Fort Monroe Authority

Financial Statements

Year Ended June 30, 2018

BROWNEDWARDS
certified public accountants

Table of Contents

Table of Contents (continued)

Compliance Section:

BROWNEDWARDS
certified public accountants

Independent Auditors' Report

Board of Directors
Fort Monroe Authority
Fort Monroe, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Fort Monroe Authority (the "Authority"), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Fort Monroe Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Authority as of June 30, 2018, 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.

BROWNEDWARDS
certified public accountants

Other Matters

Change in Accounting Principle

As discussed in Note 3 to the financial statements, during 2018 the Authority implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which resulted in a cumulative effect adjustment to net position as of the beginning of the year. Our opinion is not modified with respect to this change.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11 and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of planning and development expenditures – general fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.

Brown, Edwards & Company, L.L.P.

Newport News, Virginia
November 29, 2018

Management's Discussion and Analysis - (Unaudited)

The management of the Fort Monroe Authority (Authority), offers readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Fort Monroe Authority for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with the financial statements and accompanying notes.

Financial Highlights

- The Authority's net position increased during the fiscal year by $689.6K. The increase resulted from a net operating surplus from governmental activities of $2.57M offset by a net operating deficit of $1.88M from business-type activities (Enterprise Fund).
- The net operating surplus from governmental activities decreased over the prior fiscal year by $39.9K. Program revenues decreased by $357.1K and general revenues increased by $535.5K while expenses decreased by $218.3K compared to the prior year.
- The net operating deficit from business-type activities increased by $1.88M. Revenue increased by $1.34M while expenses decreased by $547.9K compared to the prior fiscal year.
- The net position of the Authority's component unit, the Fort Monroe Foundation, which is presented in a blended format as a special revenue fund, decreased by $54.0K for the fiscal year. The Foundation had donations and earned revenue of $58.9K and operating expenses of $112.9K for the period.
- The Authority, including its component unit which is presented in a blended format as a special revenue fund, had a total of $14.03M of revenue for the fiscal year. Governmental activities accounted for $7.47M in revenue. The majority of these revenues came from state General Fund appropriations ($5.05M) and federal intergovernmental and other grants ($808.5K) and other income ($1.61M). Business-type charges for services, principally rental income, accounted for $6.55M in revenue.
- Operating expenses of the Authority for the fiscal year were $13.3M. Expenses for governmental activities (reuse and redevelopment planning) were $4.9M. Expenses related to business-type activities (property leasing and maintenance, utility operations and special events) were $8.44M.
- For fiscal years 2018 and 2017, the Authority's capital assets were $401.3K and $258.5K, net of accumulated depreciation, respectively.
- At the end of the fiscal year, the Authority transferred the capital costs of $490.3K to the Virginia Department of Accounts which represented capital improvements costs for the small craft launch in Mill Creek and the Finger Pier renovation and expansion. The Authority recorded the donated value to the National Parks Service (NPS) for improvements to Quarters 1 of $99.7K, all of which was fully depreciated on the Authority's books at the time of the donation.
- The Authority has no long-term debt at June 30, 2018. As of June 30, 2018 the Authority has an outstanding balance of $260,784 in a short-term construction loan with Old Point National bank. This construction loan is expected to be converted to a term note once the construction project is completed.

Overview of the Financial Statements

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

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

Government-Wide Financial Statements

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

Component Unit of the Commonwealth of Virginia Management's Discussion and Analysis

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

Beginning in fiscal year 2011, the Authority engaged in business-type activities, notably the leasing of 118 apartments and 30 single-family residential units leased from the Army. During fiscal year 2012, the Authority expanded its business-type activities by leasing an additional 147 residential units and approximately 200,000 square feet of commercial and community space from the Army. During fiscal year 2013, the Authority deconstructed the 118 apartment units but continued to lease the 177 residential units and commercial space to government and private tenants.

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

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

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

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

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

As of June 30, 2018, the Army retains ownership of 47.5 acres of land that will be transferred to the Commonwealth either by reversion or under the terms of the Economic Development Conveyance. All remediation activities were completed prior to June 30, 2018 and the Authority expects the balance to transfer during FY19.

Fund Financial Statements

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

The Authority currently has two types of funds:

Governmental Funds - The Governmental Funds are used to account for the financial resources appropriated for the planning and development of a reuse plan of the federal property previously occupied by the Army at Fort Monroe. As of June 30, 2018 the Commonwealth of Virginia owns 265.5± acres of property and all the improvements thereon and therein to Commonwealth ownership. The portion of the property not used or designated to be used for revenue generating purposes will be reported in the General Fund. The General Fund will also include operating and compliance costs associated with the natural gas, water, sewer, and storm water infrastructure. The operation of the Casemate Museum is accounted for as part of the General Fund. The Authority's component unit, the Fort Monroe Foundation, is also included as a Governmental Fund.

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

- Prior to the June 2013 property transfer, the Authority sub-leased residential properties to the general public and commercial properties to various state and city entities as well as private businesses and religious organizations. The 265.5± acres owned by the Commonwealth contain approximately 436.7K square feet of residential structures and associated garages together with approximately 1.13M square feet of commercial and administrative space. These activities are accounted for in two sub-funds – residential leasing and commercial leasing.
- With the transfer of a portion of the property to Commonwealth ownership, the Authority took responsibility for natural gas, water, and sewer utility systems and accounts. In November 2013, the Authority began billing third-party users for natural gas, water, and sewer consumption. To track the utility revenue and costs, the Authority has established a utility sub-fund. As of June 30, 2018, the Army and Dominion Virginia Power (DVP) have not resolved the termination of the Army's electrical contract with DVP. As a result, the account has not been transferred to the Authority. Subsequent to the property transfer in April 2017, the Army has been sending the electric bill to the Authority for payment. The Authority reports the billing for electric consumption in the utility fund as well.
- The Authority also provides free and ticketed special event activities and event space rentals to public and private parties. These activities are reported in a separate sub- fund of the Enterprise Fund.

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

Financial Analysis of the Authority as a Whole

Net Position:

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

Table 1 - Net Position
At June 30, 2018 and 2017

	Governmental Activities		Business-Type Activities		Government-Wide Activities	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Current and other assets	$ 17,696.1	$ 15,487.5	$ (13,029.7)	$ (10,836.0)	$ 4,660.4	$ 4,651.5
Capital assets	129.3	258.4	271.9	0.1	401.2	258.5
Total assets	17,825.4	15,745.9	(12,757.8)	(10,835.9)	5,067.6	4,910.0
Deferred outflows of resources	277.7	357.7	27.8	39.7	305.5	397.4
Current and other liabilities	2,666.0	2,907.0	1,467.5	1,481.7	4,133.5	4,388.7
Total liabilities	2,666.0	2,907.0	1,467.5	1,481.7	4,133.5	4,388.7
Deferred inflows of resources	340.2	161.1	34.0	17.9	374.2	179.0
Net position						
Net investment in capital assets	129.4	258.4	271.9	0.1	205.5	258.5
Restricted	282.2	141.7	400.2	-	682.4	141.7
Unrestricted	14,685.4	12,635.3	(14,903.7)	(12,295.8)	(218.3)	339.5
Total net position	$ 15,096.9	$ 13,035.4	$ (14,231.6)	$ (12,295.7)	$ 865.3	$ 739.7

At June 30, 2018, the total assets of the Authority were $5.06M compared to $4.91M at June 30, 2017. Total liabilities as of June 30, 2018, were $4.13M compared to $4.39M at the end of the prior fiscal year. For the current fiscal year, combined net position was $0.87M compared to $0.74M at June 30, 2017.

During fiscal year 2018, the book value of the Authority's assets increased by $142.7K. The change results largely from an increase in capital assets. During the same period, the Authority's liabilities decreased by $255.2K. The change in total liabilities resulted principally from a decrease in accounts payable and accrued liabilities of $867.4K.

Changes in Net Position:

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

Table 2 - Changes in Net Position
At June 30, 2018 and 2017

	Governmental Activities		Business-Type Activities		Government-Wide Activities	
	2018	2017	2018	2017	2018	2017
Revenue						
Program revenue						
Charges for services	$ -	$ -	$ 6,553.9	$ 5,212.4	$ 6,553.9	$ 5,212.4
Operating grants and contributions	448.6	763.7	-	-	448.6	763.7
Capital grants and contributions	359.9	401.9	-	-	359.9	401.9
General revenue						
Operating appropriations	5,054.1	5,095.5	-	-	5,054.1	5,095.5
Other revenue	1,611.6	1,034.7	-	-	1,611.6	1,034.7
Total revenue	7,474.2	7,295.8	6,553.9	5,212.4	14,028.1	12,508.2
Expenses						
Planning and development	4,409.7	4,681.7	-	-	4,409.7	4,681.7
Property admin and maintenance	-	-	8,438.4	8,752.3	8,438.4	8,752.3
Contribution of buildings to the Commonwealth of Virginia	490.3	-	-	234.0	490.3	234.0
Total expenses	4,900.0	4,681.7	8,438.4	8,986.3	13,338.4	13,668.0
Change in net position	2,574.2	2,614.1	(1,884.5)	(3,773.9)	689.6	(1,159.8)
Net position - beginning of year	12,522.7	10,421.3	(12,347.0)	(8,521,8)	175.7	1,899.5
Net position - end of year	$ 15,096.9	$ 13,035.4	$ (14,231.6)	$ (12,295.7)	$ 865.4	$ 739.7

Revenue

Revenue attributable to governmental activities were in the form of state appropriations from the Commonwealth of Virginia General Fund and federal grants from the Office of Economic Adjustment. For the year ended June 30, 2018, revenue was $14.03M compared to $12.51M in the prior fiscal year. Total other revenue increased from $535K to $1.6M due to an increase related to FEMA and state insurance settlements. Business-type activities generated $6.55M in revenue during the current fiscal year compared to $5.21M for the prior fiscal year. The increase in revenue resulted from an increase in commercial and residential rental revenues combined with the full-year impact of a change in accounting treatment in the utility fund.

