Fort Monroe Authority

(A Component Unit of the Commonwealth of Virginia)

Financial Statements
For the Year Ended June 30, 2012

Fort Monroe Authority

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CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditors' Report

The Board of Trustees
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, 2012, 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, 2012, 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.

In accordance with *Government Auditing Standards,* we have also issued our report dated November 16, 2012, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 12 and Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual - General Fund on page 35 are not a required part of the basic financial statements but are supplementary information 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 limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Cherry, Bekaert & Holland, L.L.P.

Virginia Beach, Virginia
November 16, 2012

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 years ended June 30, 2012 and 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 during fiscal year 2012 by $1,854,090. The increase resulted from a net operating surplus from governmental activities of $1,951,057 offset by a net operating loss of $96,967 from business-type activities. The large increase in net assets for the government activities resulted from a supplemental appropriation from the state budget for FY12 of $1,974,280 that was received by the Authority on June 12, 2012. The operating loss for the business-type activities was positively affected by unused insurance proceeds in excess of repair costs for Hurricane Irene damage of $409,593. Excluding the impact of the unused insurance proceeds the net loss for business-type activity for FY12 would have been $506,650.

- The Authority had a total of $6,987,301 in program revenues for fiscal year. Governmental activities accounted for $5,414,894 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 $1,572,407 in revenue. On August 1, 2011, the Authority leased the balance of the 176 residential units and approximately 200,000 square feet of commercial and community space from the Army to continue its leasing program.

- Operating expenses of the Authority for the fiscal year were $5,543,431. Expenses from governmental activities were $3,464,464. Expenses related to business-type activities were $2,078,967.

- During fiscal years 2012 and 2011, the Authority's capital assets were $51,233 and $160,316, net of accumulated depreciation, respectively. In 2012, the Authority invested no funds for capital assets related to governmental activities. During the fiscal year, the Authority purchased a maintenance truck for its business-type activities for $18,024. Since the Authority determined that the 118 apartment units were not suitable for long-term occupancy after Hurricane Irene, the Authority elected to write-off the $89,375 in leasehold improvements to the apartments, net of depreciation.

- The Authority has no long-term debt as of June 30, 2012.

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 and enterprise) focus on the individual parts of the Authority, reporting the Authority's operations in more detail than the entity-wide statements. Both perspectives (government-wide and fund) allow the user to address relevant questions, broaden the basis for comparison (year-to-year or entity-to-entity) and enhance the Authority's accountability to its public stakeholders.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements report information about the Authority as a whole using accounting methods similar to those used by private-sector companies. The focus of the Statement of Net 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.

Beginning in fiscal year 2011, the Authority engaged in business-type activities, notably the leasing of 118 apartments and 30 single family residential units leased from the Army. During fiscal year 2012, the Authority expanded its business-type activities by leasing an additional 146 residential units and approximately 200,000 square feet of commercial and community space from the Army. Therefore, for both fiscal years 2011 and 2012, the Authority's activities are reported as Government-wide Activities from two funds - Government 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 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. While the Authority expected title of some property to be conveyed to the Commonwealth of Virginia in January 2012, the entire property is still owned by the Army as of the end of the fiscal year.

Enterprise fund - The Enterprise Fund is used to account for the financial resources generated from leasing residential and commercial properties. Prior to the de-commissioning of the garrison at Fort Monroe on September 15, 2011, the Authority leased 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. Since the de-commissioning of the installation, the Authority leases residential properties to the general public and commercial properties to various state and city entities as well as private businesses and religious organizations.

