FORT MONROE AUTHORITY

Component Unit of the Commonwealth of Virginia

FINANCIAL REPORT

June 30, 2019

BROWNEDWARDS
certified public accountants

CONTENTS

CONTENTS (Continued)

BROWN EDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and the 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, 2019, 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.

Auditor's Responsibility

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

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

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

701 Town Center Drive, Suite 700 • Newport News VA 23606 • 757-873-1033 • Fax 757-873-1106 • www.BEcpas.com

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 the major fund of the Authority as of June 30, 2019, 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.

Change in Reporting Entity

As discussed in Note 2 to the financial statements, the Fort Monroe Foundation is no longer included as part of the reporting entity of the Authority. As a result, certain beginning balances have been restated. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

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

Other Supplementary 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.

(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2019, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Newport News, Virginia
November 12, 2019

FORT MONROE AUTHORITY
Component Unit of the Commonwealth of Virginia

MANAGEMENT'S DISCUSSION AND ANALYSIS – (UNAUDITED)
June 30, 2019

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, 2019. 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 $2.1M. The increase resulted from a net operating surplus from governmental activities of $3.3M offset by a net operating deficit of $1.2M from business-type activities (Enterprise Fund).
- The net operating surplus from governmental activities increased over the prior fiscal year by $734K. Program revenues decreased by $438K and general revenues increased by $763K while expenses decreased by $371K compared to the prior year.
- The net operating deficit from business-type activities decreased by $666K. Revenue increased by $251K while expenses increased by $38K compared to the prior fiscal year.
- The Authority had a total of $14.6M of revenue for the fiscal year. Governmental activities accounted for $7.8M in revenue. The majority of these revenues came from state General Fund appropriations ($6.3M) and federal intergovernmental and other grants ($371K) and other income ($1.1M). Business-type charges for services, principally rental income, accounted for $6.8M in revenue.
- Operating expenses of the Authority for the fiscal year were $12.5M. Expenses for governmental activities (reuse and redevelopment planning) were $4.0M. Expenses related to business-type activities (property leasing and maintenance, utility operations and special events) were $8.5M.
- For fiscal years 2019 and 2018, the Authority's capital assets were $1.4M and $401K, net of accumulated depreciation, respectively.
- The Authority has long-term debt consisting of $241,169 in principal due on a note payable at June 30, 2019. As of June 30, 2019, the Authority has an outstanding balance of $260,784 in a construction loan with Old Point National bank. This construction loan was converted to a term note subsequent to year-end. The amount represented as the current portion on the statement of net position of $19,615 is the amount scheduled to be repaid during FY20.

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.

(Continued)

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.

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

Beginning in fiscal year 2011, the FMFADA first 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 and manage 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. A portion of the reversionary property totaling approximately 38.18 acres was not transferred due to potential environmental hazards covered under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA).

Beginning fiscal year 2014, the Authority took responsibility for the natural gas, water, and sewer master-metered accounts and began processing utility invoices to third-party tenants at Fort Monroe. As a result the Fort Monroe Utility Fund was 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 Authority under the terms of the Economic Development Conveyance Agreement (EDC) between the parties executed on January 10, 2017. The Authority deeded the property to the Commonwealth on April 14, 2017. A portion of the EDC property totaling approximately 9.37 acres was not transferred due to potential environmental hazards covered under CERCLA.

(Continued)

After many years of working with the Virginia Department of Environmental Quality, in 2018 the Army completed the remedial investigations, and in certain cases remedial actions, to address any environmental concerns governed by CERCLA. As a result, the Army transferred 4.21 acres of reversionary property and all the improvement thereon and therein to the Commonwealth by deed signed on January 24, 2019. On March 12, 2019, the Army transferred 9.366 acres of EDC property and all the improvement thereon and therein to the Fort Monroe Authority. On April 15, 2019, the Army transferred 33.97 acres of reversionary property and all the improvement thereon and therein to the Commonwealth of Virginia. During FY18, the Fort Monroe Foundation made changes to its governance and By-Laws. As a result, the Authority is not required to report the Fort Monroe Foundation as a blended component unit in its FY19 financial statements.

Effective July 1, 2018, the Fort Monroe Foundation formally separated from the Authority and is no longer a blended component unit of the Authority.

As of June 30, 2019, the Army retains ownership of 4.97 acres of reversionary land. The reversion of this parcel, which contains the former Chamberlin Hotel, was delayed by a 2004 Act of the Assembly that delayed reversion of this property until December 31, 2087.

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:

<u>Governmental Fund</u> - The Governmental Fund is used to account for the financial resources appropriated for the planning and development of a reuse plan of the federal property previously occupied by the Army at Fort Monroe. As of June 30, 2019 the Commonwealth owns 313± acres of property and all the improvements thereon and therein. The portion of the property not used or designated to be used for revenue generating purposes will be reported in the Government Fund. The Government 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 Government Fund.

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

- The 313± acres owned by the Commonwealth contain approximately 459.7K square feet of residential structures and associated garages together with approximately 1.27M 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, 2019, 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.

(Continued)

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, 2019 and 2018

	Governmental Activities		Business-Type Activities		Government-Wide Activities	
	2019	2018	2019	2018	2019	2018
Current and other assets	$ 19,966.4	$ 17,696.1	$ (14,276.1)	$ (13,029.7)	$ 5,690.3	$ 4,660.4
Capital assets	973.3	129.3	395.7	271.9	1,369.0	401.2
Total assets	20,939.7	17,825.4	(13,880.4)	(12,757.8)	7,059.3	5,067.6
Deferred outflows of resources	568.3	277.7	109.6	27.8	677.9	305.5
Current and other liabilities	2,755.2	2,666.0	1,603.0	1,467.5	4,358.2	4,133.5
Total liabilities	2,755.2	2,666.0	1,603.0	1,467.5	4,358.2	4,133.5
Deferred inflows of resources	392.8	340.2	75.8	34.0	468.6	374.2
Net position						
Net investment in capital assets	973.2	129.4	134.9	271.9	1,108.1	205.5
Restricted	788.5	282.2	14.4	400.2	802.9	682.4
Unrestricted	16,598.1	14,685.4	(15,598.9)	(14,903.7)	999.2	(218.3)
Total net position	$ 18,359.8	$ 15,096.9	$ (15,449.6)	$ (14,231.6)	$ 2,910.2	$ 865.3

At June 30, 2019, the total assets of the Authority were $7.1M compared to $5.1M at June 30, 2018. Total liabilities as of June 30, 2019, were $4.4M compared to $4.1M at the end of the prior fiscal year. For the current fiscal year, combined net position was $2.9M compared to $865K at June 30, 2018.

During fiscal year 2019, the book value of the Authority's assets increased by $2M. The change results largely from an increase in cash and restricted cash of $885K and capital assets of $968K. During the same period, the Authority's liabilities increased by $225K. The change in total liabilities resulted principally from an increase in the net pension and OPEB liabilities of $255K.