Expenses

Expenses for the fiscal year ended June 30, 2018, were $13.34M compared to $13.67M in the previous fiscal year. These expenses represent the costs for the development of and planning for the implementation of the reuse plan for the 565-acre property formerly used by the Army at Fort Monroe, Virginia and the costs of operation for the residential and commercial interim leasing activities, the Utility Fund, and special events activities during the fiscal year.

For the fiscal year, governmental activities planning and development expenses decreased by $272.0K. Business-type activity expenses for property administration and maintenance expenses decreased by $313.9K.

At the end of the fiscal year, the Authority transferred the capital costs of $490.3K to the Virginia Department of Accounts which represented capital improvements costs for the small craft launch in Mill Creek and the Finger Pier renovation and expansion. The Authority recorded the donated value to the NPS for improvements to Quarters 1 of $99.7K which was fully depreciated at June 30, 2018. In comparison, at the end of fiscal year 2017 the Authority transferred only $234.0K for the renovation of Building 12.

Financial Analysis of the Authority's Funds

The Authority's governmental fund activities reflect operations of its planning and development efforts that are funded by state appropriations and federal grants. The Authority's Enterprise Fund activities reflect business-related operations. The fund financial statements provide a more detailed look at the Authority's most significant activities by focusing on the individual activities of the major funds. A fund is a grouping of related accounts that is used to maintain accountability and control over resources that have been segregated for specific activities or objectives. For fiscal years 2018 and 2017, the Authority operated two funds - Governmental and Enterprise. For fiscal year 2018, Government Fund expenditures were $4.83M and Enterprise Fund expenses were $8.42M.

Budgetary Highlights

The Authority submits its budget request as part of the Commonwealth's biennial budget process. In September 2015, the Authority submitted its request for state General Fund support for the biennial period beginning on July 1, 2016 and ending June 30, 2018 (FY17 and FY18). The original submittal requested $5.3M for operations support for each year in biennial budget. The Governor's budget presented in December 2015 included the Authority's request for $5.3M in general fund support for FY17 and FY18. The General Assembly approved a final biennial budget that included the $5.3M in funding for each fiscal year.

In August 2016, the Governor issued a directive to every agency head to submit savings strategies to reduce appropriated funds by 5% for FY17 and 7.5% for FY18. The Department of Planning and Budget (DPB) excluded the $983,960 annual PILOT payment from the calculation and provided the Authority with a budget savings target of $215,720 for FY17 and $323,581 for FY18. The Authority staff provided budget reductions to meet the required target.

The Authority submitted the proposed FY18 budget to the Finance Committee at its meeting on June 8, 2017. The Finance Committee approved the budget and recommended it to the Board of Trustees for adoption. At the June 15, 2017 meeting of the Board of Trustees the budget was adopted as presented. The Authority submitted its annual budget to the Senate Finance Committee, House Appropriations Committee, and Department of Planning and Budget as required by the Fort Monroe Authority Act.

At the end of each fiscal year, the Authority prepares a forecast of the annual budget. The Authority staff may request that any surplus funds be committed to projects that were in progress but not completed by the end of the fiscal year. For FY18, the Authority requested no committed funds designation from the Board of Trustees.

Capital Assets and Debt Administration Capital Assets

At June 30, 2018, the Authority had invested $401.3K in net capital assets as reflected in Table 3 (reflected in thousands). This amount included $206.2K in non-depreciable construction in progress, $112.5 in non-depreciable leasing commissions which will be amortized over the life of the related leases beginning in FY19, and $240.6K in depreciable assets. At June 30, 2017, the Authority had capital assets of $258.5K. This amount included $155.1K in non-depreciable construction in progress and $250.8K in depreciable assets. The Authority depreciates or amortizes assets based on straight-line methodology over the useful life of the asset. At June 30, 2018, the accumulated depreciation was $217.7K compared to $306.9K on June 30, 2017.

Table 3 - Capital Assets
At June 30, 2018 and 2017

	Governmental Activities		Business-Type Activities		Government-Wide Activities	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Donated artifacts for Museum	$ 59.7	$ 59.7	$ -	$ -	$ 59.7	$ 59.7
Construction in progress	46.8	155.1	159.4	-	206.2	155.1
Leasing commissions	-	-	112.5	-	112.5	-
Motor vehicle equipment	20.2	20.2	26.6	26.6	46.8	46.8
Furniture and equipment	159.3	169.5	34.5	34.5	193.8	204.0
Accumulated depreciation	(156.6)	(245.9)	(61.1)	(61.0)	(217.7)	(306.9)
Total capital assets, net	$ 129.4	$ 258.4	$ 271.9	$ 0.1	$ 401.3	$ 258.5

During the current fiscal year, the Authority incurred construction in process expenses for the renovation of Building 96 for a commercial tenant. By agreement with the Commonwealth Department of Accounts, all capital project costs are transferred to the Commonwealth financial statements upon completion of the capital projects. At the end of the fiscal year, the Authority transferred the capital costs of $490.3K to the Virginia Department of Accounts which represented capital improvements costs for the small craft launch in Mill Creek and the Finger Pier renovation and expansion. The Authority recorded the donated value to the NPS for improvements to Quarters 1 of $99.7K which was fully depreciated on the Authority's books. The Authority recorded a non-operating expense to record the transfers.

Short-Term and Long-Term Debt

At June 30, 2018, the Authority has no long-term debt in the form of bonds or capital leases.

On June 27, 2017 the Authority executed a 15-year lease with the Department of General Services (DGS) for the entirety of Building 96 with an option to lease Building 265. The lease required the Authority to perform certain improvements to the building prior to occupancy by DGS or other state entity. The roof and HVAC replacements were to be funded by Maintenance Reserve funds allocated for the Authority. The interior improvements were believed to be ineligible for Maintenance Reserve or other bond funding. The Authority executed a construction loan agreement with Old Point National Bank in September 2017 in the principal amount of $1.2M. Draws were made on the construction loan to pay for design fees and the first half of the leasing commission. Prior to the execution of the construction contract, the Department of Planning and Budget approved the Authority to use VPBA bond proceeds for the construction cost. As a result, as of June 30, 2018, the construction loan balance is $260,784. The construction loan is expected to be converted to a term loan once the construction is complete and the second half of the leasing commission is paid.

Economic Factors and Next Year's Budget

During the redevelopment process, the Authority will be largely dependent on state appropriations to bridge the gap between revenue received from rental operations and the cost to maintain the property including the large inventory of vacant commercial buildings. The current state of the federal and state economy may impact state revenues which, in turn, may limit the level of state General Fund support available to the Authority. For the FY19-20 biennial budget the Authority requested $643K in additional funding to compensate for the addition land and buildings received from the Army in April 2017 and the final transfer of Army property to the Commonwealth expected during FY19. The Authority requested $627K to compensate for the loss of annual grant funding from the Office of Economic Adjustment due to the completion of the Economic Development Conveyance in April 2017. The Authority also requested start-up funding for the Visitor and Education Center as well as additional funds to increase the PILOT fee payment to the City of Hampton. The General Assembly and Governor approved a budget that included only the funding for the loss of OEA grant funding and start-up costs for the Visitor and Education Center.

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

The Authority currently has 7 residential units that need significant repairs before the units are suitable for leasing. The Authority requested additional funding in FY19-20 to make repairs to these 7 units. The lack of funds to repair the 7 "down" units and the limited additional residential inventory will limit the Authority's ability to generate residential leasing revenue. The General Assembly approved $2M in Maintenance Reserve allocations in FY19 and FY20 to support building renovation projects at Fort Monroe. The Authority expects to begin the design of the renovation projects in FY19.

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

The Authority, working with its commercial leasing contractor, continues to pursue new tenants for approximately 1.1 million square feet of vacant office and warehouse space. The majority of the vacant space is not fully ADA-accessible due to the lack of elevators. In addition, many of the buildings are subject to historic preservation standards that may limit the ability to reconfigure buildings to suit prospective tenant uses. While the FMA has been successful in leasing commercial buildings to state and local government and private tenants, the vast majority of that leasing has occurred in non-historic buildings. As of June 30, 2018 the Authority managed approximately 906.0K square feet of office, retail and industrial space on Fort Monroe. Of that inventory, approximately 151.4K is leased to tenants. That reflects a 16.7% occupancy for commercial buildings. For the inventory of contributing historic buildings only 45.9K of the 684.4K square feet of historic space is leased, an occupancy of 6.7%. The annual operating deficit for the commercial enterprise fund will continue to require significant general fund support unless private investors will invest in long-term ground lease or purchase transactions.

In response to the continued weakness in commercial leasing, the Authority issued a Request for Qualifications and Statement of Interest in June 2018 to solicit input from private companies to propose future reuse for approximately 900K square feet of office, retail and industrial space. Proposals will be received in October 2018 with a subsequent Request for Proposals expected to be issued to qualified respondents. The ability for the Authority to enter into long-term leases for the redevelopment will be dependent on the availability of financing and the completion of the Army transfer of the remaining.