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

Net Assets:

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

Table 1
Net Assets
As of June 30, 2012 and 2011

	Governmental Activities		Business-Type Activities		Government-Wide Activities	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	$ 3,138.4	$ 793.0	$ 211.3	$ 118.4	$ 3,349.7	$ 911.4
Capital Assets	35.1	82.1	16.1	78.2	51.2	160.3
Total Assets	3,173.5	875.1	227.4	196.6	3,400.9	1,071.7
Current and Other Liabilities	468.0	120.6	240.4	112.6	708.4	233.2
Total Liabilities	468.0	120.6	240.4	112.6	708.4	233.2
Net Assets						
Invested in Capital Assets, Net of Related Debt	35.1	82.1	16.1	78.2	51.2	160.3
Restricted	27.9	25.7	-	-	27.9	25.7
Unrestricted	2,642.5	646.8	(29.0)	5.8	2,613.5	652.6
Total Net Assets	$ 2,705.5	$ 754.6	$ (12.9)	$ 84.0	$ 2,692.6	$ 838.6

At June 30, 2012 and June 30, 2011, the total assets of the Authority were $3,401,044 and $1,071,747 respectively. Total liabilities were $708,383 and $233,176, respectively, while combined net assets were $2,692,661 and $838,571, respectively.

During fiscal year 2012, the Authority's assets increased by $2,329,297. This increase was largely due to the increase on cash on deposit resulting from the supplemental FY12 appropriation received on June 12, 2012 combined with an increase in grant receivables from the Office of Economic Adjustment. During the same period, the Authority's liabilities increased by $475,207. The increase was due to an increase in accounts payable from governmental and business-type activities combined with an increase in security deposits related to residential leasing activities.

Changes in Net Assets:

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

Table 2
Changes in Net Assets
As of June 30, 2012 and 2011

	Governmental Activities		Business-Type Activities		Government-Wide Activities	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenue:						
Charges for Services	$ -	$ -	$ 1,572.4	$ 656.8	$ 1,572.4	$ 656.8
Operating Grants and Contributions	5,414.9	3,040.3	-	-	5,414.9	3,040.3
General Revenue						
Extraordinary Item - Hurricane Irene	-	-	409.6	-	409.6	-
Other	0.6	0.6	-	-	0.6	0.6
Total Revenues	5,415.5	3,040.9	1,982.0	656.8	7,397.5	3,697.7
Expenses						
Planning and Development	3,464.4	2,796.1	-	-	3,464.4	2,796.1
Property Admin and Maintenance	-	-	2,079.0	572.8	2,079.0	572.8
	3,464.4	2,796.1	2,079.0	572.8	5,543.4	3,368.9
Change in Net Assets	1,951.1	244.8	(97.0)	84.0	1,854.1	328.8
Net Assets - Beginning of Year	754.5	509.8	84.0	-	838.5	509.8
Net Assets - End of Year	$ 2,705.6	$ 754.6	$ (13.0)	$ 84.0	$ 2,692.6	$ 838.6

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, 2012 and 2011, revenues totaled $7.4 and $3.7 million, respectively. Total grant and operating fund increased from $3.04 million to $5.4 million due to an increase in the state appropriation from the General Fund and an increase in the federal grant reimbursement funding from the Office of Economic Adjustment. Business-type activities generated $1.5 million in revenue during the current fiscal year in comparison to $657 thousand for the prior year.

Expenses:

In the fiscal year ended June 30, 2012 and 2011, expenses totaled $5,543,431 and $3,368,867 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. During the fiscal year, planning related expenses decreased as the Authority begins to implement the reuse of existing buildings.

Two of the largest planning-related categories decreased compared to the prior year - Architecture/Engineering Consulting Services decreased from $478,243 to $451,025 and Business Management Consulting Services decreased from $829,230 to $670,174. The Authority expects the spending levels for these categories to continue to decrease as it completes the planning phase and moves into the implementation phase of the reuse plan.