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, 2019 and 2018

	Governmental Activities		Business-Type Activities		Government-Wide Activities	
	2019	2018	2019	2018	2019	2018
Revenue:						
Program revenue:						
Charges for services	$ -	$ -	$ 6,804.7	$ 6,553.9	$ 6,804.7	$ 6,553.9
Operating grants and contributions	-	448.6	-	-	-	448.6
Capital grants and contributions	370.7	359.9	-	-	370.7	359.9
General revenue:						
Operating appropriations	6,334.7	5,054.1	-	-	6,334.7	5,054.1
Other revenue	1,094.3	1,611.6	-	-	1,094.3	1,611.6
Total revenue	7,799.7	7,474.2	6,804.7	6,553.9	14,604.4	14,028.1
Expenses:						
Planning and development	4,038.3	4,409.7	-	-	4,038.3	4,409.7
Property admin and maintenance	-	-	8,476.1	8,438.4	8,476.1	8,438.4
Contribution of buildings to the Commonwealth of Virginia	-	490.3	-	-	-	490.3
Total expenses	4,038.3	4,900.0	8,476.1	8,438.4	12,514.4	13,338.4
Transfers	(453.3)	-	453.3	-	-	-
Change in net position	3,308.1	2,574.2	(1,218.1)	(1,884.5)	2,090.0	689.6
Net position - beginning of year as previously reported	15,096.9	12,522.7	(14,231.5)	(12,347.0)	865.4	175.7
Restatement	(45.2)	-	-	-	(45.2)	-
Net position - beginning of year as restated	15,051.7	12,522.7	(14,231.5)	(12,347.0)	820.2	175.7
Net position - end of year	$ 18,359.8	$ 15,096.9	$ (15,449.6)	$ (14,231.6)	$ 2,910.2	$ 865.4

(Continued)

Revenue

Revenue attributable to governmental activities were in the form of state appropriations from the Commonwealth of Virginia General Fund. For the year ended June 30, 2019, general fund appropriation was $6.3M compared to $5.0M in the prior fiscal year. Total other revenue decreased from $1.6M to $1.1M. Other revenue for the current fiscal year consists principally of donations from third parties for the design, fabrication, and installation of exhibits to be installed in the new Fort Monroe Visitor and Education Center (FMVEC) that were not funded by the state bond appropriation for the project. Other revenue in the prior fiscal year consisted principally in insurance proceeds to cover damage from Hurricane Matthew. Business-type activities generated $6.8M in revenue during the current fiscal year compared to $6.6M for the prior fiscal year. Residential rental revenue was comparable to the prior year due to continued high occupancy rates. Commercial rental revenue increase slightly due to new leases signed during FY19.

Expenses

Expenses for the fiscal year ended June 30, 2019, were $12.5M compared to $13.3M in the previous fiscal year. These expenses represent the costs for the development of and planning for the implementation of the reuse plan for the 313 acres of Commonwealth property 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 $371K. Business-type activity expenses for property administration and maintenance expenses increased by $38K.

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 2019 and 2018, the Authority operated two funds - Governmental and Enterprise. For fiscal year 2019, Government Fund expenditures were $5.1M and Enterprise Fund expenses were $8.5M.

Budgetary Highlights

The Authority submits its budget request as part of the Commonwealth's biennial budget process. In September 2017, the Authority submitted its request for state General Fund support for the biennial period beginning on July 1, 2018 and ending June 30, 2020 (FY19 and FY20). The original submittal requested $5,686,915 for operations support for each year in biennial budget and $2M in maintenance reserve funding in each fiscal year. The Governor's budget presented in December 2017 included the Authority's request for $5.68M in general fund support for FY19 and FY20 but only included $2M in maintenance reserve funding for FY19. During the General Assembly session, the Executive Director, working with Senator Locke and Delegate Helsel, was able to submit amendments to include $2M in maintenance reserve for FY20 as well as increase in funding for the startup of the FMVEC of $128,691 in FY19 and $235,330 in FY20. During the FY18 special session, the General Assembly approved a final biennial budget that included the $5,686,915 in funding for FY19 and $5,923,245 in funding for FY20, together with $2M in maintenance reserve allocation for both FY19 and FY20. During the FY20 General Assembly session, the Executive Director, working with the Governor and his staff, was able to increase the FY19 appropriation by $500,000 for the design of a memorial park dedicated to the first landing of Africans in the English colonies in August 1619. In addition, the FY20 appropriation was increased to $6,080,167.

(Continued)

Traditionally, the Authority submits the proposed annual budget for the next fiscal year to the Finance Committee at its meeting in June for review and recommendation for adoption by the Board of Trustees. Due to the lack of a quorum, the Finance Committee meeting scheduled for June 14, 2018 was canceled. As a result, the Authority Board of Trustees adopted the FY19 budget at its meeting on June 21, 2018. 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.

Capital Assets and Debt Administration Capital Assets

At June 30, 2019, the Authority had invested $1.4M in net capital assets as reflected in Table 3 (reflected in thousands). This amount included $1.1M in non-depreciable construction in progress, $198K and $34K in non-depreciable and depreciable, respectively, leasing commissions which are amortized over the life of the related leases, $60K in non-depreciable donations, and $241K in depreciable assets. At June 30, 2018, the Authority had capital assets of $401K. This amount included $206.2K in non-depreciable construction in progress, $112K in non-depreciable leasing commissions, $60K in non-depreciable donations, and $241K in depreciable assets. The Authority depreciates or amortizes assets based on straight-line methodology over the useful life of the asset. At June 30, 2019, the accumulated depreciation was $245K compared to $218K on June 30, 2018.

Table 3 - Capital Assets
At June 30, 2019 and 2018

	Governmental Activities		Business-Type Activities		Government-Wide Activities	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Donated artifacts for Museum	$ 59.7	$ 59.7	$ -	$ -	$ 59.7	$ 59.7
Construction in progress	907.2	46.8	174.2	159.4	1,081.4	206.2
Leasing commissions	-	-	231.8	112.5	231.8	112.5
Motor vehicle equipment	20.2	20.2	26.6	26.6	46.8	46.8
Furniture and equipment	159.3	159.3	34.5	34.5	193.8	193.8
Accumulated depreciation	(173.1)	(156.6)	(71.5)	(61.1)	(244.6)	(217.7)
Total capital assets, net	$ 973.3	$ 129.4	$ 395.6	$ 271.9	$ 1,368.9	$ 401.3

During the current fiscal year, the Authority incurred construction in process expenses for the renovation of Building 96 for a commercial tenant as well as the renovation of Building 138 for the new Visitor and Education Center. 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, there were no transfers to the Virginia Department of Accounts.

Debt

At June 30, 2019, the Authority has 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, 2019, the construction loan balance is $260,784. Subsequent to June 30, 2019, the second half of the leasing commission was funded the construction loan and the construction loan was converted to a term loan.

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.

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 General Assembly approved $2M in Maintenance Reserve allocations in FY19 and FY20 to support building renovation projects at Fort Monroe. However, the limited additional residential inventory will limit the Authority's ability to generate significant additional residential leasing revenue.

Residential unit rents at Fort Monroe are susceptible to rental rates and available inventory in the surrounding communities. If the available inventory of leasable homes remains constrained it may result in higher rental rates due to the limited supply. However, if new residential inventory of comparable quality becomes available in the local market, it may put downward pressure on leasing rates which may result in lower residential revenue for the Authority. A new multi-family apartment complex (Monroe Gates) has been approved and has begun construction in Phoebus which will supply a new inventory of residential units in the local area. This development is expected to be completed in 2020.

(Continued)

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, 2019 the Authority managed approximately 1.19M square feet of office, retail and industrial space on Fort Monroe. Of that inventory, approximately 151.4K is leased to tenants. That reflects a 21.6% occupancy for commercial buildings. 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. Statements of qualifications were received in October 2018. After review by a working group created by the Executive Director, the Board of Trustees concurred with the Executive Director's recommendation on the respondents be invited to submit real estate proposals to enter into long-term leases for the redevelopment of certain properties. Upon the completion of the Army transfers, in April 2019 the Authority issued a Request for Real Estate Proposals (RFREP) to those companies pre-qualified from the RFQ process. Responses to the RFREP were due in October 2019.

