGHLIGHTS

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

The Authority staff submitted a balanced biennial budget that was presented to the Finance Committee on June 12, 2014. The budget incorporated the General Fund appropriations references above and included an estimated \$550K in maximum allowable general and administrative funding from the Office of Economic Adjustment (OEA) as year 1 of a 3-year phase-out of OEA support. The Finance Committee approved the budgets and recommended them to the Board of Trustees for adoption. The Board of Trustees approved the budgets at its meeting on June 19, 2014.

In late June of 2014, the Authority's Executive Director attended a meeting of the Association of Defense Communities in Washington, D.C. At that meeting the Executive Director learned from OEA representatives that the Authority could submit a full grant application for FY15. On July 25, 2014 the Authority submitted a grant application to OEA for a total of $1.2M. The grant was approved for the full amount on September 19, 2014. The revised grant amount was incorporated into a revised budget approved by the Board of Trustees on December 18, 2014.

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

At the end of each fiscal year, the Authority prepares a reforecast of the annual budget for the Finance Committee and Board. The Authority may request that any surplus funds be committed to projects that were in progress but not completed by the end of the fiscal year. For FY15, the Board of Trustees committed $1.07M of surplus funds for four projects that were underway at year-end: (1) $50K in funds to complete the renovation of Building 83 as the main office for the Authority, (2) $282K in funds to pay outstanding invoices for VDOT roadway improvements that had been completed but not paid by year-end, (3) $575K in funds for the renovation of Building 80 into a 10-unit apartment complex, and (4) $168K in funds for the historic structure report for the Casemate Museum premises (which is partially funded by OEA grant funds).

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

As of June 30, 2015, the Authority had invested $1.22M in capital assets as reflected in Table 3 (reflected in thousands). This amount includes $877.0K in non-depreciable assets and $350.6K in depreciable assets. As of June 30, 2014, the Authority had capital assets of $489.4K. The Authority depreciates or amortizes assets based on straight-line methodology over the useful life of the asset. As of June 30, 2015, the accumulated depreciation was $216.4K compared to $171.3K on June 30, 2014.

Table 3
Capital Assets
As of June 30, 2015 and 2014

	Governmental Activities		Business-Type Activities		Government-Wide Activities	
	2015	2014	2015	2014	2015	2014
Donated Artifacts for Museum	$ 59.7	$ 59.7	$ -	$ -	$ 59.7	$ 59.7
Construction in Process	432.2	106.1	385.1	15.4	817.3	121.5
Property and Improvement	99.8	99.8	-	-	99.8	99.8
Motor Vehicle Equipment	20.2	20.2	26.6	26.6	46.8	46.8
Furniture and Equipment	169.5	127.1	34.5	34.5	204.0	161.6
Accumulated Depreciation	(176.4)	(146.0)	(40.0)	(25.3)	(216.4)	(171.3)
Total Capital Assets, net	$ 605.0	$ 266.9	$ 406.2	$ 51.2	$ 1,011.2	$ 318.1

During the current fiscal year, the Authority incurred construction in process expenses for two projects: (1) the renovation of Building 83 for use as the Authority's new main office ($326.0K), and (2) the conversion of Building 80 from a historic inn to a 10-unit apartment complex ($369.6K).

The Authority continues to invest in the security and redundancy of its network system. In FY15 the Authority installed a new main network server and upgraded its existing server to run in parallel with the new server. These servers are large enough to create up to 8 virtual servers to provide the Authority flexibility to meet its networking requirements for the foreseeable future. The cost for the project was $42.3K.

LONG-TERM DEBT

As of June 30, 2015, the Authority has no long-term debt in the form of bonds or capital leases.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

While the Authority has achieved great success in attracting tenants for most of the 176 residential properties, many of those tenants received incentives (free rent) to induce them to sign a lease. The Authority believes the Fort Monroe property is now seen as a desirable place to live and will attempt to phase out any rent incentives for new leases. If the Authority is not successful in recruiting tenants without lease incentives, it may be required to restore rent incentives which will result in lower residential revenue.

As of the end of the fiscal year, the Authority had 161 residential units that were in leasable condition and 7 units that need significant repairs before the units are suitable for leasing. As funds become available, the Authority will make repairs to these 7 units. Due to the scarcity of leasable residential inventory, the Authority is currently renovating the former historic 9-room inn into 8 one-bedroom and 2 two-bedroom units. Once the renovation is complete, the Authority will have a residential inventory of 178 units. The lack of funds to repair the 7 "down" units and the limited additional residential inventory will limit the Authority's ability to generate residential leasing revenue.

