CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

To the Board of Commissioners
Fort Monroe Authority

We have audited the financial statements of the governmental activities and general fund of the Fort Monroe Authority (the "Authority") for the year ended June 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 2, 2011. Professional standards also require that we communicate to you the following information related to our audit.

OUR RESPONSIBILITY UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS AND OMB CIRCULAR A-133

As stated in our original engagement letter dated September 2, 2011, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Authority's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the Authority's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Authority's compliance with those requirements.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you in our various meetings about planning matters.

SIGNIFICANT AUDIT FINDINGS

Qualitative Aspects of Accounting Practices
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 2 of the financial statements. As described in Note 12 to the financial statements, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, during the year ended June 30, 2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by Management and are based on Management's knowledge and experience about past and current events and assumptions about future events. Management does not deem there to be any significant estimates within the Authority's financial statements.

Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with Management in performing and completing our audit.

Corrected and Uncorrected Misstatements
Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of Management. We did not identify any misstatements as a result of audit procedures that were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management
For purposes of this letter, professional standards define a disagreement with Management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations
We have requested certain representations from Management that are included in the Management representation letter dated November 3, 2011.

Management Consultations with Other Independent Accountants
In some cases, Management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with Management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Commissioners and Management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Virginia Beach, Virginia
November 3, 2011

Fort Monroe Authority

(A Component Unit of the Commonwealth of Virginia)

Financial Statements

For the Year Ended June 30, 2011

Fort Monroe Authority

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CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditors' Report

The Board of Commissioners
Fort Monroe Authority

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Fort Monroe Authority (the "Authority"), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities and each major fund of the Fort Monroe Authority as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 to the financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, during the year ended June 30, 2011.

In accordance with *Government Auditing Standards,* we have also issued our report dated November 3, 2011, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 10 and Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual - General Fund on page 32 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Authority's basic financial statements as a whole. The Schedule of Planning and Development Expenditures is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The Schedule of Planning and Development Expenditures and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Cherry, Bekaert & Holland, LLP

Virginia Beach, Virginia
November 3, 2011

Fort Monroe Authority

Component Unit of the Commonwealth of Virginia

Management's Discussion and Analysis

This section of the Fort Monroe Authority's (the "Authority") annual financial report represents management's discussion and analysis of the Authority's financial performance during the fiscal year ended June 30, 2011. Please read it in conjunction with the Authority's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Authority's net assets increased in fiscal year 2011 by $328,754. The increase resulted from a net operating surplus from governmental activities of $244,729 and net operating income of $84,025 from business-type activities. The Authority commenced business-type activities with the lease of 118 apartment units from the Army in August 2010. The Authority expanded its business-type activities with the lease of 30 single-family detached and duplex residential units in February 2011.

- The Authority had a total of $3,697,041 in program revenues. Governmental activities accounted for $3,040,246 of the revenue. The majority of these revenues come from federal and state intergovernmental grants and appropriations. Business-type charges for services, principally rental income, accounted for the remaining $656,795 in revenue.

- Operating expenses of the Authority for the fiscal year were $3,368,867. Expenses from governmental activities were $2,796,097. Expenses related to business-type activities were $572,770.

- During fiscal years 2011 and 2010 the Authority's capital assets were $160,316 and $101,184, net of accumulated depreciation, respectively. In 2011, the Authority invested in improvements to its headquarters at Old Quarters One. During 2010 the Authority invested $111,280 in assets which included the purchase of the Authority's network file system/server, office furniture, motor vehicle equipment and leasehold improvements to the Authority's leased office space. The business-type activities invested in $78,256, net of depreciation, in improvements to the residential properties.

- The Authority has no long-term debt as of June 30, 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

In 2010, the Authority had no enterprise or business-type activities, so all of the Authority's activities were reported in the Government Fund. Beginning in fiscal year 2011, the Authority engaged in business-type activities, notably the leasing of apartments and single-family residential units leased from the Army. Therefore, for fiscal year 2011, the Authority's activities are reported as Government-wide Activities from two funds, Governmental Fund and Enterprise Fund.

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 that the Authority uses to keep track of specific sources of funding and spending for particular purposes.