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. The Authority submitted a capital request for $32M for infrastructure improvements during the FY19 General Assembly session. No funding as allocated. In preparation for the FY20 General Assembly session, the Authority submitted a $27M capital funding request. 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, 2019

	Governmental Activities	Business-Type Activities	Total Primary Government
ASSETS			
Cash and cash equivalents	$ 1,723,841	$ 1,675,297	$ 3,399,138
Restricted cash and cash equivalents	713,880	325,607	1,039,487
Grants and other receivables	339,190	428,523	767,713
Internal balances	17,062,467	(17,062,467)	-
Prepaid expenses	52,440	106,476	158,916
Lease receivable, straight-line	-	236,080	236,080
Net other post-employment benefit asset:			
VRS disability insurance program	74,609	14,391	89,000
Capital assets:			
Nondepreciable capital assets	966,899	371,964	1,338,863
Depreciable capital assets, net	6,361	23,694	30,055
Total assets	20,939,687	(13,880,435)	7,059,252
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	400,492	77,252	477,744
Other post-employment benefit deferrals:			
VRS disability insurance program	7,679	1,481	9,160
State health plan for pre-medicare retirees	94,739	18,275	113,014
Group life insurance program	27,398	5,284	32,682
Health insurance credit program	37,963	7,323	45,286
Total deferred outflows of resources	568,271	109,615	677,886
Total assets and deferred outflows of resources	$ 21,507,958	$ (13,770,820)	$ 7,737,138

The Notes to Financial Statements are an integral part of this statement.

FORT MONROE AUTHORITY
Component Unit of the Commonwealth of Virginia

STATEMENT OF NET POSITION **(Continued)**
June 30, 2019

	Governmental Activities	Business-Type Activities	Total Primary Government
LIABILITIES			
Accounts payable and accrued expenses	$ 401,428	$ 480,513	$ 881,941
Accrued salaries	21,897	1,844	23,741
Accrued payroll tax and benefits	52,487	-	52,487
Accrued annual leave - due within one year	51,975	8,641	60,616
Unearned revenue	-	85,295	85,295
Note payable	-	260,784	260,784
Net pension liability	1,690,013	325,987	2,016,000
Net other post-employment benefit liabilities:			
State health plan for pre-medicare retirees	254,051	49,004	303,055
Group life insurance program	104,787	20,213	125,000
Health insurance credit program	178,558	34,442	213,000
Deposits payable	-	336,322	336,322
Total liabilities	2,755,196	1,603,045	4,358,241
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	202,030	38,970	241,000
Other post-employment benefit deferrals:			
VRS disability insurance program	19,280	3,720	23,000
State health plan for pre-medicare retirees	153,105	29,533	182,638
Group life insurance program	12,574	2,426	15,000
Health insurance credit program	5,868	1,132	7,000
Total deferred inflows of resources	392,857	75,781	468,638
NET POSITION			
Net investment in capital assets	973,260	134,874	1,108,134
Restricted	788,489	14,391	802,880
Unrestricted (deficit)	16,598,156	(15,598,911)	999,245
Total net position	18,359,905	(15,449,646)	2,910,259
Total liabilities, deferred inflows of resources, and net position	$ 21,507,958	$ (13,770,820)	$ 7,737,138

The Notes to Financial Statements are an integral part of this statement.

FORT MONROE AUTHORITY
Component Unit of the Commonwealth of Virginia

STATEMENT OF ACTIVITIES
Year Ended June 30, 2019

		Program Revenue			Net (Expense) Revenue and Change in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total Primary Government
Functions/Programs							
Governmental activities:							
Planning and development	$ (4,038,295)	$ -	$ -	$ 370,716	$ (3,667,579)	$ -	$ (3,667,579)
Business-type activities:							
Property admininstration and maintenance	(8,476,095)	6,804,728	-	-	-	(1,671,367)	- (1,671,367)
Operating loss	$ (12,514,390)	$ 6,804,728	$ -	$ 370,716	(3,667,579)	(1,671,367)	(5,338,946)
GENERAL REVENUE							
Operating appropriations from the Commonwealth of Virginia					6,334,699	-	6,334,699
Other revenue					1,094,294	-	1,094,294
Transfers					(453,280)	453,280	-
Change in net position					3,308,134	(1,218,087)	2,090,047
Net position, beginning of year, as restated					15,051,771	(14,231,559)	820,212
Net position, end of year					$ 18,359,905	$ (15,449,646)	$ 2,910,259

The Notes to Financial Statements are an integral part of this statement.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

FORT MONROE AUTHORITY
Component Unit of the Commonwealth of Virginia

BALANCE SHEET - GOVERNMENTAL FUND
June 30, 2019

		General
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	1,723,841
Restricted cash and cash equivalents		713,880
Grants and other receivables		339,190
Due from other funds		17,062,467
Prepaid expenses		52,440
Total assets	$	19,891,818
LIABILITIES		
Accounts payable	$	401,428
Accrued salaries		21,897
Accrued payroll tax and benefits		52,487
Total liabilities		475,812
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue		31,508
FUND BALANCE		
Nonspendable		52,440
Restricted		713,880
Unassigned		18,618,178
Total fund balance		19,384,498
Total liabilities, deferred inflows of resources and fund balance	$	19,891,818

The Notes to Financial Statements are an integral part of this statement.

FORT MONROE AUTHORITY
Component Unit of the Commonwealth of Virginia

BALANCE SHEET - GOVERNMENTAL FUND **(Continued)**
June 30, 2019

RECONCILIATION OF BALANCE SHEET OF 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	$	19,384,498
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		973,260
Other noncurrent assets are not available to pay for current expenditures and are deferred in the funds		31,508
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.		(1,491,551)
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.		(485,835)
Annual leave is no due and payable in the current year and, therefore, is not reported in the funds.		(51,975)
Net position of Governmental activities	$	18,359,905

The Notes to Financial Statements are an integral part of this statement.

FORT MONROE AUTHORITY
Component Unit of the Commonwealth of Virginia

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
Year Ended June 30, 2019

	General
REVENUES	
Intergovernmental revenue:	
State	$ 6,705,415
Other	1,460,323
Total revenue	8,165,738
EXPENDITURES	
Current:	
Planning and development	3,853,069
Capital outlays	1,234,386
Total expenditures	5,087,455
Excess of revenue over expenditures	3,078,283
OTHER FINANCING USES	
Transfers out	(453,280)
Net change in fund balance	2,625,003
Fund balance, beginning of year, as restated	16,759,495
Fund balance, end of year	$ 19,384,498

The Notes to Financial Statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS **(Continued)**
Year Ended June 30, 2019

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENTS OF ACTIVITIES

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

Net change in fund balance - governmental fund	$ 2,625,003
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	860,438
Depreciation expense	(16,534)
	843,904
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.	(366,029)
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	-
Accrued annual leave decreased by this amount this year	591
Change in other post-employment benefit liabilities and related deferred amounts	27,992
Change in net pension liability and related deferred amounts	176,673
	205,256
Change in net position	$ 3,308,134

The Notes to Financial Statements are an integral part of this statement.