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

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

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

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

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

Government-Wide Financial Statements

Fort Monroe Authority
Component Unit of the Commonwealth of Virginia
Statement of Net Position
June 30, 2018

	Governmental Activities	Business-Type Activities	Total Primary Government
ASSETS			
Cash and cash equivalents	$ 2,215,837	$ 655,174	$ 2,871,011
Restricted cash and cash equivalents	282,168	400,229	682,397
Grants and other receivables	397,674	387,405	785,079
Internal balances	14,587,768	(14,587,768)	-
Prepaid expenses	149,000	108,884	257,884
Net other post-employment benefit asset:			
VRS disability insurance program	63,630	6,370	70,000
Capital assets:			
Donated artifacts for Museum	59,705	-	59,705
Construction in progress	46,756	159,458	206,214
Leasing commissions	-	112,460	112,460
Motor vehicle equipment	20,210	26,609	46,819
Furniture and equipment	159,261	34,520	193,781
Accumulated depreciation	(156,576)	(61,129)	(217,705)
Total assets	17,825,433	(12,757,788)	5,067,645
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	237,040	23,730	260,770
Other post-employment benefit deferrals:			
VRS disability insurance program	9,418	943	10,361
State health plan for pre-medicare retirees	6,960	697	7,657
Group life insurance program	7,420	743	8,163
Health insurance credit program	16,839	1,685	18,524
Total deferred outflows of resources	277,677	27,798	305,475
Total assets and deferred outflows of resources	$ 18,103,110	$ (12,729,990)	$ 5,373,120

	Governmental Activities	Business-Type Activities	Total Primary Government
LIABILITIES			
Accounts payable and accrued expenses	$ 231,886	$ 640,293	$ 872,179
Accrued salaries	21,692	7,312	29,004
Accrued payroll tax and benefits	57,040	-	57,040
Accrued annual leave - due within one year	52,566	8,740	61,306
Unearned revenue	119,657	-	119,657
Short-term note payable	-	260,784	260,784
Net pension liability	1,663,470	166,530	1,830,000
Net other post-employment benefit liabilities:			
State health plan for pre-medicare retirees	262,469	26,276	288,745
Group life insurance program	94,536	9,464	104,000
Health insurance credit program	162,711	16,289	179,000
Deposits payable	-	331,826	331,826
Total liabilities	2,666,027	1,467,514	4,133,541
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	241,794	24,206	266,000
Other post-employment benefit deferrals:			
VRS disability insurance program	9,999	1,001	11,000
State health plan for pre-medicare retirees	66,563	6,664	73,227
Group life insurance program	14,544	1,456	16,000
Health insurance credit program	7,272	728	8,000
Total deferred inflows of resources	340,172	34,055	374,227
NET POSITION			
Net investment in capital assets	129,356	271,918	401,274
Restricted	282,168	400,229	682,397
Unrestricted (deficit)	14,685,387	(14,903,706)	(218,319)
Total net position	15,096,911	(14,231,559)	865,352
Total liabilities, deferred inflows of resources, and net position	$ 18,103,110	$ (12,729,990)	$ 5,373,120

See accompanying notes.

Fort Monroe Authority
Component Unit of the Commonwealth of Virginia
Statement of Activities
Year Ended June 30, 2018

		Program Revenue			Net (Expense) Revenue and Change in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Type Activities	Total Primary Government
Functions/Programs							
Government activities:							
Planning and development	$ (4,409,710)	$ -	$ 448,574	$ 359,945	$ (3,601,191)	$ -	$ (3,601,191)
Business-type activities:							
Property admininstration							-
and maintenance	(8,438,426)	6,553,893	-	-	-	(1,884,533)	(1,884,533)
Operating loss	$ (12,848,136)	$ 6,553,893	$ 448,574	$ 359,945	(3,601,191)	(1,884,533)	(5,485,724)
General Revenue:							
Operating appropriates from the Commonwealth of Virginia					5,054,052	-	5,054,052
Other revenue					1,611,607	-	1,611,607
Contribution of buildings to the Commonwealth of Virginia					(490,306)	-	(490,306)
Change in net position					2,574,162	(1,884,533)	689,629
Net position, beginning of year, as restated					12,522,749	(12,347,026)	175,723
Net position, end of year					$ 15,096,911	$ (14,231,559)	$ 865,352

See accompanying notes.

Governmental Fund Financial Statements

Fort Monroe Authority
Component Unit of the Commonwealth of Virginia
Balance Sheet - Governmental Funds
June 30, 2018

	General	Special Revenue Fort Monroe Foundation	Total Governmental
ASSETS			
Current assets:			
Cash and cash equivalents	$ 2,051,773	$ 164,064	$ 2,215,837
Restricted cash and cash equivalents	282,168	-	282,168
Grants and other receivables	397,674	-	397,674
Due from other funds	14,587,768	-	14,587,768
Prepaid expenses	146,562	2,438	149,000
Total assets	$ 17,465,945	$ 166,502	$ 17,632,447
LIABILITIES			
Accounts payable	$ 230,181	$ 1,705	$ 231,886
Accrued salaries	21,692	-	21,692
Accrued payroll tax and benefits	57,040	-	57,040
Unearned revenue	-	119,657	119,657
Total liabilities	308,913	121,362	430,275
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	397,537	-	397,537
FUND BALANCE			
Nonspendable	146,562	2,438	149,000
Restricted	282,168	42,702	324,870
Unassigned	16,330,765	-	16,330,765
Total fund balance	16,759,495	45,140	16,804,635
Total liabilities, deferred inflows of resources and fund balance	$ 17,465,945	$ 166,502	$ 17,632,447

See accompanying notes.

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

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

Fund Balance - Governmental Funds	$ 16,804,635
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	129,356
Other noncurrent assets are not available to pay for current expenditures and are deferred in the funds.	397,537
Net pension liability and related deferred inflows and outflows are not due and payable in the current period and, therefore, are not reported as a liability in the governmental funds.	(1,668,224)
Net other post-employment benefit liability and related deferred inflows and outflows are not due and payable in the current period and, therefore, are not reported as a liability in the governmental funds.	(513,827)
Annual leave is no due and payable in the current year and, therefore, is not reported in the funds.	(52,566)
Net position of Governmental activities	$ 15,096,911

Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds
Year Ended June 30, 2018

	General	Special Revenue Fort Monroe Foundation	Total Governmental
REVENUE			
Intergovernmental revenue:			
State	$ 5,413,997	$ -	$ 5,413,997
Federal	448,574	-	448,574
Other	1,649,805	58,867	1,708,672
Total revenue	7,512,376	58,867	7,571,243
Expenditures:			
Planning and development	3,978,032	112,869	4,090,901
Capital outlay	736,196	-	736,196
Total expenditures	4,714,228	112,869	4,827,097
Excess (deficiency) of revenue over (under) expenditures	2,798,148	(54,002)	2,744,146
Fund balance, beginning of year	13,961,347	99,142	14,060,489
Fund balance, end of year	$ 16,759,495	$ 45,140	$ 16,804,635

See accompanying notes.

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds to the Statement of Activities

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

Excess of revenue over expenditures - Governmental funds	$ 2,744,146
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	381,984
Depreciation expense	(20,719)
	361,265
Some revenue is not collected for several months after the Authority's fiscal year end, therefore, is not considered "available" revenue and is deferred in the governmental fund. Deferred inflows of resources decreased by this amount this year.	(97,065)
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.	
Capital contributions to the Commonwealth of Virginia	(490,306)
Accrued annual leave increased by this amount this year	(11,138)
Other post-employment benefit cost	(1,146)
Pension cost recovery	68,406
	(434,184)
Change in net position	$ 2,574,162

Fort Monroe Authority
Component Unit of the Commonwealth of Virginia
Statement of Net Position - Enterprise Fund
June 30, 2018

ASSETS		
Current assets:		
Cash	$	655,174
Restricted cash		400,229
Accounts receivable		387,405
Prepaid expenses		108,884
Total current assets		1,551,692
Noncurrent assets:		
Net other post-employment benefit asset, VRS disability insurance program		6,370
Construction in progress		159,458
Leasing commissions		112,460
Total assets		1,829,980
DEFERRED OUTFLOWS OF RESOURCES		
Pension deferrals		23,730
Other post-employment benefit deferrals:		
VRS disability insurance program		943
State health plan for pre-medicare retirees		697
Group life insurance program		743
Health insurance credit program		1,685
Total deferred outflows of resources		27,798
Total assets and deferred outflows of resources	$	1,857,778

See accompanying notes.

LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	$	640,293
Accrued salaries		7,312
Due to other fund		14,587,768
Accrued annual leave - current portion		8,740
Short-term note payable		260,784
Deposits payable		331,826
Total current liabilities		15,836,723
Noncurrent liabilities:		
Net pension liability		166,530
Net other post-employment liabilities:		
State health plan for pre-medicare retirees		26,276
Group life insurance program		9,464
Health insurance credit program		16,289
Total liabilities		16,055,282
DEFERRED INFLOWS OF RESOURCES		
Pension deferrals		24,206
Other post-employment benefit deferrals:		
VRS disability insurance program		1,001
State health plan for pre-medicare retirees		6,664
Group life insurance program		1,456
Health insurance credit program		728
Total deferred inflows of resources		34,055
NET POSITION		
Net investment in capital assets		271,918
Restricted		400,229
Unrestricted (deficit)		(14,903,706)
Total net position		(14,231,559)
Total liabilities, deferred inflows of resources, and net position	$	1,857,778

Fort Monroe Authority
Component Unit of the Commonwealth of Virginia
Statement of Revenues, Expenses and Changes in Net Position - Enterprise Fund
Year Ended June 30, 2018

Revenue:		
Charges for services:		
Rental income and other tenant charges	$	4,790,895
Utility income		1,762,998
Total revenue		6,553,893
Expenses:		
Facilities maintenace and operation		7,987,019
General and administrative		432,442
Depreciation		144
Total expenses		8,419,605
Operating loss		(1,865,712)
Nonoperating expenses:		
Other expenses		(18,821)
Change in net position		(1,884,533)
Net position, beginning of year, as restated		(12,347,026)
Net position, end of year	$	(14,231,559)

See accompanying notes.

Cash flows from operating activities:		
Cash received from tenants	$	6,460,835
Cash paid to employees		(770,670)
Cash payments to suppliers for goods and services		(7,954,801)
Net cash used by operating activities		(2,264,636)
Cash flows from capital and related financing activities:		
Acquisition of capital assets		(159,458)
Proceeds from short-term borrowings		260,784
Leasing commissions paid		(112,460)
PILOT fees		(18,821)
Net cash used by capital and related financing activities		(29,955)
Cash flows from investing activities:		
Transfers from governmental funds		2,832,261
Net increase in cash		537,670
Cash, beginning of year		517,733
Cash, end of year	$	1,055,403
Supplemental disclosure of cash flow information:		
Cash	$	655,174
Restricted cash		400,229
	$	1,055,403
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$	(1,865,712)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation		144
Changes in assets and liabilities:		
Accounts receivable		(77,922)
Prepaid expenses		(16,583)
Accounts payable and accrued expenses		(251,024)
Accrued salaries		(12,548)
Accrued annual leave		(17)
Net pension liability and related deferred amounts		(25,953)
Net other post-employment benefit liability and related deferred amounts		115
Deposits payable		(15,136)
Total adjustments		(398,924)
Net cash used by operating activities	$	(2,264,636)

See accompanying notes.