The Authority currently has two types of funds:

Governmental Fund - 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 currently occupied by the U.S. Army as Fort Monroe which is expected to be conveyed to the Commonwealth of Virginia in January 2012.

Enterprise Fund - The Enterprise Fund is used to account for the financial resources generated from leasing residential properties through a waterfall priority including existing and new U.S. military families, foreign military families on assignment with NATO or other military commands, federal employees on short-term assignment or detail, visiting faculty and graduate students affiliated with local colleges and universities, local agency public safety employees and the general public if any units remain available.

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

Net Assets:

The following table reflects the condensed net assets of the Authority:

Table 1
Net Assets
As of June 30, 2011 and 2010
(in thousands)

	Governmental Activities		Business-type Activities		Government-Wide Activities	
	2011	2010	2011	2010	2011	2010
Current and Other Assets	$793.0	$792.8	$118.4	$ -	$ 911.4	$792.8
Capital Assets	82.1	101.2	78.2	-	160.3	101.2
Total Assets	875.1	$894.0	196.6	-	1,071.7	894.0
Current and Other Liabilities	120.6	384.2	112.6	-	233.2	384.2
Total Liabilities	120.6	384.2	112.6	-	233.2	384.2
Net Assets						
Invested in Capital Assets	82.1	101.2	78.2	-	160.3	101.2
Restricted	25.7	-	-	-	25.7	-
Unrestricted	646.8	408.6	5.8	-	652.6	408.6
Total Net Assets	$754.6	$509.8	$ 84.0	$ -	$ 838.6	$509.8

At June 30, 2011 and June 30, 2010, the total assets of the Authority were $1,071,747 and $894,005 respectively. Total liabilities were $233,176 and $384,188 respectively while combined net assets were $838,571 and $509,817, respectively.

During fiscal year 2011, the Authority's assets increased by $177,742. This increase was largely due to the addition of assets for the business-type activities. During the same period, the Authority's liabilities decreased by $151,012. The decrease was due to more prompt handling of June invoices.

Changes in Net Assets:

The following chart shows the revenues and expenses for the current and prior fiscal years:

Table 2
Changes in Net Assets
As of June 30, 2011 and 2010
(in thousands)

	Governmental Activities		Business-type Activities		Government-Wide Activities	
	2011	2010	2011	2010	2011	2010
Revenues						
Program Revenue						
Charges for Services	$ -	$ 22.0	$656.8	$ -	$ 656.8	$ 22.0
Operating Grants & Contributions	3,040.3	3,790.6	-	-	3,040.3	3,790.6
General Revenue						
Other	0.6	0.1	-	-	0.6	0.1
Total Revenues	3,040.9	3,812.7	656.8	-	3,697.7	3,812.7
Expenses						
Planning and Development	2,796.1	3,398.9	-	-	2,796.1	3,398.9
Property Admin & Maintenance	-	-	572.8	-	572.8	-
Total Expenses	2,796.1	3,398.9	572.8	-	3,368.9	3,398.9
Change in Net Assets	244.8	413.8	84.0	-	328.8	413.8
Net Assets, Beginning of Year	509.8	96.0	-	-	509.8	96.0
Net Assets, End of Year	$ 754.6	$ 509.8	$ 84.0	$ -	$ 838.6	$ 509.8

Revenues:

Revenues attributable to governmental activities were in the form of state appropriations from the Commonwealth of Virginia General Fund and federal grant reimbursements from the Office of Economic Adjustment. For the fiscal years ended June 30, 2011 and 2010, revenues totaled $3.7 and $3.81 million, respectively. Total operating grants and contributions decreased from $3.79 million to $3.04 million due to a decrease in the federal grant reimbursement funding from the Office of Economic Adjustment. The federal grant reimbursement decreased due to delays in grant approvals related to the continuing resolution for the Federal Fiscal Year 2011 budget combined with a decrease in expenses eligible for federal reimbursement. Business-type activities generated $657 thousand in revenue during the current fiscal year due to new rental activities.