In contrast, site operating expenses increased including payroll and related benefit expenses, public information costs, public works costs and business-activity related operating costs. Payroll and related expenses increased from $801,155 to $1,057,747 as a result of increased staffing for the Casemate Museum and real estate related activities. Public information costs increased from $215,812 to $305,143 due to the Authority's initiatives to increase visitor traffic to Fort Monroe after the de-commissioning on September 15, 2011. Public works costs of $347,012 were expensed in the current fiscal year as the Authority contracted with a public works contractor to manage the utility systems and infrastructure once those systems are transferred to Commonwealth ownership. Expenses for the business activity fund increased from $572,770 to $2,088,967 due to the Authority's lease of 146 additional residential units and approximately 200,000 square feet of commercial space from the Army to support its real estate activities.

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 2012, the Authority operated two funds - Government and Enterprise. During fiscal year 2012, government fund expenditures totaled \$3,412,315 and enterprise fund expenditures totaled \$2,005,676. For fiscal year 2011, government fund expenditures totaled \$2,796,097 and enterprise fund expenditures totaled \$572,770.

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. Prior to the start of fiscal year 2012, the Authority's Board of Trustees adopted a budget (which includes both governmental and enterprise funds) with revenue of \$7,477,216 and expenses of \$7,477,216. In anticipation that property ownership would transfer from the Army to the Commonwealth in January 2012, the Authority requested a supplemental appropriation from the General Fund of \$1,974,280. The supplemental appropriation was approved by the General Assembly and remitted to the Authority in June 2012. During the time period that the supplemental appropriation was being considered by the General Assembly, the projected date for property transfer moved from January 2012 to July 2012. Based on the delayed date of property transfer the Board of Trustees approved a revised budget for fiscal year 2012 with revenue from business activities and state and federal appropriation and grants of \$7,648,425 and expenditures of \$5,587,515, resulting in a net carryover of surplus funds to next fiscal year of \$2,060,910. Planning and development expenses for fiscal year 2012 were budgeted at \$3,456,387. Actual expenses for planning and development for the fiscal year were \$3,412,315, a negative variance of \$44,072. There were no capital expenditures in the revised budget. The actual capital outlay for fiscal year 2012 was \$18,024. The net impact to the actual operation of the Authority was a negative budget variance of \$18,024. For the fiscal year, revenue exceeded expenditures by \$1,854,090 producing a positive variance against the budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

As of June 30, 2012, the Authority had invested $151,918 in capital assets as reflected in Table 3 (reflected in thousands). As of June 30, 2011, the Authority had capital assets of $223,269. The Authority depreciates or amortizes assets based on straight-line methodology over the useful life of the asset. As of June 30, 2012, the accumulated depreciation was $100,685 compared to $62,953 on June 30, 2011.

Table 3
Capital Assets
As of June 30, 2012 and 2011

	Governmental Activities		Business-Type Activities		Government-Wide Activities	
	2012	2011	2012	2011	2012	2011
Property and Improvement	$ 99.8	$ 99.8	$ -	$ 89.3	$ 99.8	$ 189.1
Motor Vehicle Equipment	18.7	18.8	18.0	-	36.7	18.8
Furniture and Equipment	15.3	15.3	-	-	15.3	15.3
Accumulated Depreciation	(98.7)	(51.8)	(1.9)	(11.1)	(100.6)	(62.9)
Total Net Capital Assets	$ 35.1	$ 82.1	$ 16.1	$ 78.2	$ 51.2	$ 160.3

During fiscal year 2012, Hurricane Irene caused significant damage to the historic properties at Fort Monroe including 118 apartment units and 45 of the 176 housing units. During the emergency response effort at the apartment complex, the contractors discovered structural deterioration from years of exposure to rain and wind. After an extensive analysis, the Authority determined that the cost to repair the structural deficiencies, which were not covered by the insurance policy since the deterioration had occurred over the 60-year life of the structure and not as a result of Hurricane Irene, were economically infeasible. The Authority accepted no new leases after August 31, 2011 and is vacating apartments as leases expire. The apartments were substantially empty by the end of the fiscal year so the Authority elected to write-off the unamortized portion of leasehold improvements to the apartments. The cost of the improvements was $89,375 with accumulated depreciation of $11,119 for a net fiscal impact of $78,256. There were no major capital asset disposals and transfers during fiscal year 2011.