FORT MONROE AUTHORITY
Component Unit of the Commonwealth of Virginia

STATEMENT OF NET POSITION - ENTERPRISE FUND
Year Ended June 30, 2019

ASSETS		
CURRENT ASSETS		
Cash	$	1,675,297
Restricted cash, security deposits		325,607
Accounts receivable		428,523
Prepaid expenses		106,476
Total current assets		2,535,903
NONCURRENT ASSETS		
Net other post-employment benefit asset, VRS disability insurance program		14,391
Lease receivable, straight-line		236,080
Nondepreciable capital assets		371,964
Capital assets subject to depreciation and amortization, net		23,694
Total assets		3,182,032
DEFERRED OUTFLOWS OF RESOURCES		
Pension deferrals		77,252
Other post-employment benefit deferrals:		
VRS disability insurance program		1,481
State health plan for pre-medicare retirees		18,275
Group life insurance program		5,284
Health insurance credit program		7,323
Total deferred outflows of resources		109,615
Total assets and deferred outflows of resources	$	3,291,647

The Notes to Financial Statements are an integral part of this statement.

FORT MONROE AUTHORITY
Component Unit of the Commonwealth of Virginia

STATEMENT OF NET POSITION - ENTERPRISE FUND **(Continued)**
Year Ended June 30, 2019

LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$	480,513
Accrued salaries		1,844
Due to general fund		17,062,467
Accrued annual leave, current portion		8,641
Unearned revenue		85,295
Note payable, current portion		19,615
Deposits payable		336,322
Total current liabilities		17,994,697
NONCURRENT LIABILITIES		
Note payable, less current portion		241,169
Net pension liability		325,987
Net other post-employment liabilities:		
State health plan for pre-medicare retirees		49,004
Group life insurance program		20,213
Health insurance credit program		34,442
Total liabilities		18,665,512
DEFERRED INFLOWS OF RESOURCES		
Pension deferrals		38,970
Other post-employment benefit deferrals:		
VRS disability insurance program		3,720
State health plan for pre-medicare retirees		29,533
Group life insurance program		2,426
Health insurance credit program		1,132
Total deferred inflows of resources		75,781
NET POSITION		
Net investment in capital assets		134,874
Restricted for other post-employment benefits		14,391
Unrestricted (deficit)		(15,598,911)
Total net position		(15,449,646)
Total liabilities, deferred inflows of resources, and net position	$	3,291,647

The Notes to Financial Statements are an integral part of this statement.

FORT MONROE AUTHORITY
Component Unit of the Commonwealth of Virginia

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION - ENTERPRISE FUND
Year Ended June 30, 2019

OPERATING REVENUES	
Charges for services:	
Rental income and other tenant charges	$ 4,968,226
Utility income	1,834,195
Other income	2,307
Total revenue	6,804,728
OPERATING EXPENSES	
Facilities maintenace and operation	7,919,899
General and administrative	523,623
Amortization	17,439
Total expenses	8,460,961
Operating loss	(1,656,233)
NONOPERATING EXPENSES	
Other expenses	(15,134)
TRANSFERS	
Transfer from general fund	453,280
Change in net position	(1,218,087)
Net position, beginning of year	(14,231,559)
Net position, end of year	$ (15,449,646)

The Notes to Financial Statements are an integral part of this statement.

FORT MONROE AUTHORITY
Component Unit of the Commonwealth of Virginia

STATEMENT OF CASH FLOWS - ENTERPRISE FUND
Year Ended June 30, 2019

OPERATING ACTIVITIES	
Cash received from tenants	$ 6,532,026
Cash paid to employees	(747,117)
Cash payments to suppliers for goods and services	(7,611,074)
Net cash used by operating activities	(1,826,165)
FINANCING ACTIVITIES	
Acquisition of capital assets	(14,766)
Leasing commissions paid	(126,413)
PILOT fees	(15,134)
Net cash used by capital and related financing activities	(156,313)
INVESTING ACTIVITIES	
Transfers from governmental funds	2,927,979
Net increase in cash	945,501
CASH	
Beginning of year	1,055,403
End of year	$ 2,000,904
SUPPLEMENTAL DISCLOSURES	
Cash	$ 1,675,297
Restricted cash	325,607
	$ 2,000,904
RECONCILIATION OF OPERATING LOSS TO NET NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	$ (1,656,233)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Amortization	17,439
Changes in current assets and liabilities:	
Accounts receivable	(41,118)
Prepaid expenses	2,408
Lease receivable, straight-line	(236,080)
Accounts payable and accrued expenses	(74,485)
Accrued salaries	(5,468)
Accrued annual leave	(99)
Net pension liability and related deferred amounts	120,699
Net other post-employment benefit liability and related deferred amounts	42,276
Deposits payable	4,496
Total adjustments	(169,932)
Net cash used by operating activities	$ (1,826,165)

The Notes to Financial Statements are an integral part of this statement.

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

<u>Change in reporting entity</u>

Prior to 2019, the financial statements presented the Authority and its component unit, the Fort Monroe Foundation (the "Foundation"), an entity for which the Authority was considered to be financially accountable. 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. Prior to 2019, the Foundation's Bylaws dictated that the Authority's Board appoint the Foundation's Board of Directors. As such, the Foundation was considered to be a blended component unit because the governing board and management of the Authority and Foundation were substantively the same and the Authority was deemed to have operational responsibility for the Foundation.

Effective for 2019, the Foundation's Bylaws were amended and the Authority is no longer deemed to be financially accountable to the Foundation and as such, the Foundation is no longer a part of the reporting entity of the Authority. Certain beginning balances have been restated as follows:

2. Summary of Significant Accounting Policies (Continued)

	As Previously Reported June 30, 2018	Restatement	As Restated June 30, 2018
Governmental Activities			
Net position, unrestricted	$ 15,096,911	$ (45,140)	$ 15,051,771
Governmental Funds			
Fund balance	$ 16,804,635	$ (45,140)	$ 16,759,495

Government-wide and fund financial statements

The basic financial statements include both government-wide (based upon the Authority as a whole) and fund financial statements. These statements distinguish between the governmental and business-type activities of the Authority. For 2019, 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.

(Continued)

2. Summary of Significant Accounting Policies (Continued)

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

2. Summary of Significant Accounting Policies (Continued)

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.

<u>Accrued annual leave</u>

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.

<u>Deferred outflows and inflows of resources</u>

In addition to assets, the statement that presents net position reports a separate section for deferred outflows of resources. These items represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources until then. In addition to liabilities, the statement that presents financial position reports a separate section for deferred inflows of resources. These items represent an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources until that time. The Authority has the following items that qualifies for reporting as either deferred inflows or outflows:

- Under the modified accrual basis of accounting, the Authority's deferred inflows of resources consist of revenues which were not available for current expenditure, and will not be recognized until the period they become available.
- Contributions subsequent to the measurement date for pensions and OPEB are always a deferred outflow; this will be applied to the net pension or OPEB liability in the next fiscal year.
- Differences between expected and actual experience for economic/demographic factors in the measurement of the total pension or OPEB liability. These differences will be recognized in pension or OPEB expense over the expected average remaining service life of all employees provided with benefits in the plan and may be reported as a deferred inflow or outflow.
- Differences resulting from changes in assumptions on pension plan or OPEB investments. These differences will be recognized in pension or OPEB expense over the estimated remaining service life of employees subject to the plan.
- Difference between projected and actual earnings on pension and OPEB plan investments. This difference will be recognized in pension or OPEB expense over the closed five year period and may be reported as a deferred inflow.
- Difference resulting from a change in the Authority's proportion of the collective net OPEB liability. This difference will be recognized in OPEB expense over the expected average remaining service life of all employees provided with benefits in the plan and may be reported as a deferred inflow.