Expenses:

For fiscal years ended June 30, 2011 and 2010, expenses totaled $3,368,867 and $3,398,920 respectively, representing costs for the development of and planning for the implementation of the reuse plan for the 565-acre property currently used by the U.S. Army at Fort Monroe, Virginia. Of that amount, the largest two categories of expenditures were for Architecture/Engineering Consulting Services ($478,243 and $1,263,243 respectively) and Business Management Consulting Services ($829,230 and $900,598 respectively). These two categories accounted for 38% of the Authority's expenses for 2011. The Authority expects the spending levels for these categories to decrease as it completes the planning phase and moves into the implementation phase of the reuse plan after the U.S. Army transfers the Training and Doctrine Command, the principal mission at Fort Monroe, to new facilities at Fort Eustis in September 2011.

FINANCIAL ANALYSIS OF THE AUTHORITY'S FUNDS

The Authority's government-wide fund activities reflect operations of its planning and development efforts that are funded by state and federal appropriations and grants. 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 year 2011, the Authority operated two funds, Governmental Fund and Enterprise Fund. During fiscal year 2011, Governmental Fund expenditures totaled $2,785,357 and Enterprise Fund expenditures totaled $572,770. For fiscal year 2010, the Authority only operated one Governmental Fund, with expenditures totaling $3,474,977 and an ending fund balance of $369,821.

BUDGETARY HIGHLIGHTS

The Authority adopts an annual budget in accordance with its governing documents. The budgetary statements demonstrate how well the Authority complied with the budget. For fiscal year 2011, the Authority's Board of Commissioners adopted a budget with revenue of $3,055,774 and expenses of $3,055,774. Based on a change in the level of funding from the Office of Economic Adjustment, a subsequent revision was made to the budget reflecting revenues of $2,993,853 and expenditures of $2,993,853. Revised planning and development expenses for fiscal year 2011 were budgeted at $2,851,103. Actual expenses for planning and development for fiscal year 2011 were $2,662,665, a positive variance of $188,438. Capital expenditures in the revised budget were programmed at $142,750. The actual capital outlay for fiscal year 2011 was $122,692 ($21,905 capitalized asset + $54,697 furniture & equipment expensed + $46,090 repair and maintenance). The net impact to the actual operation of the Authority was a positive expenditure budget variance of $208,496. For the current fiscal year, revenues exceeded expenditures by $319,408, producing a positive variance against the budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

As of June 30, 2011 the Authority had invested $223,269 in capital assets as reflected in Table 3. As of June 30, 2010 the Authority had invested $111,989 in capital assets. In fiscal year 2010, the Authority purchased network equipment, office furniture, motor vehicle equipment as well as funding leasehold improvements to its business office premises. Fiscal year 2011 purchases consisted primarily of leasehold improvements to its business office premises and residential leasing premises.

Table 3
Capital Assets
As of June 30, 2011 and 2010
(in thousands)

	Governmental Activities		Business-type Activities		Government-Wide Activities	
	2011	2010	2011	2010	2011	2010
Property and Improvements	$ 99.8	$ 77.9	$ 89.3	$ -	$ 189.1	$ 77.9
Motor Vehicle Equipment	18.8	18.8	-	-	18.8	18.8
Furniture and Equipment	15.3	15.3	-	-	15.3	15.3
Accumulated Depreciation	(51.8)	(10.8)	(11.1)	-	(62.9)	(10.8)
Total Net Capital Assets	$ 82.1	$101.2	$ 78.2	$ -	$ 160.3	$101.2

There were no major capital asset disposals and transfers during fiscal years 2011 and 2010.

For detailed information on the Authority's capital asset activity, please refer to Note 4 in the Notes to Financial Statements.

LONG-TERM DEBT

As of June 30, 2011, the Authority has no long-term debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The current economic factors have contributed to operating deficits at the state and federal levels, placing pressure on state appropriations and federal grant opportunities. Due to the prolonged continuing resolution in the U.S. Congress, the funding constraints which impacted the funding available in the Office of Economic Adjustment, the Authority was limited to extending its current grant in three-month increments at a reduced funding level for only salary reimbursements, in lieu of applying for a new twelve-month grant. In addition, the budget request submitted to the State General Assembly for fiscal year 2011 was reduced from a General Fund request of $4.9 million to the approved General Fund appropriation of $1.9 million with an additional $2.0 million, allocated from the Commonwealth's Maintenance Reserve Funds.