LONG-TERM DEBT

As of June 30, 2012, 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. These same economic factors have impacted the Authority's ability to generate new business-activity revenue through residential and commercial leasing activities.

The Authority is actively marketing to find new residential lease tenants for the existing 176 single family homes. While the Authority experienced good success in residential leasing during the current fiscal year, it required the Authority to offer rental incentives to attract new tenants. If the current economic cycle continues, the Authority may need to offer additional incentives to maintain the current residential tenants and to attract additional new tenants, which would reduce the net effective rental rate for the residential units.

The Authority is actively pursuing new commercial tenants for approximately 1.1 million square feet of office and warehouse space. The high current levels of vacancy rates in commercial space in the local market area, combined 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 the future, the Authority expects to generate operating revenues from historic and recreational day-use visitors. Continued concerns about the local, regional and national economy may impact the numbers of visitors who are willing to visit the property to pay fees for these activities.

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 will continue to be constrained. As a result, the Authority will continue to be dependent on support from the Virginia General Fund and Federal Office of Economic Adjustment to provide appropriations and grant funding to bridge the gap until revenues from business-type activities provide sufficient funds to cover annual operating and capital costs.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

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

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

Basic Financial Statements

Fort Monroe Authority

Statement of Net Assets (Deficit)
June 30, 2012

Assets	Governmental Activities	Business-Type Activities	Total
Cash and Cash Equivalents	$ 2,519,645	$ 41,630	$ 2,561,275
Restricted Cash and Cash Equivalents	27,916	104,444	132,360
Grants and Other Receivables	471,920	1,953	473,873
Internal Balances	94,991	(94,991)	-
Prepaid Expenses	23,928	158,375	182,303
Capital Assets:			
Property and Improvements	99,786	-	99,786
Motor Vehicle Equipment	18,757	18,024	36,781
Furniture and Equipment	15,351	-	15,351
Accumulated Depreciation	(98,732)	(1,953)	(100,685)
Total Assets	3,173,562	227,482	3,401,044
Liabilities			
Accounts Payable	425,607	124,725	550,332
Accrued Salaries	17,607	7,491	25,098
Accrued Payroll Tax and Benefits	2,751	-	2,751
Accrued Annual Leave - Due Within One Year	21,994	3,764	25,758
Deposits Payable	-	104,444	104,444
Total Liabilities	467,959	240,424	708,383
Net Assets (Deficit)			
Invested in Capital Assets	35,162	16,071	51,233
Restricted	27,916	-	27,916
Unrestricted	2,642,525	(29,013)	2,613,512
Total Net Assets (Deficit)	$ 2,705,603	$ (12,942)	$ 2,692,661

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

Fort Monroe Authority

Statement of Activities
Year Ended June 30, 2012

		Program Revenues		Net (Expense) Revenue and Change in Net Assets		
Functions/Programs	Expenses	Charges for Services	Operating Grants	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
Planning and Development	$ (3,464,464)	$ -	$ 5,414,894	$ 1,950,430	$ -	$ 1,950,430
Business-Type Activities:						
Property Administration and Maintenance	(2,078,967)	1,572,407	-	-	(506,560)	(506,560)
Total	$ (5,543,431)	$ 1,572,407	$ 5,414,894	1,950,430	(506,560)	1,443,870
General Revenues						
Insurance Proceeds				-	409,593	409,593
Other Revenue				334	-	334
Interest Income				293	-	293
Change in Net Assets				1,951,057	(96,967)	1,854,090
Net Assets, Beginning of Year				754,546	84,025	838,571
Net Assets (Deficit), End of Year				$ 2,705,603	$ (12,942)	$ 2,692,661