Notes to Financial Statements

1. Organization and Purpose

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

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

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

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

2. Summary of Significant Accounting Policies

Reporting Entity

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

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

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

Government-wide and fund financial statements

The basic financial statements include both government-wide (based upon the Authority as a whole) and fund financial statements. These statements distinguish between the governmental and business-type activities of the Authority. In 2017, in addition to its blended component unit, the Authority had two funds:

General Fund

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

Enterprise Fund

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

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

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

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

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

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

Basis of Accounting

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

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

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

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

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

Cash and cash equivalents

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

Prepaid Expenses/Expenditures

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

Capital Assets

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

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

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.

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 $305,475 of deferred outflows of resources at June 30, 2018, related to pension and other post-employment benefit activities. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Authority has $374,227 of deferred inflows of resources at June 30, 2018, related to pension and other post-employment benefit activities. Under the modified accrual basis of accounting, the Authority's deferred inflows of resources consist of revenues which are applicable to a future period, and will not be recognized until the period they become available. These amounts are recorded on the Balance Sheet - Governmental Funds as deferred inflow of resources.

Fund Balance

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

> Nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.
>
> Restricted fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of governments or is imposed by law through constitutional provisions or enabling legislation. The Authority can be compelled by an external party to use resources only for the purposes specified.
>
> Committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action of Commonwealth of Virginia Legislature or the Authority's Board. Those committed amounts cannot be used for any other purpose unless the same type of formal action is taken to remove or change the specified commitment. Committed fund balance classification may be redeployed for other purposes with appropriate formal action.
>
> Assigned fund balance amount classification is intended to be used by the Authority for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Commissioners, appointed in accordance with the provisions of the Enabling Act.
>
> Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications.

Use of estimates

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

Net position

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

Subsequent events

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through November 29, 2018, the date the financial statements were available to be issued.

3. Change in Accounting Principle / Restatement

The Authority implemented Governmental Accounting Standards Board (GASB) Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", in the fiscal year ended June 30, 2018. The implementation of the statement required the Authority to record beginning net OPEB liability and the effects on net position of contributions made by the Authority. The Authority could not practically determine the period-specific details of the change on all prior periods presented; therefore, the cumulative effect of the change was applied to the beginning balances of the current year as follows:

	Governmental Activities		
	As Previously Reported June 30, 2017	**Restatement**	**As Restated June 30, 2017**
Deferred outflows of resources			
Contributions subsequent to measurement date			
Health insurance credit program	$ -	$ 14,544	$ 14,544
Group life insurance program	-	5,454	5,454
Disability insurance program	-	8,181	8,181
Pre-Medicare retiree healthcare	-	8,738	8,738
Liabilities			
OPEB liabilities			
Health insurance credit program	$ -	$ 170,892	$ 170,892
Group life insurance program	-	114,534	114,534
Disability insurance program	-	(52,722)	(52,722)
Pre-Medicare retiree healthcare	-	316,894	316,894
Net position, unrestricted	$ 13,035,430	$ (512,681)	$ 12,522,749

	Business-type Activities		
	As Previously Reported June 30, 2017	**Restatement**	**As Restated June 30, 2017**
Deferred outflows of resources			
Contributions subsequent to measurement date			
Health insurance credit program	$ -	$ 1,456	$ 1,456
Group life insurance program	-	546	546
Disability insurance program	-	819	819
Pre-Medicare retiree healthcare	-	875	875
Liabilities			
OPEB liabilities			
Health insurance credit program	$ -	$ 17,108	$ 17,108
Group life insurance program	-	11,466	11,466
Disability insurance program	-	(5,278)	(5,278)
Pre-Medicare retiree healthcare	-	31,724	31,725
Net position	$ (12,295,701)	$ (51,325)	$ (12,347,026)

4. 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, 2018, the Authority had $3,608,371 in bank deposits and $684,836 in restricted deposits. $5,768 represents flex spending accounts available for the employees. $276,400 represents money restricted under the Authority's homeless support services agreement with the City of Hampton and a non-profit homeless provider. Security deposits of $345,901 and $56,767 represent deposits held for tenants who have leased the residential and commercial properties, respectively. The differences between these amounts and the balances reflected on the Statement of Net Position is comprised of check written and deposits made before year end that did not clear that bank until after year end.

Operating accounts:	
Governmental Funds	$ 2,215,837
Enterprise Fund	655,174
Total operating accounts	2,871,011
Restricted Accounts:	
Governmental Funds:	
Flex spending accounts	5,768
Homeless support services	276,400
Enterprise Fund:	
Security deposits on residential leases	343,462
Security deposits on commercial leases	56,767
Total restricted accounts	682,397
Total cash and cash equivalents	$ 3,553,408

5. Capital Assets

The following is a summary of the Authority's change in capital assets for the year ended June 30, 2018:

	Governmental Activities			
	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital assets not depreciated:				
Donated artifacts for museum	$ 59,705	$ -	$ -	**$ 59,705**
Construction in process	155,078	381,984	(490,306)	**46,756**
Total capital assets not depreciated	214,783	381,984	(490,306)	**106,461**
Capital assets being depreciated:				
Property and improvements	99,786	-	(99,786)	**-**
Motor vehicle equipment	20,210	-	-	**20,210**
Furniture and equipment	169,546	-	(10,285)	**159,261**
Total capital assets being depreciated	289,542	-	(110,071)	**179,471**
Accumulated depreciation:				
Property and improvements	(99,786)	-	99,786	**-**
Motor vehicle equipment	(20,210)	-	-	**(20,210)**
Furniture and equipment	(125,932)	(20,719)	10,285	**(136,366)**
Total accumulated depreciation	(245,928)	(20,719)	110,071	**(156,576)**
Total capital assets being depreciated, net	43,614	(20,719)	-	**22,895**
Total capital assets	$ 258,397	$ 361,265	$ (490,306)	**$ 129,356**

	Business-type Activities			
	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capitalized assets not depreciated:				
Leasing commissions	$ -	$ 112,460	$ -	**$ 112,460**
Construction in process	-	159,458	-	**159,458**
Total capital assets not being depreciated	-	271,918	-	**271,918**
Capital assets being depreciated:				
Motor vehicle equipment	26,609	-	-	**26,609**
Furniture and equipment	34,520	-	-	**34,520**
Total capital assets being depreciated	61,129	-	-	**61,129**
Accumulated depreciation:				
Motor vehicle equipment	(26,465)	(144)	-	**(26,609)**
Furniture and equipment	(34,520)	-	-	**(34,520)**
Total accumulated depreciation	(60,985)	(144)	-	**(61,129)**
Total capital assets being depreciated, net	144	(144)	-	**-**
Total capital assets	$ 144	$ 271,774	$ -	**$ 271,918**

As discussed in Note 2, all land, building, and infrastructure acquisitions with an individual cost of $100,000 are transferred to the Commonwealth as capital assets. The $490,306 decrease in construction in progress was transferred to the Commonwealth and is included in contribution of buildings to the Commonwealth of Virginia on the statement of activities. The $112,460 increase in leasing commissions is half of the total commission to be paid to Divaris Real Estate for the lease-up of Building #96. The second half of the commission is expected to be paid in December 2018 upon actual rent commencement at which point the entire commission will be amortized over the life of the lease which extends to May 2028.

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.

6. Accrued Annual Leave

The following is a summary of the Authority's change in accrued annual leave for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
	Governmental Activities			
Accrued annual leave				
Governmental activities	$ 41,428	$ 19,195	$ 8,057	**$ 52,566**
	Business-Type Activities			
Accrued annual leave				
Business-type activities	$ 8,757	$ 6,493	$ 6,510	**$ 8,740**

7. 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 $14,587,768 at June 30, 2018, primarily represents property insurance, utilities and PILOT fees (payments in lieu of taxes) paid from the General Fund for the residential, commercial, public events, and utility fund business-type divisions and to fund the operations of the Commercial Division. The total internal balances due from the Commercial Division, totaling $14,019,119 at June 30, 2018, are not anticipated to be repaid within one year.

8. Deferred Compensation Plan

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

9. Short-term Debt

On September 18, 2017, the Authority obtained a commercial promissory note for the purpose of funding the costs of the Building 96 renovation project. The promissory note acts as a line of credit with a total maximum balance of $1,200,000. As of June 30, 2018, $260,784 had been borrowed on the note. The note bears interest at a fixed rate of 4.85%. Interest-only payments are due on a monthly basis. The note is set to mature on September 18, 2018 at which time the Authority management expected to convert the loan over to a permanent loan. Because of construction delays, the expected completion date of the project has been moved to January 2019. At November 29, 2018, the date of the issuance of these statements, the Authority had been granted a verbal extension by the note holder and was in the process of obtaining a formal extension of the loan.

The following is a summary of the Authority's change in short-term debt for the year ended June 30, 2018:

	Business-Type Activities			
	Balance July 1, 2017	**Additions**	**Deletions**	**Balance June 30, 2018**
Promissory note	$ -	$ 260,784	$ -	**$ 260,784**

10. Defined Benefit Pension

Pensions

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

General Information about the Pension Plan

Plan Description

All full-time, salaried permanent employees of state agencies are automatically covered by the VRS State Employee Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the "System") along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer are paying contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

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

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1	**About Plan 2**	**About the Hybrid Retirement Plan**
Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	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.	The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. • 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, and they have not taken a refund. **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.	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.	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
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.	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.	
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.

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Creditable Service	**Creditable Service**	**Creditable Service**
		Defined Contributions Component: Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
Vesting	**Vesting**	**Vesting**
Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	Same as Plan 1.	**Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. * After two years, a member is 50% vested and may withdraw 50% of employer contributions. *After three years, a member is 75% vested and may withdraw 75% of employer contributions. *After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit	**Calculating the Benefit**	**Calculating the Benefit**
The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.	See definition under Plan 1.	**Defined Benefit Component:** See definition under Plan 1. **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Calculating the Benefit	**Calculating the Benefit**	**Calculating the Benefit**
An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.		
Average Final Compensation	**Average Final Compensation**	**Average Final Compensation**
A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	A member's average final compensation is the average of the 60 consecutive months of highest compensation as a covered employee.	Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier	**Service Retirement Multiplier**	**Service Retirement Multiplier**
The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.	Same as Plan 1 of service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members, the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.	**Defined Benefit Component:** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **Defined Contribution Component:** Not applicable.
Normal Retirement Age	**Normal Retirement Age**	**Normal Retirement Age**
Age 65.	Normal Social Security retirement age.	**Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility	**Earliest Unreduced Retirement Eligibility**	**Earliest Unreduced Retirement Eligibility**
Age 65 with a least five years (60 months) of creditable service or age 50 with at least 30 years of creditable service.	Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.	**Defined Benefit Component:** Normal Social Security retirement age with 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.