If the current economic situation persists through the next fiscal year, the Authority's ability to generate sufficient operating revenue from its real estate and public program activities may be impacted. The Authority must find new residential lease tenants for the existing 174 single-family homes and maintain residential tenants in the 118-unit apartment complex. In addition, the Authority must find new commercial tenants for approximately 1.1 million square feet of office and warehouse space. The current levels of vacancy rates in commercial space together with downward pressure on lease rates may combine to force the Authority to make below-market lease deals to entice tenants to occupy the commercial premises. In addition, the Authority expects to generate operating revenues from historic and recreational day use visitors. Concerns about the local, regional and national economy may impact the numbers of visitors who are willing to pay conservation fees to visit the property.

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 Director of Operations, Fort Monroe Authority, 151 Bernard Road, Fort Monroe, Virginia, 23651, telephone (757) 637-7778, or visit the Authority's website at www.fmauthority.com.

Fort Monroe Authority

Statement of Net Assets
June 30, 2011

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and Cash Equivalents	$ 493,038	$ 64,123	$ 557,161
Restricted Cash and Cash Equivalents	19,356	42,550	61,906
Grants and Other Receivables	227,345	208	227,553
Internal Balances	18,877	(18,877)	-
Prepaid Expenses	34,434	15,377	49,811
Other Assets	-	15,000	15,000
Capital Assets:			
Property and Improvements	99,786	89,375	189,161
Motor Vehicle Equipment	18,757	-	18,757
Furniture and Equipment	15,351	-	15,351
Accumulated Depreciation	(51,834)	(11,119)	(62,953)
Total Assets	875,110	196,637	1,071,747
Liabilities			
Accounts Payable	65,989	57,978	123,967
Accrued Salaries	32,404	9,310	41,714
Accrued Payroll Tax and Benefits	5,428	1,312	6,740
Accrued Annual Leave - Due Within One Year	9,450	1,462	10,912
Accrued Annual Leave - Due Beyond One Year	7,293	-	7,293
Deposits Payable	-	42,550	42,550
Total Liabilities	120,564	112,612	233,176
Net Assets			
Invested in Capital Assets	82,060	78,256	160,316
Restricted	19,356	-	19,356
Unrestricted	653,130	5,769	658,899
Total Net Assets	$ 754,546	$ 84,025	$ 838,571

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

Fort Monroe Authority

Statement of Activities
Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants	Net (Expense) Revenue and Change in Net Assets: Governmental Activities	Net (Expense) Revenue and Change in Net Assets: Business-Type Activities	Net (Expense) Revenue and Change in Net Assets: Total
Governmental Activities:						
Planning and Development	$ (2,796,097)	$ -	$ 3,040,246	$ 244,149	$ -	$ 244,149
Business-Type Activities:						
Property Administration and Maintenance	(572,770)	656,795	-	-	84,025	84,025
Total	$ (3,368,867)	$ 656,795	$ 3,040,246	244,149	84,025	328,174
General Revenues						
Other Revenue				355	-	355
Interest income				225	-	225
Change in Net Assets				244,729	84,025	328,754
Net Assets, Beginning of Year				509,817	-	509,817
Net Assets, End of Year				$ 754,546	$ 84,025	$ 838,571

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

Fort Monroe Authority

Balance Sheet - General Fund
June 30, 2011

Assets	
Cash and Cash Equivalents	$ 493,038
Restricted Cash and Cash Equivalents	19,356
Grants and Other Receivables	246,222
Prepaid Expenditures	34,434
Total Assets	$ 793,050
Liabilities	
Accounts Payable	$ 65,989
Accrued Salaries	32,404
Accrued Payroll Tax and Benefits	5,428
Total Liabilities	103,821
Fund Balance	
Nonspendable	34,434
Restricted	19,356
Assigned	502,988
Unassigned	132,451
Total Fund Balance	689,229
Total Liabilities and Fund Balance	$ 793,050

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

Fort Monroe Authority

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
June 30, 2011

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

Fund Balance - General Fund	$	689,229
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.		82,060
Annual leave is not due and payable in the current year and, therefore, are not reported in the fund.		(16,743)
Net Assets of Governmental Activities	$	754,546

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

Fort Monroe Authority

Statement of Revenues, Expenditures, and Changes in Fund Balance - General Fund
Year Ended June 30, 2011