(Continued)

2. Summary of Significant Accounting Policies (Continued)

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.

(Continued)

3. Cash and Cash Equivalents

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

At June 30, 2019, the Authority had $3,918,626 in bank deposits and $1,049,980 in restricted deposits comprised of the following: $5,260 in flex spending accounts available for the employees, $414,600 restricted under the Authority's homeless support services agreement with the City of Hampton and a non-profit homeless provider, $294,020 from The Conservation Fund for the visitor center project, and security deposits of $284,723 and $51,377 held for tenants who have leased the residential and commercial properties, respectively. The differences between these amounts and the balances reflected on the Statement of Net Position is comprised of checks written and deposits and transfers made before year end that did not clear that bank until after year end.

Operating accounts:	
Governmental Fund	$ 1,723,841
Enterprise Fund	1,657,297
Total operating accounts	3,399,138
Restricted accounts:	
Governmental Funds:	
Flex spending accounts	5,260
Visitor Center project	294,020
Homeless support services	414,600
Enterprise Fund:	
Security deposits on residential leases	274,230
Security deposits on commercial leases	51,377
Total restricted accounts	1,039,487
Total cash and cash equivalents	$ 4,438,625

(Continued)

4. Capital Assets

The following is a summary of the Authority's change in capital assets for the year ended June 30, 2019:

	Governmental Activities			
	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019
Capital assets not depreciated:				
Donated artifacts for museum	$ 59,705	$ -	$ -	$ 59,705
Construction in process	46,756	860,438	-	907,194
Total capital assets not depreciated	106,461	860,438	-	966,899
Capital assets being depreciated:				
Motor vehicle equipment	20,210	-	-	20,210
Furniture and equipment	159,261	-	-	159,261
Total capital assets being depreciated	179,471	-	-	179,471
Accumulated depreciation:				
Motor vehicle equipment	(20,210)	-	-	(20,210)
Furniture and equipment	(136,366)	(16,534)	-	(152,900)
Total accumulated depreciation	(156,576)	(16,534)	-	(173,110)
Total capital assets being depreciated, net	22,895	(16,534)	-	6,361
Total capital assets	$ 129,356	$ 843,904	$ -	$ 973,260

	Business-type Activities			
	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019
Capitalized assets not depreciated:				
Leasing commissions	$ 112,460	$ 85,280	$ -	$ 197,740
Construction in process	159,458	14,766	-	174,224
Total capital assets not being depreciated	271,918	100,046	-	371,964
Capital assets being depreciated:				
Leasing commissions	-	34,106	-	34,106
Motor vehicle equipment	26,609	-	-	26,609
Furniture and equipment	34,520	-	-	34,520
Total capital assets being depreciated	61,129	34,106	-	95,235
Accumulated depreciation:				
Leasing commissions	-	(10,412)	-	(10,412)
Motor vehicle equipment	(26,609)	-	-	(26,609)
Furniture and equipment	(34,520)	-	-	(34,520)
Total accumulated depreciation	(61,129)	(10,412)	-	(71,541)
Total capital assets being depreciated, net	-	23,694	-	23,694
Total capital assets	$ 271,918	$ 123,740	$ -	$ 395,658

(Continued)

4. Capital Assets (Continued)

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 $85,280 increase in leasing commissions consists of amounts paid to Divaris Real Estate for the lease-up of Building #96. Upon actual commencement of the lease, 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.

5. Accrued Annual Leave

The following is a summary of the Authority's change in accrued annual leave for the year ended June 30, 2019:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
	Governmental Activities			
Accrued annual leave				
Governmental activities	$ 52,566	$ 10,686	$ (11,277)	$ 51,975
	Business-Type Activities			
Accrued annual leave				
Business-type activities	$ 8,740	$ 8,814	$ (8,913)	$ 8,641

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

6. Internal Balances

In general, invoices received that encompass expenditures from both funds are paid from the General Fund, creating an internal balance with the Enterprise Fund. The outstanding balance of $17,062,467 at June 30, 2019, primarily represents property insurance, utilities and PILOT fees (payments in lieu of taxes) paid from the General Fund for the residential, commercial, public events, marina, and utility fund business-type divisions and to fund the operations of the Commercial Division. The total internal balances due from the Commercial Division, totaling $15,837,120 at June 30, 2019, are not anticipated to be repaid within one year.

7. Deferred Compensation Plan

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

8. Note Payable

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

The following is a summary of the Authority's change in short-term debt for the year ended June 30, 2019:

	Business-Type Activities				
	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019	Due Within One Year
Promissory note	$ 260,784	$ -	$ -	$ 260,784	$ 19,615

9. 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.

9. Defined Benefit Pension (Continued)

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.

9. Defined Benefit Pension (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
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.
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.	

9. Defined Benefit Pension (Continued)

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

9. Defined Benefit Pension (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Creditable Service	**Creditable Service**	**Creditable Service**
Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	Same as Plan 1.	**Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan
Vesting	**Vesting**	**Vesting**
Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.	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.

9. Defined Benefit Pension (Continued)

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

9. Defined Benefit Pension (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Average Final Compensation	**Average Final Compensation**	**Average Final Compensation**
A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	A member's average final compensation is the average of the 60 consecutive months of highest compensation as a covered employee.	Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier	**Service Retirement Multiplier**	**Service Retirement Multiplier**
The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.	Same as Plan 1 of service earned, purchased or granted prior to January 1, 2013. For non- hazardous duty members, the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.	**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.

(Continued)

9. Defined Benefit Pension (Continued)

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.	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	**Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable. **Eligibility:** Same as Plan 1 and Plan 2.

9. Defined Benefit Pension (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Exceptions to COLA Effective Dates	**Exceptions to COLA Effective Dates**	**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.	Same as Plan 1.	Same as Plan 1 and Plan 2.
Cost-of-Living Adjustment (COLA) in Retirement	**Cost-of-Living Adjustment (COLA) in Retirement**	**Cost-of-Living Adjustment (COLA) in Retirement**
*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.	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.	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.

(Continued)

9. Defined Benefit Pension (Continued)

VRS PLAN 1	VRS PLAN 2	HYBRID RETIREMENT PLAN
Disability Coverage	**Disability Coverage**	**Disability Coverage**
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.	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.	Hybrid members (including Plan 1 and Plan 2 opt- ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non- work related disability benefits.
Purchase of Prior Service	**Purchase of Prior Service**	**Purchase of Prior Service**
Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts towards vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	Same as Plan 1.	**Defined Benefit Component:** Same as Plan 1, with the following exceptions: *Hybrid Retirement Plan members are ineligible for ported service. **Defined Contribution Component:** Not applicable.

9. Defined Benefit Pension (Continued)

Contributions

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

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

At June 30, 2019, the Authority reported a liability of $2,016,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2018 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, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the Authority's proportion of the VRS State Employee Retirement Plan was 0.03724% as compared to 0.03139% at June 30, 2017.