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

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

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

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

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

Questions concerning this report or requests for additional information should be directed to Deputy Executive Director, Fort Monroe Authority, 151 Bernard Road, Fort Monroe, Virginia, 23651, telephone (757) 637-7778, or visit the Authority's website at www.fmauthority.com.

BASIC FINANCIAL STATEMENTS

Fort Monroe Authority

Statement of Net Position
June 30, 2015

Assets	Governmental Activities	Business-Type Activities	Total
Cash and Cash Equivalents	$ 4,900,006	$ 234,129	$ 5,134,135
Restricted Cash and Cash Equivalents	8,942	265,991	274,933
Grants and Other Receivables	301,856	108,846	410,702
Internal Balances	5,470,680	(5,470,680)	-
Prepaid Expenses	77,159	95,671	172,830
Capital Assets:			
Donated Artifacts for Museum	59,705	-	59,705
Construction in Process	432,185	385,103	817,288
Property and Improvements	99,786	-	99,786
Motor Vehicle Equipment	20,210	26,609	46,819
Furniture and Equipment	169,546	34,520	204,066
Accumulated Depreciation	(176,442)	(40,002)	(216,444)
Total Assets	11,363,633	(4,359,813)	7,003,820
Deferred Outflows of Resources			
Deferred Pension Contributions	204,106	28,355	232,461
Liabilities			
Accounts Payable	483,746	811,049	1,294,795
Accrued Salaries	68,955	14,268	83,223
Accrued Payroll Tax and Benefits	16,153	-	16,153
Accrued Annual Leave - Due Within One Year	39,099	6,485	45,584
Unearned Revenue	31,467	-	31,467
Net Pension Liability	1,620,620	221,380	1,842,000
Deposits Payable	-	280,810	280,810
Total Liabilities	2,260,040	1,333,992	3,594,032
Deferred Inflows of Resources			
Deferred Pension Investment Experience	289,459	39,541	329,000
Net Position			
Net Investment in Capital Assets	604,990	406,230	1,011,220
Restricted	8,942	-	8,942
Unrestricted	8,404,308	(6,111,221)	2,293,087
Total Net Position	$ 9,018,240	$ (5,704,991)	$ 3,313,249

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

Fort Monroe Authority

Statement of Activities
Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Assets: Governmental Activities	Net (Expense) Revenue and Change in Net Assets: Business-Type Activities	Net (Expense) Revenue and Change in Net Assets: Total
Governmental Activities:							
Planning and Development	$ (4,788,283)	$ -	$ 990,524	$ 372,606	$ (3,425,153)	$ -	$ (3,425,153)
Business-Type Activities:							
Property Administration and Maintenance	(6,125,506)	3,791,779	-	-	-	(2,333,727)	(2,333,727)
Total	$ (10,913,789)	$ 3,791,779	$ 990,524	$ 372,606	(3,425,153)	(2,333,727)	(5,758,880)
General Revenues							
Operating Appropriations from Primary Government					6,475,794	-	6,475,794
Other Revenue					368,370	-	368,370
Interest Income					2	-	2
Change in Net Position					3,419,013	(2,333,727)	1,085,286
Net Position, Beginning of Year, as restated					5,599,227	(3,371,264)	2,227,963
Net Position, End of Year					$ 9,018,240	$ (5,704,991)	$ 3,313,249

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

Fort Monroe Authority

Balance Sheet – Governmental Funds
June 30, 2015

	General	Special Revenue Fort Monroe Foundation	Total Governmental Funds
Assets			
Cash and Cash Equivalents	$ 4,742,566	$ 157,440	$ 4,900,006
Restricted Cash and Cash Equivalents	8,942	-	8,942
Grants and Other Receivables	301,856	-	301,856
Due from Other Funds	5,470,680	-	5,470,680
Prepaid Expenditures	68,200	8,959	77,159
Total Assets	$ 10,592,244	$ 166,399	$ 10,758,643
Liabilities			
Accounts Payable	$ 466,293	$ 17,453	$ 483,746
Accrued Salaries	68,955	-	68,955
Accrued Payroll Tax and Benefits	16,153	-	16,153
Unearned Revenue	-	31,467	31,467
Total Liabilities	551,401	48,920	600,321
Deferred Inflows of Resources			
Unavailable revenue	301,499	-	301,499
Total Deferred Inflows of Resources	301,499	-	301,499
Fund Balance			
Nonspendable	68,200	8,959	77,159
Restricted	8,942	-	8,942
Committed	1,075,029	-	1,075,029
Assigned	1,735,001	-	1,735,001
Unassigned	6,852,172	108,520	6,960,692
Total Fund Balance	9,739,344	117,479	9,856,823
Total Liabilities, Deferred Inflows of Resources and Fund Balance	$ 10,592,244	$ 166,399	$ 10,758,643