Revenues	
Intergovernmental Revenue - State	$ 1,926,833
Intergovernmental Revenue - Federal	1,167,352
Other Income	10,355
Interest Income	225
Total Revenues	3,104,765
Expenditures	
Planning and Development	2,662,665
Capital Outlay	122,692
Total Expenditures	2,785,357
Excess of Revenues Over Expenditures	319,408
Fund Balance, Beginning of Year	369,821
Fund Balance, End of Year	$ 689,229

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

Fort Monroe Authority

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2011

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

Excess of Revenues Over Expenditures - General Fund	$ 319,408
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	21,905
Depreciation Expense	(41,029)
	(19,124)
Some revenues are not collected for several months after the Authority's fiscal year end, and are therefore not considered "available" revenues and are deferred in the governmental fund. Deferred revenues decreased by this amount this year.	(63,939)
Some expenses reported in the Statement of Activities do not require the use of current resources and, therefore, are not reported as expenditures in the fund. Accrued annual leave decreased by this amount this year.	8,384
Change in Net Assets	$ 244,729

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

Fort Monroe Authority

Statement of Net Assets - Enterprise Fund
June 30, 2011

Assets	
Current Assets:	
Cash	$ 64,123
Restricted Cash	42,550
Other Receivables	208
Prepaid Expenses	15,377
Other Current Assets	15,000
Total Current Assets	137,258
Non-Current Assets:	
Capital Assets:	
Property and Improvements	89,375
Accumulated Depreciation	(11,119)
Net Capital Assets	78,256
Total Assets	215,514
Liabilities	
Current Liabilities:	
Accounts Payable	76,855
Accrued Salaries	9,310
Accrued Payroll Tax and Benefits	1,312
Accrued Annual Leave - Current Portion	1,462
Deposits Payable	42,550
Total Liabilities	131,489
Net Assets	
Invested in Capital Assets	78,256
Unrestricted	5,769
Total Net Assets	$ 84,025

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

Fort Monroe Authority

Statement of Revenues, Expenses, and Changes in Fund Net Assets - Enterprise Fund
Year Ended June 30, 2011

Revenues	
Charges for services:	
Rental Income	$ 656,795
Total Revenues	656,795
Expenses	
Facilities maintenance and operation	464,056
General and administrative	97,595
Depreciation	11,119
Total Expenses	572,770
Change in Net Assets	84,025
Net Assets, Beginning of Year	-
Net Assets, End of Year	$ 84,025

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

Fort Monroe Authority

Statement of Cash Flows - Enterprise Fund
Year Ended June 30, 2011

Cash Flows from Operating Activities	
Cash Received From Tenants	$ 720,745
Cash Payments to Suppliers for Goods and Services	(524,697)
Net Cash Provided by Operating Activities	196,048
Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Assets	(89,375)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(89,375)
Net Increase (Decrease) in Cash	106,673
Cash, Beginning of Year	-
Cash, End of Year	$ 106,673
Reported in the Statement of Net Assets as follows:	
Cash	$ 64,123
Restricted Cash	42,550
	$ 106,673

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

Fort Monroe Federal Area Development Authority

Statement of Cash Flows - Enterprise Fund (continued)
Year Ended June 30, 2011

Operating Income	$	84,025
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:		
Depreciation Expense		11,119
Changes in:		
Accounts Receivable		(208)
Prepaid Expenses		(30,377)
Accounts Payable		76,855
Accrued Liabilities		12,084
Deposits Payable		42,550
Total Adjustments		112,023
Net Cash Provided By Operating Activities	$	196,048

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

Fort Monroe Authority

Notes to Financial Statements
Year Ended June 30, 2011

1. Nature of the Organization

The Fort Monroe Authority (the "Authority") was created by legislative action of the Virginia General Assembly in 2010, and is charged with reuse planning and management of Fort Monroe and Old Point Comfort, Virginia. It is a separate and distinct legal entity that is governed by a Board of Commissioners (the "Board") composed of twelve members appointed in accordance with the provisions of the Enabling Act. The Board includes the members of the Governor's Cabinet, the General Assembly and citizens residing in the City of Hampton.