For the year ended June 30, 2019, the Authority recognized pension expense of $137,000 for the VRS State Employee Retirement Plan. Since there was a change in proportionate share between June 30, 2017 and June 30, 2018, 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, 2019, 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	$ -	$ 101,434
Change in assumptions	10,898	-
Net difference between projected and actual earnings on pension plan investments	-	44,430
Changes in proportion and differences between employer contributions and proportionate share of contributions	222,150	56,166
Employer contributions subsequent to measurement date	167,444	-
	$ 400,492	$ 202,030

9. Defined Benefit Pension (Continued)

	Business-type Activities Deferred Outflows of Resources	Business-type Activities Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 19,566
Change in assumptions	2,102	-
Net difference between projected and actual earnings on pension plan investments	-	8,570
Changes in proportion and differences between employer contributions and proportionate share of contributions	42,851	10,834
Employer contributions subsequent to measurement date	32,299	-
	$ 77,252	$ 38,970

$199,743 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, 2020. 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
2020	$ 16,766	$ 3,234	$ 20,000
2021	36,885	7,115	44,000
2022	(17,603)	(3,396)	(20,999)
2023	(5,030)	(970)	(6,000)

Actuarial assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2017, 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, 2018.

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.

9. Defined Benefit Pension (Continued)

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, 2017 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%

<u>Net pension liability</u>

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, 2018, NPL amounts for the VRS State Employee Retirement Plan are as follows (amounts expressed in thousands):

State Employee Retirement Plan

Total pension liability	$ 23,945,821
Plan fiduciary net position	18,532,189
Employers' net pension liability	$ 5,413,632
Plan fiduciary net position as a percentage of the total pension liability	77.39%

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.

(Continued)

9. Defined Benefit Pension (Continued)

Long-term expected rate of return

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

Assets Class Strategy	Target Allocation	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, 2018, the rate contributed by the state agency for the VRS State Employee Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

9. Defined Benefit Pension (Continued)

Sensitivity of the Authority's proportionate share of the net pension liability to changes in the discount rate

The following presents the Authority's proportionate share of the VRS State Employee Retirement Plan net pension liability using the discount rate of 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	$ 2,559,330	$ 1,690,013	$ 959,015
Business-type activities	493,670	325,987	184,985
Total primary government	$ 3,053,000	$ 2,016,000	$ 1,144,000

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 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 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, 2019, no amounts were payable to VRS.

10. 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.

(Continued)

10. Other Post Employment Benefit Plans (Continued)

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 with at least 15 years of service credit, the monthly benefit is $4.00 per year of service per month with no cap on the benefit amount.
- 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, 2019 was 1.17% 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, 2017. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the Authority to the VRS State Employee Health Insurance Credit Program were $17,286 and $18,524 for the years ended June 30, 2019 and 2018, respectively.

(Continued)

10. Other Post Employment Benefit Plans (Continued)

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

At June 30, 2019, the Authority reported a liability of $213,000 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, 2018, 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 Authority's proportion of the Net VRS State Employee Health Insurance Credit Program OPEB Liability was based on the Authority's actuarially determined employer contributions to the VRS State Employee Health Insurance Credit Program OPEB plan for the year ended June 30, 2018, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the Authority's proportion of the VRS State Employee Health Insurance Credit Program was 0.02331% as compared to 0.01973% at June 30, 2017.

For the year ended June 30, 2019, the Authority recognized VRS State Employee Health Insurance Credit Program OPEB expense of $22,000. Since there was a change in proportionate share between measurement dates, 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, 2019, the Authority 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	$ -	$ 1,677
Changes in proportion and differences between employer contributions and proportionate share of contributions	23,472	4,191
Employer contributions subsequent to the measurement date	14,491	-
	$ 37,963	$ 5,868

	Business-type Activities	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	$ -	$ 323
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,528	809
Employer contributions subsequent to the measurement date	2,795	-
	$ 7,323	$ 1,132

(Continued)

10. Other Post Employment Benefit Plans (Continued)

$17,286 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, 2020. 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
2020	$ 2,515	$ 485	$ 3,000
2021	2,515	485	3,000
2022	2,515	485	3,000
2023	3,353	647	4,000
2024	3,353	647	4,000
Thereafter	3,353	647	4,000

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, 2017, 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, 2018.

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.

(Continued)

10. Other Post Employment Benefit Plans (Continued)

The actuarial assumptions used in the June 30, 2017 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, 2018, 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	$ 1,008,184
Plan fiduciary net position	95,908
State employee net HIC OPEB liability	$ 912,276
Plan fiduciary net position as a percentage of the total state employee HIC OPEB liability	9.51%

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:

(Continued)

10. Other Post Employment Benefit Plans (Continued)

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, 2018, 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, 2018 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 Authority'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:

(Continued)

10. Other Post Employment Benefit Plans (Continued)

	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	$ 197,839	$ 178,558	$ 162,630
Business-type activities	38,161	34,442	31,370
Total primary government	$ 236,000	$ 213,000	$ 194,000

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 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2018-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.

10. Other Post Employment Benefit Plans (Continued)

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 was increased to $8,279 effective July 1, 2018.

(Continued)

10. Other Post Employment Benefit Plans (Continued)

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, 2019, was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Program from the entity were $7,682 and $8,163 for the years ended June 30, 2019 and 2018, respectively.

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, 2019, the Authority reported a liability of $125,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2018, 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, 2018, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the participating employer's proportion was 0.00825% as compared to 0.00691% at June 30, 2017.

For the year ended June 30, 2019, the Authority recognized GLI OPEB expense of $3,000. 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, 2019, 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	$ 5,030	$ 2,515
Change in assumptions	-	4,191
Net difference between projected and actual earnings on GLI OPEB program investments	-	3,353
Changes in proportion	15,928	2,515
Employer contributions subsequent to the measurement date	6,440	-
	$ 27,398	$ 12,574

10. Other Post Employment Benefit Plans (Continued)

	Business-type Activities	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ 970	$ 485
Change in assumptions	-	809
Net difference between projected and actual earnings on GLI OPEB program investments	-	647
Changes in proportion	3,072	485
Employer contributions subsequent to the measurement date	1,242	-
	$ 5,284	$ 2,426

$7,682 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, 2020. 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
2020	$ -	$ -	$ -
2021	-	-	-
2022	-	-	-
2023	1,677	323	2,000
2024	2,515	485	3,000
Thereafter	4,192	808	5,000

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018. The assumptions are 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, 2018, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

Group Life Insurance OPEB Plan

Total GLIP OPEB liability	$ 3,113,508
Plan fiduciary net position	1,594,773
Employers' net GLI OPEB liability	$ 1,518,735
Plan fiduciary net position as a percentage of the total GLI OPEB liability	51.22%

10. Other Post Employment Benefit Plans (Continued)

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	$ 136,643	$ 104,787	$ 78,800
Business-type activities	26,357	20,213	15,200
Total primary government	$ 163,000	$ 125,000	$ 94,000

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 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2018-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.

(Continued)

10. Other Post Employment Benefit Plans (Continued)

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.

(Continued)

10. Other Post Employment Benefit Plans (Continued)

Disability Insurance Program (VSDP) Plan Notes:

- Employees hired or rehired on or after July 1, 2009, must satisfy eligibility periods before becoming eligible for non-work-related short-term disability benefits and certain income-replacement levels.
- A state employee who is approved for VSDP benefits on or after the date 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, 2019, was 0.62% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate was expected to finance the costs of benefits payable during the year, with an adjustment to amortize the accrued OPEB assets. Contributions to the Disability Insurance Program (VSDP) from the Authority were $9,160 and $10,361 for the years ended June 30, 2019 and 2018, respectively.