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
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 50 with at least 10 years of creditable service.	Age 60 with at least five years (60 months) of creditable service.	**Defined Benefit Component:** Age 60 with at least five years (60 months) of creditable service. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement	**Cost-of-Living Adjustment (COLA) in Retirement**	**Cost-of-Living Adjustment (COLA) in Retirement**
The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. **Eligibility:** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit or with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date. **Exceptions to COLA Effective Dates:** The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: * The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.	The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. **Eligibility:** Same as Plan 1 **Exceptions to COLA Effective Dates:** Same as Plan 1.	**Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable. **Eligibility:** Same as Plan 1 and Plan 2. **Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in	**Cost-of-Living Adjustment (COLA) in**	**Cost-of-Living Adjustment (COLA) in**
*The member retires on disability. *The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). *The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. *The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.		
Disability Coverage	**Disability Coverage**	**Disability Coverage**
Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	State employees (including Plan 1 or Plan 2 opt- ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including Plan 1 and Plan 2 opt- ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non- work related disability benefits.

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Purchase of Prior Service	**Purchase of Prior Service**	**Purchase of Prior Service**
Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts towards vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	Same as Plan 1.	**Defined Benefit Component:** Same as Plan 1, with the following exceptions: *Hybrid Retirement Plan members are ineligible for ported service. **Defined Contribution Component:** Not applicable.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, the 5.00% member contribution was paid by the employer. Beginning July 1, 2012, state employees were required to pay the 5.00% member contribution and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each state agency's contractually required contribution rate for the year ended June 30, 2018, was 13.49% of covered employee compensation for employees in the VRS State Employee Retirement Plan. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The contribution rate for the VRS State Employee Retirement Plan also reflects the transfer in June 2016 of $162,406,273 as an accelerated payback of the deferred contribution in the 2010-12 biennium. 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. Contributions from the Authority to the VRS State Employee Retirement Plan were $211,770 for the year ended June 30, 2018.

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

At June 30, 2018, the Authority reported a liability of $1,830,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2017 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 Authority's actuarially determined employer contributions to the pension plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the Authority's proportion of the VRS State Employee Retirement Plan was 0.03139% as compared to 0.03259% at June 30, 2016.

For the year ended June 30, 2018, the Authority recognized pension expense of $116,000 for the VRS State Employee Retirement Plan. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Governmental Activities	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 3,636	$ 50,904
Change in assumptions	16,362	-
Net difference between projected and actual earnings on pension plan investments	-	70,902
Changes in proportion and differences between employer contributions and proportionate share of contributions	24,543	119,988
Employer contributions subsequent to the measurement date	192,499	-
	$ 237,040	$ 241,794

	Business-type Activities	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 364	$ 5,096
Change in assumptions	1,638	-
Net difference between projected and actual earnings on pension plan investments	-	7,098
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,457	12,012
Employer contributions subsequent to the measurement date	19,271	-
	$ 23,730	$ 24,206

$211,770 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Governmental Activities	Business-type Activities	Total
2019	$ (98,172)	$ (9,828)	$ (108,000)
2020	(37,269)	(3,731)	(41,000)
2021	(13,635)	(1,365)	(15,000)
2022	(48,177)	(4,823)	(53,000)

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2016, 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, 2017.

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

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

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

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2017, NPL amounts for the VRS State Employee Retirement Plan are as follows (amounts expressed in thousands):

State Employee Retirement Plan

Total pension liability	$ 23,617,412
Plan fiduciary net position	17,789,888
Employers' net pension liability	$ 5,827,524
Plan fiduciary net position as a percentage of the total pension liability	75.33%

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.

Long-Term Expected Rate of Return

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

Assets Class Strategy	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Estate	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
Inflation			2.50%
Expected arithmetic nominal return			7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the state agency for the VRS State Employee Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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			
Governmental activities	$ 2,456,118	$ 1,663,470	$ 997,173
Business-type activities	245,882	166,530	99,827
Total primary government	$ 2,702,000	$ 1,830,000	$ 1,097,000

Pension Plan Fiduciary Net Position

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-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, 2018, no amounts were payable to VRS.

11. Other Post Employment Benefit Plans

Health Insurance Credit Program

The Virginia Retirement System (VRS) State Employee Health Insurance Credit Program is a single employer plan that is presented as a multiple-employer, cost-sharing plan. The State Employee Health Insurance Credit Program was established pursuant to §51.1-1400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The State Employee Health Insurance Credit Program is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired state employees. For purposes of measuring the net State Employee Health Insurance Credit Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the State Employee Health Insurance Credit Program OPEB, and the State Employee Health Insurance Credit Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) State Employee Health Insurance Credit Program; and the additions to/deductions from the VRS State Employee Health Insurance Credit Program's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

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

The specific information about the State Health Insurance Credit Program OPEB, including eligibility, coverage and benefits is set out below:

Plan Provisions

Eligible Employees:
The State Employee Retiree Health Insurance Credit Program was established January 1, 1990 for retired state employees covered under VRS, SPORS, VaLORS and JRS who retire with at least 15 years of service credit. Eligible employees are enrolled automatically upon employment. They include full-time and part-time permanent salaried state employees covered under VRS, SPORS, VaLORS and JRS.

Benefit Amounts:
The State Employee Retiree Health Insurance Credit Program provides the following benefits for eligible employees:

- At Retirement - For State employees who retire, the monthly benefit is $4.00 per year of service per month with no cap on the benefit amount.
- Disability Retirement **-** For State employees, other than state police officers, who retire on disability or go on long-term disability under the Virginia Sickness and Disability Program (VSDP), the monthly benefit is $120.00 or $4.00 per year of service, whichever is higher.

Health Insurance Credit Program Notes:

- The monthly Health Insurance Credit benefit cannot exceed the individual premium amount.
- Employees who retire after being on long-term disability under VSDP must have at least 15 years of service credit to qualify for the health insurance credit as a retiree.

Contributions

The contribution requirement for active employees is governed by §51.1-1400(D) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each state agency's contractually required employer contribution rate for the year ended June 30, 2018 was 1.18% of covered employee compensation for employees in the VRS State Employee Health Insurance Credit Program. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the Authority to the VRS State Employee Health Insurance Credit Program were $18,524 for the year ended June 30, 2018.

State Employee Health Insurance Credit Program OPEB Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2018, the Authority reported a liability of $179,000 for its proportionate share of the VRS State Employee Health Insurance Credit Program Net OPEB Liability. The Net VRS State Employee Health Insurance Credit Program OPEB Liability was measured as of June 30, 2017, and the total VRS State Employee Health Insurance Credit Program OPEB liability used to calculate the Net VRS State Employee Health Insurance Credit Program OPEB Liability was determined by an actuarial valuation as of that date. The state agency's proportion of the Net VRS State Employee Health Insurance Credit Program OPEB Liability was based on the state agency's actuarially determined employer contributions to the VRS State Employee Health Insurance Credit Program OPEB plan for the year ended June 30, 2017, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the state agency's proportion of the VRS State Employee Health Insurance Credit Program was 0.01973% as compared to 0.02051% at June 30, 2016.

For the year ended June 30, 2018, the Authority recognized VRS State Employee Health Insurance Credit Program OPEB expense of $15,000. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017 a portion of the VRS State Employee Health Insurance Credit Program Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the state agency reported deferred outflows of resources and deferred inflows of resources related to the VRS State Employee Health Insurance Credit Program OPEB from the following sources:

	Governmental Activities	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Change in assumptions	$ -	$ 1,818
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	5,454
Employer contributions subsequent to the measurement date	16,839	-
	$ 16,839	$ 7,272

	Business-type Activities	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	$ -	$ 182
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	546
Employer contributions subsequent to the measurement date	1,685	-
	$ 1,685	$ 728

$18,524 reported as deferred outflows of resources related to the State Employee HIC OPEB resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net State Employee HIC OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the State Employee HIC OPEB will be recognized in the State Employee HIC OPEB expense in future reporting periods as follows:

Year Ended June 30,	Governmental Activities	Business-type Activities	Total
2019	$ (909)	$ (91)	$ (1,000)
2020	(909)	(91)	(1,000)
2021	(909)	(91)	(1,000)
2022	(909)	(91)	(1,000)
2023	(909)	(91)	(1,000)
Thereafter	(2,727)	(273)	(3,000)

Actuarial Assumptions

The total State Employee HIC OPEB liability for the VRS State Employee Health Insurance Credit Program was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.5%
Salary increases, including Inflation	3.5% - 5.35%
Investment rate of return	7.0%, net of OPEB plan investment expenses, 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 the OPEB liabilities.

Mortality rates:

Pre-Retirement:

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

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

Net State Employee HIC OPEB Liability

The net OPEB liability (NOL) for the State Employee Health Insurance Credit Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the VRS State Employee Health Insurance Credit Program is as follows (amounts expressed in thousands):

State Employee HIC OPEB Plan

Total state employee HIC OPEB liability	$ 990,028
Plan fiduciary net position	79,516
State employee net HIC OPEB liability	$ 910,512
Plan fiduciary net position as a percentage of the total state employee HIC OPEB liability	8.03%

The total State Employee HIC OPEB liability is calculated by the System's actuary, and the plan's fiduciary net position is reported in the System's financial statements. The net State Employee HIC OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on VRS 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 VRS System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Assets Class Strategy	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Estate	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
	100.00%		4.80%
Inflation			2.50%
*Expected arithmetic nominal return			7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total State Employee HIC OPEB was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by the state agency for the VRS State Employee Health Insurance Credit Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the State Employee HIC OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total State Employee HIC OPEB liability.