The United States Army is scheduled to transfer its mission away from Fort Monroe no later than September 15, 2012 as part of the Base Realignment and Closure (BRAC) process. Since the announcement of the base closure in 2005, the Commonwealth of Virginia, the federal government, the City of Hampton and the public, joined by the Authority in 2010, have been working closely to ensure that all BRAC-mandated regulatory processes are completed in a timely manner. This will allow for an effective reuse of the property and the preservation of the historic resources on Fort Monroe when the Army leaves.

The Authority had been funded primarily through intergovernmental revenues provided by the Commonwealth of Virginia, Department of Housing and Community Development and the Federal Office of Economic Adjustment. In August 2010, the Authority began leasing residential properties resulting in business-type revenue. Additional opportunities for revenue in residential and commercial leasing have been added during 2011 and the Authority anticipates that income from these business activities will provide operating revenue in the future.

2. Summary of Significant Accounting Policies

Reporting Entity - Component units are legally separate entities for which a primary government is financially accountable. The Authority is considered a component unit of the Commonwealth of Virginia, 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 of Virginia.

2. Summary of Significant Accounting Policies (continued)

Government-wide and Fund Financial Statements - The basic financial statements include both government-wide (based upon the Authority as a whole) and fund financial statements. These statements distinguish between the governmental and business-type activities of the Authority. In 2011, the Authority had two funds:

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

- Enterprise Fund - The Enterprise Fund accounts for the Authority's financial resources generated from leasing residential and commercial rental properties.

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

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.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the government-wide financial statements and the fund financial statements of the proprietary fund types follow all applicable GASB pronouncements as well as all Financial Accounting Standards Board (FASB) pronouncements and predecessor APB Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989 that do not contradict or conflict with GASB pronouncements. Under paragraph 7 of Statement No. 20, the Authority has elected not to apply FASB pronouncements issued after November 30, 1989.

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

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

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

2. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

Fund Balance - Under the regulations of Governmental Accounting Standard Board (GASB) Statement No. 54, *"Fund Balance Reporting and Governmental Fund Type Definitions,"* adopted in 2011, the Authority classified the fund balance as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Authority has spending constraints imposed upon the use of the resources in the governmental fund.

Nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. Prepaid expense is an example of this category.

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. An example of restricted funds is the certificates of deposit which are restricted by the bank for the Authority's credit cards.

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. In 2011 the Authority did not have any committed funds.

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. The Board designated unused funds from 2011 operations were to be carried forward and used for expenditures in the upcoming budget year.

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

2. Summary of Significant Accounting Policies (continued)

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

3. Cash and Cash Equivalents

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

At June 30, 2011, the Authority had $550,817 in bank deposits, $19,356 in certificates of deposit, and $48,894 in restricted deposits. The certificates of deposit are required by the bank as collateral for the Authority's credit cards. Security deposits of $41,565 represent deposits held for tenants who have leased the residential properties, and $985 represents deposits held for future public event contracts.

	June 30, 2011
Operating Accounts	
Governmental Fund	$ 493,038
Enterprise Fund	64,123
Total Operating Accounts	557,161
Restricted Accounts	
Governmental Fund	
Certificates of Deposit	19,356
Enterprise Fund	
Security Deposits on Residential Leases	41,565
Event Deposits for Public Programs	985
Total Restricted Accounts	61,906
Total Cash and Cash Equivalents	$ 619,067

4. Capital Assets

The following is a summary of the Authority's change in capital assets for the year ended June 30, 2011:

Governmental Activities:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital Assets being Depreciated				
Property and Improvements	$ 77,881	$ 21,905	$ -	$ 99,786
Motor Vehicle Equipment	18,757	-	-	18,757
Furniture & Equipment	15,351	-	-	15,351
Total Capital Assets being Depreciated	111,989	21,905	-	133,894
Less Accumulated Depreciation				
Property and Improvements	(7,910)	(34,496)	-	(42,406)
Motor Vehicle Equipment	(1,875)	(3,751)	-	(5,626)
Furniture & Equipment	(1,020)	(2,782)	-	(3,802)
Total Accumulated Depreciation	(10,805)	(41,029)	-	(51,834)
Total Capital Assets	$ 101,184	$ (19,124)	$ -	$ 82,060