(Continued)

10. Other Post Employment Benefit Plans (Continued)

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, 2019, the Authority reported a liability (asset) of $(89,000) for its proportionate share of the Net VSDP OPEB Liability (Asset). The Net VSDP OPEB Liability (Asset) was measured as of June 30, 2018, 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, 2018, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the Authority's proportion was 0.03981% as compared 0.03380% at June 30, 2017.

For the year ended June 30, 2019, the state agency recognized VSDP OPEB expense of $4,000. 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, 2019, 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
Differences between expected and actual experience	$ -	$ 3,353
Change in assumptions	-	4,191
Net difference between projected and actual earnings on VSDP OPEB plan investments	-	4,191
Changes in proportion	-	7,545
Employer contributions subsequent to the measurement date	7,679	-
	$ 7,679	$ 19,280

	Business-type Activities	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 647
Changes in assumptions	-	809
Net difference between projected and actual earnings on VSDP OPEB plan investments	-	809
Changes in proportion	-	1,455
Employer contributions subsequent to the measurement date	1,481	-
	$ 1,481	$ 3,720

(Continued)

10. Other Post Employment Benefit Plans (Continued)

$9,160 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, 2020. 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
2020	$ (3,353)	$ (647)	$ (4,000)
2021	(3,353)	(647)	(4,000)
2022	(3,353)	(647)	(4,000)
2023	(2,515)	(485)	(3,000)
2024	(2,515)	(485)	(3,000)
Thereafter	(4,191)	(809)	(5,000)

Actuarial Assumptions

The total VSDP OPEB liability was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018. The assumptions are 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, 2018, NOA amounts for the Disability Insurance Program (VSDP) is as follows (amounts expressed in thousands):

Disability Insurance Program

Total VSDP OPEB liability	$ 237,733
Plan fiduciary net position	462,961
Employers' net OPEB liability (asset)	$ (225,228)
Plan fiduciary net position as a percentage of the total VSDP OPEB liability	194.74%

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.

10. Other Post Employment Benefit Plans (Continued)

Sensitivity of the Authority'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 Authority'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	$ (72,094)	$ (74,609)	$ (77,124)
Business-type activities	(13,906)	(14,391)	(14,876)
Total primary government	$ (86,000)	$ (89,000)	$ (92,000)

VSDP OPEB Fiduciary Net Position

Detailed information about the Disability Insurance Program (VSDP) Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2018-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 Description

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

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.

Following are eligibility requirements for Virginia Retirement System retirees:

- He or she is a retiring state employee who is eligible for a monthly retirement benefit from the Virginia Retirement System (VRS), and
- He or she start receiving (do not defer) you retirement benefit immediately upon retirement*, and
- He or she is eligible for (event if you were not enrolled) coverage as an active employee in the State Health Benefits Program until your retirement date (not including Extended Coverage); and,
- He or she enroll no later than 31 days from your retirement date.

(Continued)

10. Other Post Employment Benefit Plans (Continued)

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

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

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

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

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

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 5,200 retirees and 91,800 active employees in the program in fiscal year 2018. 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.

(Continued)

10. Other Post Employment Benefit Plans (Continued)

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, 2018. 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 8.21 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, 2018 (one year prior to the end of the fiscal year)
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar, Closed
Effective Amortization Period	6.19 years
Discount Rate	3.87%
Projected Salary Increases	4.0%
Medical Trend Under 65	Medical & Rx: 8.21% 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 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 and females setback 1 year
Post-Disablement:	RP-2014 Disabled Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates

The discount rate was based on the Bond Buyers GO 20 Municipal Bond Index as of the measurement date which is June 30, 2018.

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

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

10. Other Post Employment Benefit Plans (Continued)

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

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

At June 30, 2019, the employer reported a liability of $303,055 for its proportionate share of the collective total Pre-Medicare Retiree Healthcare OPEB liability of $1.0 billion. The Pre-Medicare Retiree Healthcare OPEB liability was measured as of June 30, 2018, and was determined by an actuarial valuation as of June 30, 2018. 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, 2018, the participating employer's proportion was 0.03014% as compared to 0.02223% at June 30, 2017. For the year ended June 30, 2019, the participating employer recognized Pre-Medicare Retiree Healthcare OPEB expense of $26,288.

At June 30, 2019, 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	$ -	$ 101,608
Change in proportion	90,380	273
Difference between actual and expected program experience	-	51,224
Employer contributions subsequent to the measurement date	4,359	-
	$ 94,739	$ 153,105

	Business-type Activities	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	$ -	$ 19,599
Change in proportion	17,434	53
Difference between actual and expected program experience	-	9,881
Employer contributions subsequent to the measurement date	841	-
	$ 18,275	$ 29,533

10. Other Post Employment Benefit Plans (Continued)

$5,200 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, 2020. 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
2020	$ (14,327)	$ (2,763)	$ (17,090)
2021	(14,327)	(2,763)	(17,090)
2022	(14,327)	(2,763)	(17,090)
2023	(14,327)	(2,763)	(17,090)
2024	(5,606)	(1,081)	(6,687)
Thereafter	189	34	223

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 3.87%, 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 (2.87%) or one percentage point higher (4.87%) than the current rate:

	1.00% Decrease (2.87%)	Current Discount Rate (3.87%)	1.00% Increase (4.87%)
Authority's proportionate share of the total Pre-Medicare Retiree Healthcare OPEB Liability			
Governmental activities	$ 271,827	$ 254,051	$ 237,148
Business-type activities	52,433	49,004	45,743
Total primary government	$ 324,260	$ 303,055	$ 282,891

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 8.21% 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 (7.21% decreasing to 4.00%) or one percentage point higher (9.21% decreasing to 6.00%) than the current rate:

10. Other Post Employment Benefit Plans (Continued)

	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	$ 226,598	$ 254,051	$ 286,321
Business-type activities	43,708	49,004	55,229
Total primary government	$ 270,306	$ 303,055	$ 341,550

11. Commitments and Contingencies

Payments in lieu of taxes

Virginia Acts of Assembly 2013 Session, §2.2.2342 B, stipulates "that the Authority shall pay to the City 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."

Commitments

The Authority had entered into various agreements and construction contracts during the fiscal year ended June 30, 2019. As of June 30, 2019, the balance outstanding on the agreements and contract was $670,791.

12. 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
Nonspendable:	
Prepaid expenditures	$ 52,440
Restricted:	
Flex savings cash account, homeless support, and Visitor Center	713,880
Unassigned	18,618,178
Total fund balance	$ 19,384,498

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, 2019

	Budget Original	Budget Final	Actual	Variance with Final Budget Positive (Negative)
OPERATING REVENUES				
Intergovernmental revenue:				
State	$ 6,175,551	$ 6,175,551	$ 6,705,415	$ 529,864
Federal	-	-	-	-
Other revenue	(1,008,128)	(1,008,128)	1,460,323	2,468,451
Total revenue	5,167,423	5,167,423	8,165,738	2,998,315
OPERATING EXPENSES				
Planning and development	4,669,278	4,669,278	3,853,069	816,209
Capital outlay	498,145	498,145	1,234,386	(736,241)
Total expenditures	5,167,423	5,167,423	5,087,455	79,968
Excess revenue over expenditures	$ -	$ -	$ 3,078,283	$ 3,078,283

See accompanying notes and Independent Auditor's Report.