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

Fort Monroe Authority

Reconciliation of Balance Sheet of Governmental Funds to Statement of Net Position
June 30, 2015

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

Fund Balance - Governmental Funds	$ 9,856,823
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	604,990
Other noncurrent assets are not available to pay for current expenditures and are deferred in the funds.	301,499
Net pension liability related deferred inflow and outflow is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(1,705,973)
Annual leave is not due and payable in the current year and, therefore, are not reported in the funds.	(39,099)
Net Position of Governmental Activities	$ 9,018,240

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

Fort Monroe Authority

Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds
Year Ended June 30, 2015

	General	Special Revenue Fort Monroe Foundation	Total Governmental Funds
Revenues			
Intergovernmental Revenue:			
State	$ 6,849,365	$ -	$ 6,849,365
Federal	1,054,023	-	1,054,023
Other Income	183,457	184,913	368,370
Interest Income	-	2	2
Total Revenues	8,086,845	184,915	8,271,760
Expenditures			
Planning and Development	4,081,061	149,460	4,230,521
Capital Outlay	902,935	-	902,935
Total Expenditures	4,983,996	149,460	5,133,456
Excess of Revenues Over Expenditures	3,102,849	35,455	3,138,304
Fund Balance, Beginning of Year	6,636,495	82,024	6,718,519
Fund Balance, End of Year	$ 9,739,344	$ 117,479	$ 9,856,823

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

Fort Monroe Authority

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2015

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

Excess of Revenues Over Expenditures - Governmental Funds	$ 3,138,304
The fund reports capital outlays as expenditures; however, in the Statement of Activities, these costs are capitalized and depreciated over their estimated useful lives.	
Capital Outlays	368,432
Depreciation Expense	(30,407)
	338,025
Some revenues are not collected for several months after the Authority's fiscal year end, and are, therefore, not considered "available" revenues and are deferred in the governmental fund. Deferred inflows of resources decreased by this amount this year.	(64,464)
Some expenses reported in the Statement of Activities do not require the use of current resources and, therefore, are not reported as expenditures in the fund.	
Accrued annual leave increased by this amount this year.	(6,918)
Pension cost	14,066
Change in Net Position	$ 3,419,013

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

Fort Monroe Authority

Statement of Net Position – Enterprise Fund
June 30, 2015

Assets	
Current Assets:	
Cash	$ 234,129
Restricted Cash	265,991
Other Receivables	108,846
Prepaid Expenses	95,671
Total Current Assets	704,637
Non-Current Assets:	
Capital Assets:	
Construction in Progress	385,103
Motor Vehicle Equipment	26,609
Furniture and Equipment	34,520
Accumulated Depreciation	(40,002)
Net Capital Assets	406,230
Total Assets	1,110,867
Deferred Outflows of Resources	
Deferred Pension Contributions	28,355
Liabilities	
Current Liabilities:	
Accounts Payable	811,049
Due to Other Fund	5,470,680
Accrued Salaries	14,268
Accrued Annual Leave - Current Portion	6,485
Net Pension Liability	221,380
Deposits Payable	280,810
Total Liabilities	6,804,672
Deferred Inflows of Resources	
Deferred Pension Investment Experience	39,541
Net Position	
Net Investment in Capital Assets	406,230
Unrestricted	(6,111,221)
Total Net Position	$ (5,704,991)

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

Fort Monroe Authority

Statement of Revenues, Expenses, and Changes in Net Position – Enterprise Fund
Year Ended June 30, 2015