Business-Type Activities:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital Assets being Depreciated				
Property and Improvements	$ -	$ 89,375	$ -	$ 89,375
Total Capital Assets being Depreciated	-	89,375	-	89,375
Less Accumulated Depreciation				
Property and Improvements	-	(11,119)	-	(11,119)
Total Accumulated Depreciation	-	(11,119)	-	(11,119)
Total Capital Assets	$ -	$ 78,256	$ -	$ 78,256

4. Capital Assets (continued)

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, 2011:

	Balance July 1, 2010	Increases	Decreases	June 30, 2011	Due Within One Year
Accrued Annual Leave					
Governmental Activities	$ 25,127	$ -	$ (8,384)	$ 16,743	$ 9,450
Business-Type Activities	-	1,462	-	1,462	1,462
	$ 25,127	$ 1,462	$ (8,384)	$ 18,205	$ 10,912

6. Internal Balances

In general, invoices received that encompass expenditures from both funds are paid from the General Fund, creating an internal balance with the Enterprise Fund. The outstanding balance of $18,877 at June 30, 2011 represents property insurance and utilities paid from the General Fund for the Monroe Apartments.

7. Deferred Compensation Plan

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

8. Defined Benefit Pension and Other Post Employment Benefit Plans

Plan Description - Certain employees of the Authority participate in a defined benefit retirement plan administered by the Virginia Retirement System (VRS). The VRS also administers a life insurance plan for retired employees. Information relating to these plans is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report. The Commonwealth, not the Authority, has the overall responsibility for contributions to these plans.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at:

http://www.varetire.org/Publications/Index.asp?ftype=annualreport or obtained by writing to the VRS at P.O. Box 2500, Richmond, Virginia, 23218-2500.

9. Related Party Transactions

The Authority entered into a lease agreement with the United States Army, beginning August 1, 2010, for 118 apartment units known as Wherry Apartments. In a lease addendum effective February 1, 2011, an additional 30 units of residential family housing were added. Consideration for these leases is the operation and maintenance of the premises by the Authority. The Authority contracted with Old Point Real Estate Services, LLC to manage these properties.

Subsequent to year end, on August 1, 2011, the Army leased to the Authority an additional 144 units of family housing, increasing the total of residential properties leased from the Army to 118 apartments and 174 family housing units. In addition to residential properties, some commercial properties have been leased by the Authority from the Army effective on various dates as follows: August 1, 2011, September 15, 2011 and October 1, 2011.

The lease agreements are effective for a one-year period, with four additional one-year option periods. The Authority anticipates that a quit-claim deed from the Army to the Commonwealth of Virginia, signifying abandonment of the reversionary property, will be executed on or about January 15, 2012.

10. Contingencies

Virginia Acts of Assembly, 2011 Session, §2.2.2342 B stipulates "that the Authority shall pay to the City of Hampton a fee on the total assessed value of all real property interests in the Authority's Area of Operation, public and private as provided by law, divided by $100, multiplied by the then-current real estate tax rate set by the City of Hampton, minus the real estate taxes owed to the City of Hampton from taxpayers within the Authority's Area of Operation, minus the amount of the real estate taxes that otherwise would be due on real property owned by the National Park Service or the City of Hampton, or exclusively used and controlled by the National Park Service, and any real property remaining under the ownership of the federal government." The Authority has estimated the fee will be $2.4 million, recurring annually, with a prorated portion due in 2012.

11. Changes in Accounting Principles

For fiscal year 2011, the Authority implemented Governmental Accounting Standard Board (GASB) Statement No. 54, *"Fund Balance Reporting and Governmental Fund Type Definitions,"* Statement No. 55, *"The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,"* and Statement No. 56, *"Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing."*

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB authoritative literature. The GAAP hierarchy consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. The implementation of this statement did not result in any change in the Authority's financial statements.

GASB Statement No. 56 incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants' auditing literature into the GASB's accounting and financial reporting literature for state and local governments. The statement's guidance addresses related party transactions, going concern considerations, and subsequent events from the AICPA literature. The implementation of this statement did not result in any change in the Authority's financial statements.

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 government funds.