Sensitivity of the State Agency's Proportionate Share of the State Employee HIC Net OPEB Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the VRS State Employee Health Insurance Credit Program net HIC OPEB liability using the discount rate of 7.00%, as well as what the state agency's proportionate share of the net HIC OPEB 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 HIC OPEB Plan Net HIC OPEB Liability			
Governmental activities	$ 179,982	$ 162,711	$ 148,167
Business-type activities	18,018	16,289	14,833
Total primary government	$ 198,000	$ 179,000	$ 163,000

State Employee HIC OPEB Fiduciary Net Position

Detailed information about the VRS State Employee Health Insurance Credit Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

VRS Group Life Insurance Program

The Virginia Retirement System (VRS) Group Life Insurance Program is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The Group Life Insurance Program was established pursuant to §51.1-500 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The Group Life Insurance Program is a defined benefit plan that provides a basic group life insurance benefit for employees or participating employers. For purposes of measuring the net Group Life Insurance Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Group Life Insurance Program OPEB, and Group Life Insurance Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Group Life Insurance program OPEB and the additions to/deductions from the VRS Group Life Insurance Program OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

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

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

The specific information for Group Life Insurance Program OPEB, including eligibility, coverage and benefits is set out below:

Eligible Employees: The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement: City of Richmond, City of Portsmouth, City of Roanoke, City of Norfolk and Roanoke City Schools Board. Basic group life insurance coverage is automatic upon employment. Coverage end for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.

Benefit Amounts: The benefits payable under the Group Life Insurance Program have several components.

- Natural Death Benefit – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.
- Accidental Death Benefit – The accidental death benefit is double the natural death benefit.
- Other Benefit Provisions – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:
  - Accidental dismemberment benefit
  - Safety belt benefit
  - Repatriation benefit
  - Felonious assault benefit
  - Accelerated death benefit option

Reduction in benefit amounts: The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.

Minimum Benefit Amount and Cost-of-Living Adjustment (COLA): For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at $8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently $8,111.

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018, was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Program from the entity were $8,163 for the year ended June 30, 2018.

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB

At June 30, 2018, the Authority reported a liability of $104,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017, and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating employer's proportion was 0.00691% as compared to 0.00718% at June 30, 2016.

For the year ended June 30, 2018, the Authority recognized GLI OPEB expense of $-0-. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Governmental Activities	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,727
Change in assumptions	-	4,545
Net difference between projected and actual earnings on GLI OPEB program investments	-	3,636
Changes in proportion	-	3,636
Employer contributions subsequent to the measurement date	7,420	-
	$ 7,420	$ 14,544

	Business-type Activities	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 273
Change in assumptions	-	455
Net difference between projected and actual earnings on GLI OPEB program investments	-	364
Changes in proportion	-	364
Employer contributions subsequent to the measurement date	743	-
	$ 743	$ 1,456

$8,163 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ended June 30,	Governmental Activities	Business-type Activities	Total
2019	$ (2,727)	$ (273)	$ (3,000)
2020	(2,727)	(273)	(3,000)
2021	(2,727)	(273)	(3,000)
2022	(2,727)	(273)	(3,000)
2023	(909)	(91)	(1,000)
Thereafter	(2,727)	(273)	(3,000)

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and assumptions substantially the same as those used to measure the HIC OPEB.

Net GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

Group Life Insurance OPEB Plan

Total GLIP OPEB liability	$ 2,294,426
Plan fiduciary net position	1,437,586
Employers' net GLI OPEB liability	$ 1,540,840
Plan fiduciary net position as a percentage of the total GLI OPEB liability	48.86%

The total GLI OPEB liability is calculated by the System's actuary, and the plan's fiduciary net position is reported in the System's financial statements. The net GLIOPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return and Discount Rate

These inputs were determined in the same manner as described for the HIC OPEB plan as described above.

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

The following presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, as well as what the employer's proportionate share of the net GLI OPEB 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 Group Life Insurance Program Net OPEB Liability			
Governmental activities	$ 122,715	$ 94,536	$ 72,720
Business-type activities	12,285	9,464	7,280
Total primary government	$ 135,000	$ 104,000	$ 80,000

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

VRS Disability Insurance Program

The Virginia Retirement System (VRS) Disability Insurance Program (Virginia Sickness and Disability Program) is a single employer plan that is presented as a multiple-employer, cost-sharing plan. The Disability Insurance Program was established pursuant to §51.1-1100 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The Disability Insurance Program is a managed care program that provides sick, family and personal leave and short-term and long-term disability benefits for State Police Officers, state employees, and VaLORS employees. For purposes of measuring the net Disability Insurance Program OPEB liability (asset), deferred outflows of resources and deferred inflows of resources related to the Disability Insurance Program OPEB, and Disability Insurance Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Disability Insurance Program OPEB Plan and the additions to/deductions from the VRS Disability Insurance Program OPEB Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

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

Plan Provisions

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

Eligible Employees: The Virginia Sickness and Disability Program (VSDP), also known as the Disability Insurance Trust Fund was established January 1, 1999 to provide short-term and long-term disability benefits for non-work-related and work-related disabilities. Eligible employees are enrolled automatically upon employment. They include:

- Full-time and part-time permanent salaried state employees covered under VRS, SPORS and ValORS (members new to VaLORS following its creation on October 1, 1999, have been enrolled since the inception of VSDP).
- State employees hired before January 1, 1999, who elected to transfer to VSDP rather than retain their eligibility to be considered for VRS disability retirement.
- Public college and university faculty members who elect the VRS defined benefit plan. They may participate in VSDP or their institution's disability program, if offered. If the institution does not offer the program or the faculty member does not make an election, he or she is enrolled in VSDP.

Benefit Amounts: The Virginia Sickness and Disability Program (VSDP) provides the following benefits for eligible employees:

- Leave – Sick, family and personal leave. Eligible leave benefits are paid by the employer.
- Short-Term Disability – The program provides a short-term disability benefit beginning after a seven-calendar-day waiting period from the first day of disability. The benefit provides income replacement beginning at 100% of the employee's pre-disability income, reducing to 80% and then 60% based on the period of the disability and the length of service of the employee. Short-term disability benefits are paid by the employer.
- Long Term Disability – The program provides a long-term disability benefit beginning after 125 workdays of short-term disability and continuing until the employee reaches his or her normal retirement age. The benefit provides income replacement of 60% of the employee's pre-disability income. If an employee becomes disabled within five years of his or her normal retirement age, the employee will receive up to five years of VSDP benefits, provided he or she remains medically eligible. Long-term disability benefits are paid for by the Virginia Disability Insurance Program (VSDP) OPEB Plan.
- Income Replacement Adjustment – The program provides for an income replacement adjustment to 80% of catastrophic conditions.
- VSDP Long-Term Care Plan – The program also includes a self-funded long-term care plan that assists with the cost of covered long-term care services.

Disability Insurance Program (VSDP) Plan Notes:

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

Cost-of-Living Adjustments (COLA):

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

Contributions

The contribution requirements for the Disability Insurance Program (VSDP) are governed by §51.1-1140 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer's contractually required employer contribution rate for the Disability Insurance Program (VSDP) for the year ended June 30, 2018, was 0.66% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits payable during the year, with an adjustment to amortize the accrued OPEB assets. Contributions to the Disability Insurance Program (VSDP) from the entity were $10,361 for the year ended June 30, 2018.

Disability Insurance Program (VSDP) OPEB Labilities (Assets), VSDP OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to VSDP OPEB

At June 30, 2018, the entity reported a liability (asset) of $(70,000) for its proportionate share of the Net VSDP OPEB Liability (Asset). The Net VSDP OPEB Liability (Asset) was measured as of June 30, 2017, and the total VSDP OPEB liability used to calculate the Net VSDP OPEB Liability (Asset) was determined by an actuarial valuation as of that date. The state agency's proportion of the Net VSDP OPEB Liability (Asset) was based on the agency's actuarially determined employer contributions to the VSDP OPEB plan for the year ended June 30, 2017, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the state agency's proportion was 0.03380% as compared 0.03491% at June 30, 2016.

For the year ended June 30, 2018, the state agency recognized VSDP OPEB expense of $8,000. Since there was a change in proportionate share between measurement dates, a portion of the VSDP OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the state agency reported deferred outflows of resources and deferred inflows of resources related to the VSDP OPEB from the following sources:

	Governmental Activities	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Change in assumptions	$ -	$ 5,454
Net difference between projected and actual earnings on VSDP OPEB plan investments	-	4,545
Employer contributions subsequent to the measurement date	9,418	-
	$ 9,418	$ 9,999

	Business-type Activities	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Change in assumptions	$ -	$ 546
Net difference between projected and actual earnings on VSDP OPEB plan investments	-	455
Employer contributions subsequent to the measurement date	943	-
	$ 943	$ 1,001

$10,361 reported as deferred outflows of resources related to the VSDP OPEB resulting from the state agency's contributions subsequent to the measurement date will be recognized as an adjustment of the Net VSDP OPEB Liability (Asset) in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the VSDP OPEB will be recognized in VSDP OPEB expense in future reporting periods as follows:

Year Ended June 30,	Governmental Activities	Business-type Activities	Total
2019	$ (1,818)	$ (182)	$ (2,000)
2020	(1,818)	(182)	(2,000)
2021	(1,818)	(182)	(2,000)
2022	(1,818)	(182)	(2,000)
2023	(909)	(91)	(1,000)
Thereafter	(1,818)	(182)	(2,000)

Actuarial Assumptions

The total VSDP OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and assumptions substantially the same as those used to measure the HIC OPEB.

Net VSDP OPEB Liability (Asset)

The net OPEB asset (NOA) for the Disability Insurance Program (VSDP) represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOA amounts for the Disability Insurance Program (VSDP) is as follows (amounts expressed in thousands):

Disability Insurance Program

Total VSDP OPEB liability	$ 237,013
Plan fiduciary net position	442,334
Employers' net OPEB liability (asset)	$ (205,321)
Plan fiduciary net position as a percentage of the total VSDP OPEB liability	186.63%

The total VSDP OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net OPEB asset is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Long-term expected rate of return and Discount Rate

These inputs were determined in the same manner as described for the HIC OPEB plan.