Revenues	
Charges for services:	
Rental Income	$ 3,335,982
Utility Income	455,797
Total Revenues	3,791,779
Expenses	
Facilities maintenance and operation	5,776,358
General and administrative	334,463
Depreciation	14,685
Total Expenses	6,125,506
Operating Loss	(2,333,727)
Change in Net Position	(2,333,727)
Net Position, Beginning of Year, as restated	(3,371,264)
Net Position, End of Year	$ (5,704,991)

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

Fort Monroe Authority

Statement of Cash Flows – Enterprise Fund
Year Ended June 30, 2015

Cash Flows from Operating Activities	
Cash Received from Tenants	$ 3,804,714
Cash Payments to Suppliers for Goods and Services	(3,708,286)
Net Cash Provided by Operating Activities	96,428
Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Assets	(369,635)
Net Decrease in Cash	(273,207)
Cash, Beginning of Year	773,327
Cash, End of Year	$ 500,120
Reported in the Statement of Net Position as follows:	
Cash	$ 234,129
Restricted Cash	265,991
	$ 500,120

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

Fort Monroe Authority

Statement of Cash Flows – Enterprise Fund (continued)
Year Ended June 30, 2015

Operating Loss	$ (2,333,727)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation Expense	14,685
Changes in:	
Accounts Receivable	(38,069)
Prepaid Expenses	(86,527)
Accounts Payable	657,345
Due to Other Fund	1,829,550
Accrued Liabilities	4,562
Net Pension Liability	(2,395)
Deposits Payable	51,004
Total Adjustments	2,430,155
Net Cash Provided by Operating Activities	$ 96,428

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

1. Nature of the Organization

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

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

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

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

2. Summary of Significant Accounting Policies

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

2. Summary of Significant Accounting Policies (continued)

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

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

Government-wide and Fund Financial Statements - The basic financial statements include both government-wide (based upon the Authority as a whole) and fund financial statements. These statements distinguish between the governmental and business-type activities of the Authority. In 2015, in addition to its blended component unit, the Authority had two funds:

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

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

2. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

Capital Assets - The Authority defines capital assets as assets with an initial, individual cost of $5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost in the government-wide financial statements. The Authority does not have donated assets.

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

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

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

2. Summary of Significant Accounting Policies (continued)

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

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

Deferred Outflows and Inflows of Resources - Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Authority has $232,461 of deferred outflows of resources at June 30, 2015, related to pension costs. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Authority has $329,000 of deferred inflows of resources at June 30, 2015, related to pension costs. Under the modified accrual basis of accounting, the Authority's deferred inflows of resources consist of revenues which are applicable to a future period, and will not be recognized until the period they become available. These amounts are recorded on the governmental funds balance sheet as deferred inflow of resources.

Fund Balance - Under the regulations of Governmental Accounting Standard Board (GASB) Statement No. 54, *"Fund Balance Reporting and Governmental Fund Type Definitions,"* adopted in 2011, the Authority classified the 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.

2. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

3. Cash and Cash Equivalents

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

At June 30, 2015, the Authority had $5,134,135 in bank deposits and $274,933 in restricted deposits. $8,942 represents flex spending accounts available for the employees. Security deposits of $223,174 and $42,817 represent deposits held for tenants who have leased the residential and commercial properties.

3. Cash and Cash Equivalents (continued)

	June 30, 2015
Operating Accounts	
Government Fund	$ 4,900,006
Enterprise Fund	234,129
Total Operating Accounts	5,134,135
Restricted Accounts	
Government Fund:	
Flex Spending Accounts	8,942
Enterprise Fund:	
Security Deposits on Residential Leases	223,174
Security Deposits on Commercial Leases	42,817
Total Restricted Accounts	274,933
Total Cash and Cash Equivalents	$ 5,409,068

4. Capital Assets

The following is a summary of the Authority's change in capital assets for the year ended June 30, 2015:

Governmental Activities

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital Assets Not Depreciated				
Donated Artifacts for Museum	$ 59,705	$ -	$ -	$ 59,705
Construction in Process	106,135	326,050	-	432,185
Total Capital Assets Not Depreciated	165,840	326,050	-	491,890
Capital Assets Being Depreciated				
Property and Improvements	99,786	-	-	99,786
Motor Vehicle Equipment	20,210	-	-	20,210
Furniture and Equipment	127,164	42,382	-	169,546
Total Capital Assets Being Depreciated	247,160	42,382	-	289,542
Less Accumulated Depreciation				
Property and Improvements	(99,786)	-	-	(99,786)
Motor Vehicle Equipment	(18,189)	(2,021)	-	(20,210)
Furniture and Equipment	(28,060)	(28,386)	-	(56,446)
Total Accumulated Depreciation	(146,035)	(30,407)	-	(176,442)
Total Capital Assets	$ 266,965	$ 338,025	$ -	$ 604,990