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, 2019

	Plan Year			
	2018	**2017**	**2016**	**2015**
Employer's proportion of the net pension liability	0.03724%	0.03139%	0.03259%	0.03513%
Employer's proportionate share of the net pension liability	$ 2,016,000	$ 1,830,000	$ 2,148,000	$ 2,151,000
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	128.42155%	146.58599%	172.05831%	165.88992%
Plan fiduciary net position as a percentage of the total pension liability	77.39%	75.33%	71.29%	72.81%

* 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.

See accompanying notes and Independent Auditor's Report.

FORT MONROE AUTHORITY
Component Unit of the Commonwealth of Virginia

SCHEDULE OF EMPLOYER CONTRIBUTIONS - PENSION *
Year Ended June 30, 2019

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
2019	$ 199,743	$ 199,743	$ -	$ 1,477,394	13.52%
2018	$ 211,770	$ 211,770	$ -	$ 1,569,830	13.49%
2017	$ 168,411	$ 168,411	$ -	$ 1,248,414	13.49%
2016	$ 176,344	$ 176,344	$ -	$ 1,296,643	13.60%
2015	$ 163,461	$ 163,461	$ -	$ 1,353,818	12.07%

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

See accompanying notes and Independent Auditor's Report.

FORT MONROE AUTHORITY
Component Unit of the Commonwealth of Virginia

SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITIES *
Ten Years Ended June 30, 2019

	Plan Year 2018	Plan Year 2017
HEALTH INSURANCE CREDIT PROGRAM		
Employer's proportion of the net OPEB liability	0.02331%	0.01973%
Employer's proportionate share of the net OPEB liability	$ 213,000	$ 179,000
Employer's covered-employee payroll	$ 1,569,830	$ 1,248,414
Employer's proportionate share of the net OPEB liability as a percentage of its covered payroll	13.56835%	14.33819%
Plan fiduciary net position as a percentage of the total OPEB liability	9.51%	8.03%
GROUP LIFE INSURANCE PROGRAM		
Employer's proportion of the net OPEB liability	0.00825%	0.00691%
Employer's proportionate share of the net OPEB liability	$ 125,000	$ 104,000
Employer's covered-employee payroll	$ 1,569,830	$ 1,248,414
Employer's proportionate share of the net OPEB liability as a percentage of it's covered payroll	7.96265%	8.33057%
Plan fiduciary net position as a percentage of the total OPEB liability	51.22%	48.86%
DISBILITY INSURANCE PROGRAM		
Employer's proportion of the net OPEB liability (asset)	0.03981%	0.03380%
Employer's proportionate share of the net OPEB liability (asset)	$ (89,000)	$ (70,000)
Employer's covered-employee payroll	$ 1,569,830	$ 1,248,414
Employer's proportionate share of the net OPEB liability (asset) as a percentage of it's covered payroll	-5.66940%	-5.60711%
Plan fiduciary net position as a percentage of the total OPEB liability	194.74%	186.63%
STATE HEALTH PLANS PROGRAMS FOR PRE-MEDICARE RETIREES		
Employer's proportion of the collective OPEB liability	0.03014%	0.02230%
Employer's proportionate share of the collective OPEB liability	$ 303,055	$ 288,745
Employer's covered-employee payroll	$ 1,569,830	$ 1,248,414
Employer's proportionate share of the collective OPEB liability as a percentage of it's covered-employee payroll	19.30496%	23.12895%

* Schedule is intended to show information for 10 years. Since 2019 is the second year for this presentation, there is only one additional year 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.

See accompanying notes and Independent Auditor's Report.

FORT MONROE AUTHORITY
Component Unit of the Commonwealth of Virginia

SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB *
Ten Years Ended June 30, 2019

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					
2019	$ 17,286	$ 17,286	$ -	$ 1,477,394	1.17%
2018	$ 18,524	$ 18,524	$ -	$ 1,569,830	1.18%
GROUP LIFE INSURANCE PROGRAM					
2019	$ 7,682	$ 7,682	$ -	$ 1,477,394	0.52%
2018	$ 8,163	$ 8,163	$ -	$ 1,569,830	0.52%
DISABILITY INSURANCE PROGRAM					
2019	$ 9,160	$ 9,160	$ -	$ 1,477,394	0.62%
2018	$ 10,361	$ 10,361	$ -	$ 1,569,830	0.66%

STATE HEALTH PLANS PROGRAMS FOR PRE-MEDICARE RETIREES

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

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

See accompanying notes and Independent Auditor's Report.

FORT MONROE AUTHORITY
Component Unit of the Commonwealth of Virginia

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2019

1. Changes of Benefit Terms

Pension Plan

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

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 changes to the benefit provisions since the prior actuarial valuation.

2. 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.

2. Changes of Assumptions - Pension Plan, HIC, GLI, VSDP (Continued)

Pre-Medicare Retiree Healthcare OPEB Program

The following assumptions were updated since the June 30, 2017 valuation based on recent experience:

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

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

OTHER SUPPLEMENTARY INFORMATION

FORT MONROE AUTHORITY
Component Unit of the Commonwealth of Virginia

SCHEDULE OF PLANNING AND DEVELOPMENT EXPENDITURES - GENERAL FUND
Year Ended June 30, 2019

PLANNING AND DEVELOPMENT EXPENDITURES		
Salaries and wages	$	1,279,250
Site operating costs		1,142,732
Employee benefits		590,196
Security		217,047
Public information and relations services		112,575
Utilities and trash disposal		97,513
Architectural and engineering services		86,888
Public programs signage and special events		85,163
Management services		55,365
Office supplies and postage		38,367
Miscellaneous		31,890
Telephone and communications		28,726
Dues, subscriptions and seminars		25,887
Pilot fees		12,915
Fees - banking and payroll processing		12,508
Legal services		11,410
Travel		9,642
Rentals and leases		7,587
Meetings		7,158
Bad debt		250
	$	3,853,069

COMPLIANCE SECTION

BROWNEDWARDS
certified public accountants

INDEPENDENT AUDITOR'S 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*

To 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 the major fund of the Fort Monroe Authority (the "Authority") as of and for the year ended June 30, 2019, 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 12, 2019.

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 significant deficiency:

Account Reconciliations

During the preliminary stages of the audit, the Authority posted a number of adjusting journal entries impacting multiple accounts that had not been reconciled timely throughout the year. We understand there was significant improvement in the Authority's accounting and reporting practices since 2018; 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.

CERTIFIED PUBLIC ACCOUNTANTS

Newport News, Virginia
November 12, 2019

FORT MONROE AUTHORITY
Component Unit of the Commonwealth of Virginia

SUMMARY OF COMPLIANCE MATTERS
June 30, 2019

As more fully described in the Independent Auditor's 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*, we performed tests of the Authority's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Budget and Appropriation Laws
Cash and Investment Laws
Conflicts of Interest Act
Local Retirement Systems
Procurement Laws
Uniform Disposition of Unclaimed Property Act

FORT MONROE AUTHORITY
Component Unit of the Commonwealth of Virginia

SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2019

1. Summary of Auditor's 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:

There were material adjustments required to the General Fund, Commercial Fund and Residential Funds during the preliminary stages of the audit. 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

(c) Material weaknesses in internal disclosed over financial reporting disclosed by the audit of the financial statements:

See significant deficiency noted above. No other deficiencies noted.

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

FORT MONROE AUTHORITY
Component Unit of the Commonwealth of Virginia

SUMMARY STATUS OF PRIOR AUDIT FINDINGS
June 30, 2019

Finding 18-001: A disclosure statement was not filed for one Board of Trustees member as required by the Virginia Code

Current Status: No such finding was noted during FY19 audit testing of disclosure statements.