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

Fort Monroe Authority

Balance Sheet - General Fund
June 30, 2012

Assets	
Cash and Cash Equivalents	$ 2,519,645
Restricted Cash and Cash Equivalents	27,916
Grants and Other Receivables	471,920
Due from Other Funds	94,991
Prepaid Expenditures	23,928
Total Assets	$ 3,138,400
Liabilities	
Accounts Payable	$ 425,607
Accrued Salaries	17,607
Accrued Payroll Tax and Benefits	2,751
Deferred Revenue	462,332
Total Liabilities	908,297
Fund Balance	
Nonspendable	23,928
Restricted	27,916
Committed	600,000
Assigned	1,460,910
Unassigned	117,349
Total Fund Balance	2,230,103
Total Liabilities and Fund Balance	$ 3,138,400

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

Fort Monroe Authority

Reconciliation of Balance Sheet of Governmental Funds to Statement of Net Assets
June 30, 2012

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

Fund Balance - General Fund	$ 2,230,103
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	35,162
Other noncurrent assets are not available to pay for current expenditures and are deferred in the fund.	462,332
Annual leave is not due and payable in the current year and, therefore, are not reported in the fund.	(21,994)
Net Assets of Governmental Activities	$ 2,705,603

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, 2012

Revenues	
Intergovernmental Revenue - State	$ 3,901,113
Intergovernmental Revenue - Federal	1,013,422
Other Income	38,361
Interest Income	293
Total Revenues	4,953,189
Expenditures	
Planning and Development	3,300,430
Capital Outlay	111,885
Total Expenditures	3,412,315
Excess of Revenues Over Expenditures	1,540,874
Fund Balance, Beginning of Year	689,229
Fund Balance, End of Year	$ 2,230,103

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, 2012

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

Excess of Revenues Over Expenditures - General Fund	$ 1,540,874
The fund reports capital outlays as expenditures; however, in the Statement of Activities, these costs are capitalized and depreciated over their estimated useful lives.	
Depreciation Expense	(46,898)
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 increased by this amount this year.	462,332
Some expenses reported in the Statement of Activities do not require the use of current resources and, therefore, are not reported as expenditures in the fund. Accrued annual leave increased by this amount this year.	(5,251)
Change in Net Assets	$ 1,951,057

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

Fort Monroe Authority

Statement of Net Assets (Deficit) - Enterprise Fund
June 30, 2012

Assets	
Current Assets:	
Cash	$ 41,630
Restricted Cash	104,444
Other Receivables	1,953
Prepaid Expenses	158,375
Total Current Assets	306,402
Non-Current Assets:	
Capital Assets:	
Property and Improvements	18,024
Accumulated Depreciation	(1,953)
Net Capital Assets	16,071
Total Assets	322,473
Liabilities	
Current Liabilities:	
Accounts Payable	124,725
Due to Other Funds	94,991
Accrued Salaries	7,491
Accrued Annual Leave - Current Portion	3,764
Deposits Payable	104,444
Total Liabilities	335,415
Net Assets (Deficit)	
Invested in Capital Assets	16,071
Unrestricted	(29,013)
Total Net Assets (Deficit)	$ (12,942)

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 (Deficit) - Enterprise Fund
Year Ended June 30, 2012

Revenues	
Charges for services:	
Rental Income	$ 1,572,407
Total Revenues	1,572,407
Expenses	
Facilities maintenance and operation	1,849,360
General and administrative	149,398
Depreciation	6,918
Total Expenses	2,005,676
Operating loss	(433,269)
Nonoperating Revenues and Expenses	
Insurance proceeds	409,593
Impairment loss	(73,291)
Total Nonoperating Revenues, net	336,302
Change in Net Assets (Deficit)	(96,967)
Net Assets, Beginning of Year	84,025
Net Assets (Deficit), End of Year	$ (12,942)