4. Capital Assets (continued)

Business-Type Activities

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capitalized Assets Not Depreciated				
Construction in Process	$ 15,468	$ 369,635	$ -	$ 385,103
Total Capitalized Assets Not Depreciated	15,468	369,635	-	385,103
Capital Assets Being Depreciated				
Motor Vehicle Equipment	26,609	-	-	26,609
Furniture and Equipment	34,520	-	-	34,520
Total Capital Assets Being Depreciated	61,129	-	-	61,129
Less Accumulated Depreciation				
Motor Vehicle Equipment	(11,738)	(5,321)	-	(17,059)
Furniture and Equipment	(13,579)	(9,364)	-	(22,943)
Total Accumulated Depreciation	(25,317)	(14,685)	-	(40,002)
Total Capital Assets	$ 51,280	$ 354,950	$ -	$ 406,230

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

5. Accrued Annual Leave

The following is a summary of the Authority's change in accrued annual leave for the year ended June 30, 2015:

Governmental Activities

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015	Due Within One Year
Accrued Annual Leave Governmental Activities	$ 32,181	$ 63,502	$ (56,584)	$ 39,099	$ 39,099

Business-Type Activities

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015	Due Within One Year
Accrued Annual Leave Business-type Activities	$ 6,418	$ 9,701	$ (9,634)	$ 6,485	$ 6,485

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 $5,470,680 at June 30, 2015 primarily represents property insurance, utilities and PILOT fees (payments in lieu of taxes) paid from the General Fund for the residential, commercial, public events, and utility fund business-type divisions and to fund the operations of the Commercial Division.

7. Deferred Compensation Plan

The Authority's employees are eligible to participate in the Commonwealth of Virginia's 457 Deferred Compensation Plan (the “Plan”) available through the Virginia Retirement System. The Plan permits employees to defer a portion of their salary to future years. Participation in the Plan is optional. The deferred compensation is not available to employees until separation from service, retirement, death, disability, financial hardship, and/or reaching age 70-½. The Plan offers a selection of investment options to participants.

8. Defined Benefit Pension and Other Postemployment Benefit Plans

Pensions

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

General Information about the Pension Plan

Plan Description

All full-time, salaried permanent employees of state agencies are automatically covered by the VRS State Employee Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the "System") along with plans for other employer groups in the Commonwealth of Virginia. The State Employee Retirement Plan is a multi-employer plan treated as a cost-sharing employer plan for financial reporting purposes. 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.

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1	**About Plan 2**	**About the Hybrid Retirement Plan**
Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members"). • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
Eligible Members	**Eligible Members**	**Eligible Members**
Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. **Hybrid Opt-In Election** VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. **Hybrid Opt-In Election** **Eligible** Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • State employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 *Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Retirement Contributions	**Retirement Contributions**	**Retirement Contributions**
State employees, excluding stated elected officials, and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.	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.
Creditable Service	**Creditable Service**	**Creditable Service**
Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	Same as Plan 1.	**Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Vesting	**Vesting**	**Vesting**
Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	Same as Plan 1.	**Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. Defined Contributions Component: Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. * After two years, a member is 50% vested and may withdraw 50% of employer contributions. *After three years, a member is 75% vested and may withdraw 75% of employer contributions. *After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.
Calculating the Benefit	**Calculating the Benefit**	**Calculating the Benefit**
The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	See definition under Plan 1.	Defined Benefit Component: See definition under Plan 1. Defined Contribution Component: The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Average Final Compensation	**Average Final Compensation**	**Average Final Compensation**
A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	A member's average final compensation is the average of the 60 consecutive months of highest compensation as a covered employee.	Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier	**Service Retirement Multiplier**	**Service Retirement Multiplier**
The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.	Same as Plan 1 of service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members, the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.	The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.
Normal Retirement Age	**Normal Retirement Age**	**Normal Retirement Age**
Age 65	Normal Social Security retirement age.	**Defined Benefit Component:** Same as Plan 2. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility	**Earliest Unreduced Retirement Eligibility**	**Earliest Unreduced Retirement Eligibility**
Age 65 with a least five years (60 months) of creditable service or age 50 with at least 30 years of creditable service.	Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.	**Defined Benefit Component:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility	**Earliest Reduced Retirement Eligibility**	**Earliest Reduced Retirement Eligibility**
Age 55 with a least five years (60 months) of creditable service or age 30 with at least 10 years of creditable service.	**Age 60** with at least five years (60 months) of creditable service.	**Defined Benefit Component:** Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in Retirement	**Cost-of-Living Adjustment (COLA) in Retirement**	**Cost-of-Living Adjustment (COLA) in Retirement**
The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.	The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.	**Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable.
Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit or with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.	**Eligibility:** Same as Plan 1	**Eligibility:** Same as Plan 1 and Plan 2.
Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: * The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. *The member retires on disability. *The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). *The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. *The member dies in service and the member's survior or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	**Exceptions to COLA Effective Dates:** Same as Plan 1	**Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Disability Coverage	**Disability Coverage**	**Disability Coverage**
Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	State employees (including Plan 1 or Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.
Purchase of Prior Service	**Purchase of Prior Service**	**Purchase of Prior Service**
Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts towards vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	Same as Plan 1.	**Defined Benefit Component:** Same as Plan 1, with the following exceptions: *Hybrid Retirement Plan members are ineligible for ported service. *The cost of purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. *Plan members have on year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. **Defined Contribution Component:** Not applicable.