	General Fund
Nonspendable	
Prepaid Expenditures	$ 34,434
Total Nonspendable	34,434
Restricted	
Collateral on Credit Cards	19,356
Total Restricted	19,356
Assigned	
Operating Budget Re-appropriations	486,693
Grants	16,295
Total Assigned	502,988
Unassigned	132,451
Total Fund Balance	$ 689,229

13. Subsequent Events

Storm Damage - Wind and water damage from Hurricane Irene, August 26-28, 2011 caused an estimated $4 million in damage to Fort Monroe properties. Commonwealth of Virginia, Division of Risk Management, insures the properties and the Authority anticipates that damages will be covered under that plan.

Fort Monroe Authority

Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual - General Fund
Year Ended June 30, 2011

	Budget			Variance With Final Budget Positive
Revenues	Original	Final	Actual	(Negative)
Intergovernmental Revenue - State	$ 2,338,458	$ 1,863,661	$ 1,926,833	$ 63,172
Intergovernmental Revenue - Federal	717,316	1,130,192	1,167,352	37,160
Other Revenue	-	-	10,355	10,355
Interest Income	-	-	225	225
Total Revenues	3,055,774	2,993,853	3,104,765	110,912
Expenditures				
Current				
Planning and Development	2,762,054	2,851,103	2,662,665	188,438
Capital Outlay	293,720	142,750	122,692	20,058
Total Expenditures	3,055,774	2,993,853	2,785,357	208,496
Excess of Revenues over Expenditures	$ -	$ -	$ 319,408	$ 319,408

Fort Monroe Authority

Schedule of Planning and Development Expenditures - General Fund
Year Ended June 30, 2011

Planning and Development Expenditures	
Salaries and Wages	$ 631,932
Employee Benefits	177,607
Architectural and Engineering Services	482,518
Legal Services	147,083
Management Services	841,730
Dues, Subscriptions and Seminars	31,565
Fees - Banking and Payroll Processing	6,068
Meetings	9,903
Miscellaneous	8,246
Office Supplies and Postage	35,085
Public Information and Relations Services	215,812
Rentals and Leases	5,841
Telephone and Communications	17,454
Travel	43,150
Utilities and Trash Disposal	8,671
	$ 2,662,665

CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Commissioners
Fort Monroe Authority

We have audited the financial statements of the governmental activities, business-type activities and each major fund of the Fort Monroe Authority (the "Authority"), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2011, and have issued our report thereon dated November 3, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Commissioners, management, federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekaert & Holland, LLP

Virginia Beach, Virginia
November 3, 2011

CHERRY BEKAERT& HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With *OMB Circular A-133*

The Board of Commissioners
Fort Monroe Authority

We have audited the compliance of the Fort Monroe Authority (the "Authority"); a component unit of the Commonwealth of Virginia, with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal program for the year ended June 30, 2011. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority, complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

Internal Control Over Compliance

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

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

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

This report is intended solely for the information and use of management, the Board of Commissioners, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekaert & Holland, LLP

Virginia Beach, Virginia
November 3, 2011

Fort Monroe Authority

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

	Federal Catalog Number	Expenditures
Direct Payments		
Office of Economic Adjustment		
Community Planning Assistance Funds	12.607	$ 1,103,413
Total Expenditures of Federal Awards		$ 1,103,413

Basis of Presentation

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

Fort Monroe Authority

Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

A. Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued on the financial statements: **Unqualified**

Internal control over financial reporting:
- Material weaknesses identified: **No**
- Significant deficiencies identified: **None reported**

Noncompliance material to the financial statements noted? **No**

Federal Awards:

Type of auditor's report issued on compliance for major programs: **Unqualified**

Internal control over major programs:
- Material weaknesses identified: **No**
- Significant deficiencies identified: **None reported**

Any audit findings disclosed that are required to be reported in Accordance with Section 510(a) of OMB Circular A-133? **No**

Identification of major federal programs:

CFDA #	Program Name
12.607	Community Planning Assistance Funds

Dollar threshold to distinguish between type A and type B program: **$300,000**

The Authority was qualified as a low risk auditee? **No**

B. Findings - Financial Statement Audit

None

C. Findings and Questioned Costs - Major Federal Program

None

D. Findings and Questioned Costs - Commonwealth of Virginia

None

Fort Monroe Authority

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2011

Findings - June 30, 2010:

There were no findings in the prior year.