Sensitivity of the State Agency's Proportionate Share of the Net VSDP OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net VSDP OPEB liability (asset) using the discount rate of 7.00%, as well as what the state agency's proportionate share of the net VSDP OPEB liability (asset) 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 total VSDP Net OPEB Liability (Asset)			
Governmental activities	$ (60,703)	$ (63,630)	$ (69,084)
Business-type activities	(6,297)	(6,370)	(6,916)
Total primary government	$ (67,000)	$ (70,000)	$ (76,000)

VSDP OPEB Fiduciary Net Position

Detailed information about the Disability Insurance Program (VSDP) Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Commonwealth of Virginia State Health Plans Program for Pre-Medicare Retirees

Plan Provisions

The Commonwealth provides a healthcare plan established by Title 2.2, Chapter 28 of the Code of Virginia for retirees who are not yet eligible to participate in Medicare. For a retiree to participate in the Plan, the participant must be eligible for a monthly annuity from the VRS or a periodic benefit from one of the qualified Optional Retirement Plan (ORP) vendors, and:

- be receiving (not deferring) the annuity or periodic benefit immediately upon retirement;
- have his or her last employer before retirement be the state;
- be eligible for coverage as an active employee in the State Health Benefits Program until his or her retirement date (not including Extended Coverage); and,
- have submitted within 31 days of his or her retirement date an Enrollment Form to his or her Benefits Administrator to enroll.

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

This fund is reported as part of the Commonwealth's Healthcare Internal Service Fund. Benefit payments are recognized when due and payable in accordance with the benefit terms. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes, and is administered by the Department of Human Resource Management. There were approximately 5,600 retirees and 91,000 active employees in the program in fiscal year 2017. There are no inactive employees entitled to future benefits who are not currently receiving benefits. There are no assets accumulated in a trust to pay benefits.

Actuarial Assumptions and Methods

The total Pre-Medicare Retiree Healthcare OPEB liability was based on an actuarial valuation with a valuation date of June 30, 2017. The Department of Human Resource Management selected the economic, demographic and healthcare claim cost assumptions. The actuary provided guidance with respect to these assumptions. Initial healthcare costs trend rates used were 8.62 percent for medical and pharmacy and 4.0 percent for dental. The ultimate trend rates used were 5.0 percent for medical and pharmacy and 4.0 percent for dental.

Valuation Date	Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported.
Measurement Date	June 30, 2017 (one year prior to the end of the fiscal year)
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar, Closed
Effective Amortization Period	6.43 years
Discount Rate	3.58%
Projected Salary Increases	4.0%
Medical Trend Under 65	Medical & Rx: 8.62% to 5.00% Dental: 4.00% Before reflecting Excise tax
Year of Ultimate Trend	2025
Mortality	Mortality rates vary by participant status
Pre-Retirement:	RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020; males setback 1 year, 85% of rates; females setback 1 year
Post-Retirement	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females setback 1 year with 1.5% increase compounded from ages 70 to 85
Post-Disablement:	RP-2014 Disabled Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates

The discount rate was based on the Bond Buyers GO 20 Municipal Bond Index as of the measurement date which is June 30, 2017.

Changes of Assumptions: The following assumptions were updated since the July 1, 2016 valuation based on the results of a Virginia Retirement System actuarial experience study performed for the period of July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Mortality rates -updated to a more current mortality table – RP-2014 projected to 2020
- Retirement rates - lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal rates - adjusted rates to better fit experience at each year age and service through 9 years of service

The discount rate was increased from 2.85% to 3.58% based on the Bond Buyers GO 20 Municipal Bond Index. Spousal coverage was reduced from 70% to 50% based on a blend of recent spousal coverage election rates and the prior year assumption. Based on the 2017 census, new retirees since 1/1/2015 have chosen to cover their spouses approximately 20% of the time. However, active employees cover their spouses at a rate close to 53%.

Pre-Medicare Retiree Healthcare OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2018, the employer reported a liability of $288,745 for its proportionate share of the collective total Pre-Medicare Retiree Healthcare OPEB liability of $1.3 billion. The Pre-Medicare Retiree Healthcare OPEB liability was measured as of June 30, 2017, and was determined by an actuarial valuation as of June 30, 2017. The covered employer's proportion of the Pre-Medicare Retiree Healthcare OPEB liability was based on each employer's healthcare premium contributions as a percentage of the total employer's healthcare premium contributions for all participating employers. At June 30, 2017, the participating employer's proportion was 0.02223% as compared to 0.02226% at June 30, 2016. For the year ended June 30, 2018, the participating employer recognized Pre-Medicare Retiree Healthcare OPEB expense of $22,966.

At June 30, 2018, the employer reported deferred outflows or resources and deferred inflows of resources related to Pre-Medicare Retiree Healthcare from the following sources:

	Governmental Activities	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	$ -	$ 55,641
Change in proportion	-	363
Difference between actual and expected program experience	-	10,557
Employer contributions subsequent to the measurement date	6,960	-
	$ 6,960	$ 66,563

	Business-type Activities	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	$ -	$ 5,571
Change in proportion	-	36
Difference between actual and expected program experience	-	1,057
Employer contributions subsequent to the measurement date	697	-
	$ 697	$ 6,664

$7,675 reported as deferred outflows of resources related to the Pre-Medicare Retiree Healthcare OPEB resulting from the Authority's contributions subsequent to the measurement date will be recognized as an adjustment of the total OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pre-Medicare Retiree Healthcare OPEB will be recognized in the Pre-Medicare Retiree Healthcare OPEB expense in future reporting periods as follows:

Year Ended June 30,	Governmental Activities	Business-type Activities	Total
2019	$ (12,258)	$ (1,227)	$ (13,485)
2020	(12,258)	(1,227)	(13,485)
2021	(12,258)	(1,227)	(13,485)
2022	(12,258)	(1,227)	(13,485)
2023	(12,258)	(1,227)	(13,485)
Thereafter	(5,274)	(528)	(5,802)

Sensitivity of the Authority's Proportionate Share of the Pre-Medicare Retiree Healthcare OPEB Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using the discount rate of 3.58%, as well as what the Authority's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.58%) or one percentage point higher (4.58%) 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 total Pre-Medicare Retiree Healthcare OPEB Liability			
Governmental activities	$ 281,165	$ 262,469	$ 244,557
Business-type activities	28,147	26,276	24,483
Total primary government	$ 309,312	$ 288,745	$ 269,040

Sensitivity of the Authority's Proportionate Share of the Pre-Medicare Retiree Healthcare OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the Authority's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability using the healthcare cost trend rate of 8.62% decreasing to 5.00%, as well as what the Authority's proportionate share of the Pre-Medicare Retiree Healthcare OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (7.62% decreasing to 4.00%) or one percentage point higher (9.62% decreasing to 6.00%) than the current rate:

	1.00% Lower	Current Healthcare Cost Trend Rate	1.00% Higher
Authority's proportionate share of the total Pre-Medicare Retiree Healthcare OPEB Liability			
Governmental activities	$ 233,531	$ 262,469	$ 296,393
Business-type activities	23,379	26,276	29,672
Total primary government	$ 256,910	$ 288,745	$ 326,065

12. Contingencies

Payments in lieu of taxes

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

13. Insurance Recoveries

During 2018, the Authority received insurance proceeds totaling $1,336,944 as reimbursement for hurricane damages. These insurance proceeds are included in other revenue in the General Fund within the governmental activities.

14. 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 governmental funds.

	General Fund	Special Revenue Fort Monroe Foundation	Total
Nonspendable:			
Prepaid expenditures	$ 146,562	$ 2,438	$ 149,000
Restricted:			
Flex savings cash account, homeless support	282,168	42,702	324,870
Unassigned	16,330,765	-	16,330,765
Total fund balance	$ 16,759,495	$ 45,140	$ 16,804,635

Required Supplementary Information

Fort Monroe Authority
Component Unit of the Commonwealth of Virginia
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual - General Fund
Year Ended June 30, 2018

	Budget Original	Budget Final	Actual	Variance with Final Budget Positive (Negative)
Revenue:				
Intergovernmental revenue:				
State	$5,213,787	$5,213,787	$5,413,997	$ 200,210
Federal	354,876	354,876	448,574	93,698
Other revenue	40,057	40,057	1,649,805	1,609,748
Total revenue	5,608,720	5,608,720	7,512,376	1,903,656
Expenditures:				
Planning and development	4,785,845	4,785,845	3,978,032	807,813
Capital outlay	822,875	822,875	736,196	86,679
Total expenditures	5,608,720	5,608,720	4,714,228	894,492
Excess revenue over expenditures	$ -	$ -	$ 2,798,148	$ 2,798,148

Fort Monroe Authority
Component Unit of the Commonwealth of Virginia
Schedule of Employer's Share of Net Pension Liability VRS State Employee Retirement Plan
Ten Years Ended June 30, 2018*

	2018	2017	2016	2015
Employer's proportion of the net pension liability	**0.03139%**	0.03259%	0.03513%	0.03291%
Employer's proportionate share of the net pension liability	**$ 1,830,000**	$ 2,148,000	$ 2,151,000	$ 1,842,000
Employer's covered-employee payroll	**$ 1,569,830**	$ 1,248,414	$ 1,296,643	$ 1,353,818
Employer's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	**116.57313%**	172.05831%	165.88992%	136.05965%
Plan fiduciary net position as a percentage of the total pension liability	**75.33%**	71.29%	72.81%	74.28%

* Schedule is intended to show information for 10 years. Since 2018 is the fourth year for this presentation, only three additional years of data is available. However, additional years will be included as they become available.

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

Fort Monroe Authority
Component Unit of the Commonwealth of Virginia
Schedule of Employer Contributions - Pension
Year Ended June 30, 2018

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contribution as a % of Covered Employee Payroll
2018	$ 211,770	$ 211,770	$ -	$ 1,569,830	13.49%
2017	$ 168,411	$ 168,411	$ -	$ 1,248,414	13.49%
2016	$ 176,344	$ 176,344	$ -	$ 1,296,643	13.60%
2015	$ 163,461	$ 163,461	$ -	$ 1,353,818	12.07%

Schedule is intended to show information for 10 years. Since 2018 is the fourth year for this presentation, only three additional years of data is available. However, additional years will be included as they become available.