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

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, the 5.00% member contribution was paid by the employer. Beginning July 1, 2012, state employees were required to pay the 5.00% member contribution and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each state agency's contractually required contribution rate for the year ended June 30, 2015 was 12.33% 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, 2014. The actuarial rate for the VRS State Employee Retirement Plan was 15.80%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions for the VRS State Employee Retirement Plan were funded at 78.02% of the actuarial rate for the year ended June 30, 2015. Contributions from the state agency to the VRS State Employee Retirement Plan were $161,392 and $110,690 for the years ended June 30, 2015 and June 30, 2014, respectively.

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

At June 30, 2015, the Authority reported a liability of $1,842,000 for its proportionate share of the VRS State Employee Retirement Plan net pension liability. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on the state agency's actuarially determined employer contributions to the pension plan for the year ended June 30, 2014 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2014, the Authority's proportion of the VRS State Employee Retirement Plan was 0.03291% as compared to 0.03150% at June 30, 2013.

For the year ended June 30, 2015, the Authority recognized pension expense of $147,000 for the VRS State Employee Retirement Plan. Since there was a change in proportionate share between June 30, 2013 and June 30, 2014, 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.

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

At June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	329,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	69,000	-
Employer contributions subsequent to the measurement date	163,461	-
Total	$ 232,461	$ 329,000

$163,461 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2016	$ (58,000)
2017	$ (58,000)
2018	$ (61,000)
2019	$ (83,000)

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

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2013, 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, 2014.

Inflation	2.5%
Salary increases, including Inflation	3.5% – 5.35%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

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

Mortality rates:

Pre-Retirement:
RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward two years and females were set back three years.

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

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

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

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2014, NPL amounts for the VRS State Employee Retirement Plan are as follows (amounts expressed in thousands):

State Employee Retirement Plan

Total Pension Liability	$21,766,933
Plan Fiduciary Net Position	16,168,535
Employers' Net Pension Liability (Asset)	$37,935,468
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.28%

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 GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

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

Long-Term Expected Rate of Return

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

Assets Class Strategy	Target Allocation	Aritmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
Inflation			2.50%
*Expected arithmetic nominal return			8.33%

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

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

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the state agency for the VRS State Employee Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the Authority's proportionate share of the VRS State Employee Retirement Plan net pension liability using the discount rate of 7.00%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	**Current Discount Rate (7.00%)**	**1.00% Increase (8.00%)**
Authority's proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	$ 2,699,000	$ 1,842,000	$ 1,124,000

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

Pension Plan Fiduciary Net Position

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2014 Comprehensive Annual Financial Report (CAFR). A copy of the 2014 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2014-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, 2015, no amounts were payable to VRS.

9. Contingencies

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

Budget Bill, Department of Housing and Community Development, FY2013 and FY2014, Item 109 H.5 specifically limits the amount of the fee as follows: "Notwithstanding any other provision of law or agreement, the amount paid from all sources of funds by the Fort Monroe Authority to the City of Hampton pursuant to §2.2.2342, *Code of Virginia*, shall not exceed $562,540 in FY2013 and $983,960 in FY2014." PILOT fees (payments in lieu of taxes) paid in 2014 were paid at the limit.