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, 2012

Cash Flows from Operating Activities	
Cash Received From Tenants	$ 1,647,556
Cash Payments to Suppliers for Goods and Services	(1,999,724)
Net Cash Used in Operating Activities	(352,168)
Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Assets	(18,024)
Insurance Proceeds	409,593
Net Cash Provided by Capital and Related Financing Activities	391,569
Cash Flows from Investing Activities	
Interest	-
Net Cash Provided by (Used in) Investing Activities	-
Net Increase in Cash	39,401
Cash, Beginning of Year	106,673
Cash, End of Year	$ 146,074
Reported in the Statement of Net Assets as follows:	
Cash	$ 41,630
Restricted Cash	104,444
	$ 146,074

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, 2012

Operating Loss	$ (433,269)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:	
Depreciation Expense	6,918
Changes in:	
Accounts Receivable	(1,745)
Prepaid Expenses	(127,998)
Accounts Payable	142,861
Accrued Liabilities	(829)
Deposits Payable	61,894
Total Adjustments	81,101
Net Cash Used in Operating Activities	$ (352,168)

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

1. Nature of the Organization

The Fort Monroe Authority (the "Authority") 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 Trustees (the "Board") composed of twelve members appointed in accordance with the provisions of the Enabling Act. 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 United States Army is scheduled to transfer its mission away from Fort Monroe as part of the Base Realignment and Closure (BRAC) process upon completion of the economic development conveyance 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 all BRAC-mandated regulatory processes are completed in a timely manner. This will allow for an effective reuse of the property and 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 were added in August 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 2012, 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 and commercial space for rent. Operating expenses for these operations include all costs related to providing the service - facilities maintenance and operation, general and administrative (salaries and benefits, telecommunications, supplies, postage, insurance) and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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

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 2012 the Authority committed operating funds for demolition of the Wherry Apartments. .

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 that unused funds from 2012 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, 2012, the Authority had $2,561,275 in bank deposits, $132,360 in restricted deposits represented by the following: $19,484 in certificates of deposit, and $112,876 in other deposits. The certificates of deposit are required by the bank as collateral for the Authority's credit cards. Security deposits of $99,419 represent deposits held for tenants who have leased the residential properties, $5,025 represents deposits held for future public event contracts and $8,423 represents flex spending accounts available for the employees.

	June 30, 2012
Operating Accounts	
Government Fund	$ 2,519,645
Enterprise Fund	41,630
Total Operating Accounts	2,561,275
Restricted Accounts	
Government Fund	
Flex Spending Accounts	8,432
Certificates of Deposit	19,484
Enterprise Fund	
Security Deposits on Residential Leases	99,419
Event Deposits for Public Programs	5,025
Total Restricted Accounts	132,360
Total Cash and Cash Equivalents	$ 2,693,635

Fort Monroe Authority

Notes to Financial Statements
Year Ended June 30, 2012

4. Capital Assets

The following is a summary of the Authority's change in capital assets for the year ended June 30, 2012:

Governmental Activities:

	Balance July 1, 2011	Increases	Decreases	June 30, 2012
Capital Assets being Depreciated				
Property and Improvements	$ 99,786	$ -	$ -	$ 99,786
Motor Vehicle Equipment	18,757	-	-	18,757
Furniture & Equipment	15,351	-	-	15,351
Total Capital Assets being Depreciated	133,894	-	-	133,894
Less Accumulated Depreciation				
Property and Improvements	(42,406)	(40,365)	-	(82,771)
Motor Vehicle Equipment	(5,626)	(3,751)	-	(9,377)
Furniture & Equipment	(3,802)	(2,782)	-	(6,584)
Total Accumulated Depreciation	(51,834)	(46,898)	-	(98,732)
Total Capital Assets	$ 82,060	$ (46,898)	$ -	$ 35,162