Fort Monroe Authority
Component Unit of the Commonwealth of Virginia
Schedule of Employer's Share of Net OPEB Liabilities
Ten Years Ended June 30, 2018*

Health Insurance Credit Program	**2018**
Employer's proportion of the net OPEB liability	0.01973%
Employer's proportionate share of the net OPEB liability	$ 179,000
Employer's covered-employee payroll	$ 1,569,830
Employer's proportionate share of the net OPEB liability as a percentage of its covered payroll	11.40251%
Plan fiduciary net position as a percentage of the total OPEB liability	8.03%

Group Life Insurance Program	**2018**
Employer's proportion of the net OPEB liability	0.00691%
Employer's proportionate share of the net OPEB liability	$ 104,000
Employer's covered-employee payroll	$ 1,569,830
Employer's proportionate share of the net OPEB liability as a percentage of it's covered payroll	6.62492%
Plan fiduciary net position as a percentage of the total OPEB liability	48.86%

Disability Insurance Program	**2018**
Employer's proportion of the net OPEB liability (asset)	0.03380%
Employer's proportionate share of the net OPEB liability (asset)	$ (70,000)
Employer's covered-employee payroll	$ 1,569,830
Employer's proportionate share of the net OPEB liability (asset) as a percentage of it's covered payroll	-4.45908%
Plan fiduciary net position as a percentage of the total OPEB liability	186.63%

State Health Plans Program for Pre-Medicare Retirees	**2018**
Employer's proportion of the collective OPEB liability	0.02223%
Employer's proportionate share of the collective OPEB liability	$ 288,745
Employer's covered-employee payroll	$ 1,569,830
Employer's proportionate share of the collective OPEB liability as a percentage of it's covered-employee payroll	18.39339%

* Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, there are no additional years of data available. However, additional years will be included as they become available.

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

Fort Monroe Authority
Component Unit of the Commonwealth of Virginia
Schedule of Employer Contributions - OPEB
Ten Years Ended June 30, 2018*

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contribution as a % of Covered Employee Payroll
Health Insurance Credit Program					
2018	$ 18,524	$ 18,524	$ -	$ 1,569,830	1.18%
Group Life Insurance Program					
2018	$ 8,163	$ 8,163	$ -	$ 1,569,830	0.52%
Disability Insurance Program					
2018	$ 10,361	$ 10,361	$ -	$ 1,569,830	0.66%

State Health Plans Program for Pre-Medicare Retirees

Contributions to this program are not based on covered-employee payroll.

*Schedule is intended to show information for 10 years. Since 2018 is the fourth year for this presentation, only three additional years of data is available. However, additional years will be included as they become available.

Notes to Required Supplementary Information

Changes of Benefit Terms

Pension Plan

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

Health Insurance Credit OPEB Program

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Group Life Insurance OPEB Program

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Disability Insurance OPEB Program

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Pre-Medicare Retiree Healthcare OPEB Program

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of Assumptions – Pension Plan, HIC, GLI, VSDP

Pension Plan

The following changes in actuarial assumptions were made effective June 30, 2016, based on the most recent experience study of the System for the four-year period ended June 30, 2016:

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

Health Insurance Credit OPEB Program

Same as Pension Plan above.

Group Life Insurance OPEB Program

Same as Pension Plan above.

Disability Insurance OPEB Program

Same as Pension Plan above.

Pre-Medicare Retiree Healthcare OPEB Program

The following assumptions were updated since the July 1, 2016 valuation based on the results of a Virginia Retirement System actuarial experience study performed for the period of July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Mortality rates (Pre-retirement, post-retirement healthy, and disabled): Update to a more current mortality table – RP-2014 projected to 2020
- Retirement rates: Lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal rates: Adjusted rates to better fit experience at each year age and service through 9 years of service

The discount rate was increased from 2.85% to 3.58% based on the Bond Buyers GO 20 Municipal Bond Index and spousal coverage was reduced from 70% to 50% based on a blend of recent spousal coverage election rates and the prior year assumption. Based on the 2017 census, new retirees since 1/1/2015 have chosen to cover their spouses approximately 20% of the time. However, active employees cover their spouses at a rate close to 53%.

Other Supplementary Information

Fort Monroe Authority
Component Unit of the Commonwealth of Virginia
Schedule of Planning and Development Expenditures - General Fund
Year Ended June 30, 2018

Planning and development expenditures:		
Salaries and wages	$	1,357,273
Site operating costs		1,085,533
Employee benefits		608,407
Architectural and engineering services		139,871
Security		181,955
Public information and relations services		193,674
Utilities and trash disposal		87,049
Management services		60,339
Office supplies and postage		42,547
Public programs signage and special events		62,309
Telephone and communications		63,083
Dues, subscriptions and seminars		27,898
Rentals and leases		14,155
Miscellaneous		13,948
Travel		6,647
Pilot fees		16,061
Fees - banking and payroll processing		12,126
Legal services (recoveries)		(7,769)
Bad debt expense		9,885
Meetings		3,041
	$	3,978,032

Compliance Section

BROWNEDWARDS
certified public accountants

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

The Board of Trustees
Fort Monroe Authority
Fort Monroe, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities and business-type activities and each major fund of the Fort Monroe Authority (the "Authority") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Fort Monroe Authority's basic financial statements, and have issued our report thereon dated November 29, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify the below deficiency in internal control that we consider to be a material weakness:

BROWNEDWARDS
certified public accountants

Material Adjusting Journal Entries

The Authority posted a number of adjusting journal entries impacting multiple accounts after year-end closing as a result of our audit. There was a high volume of both net immaterial adjustments as well as material adjustments in the General, Residential, and Commercial Funds. We understand there was significant improvement in the Authority's accounting and reporting practices since 2017; however, material discrepancies are still not being detected internally and, as a result, the monthly reports management and the Board rely upon could be misleading. We recommend a monthly review of significant accounts with a specific focus on the Commercial and Residential Funds and the due to/from accounts between all the funds to ensure any necessary adjusting entries are posted on a timely basis.

Compliance and Other Matters

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

Purpose of this Report

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

Brown, Edwards & Company, L.L.P.

Newport News, Virginia
November 29, 2018

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

The Board of Trustees
Fort Monroe Authority
Fort Monroe, Virginia

We have audited the financial statements of the Fort Monroe Authority (the "Authority"), as of and for the year ended June 30, 2018, and have issued our report thereon dated November 29, 2018.

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

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

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

<u>Code of Virginia</u>

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

BROWNEDWARDS
certified public accountants

The results of our tests disclosed an instance of noncompliance with the provisions referred to in the preceding paragraph. This instance is discussed in the Schedule of Findings and Responses as Finding 18-001. With respect to items not tested, nothing came to our attention that caused us to believe that the Authority had not complied, in all material respects, with those provisions.

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

Brown, Edwards & Company, L.L.P.

Newport News, Virginia
November 29, 2018

Schedule of Findings and Responses

1. Summary of Auditors' Results

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

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

(c) Material weaknesses in internal disclosed over financial reporting disclosed by the audit of the financial statements:
There were material adjusting journal entries posted to the General Fund, Commercial Fund and Residential Fund during the audit. There were also duplicate material entries on the Commercial Fund that was reversed with an adjusting entry. Without timely and knowledgeable review of account reconciliations, the monthly reports management and the Board rely upon could be misleading. We recommend a monthly review of each significant accounts with a specific focus on the Commercial and Residential Funds and the due to/from accounts between all the funds to ensure any necessary adjusting entries are posted on a timely basis

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

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

Finding 18-001

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

Criteria: The State and Local Government Conflict of Interests Act contained in Chapter 31 of Title 2.2 of the Code of Virginia requires certain local government officials to file a disclosure statement of their personal interests with the clerk of the governing body by February 1 of 2018, unless the governing body of the jurisdiction that appoints the members requires that the members file the Statement of Economic Interests.

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

Cause: Unknown

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

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

3. Status of Prior Year Findings

See Client's Status of Prior Year Findings

FORT MONROE
Where Freedom Lives

Brown, Edwards & Company, L.L.P
Fountain Plaza One
701 Town Center Drive, Suite 700
Newport News, VA 23606

In connection with your examination of the Fort Monroe Authority's compliance with the Management response to the prior year's Material Weakness and the Disclosure Statements for the Board of Trustees members, the following corrective actions have been implemented.

In response to correct the FY17 finding of material weakness related to adjusting journal entries which impacted multiple accounts, the Authority has changed the way entries are posted monthly. The General Ledger is reviewed monthly prior to closing and re-classes are done monthly if needed by the Accountant.

The monthly Residential and Commercial trial balance submitted to the Authority is posted each month. If the Intercompany accounts are out of balance at month end, the Accountants from each entity are working together to reconcile the month prior to closing. The Accountants ensure that all entries are posted on both sides of the books.

The Payroll and VRS worksheets were revised and the number of payroll-related liability accounts and entries were reduced. Payroll and VRS accounts are reconciled monthly by the Accountant.

During FY18 the Authority has hired a new Accountant. In preparation for future audits, the Authority will do an internal pre-audit in April each year to review all accounts for the fiscal year end.

In response to the audit finding of 2 missing conflict of interest filings, the FMA Human Resource Manager contacted the VA State Board of Ethics. All Board members are emailed filing requirement notices from the VA State Ethics Council to complete their COI forms on the Council's website. Board members are sent reminders at least twice prior to the deadline. Since the FMA does not have access to the website to see which Board members have has completed their filings, the FMA Human Resource Manager will contact the Council to inquire about the status of their COI filings. The FMA Human Resource Manager will mail send an email to any Board member who has not completed their COI filing prior to the end of the fiscal year.

John K. Hutcheson

John K. Hutcheson
Deputy Executive Director
Fort Monroe Authority

Crystal L. DeAngelis

Crystal L. DeAngelis
Deputy Director of Finance
Fort Monroe Authority

Building 83 | 20 Ingalls Road | Fort Monroe, VA 23651 | 757-637-6778 | FortMonroeAuthority.com