10. Fund Balance Classifications

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

	General Fund	Special Revenue Fort Monroe Foundation	Total
Nonspendable			
Prepaid Expenditures	$ 68,200	$ 8,959	$ 77,159
Total Nonspendable	68,200	8,959	77,159
Restricted			
Flex Savings Cash Account	8,942	-	8,942
Total Restricted	8,942	-	8,942
Committed			
Operating Cash	1,075,029	-	1,075,029
Total Committed	1,075,029	-	1,075,029
Assigned			
Operating Cash	1,433,145	-	1,433,145
Grants and Other Receivables	301,856	-	301,856
Total Assigned	1,735,001	-	1,735,001
Unassigned	6,852,172	108,520	6,960,692
Total Fund Balance	$ 9,739,344	$ 117,479	$ 9,856,823

11. Subsequent Events

On August 25, 2015, the Commonwealth of Virginia transferred 129 acres of land at Fort Monroe to the Department of Interior.

12. New Standards Implementation

During the year ended June 30, 2015, the Authority implemented Government Accounting Standards Board ("GASB") Statement No. 68*, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition or Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.*

GASB Statement No. 68 addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics: contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable; pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms; pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources and deferred inflows of resources, and expense/expenditures.

Implementation of GASB Statement No. 68 recognized net pension liability, deferred outflows and inflows related to the net pension liability. The restatement of prior period net position for fiscal year ended June 30, 2014, decreased net position by $1,955,000. As a result, net position as of July 1, 2014, has been adjusted accordingly.

Implementation of GASB Statement No. 71 did not have any financial reporting impact on the Authority.

	Governmental Activities	Business Activities
Net Position, beginning of year, as previously reported	$ 7,319,266	$ (3,136,303)
Restatement for net pension liability	(1,819,426)	(248,574)
Restatement for deferred outflows	99,387	13,613
Net position, beginning of year, as restated	$ 5,599,227	$ (3,371,264)

REQUIRED SUPPLEMENTARY INFORMATION

Fort Monroe Authority

Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual – General Fund
Year Ended June 30, 2015

	Budget			Variance With Final Budget Positive
Revenues	Original	Final	Actual	(Negative)
Intergovernmental Revenue:				
State	$ 5,196,277	$ 4,491,644	$ 6,849,365	$ 2,357,721
Federal	1,416,892	1,111,122	1,054,023	(57,099)
Other Revenue	-	-	183,457	183,457
Total Revenues	6,613,169	5,602,766	8,086,845	2,484,079
Expenditures				
Current:				
Planning and Development	5,713,169	4,697,766	4,081,061	616,705
Capital Outlay	900,000	905,000	902,935	2,065
Total Expenditures	6,613,169	5,602,766	4,983,996	618,770
Excess of Revenues over Expenditures	$ -	$ -	$ 3,102,849	$ 3,102,849

Fort Monroe Authority

Schedule of Employer's Share of Net Pension Liability
VRS State Employee Retirement Plan
Year Ended June 30, 2015

	2015
Employer's Proportion of the Net Pension Liability (Asset)	0.03291%
Employer's Proportionate Share of the Net Pension Liability (Asset)	$ 1,842,000
Employer's Covered-Employee Payroll	$ 1,353,818
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	136.05965%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.28%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

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

Fort Monroe Authority

Schedule of Employer Contributions
Year Ended June 30, 2015

Plan	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contribution as a % of Covered Employee Payroll (5)
State Employee	$ 163,461	$ 163,461	$ -	$ 1,353,818	12.07%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they became available.

Changes of Benefit Terms – There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013 and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

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

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

OTHER SUPPLEMENTARY INFORMATION

Fort Monroe Authority

Schedule of Planning and Development Expenditures – General Fund
Year Ended June 30, 2015

Planning and Development Expenditures	
Salaries and Wages	$ 1,211,485
Employee Benefits	485,914
Architectural and Engineering Services	250,395
Legal Services	168,501
Management Services	85,764
Dues, Subscriptions and Seminars	40,813
Fees - Banking and Payroll Processing	4,646
Meetings	1,969
Miscellaneous	25,518
Office Supplies and Postage	43,943
PILOT Fees	13,142
Public Information and Relations Services	96,457
Public Programs Signage and Special Events	15,445
Rentals and Leases	19,047
Security	272,169
Site Operating Costs	1,262,695
Telephone and Communications	52,148
Travel	7,350
Utilities and Trash Disposal	23,660
	$ 4,081,061

COMPLIANCE SECTION

Cherry Bekaert LLP
CPAs & Advisors

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

The Board of Trustees
Fort Monroe Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, business-type activities and each major fund of the Fort Monroe Authority (the "Authority"), as of and for the year ended June 30, 2015, and the related notes to the financial statements and have issued our report thereon dated December 10, 2015.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings or questioned costs to be a material weakness: 2015-001.

Compliance and Other Matters

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

Authority's Response to Finding

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

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.

Cherry Bekaert LLP

Virginia Beach, Virginia
December 10, 2015

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor on Compliance for the Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133

The Board of Trustees
Fort Monroe Authority

Report on Compliance for Each Major Federal Program

We have audited Fort Monroe Authority's (the "Authority") compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2015. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Cherry Bekaert LLP

Virginia Beach, Virginia
December 10, 2015

Fort Monroe Authority

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

	Federal Catalog Number	Expenditures
Direct Payments		
Office of Economic Adjustment		
Community Planning Assistance Funds	12.607	$ 988,052
Department of the Interior		
National Park Service	15.930	2,472
Total Expenditures of Federal Awards		$ 990,524

Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* . Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

Fort Monroe Authority

Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

A. Summary of Auditors' Results

Financial Statements:

Type of auditor's report issued on the financial statements:	**Unmodified**
Internal control over financial reporting:	
• Material weaknesses identified:	**Yes**
• Significant deficiencies identified:	**No**
Noncompliance which is material to the financial statements noted?	**No**

Federal Awards:

Type of auditor's report issued on compliance for major programs:	**Unmodified**
Internal control over major programs:	
• Material weaknesses identified:	**No**
• Significant deficiencies identified:	**None reported**
Any audit findings disclosed that are required to be reported in Accordance with Section 510(a) of *OMB Circular A-133*?	**No**

Identification of major federal programs:

CFDA #	Program Name
12.607	Community Planning Assistance Funds

Dollar threshold to distinguish between type A and type B program:	**$300,000**
The Authority was qualified as a low risk auditee?	**Yes**

B. Findings - Financial Statement Audit

2015-001 – Material Weakness in Internal Control over Financial Reporting

Criteria
Assets for accounts receivable should include all revenues earned during the period and liabilities should include all accounts payable for expenses incurred during the period.

Condition
For the year ended June 30, 2015, the Authority did not include all accounts receivable and accounts payable during the reporting period.

Cause
There was turnover in a key financial consultant position. As a result, not all year end accruals were made.

Effect
The financial statements were understated.

Recommendation
We recommend the Authority review all year end transactions to ensure they are properly recorded in the correct period.

Management Response
During the year, the Authority reports its Government Fund financial statements on a cash basis in accordance with generally accepted accounting practices for government entities. At its fiscal year-end, the Authority must process journal entries to convert its financial statements to an accrual basis presentation. The preparation for the year-end conversion to accrual financials normally starts in May.

In May 2015, the Authority's Certified Public Accountant ended her contract with the Authority after five years. The Authority scheduled a training session for the CPA to provide some knowledge transfer to the Finance Department staff. The Authority recruited a new contract Senior Accountant through an accounting staffing service. The contract employee started in May and the Finance Department staff shared the knowledge gained from the outgoing CPA. After approximately 6 weeks, the contract employee accepted a full-time offer with another company. The Authority was successful in recruiting another Senior Accountant through the same staffing service. While there were a few days of training between the two contract employees, the loss of intellectual knowledge between the CPA and the newest Senior Accountant was significant. As a result, some of the year-end accrual journal entries were overlooked.

The Authority is working to revise its month-end closing checklist to ensure all appropriate journal entries and accruals are processed. The Authority will also be developing a year-end closing checklist to ensure all accrual basis journal entries and accruals are processed.

Fort Monroe Authority

Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

C. Findings and Questioned Costs - Major Federal Program
None

D. Findings and Questioned Costs - Commonwealth of Virginia
None

E. Summary Schedule of Prior Audit Findings
None