Business-Type Activities

	Balance July 1, 2011	Increases	Decreases	June 30, 2012
Capital Assets being Depreciated				
Property and Improvements	$ 89,375	$ -	$ 89,375	$ -
Motor Vehicle Equipment	-	18,024	-	18,024
Total Capital Assets being Depreciated	89,375	18,024	89,375	18,024
Less Accumulated Depreciation				
Property and Improvements	(11,119)	(4,965)	(16,084)	-
Motor Vehicle Equipment	-	(1,953)	-	(1,953)
Total Accumulated Depreciation	(11,119)	(6,918)	(16,084)	(1,953)
Total Capital Assets	$ 78,256	$ 11,106	$ 73,291	$ 16,071

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, 2012:

Governmental Activities

	Balance July 1, 2011	Increases	Decreases	June 30, 2012	Due Within One Year
Accrued Annual Leave Governmental Activities	$ 16,743	$ 25,654	$ (20,403)	$ 21,994	$ 21,994

Business-type Activities

	Balance July 1, 2011	Increases	Decreases	June 30, 2012	Due Within One Year
Accrued Annual Leave Business-type Activities	$ 1,462	$ 2,302	$ -	$ 3,764	$ 3,764

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 $94,991 at June 30, 2012 primarily represents property insurance and utilities paid from the General Fund for the residential, commercial and public events business-type divisions.

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/Pdf/Publications/2011-annual-report.pdf or obtained by writing to the VRS at P.O. Box 2500, Richmond, Virginia 23218.2500.

9. Contingencies

Payments in lieu of taxes

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 $1.6 million, recurring annually. The prorated portion of the PILOT fees (payments in lieu of taxes) paid in 2012 was $391,898.

10. Contingencies (continued)

Leases
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.

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 176 family housing units. In addition to residential properties, several 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.

Consideration for these leases is the operation and maintenance of the premises by the Authority. The Authority has contracted with commercial property managers for the management of these properties.

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 upon completion of the EDC negotiations.

11. Related Party

Fort Monroe Foundation
Virginia Acts of Assembly, 2010 Session, §15.2-7204 (B)(8), the Fort Monroe Authority Act stipulates the Authority shall have the powers to "establish nonprofit corporations as instrumentalities to assist in administering the affairs of the Authority". On February 9, 2010 the State Corporation Commission registered Old Point Comfort Foundation on its records with its By-Laws and Articles of Incorporation. On March 28, 2011 the State Corporation Commission accepted the Articles of Restatement of Incorporation of Fort Monroe Foundation (formerly Old Point Comfort Foundation) and registered Fort Monroe Foundation on its records. On May 23, 2011 the Internal Revenue Service granted exemption from federal income tax under Section 501 (c) (3) to Fort Monroe Foundation. The By-Laws of the Foundation dated January 6, 2011, Article 3, Section 3.3, state that "All directors shall be appointed by the Board of Trustees of the Fort Monroe Authority (the 'Authority')" which action has been completed by the Authority. In 2012, the Foundation provided grants of $11,488 to the Authority to assist with five public programs.

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	$ 23,928
Total Nonspendable	23,928
Restricted	
Flex Savings Cash Account	8,432
Collateral on Credit Cards	19,484
Total Restricted	27,916
Committed	
Operating Cash	600,000
	600,000
Assigned	
Operating Cash	1,323,286
Grants and Other Receivables	137,624
Total Assigned	1,460,910
Unassigned	117,349
Total Fund Balance	$ 2,230,103

13. Impairment Loss

In 2012, Fort Monroe experienced minor tremors from the Louisa County earthquake August 23, 2011, wind and water damage from Hurricane Irene August 26-28, 2011 and the derecho storm event on June 29-30, 2012. Damage from the earthquake and derecho storm event was minor. Wind and water damage from Hurricane Irene caused an estimated $2.2 million in damage to Fort Monroe properties leased by the Authority. Structural damage to the Wherry Apartments was so severe that the units were deemed uninhabitable and, upon request to the State Historic Preservation Officer in the Department of Historic Resources, approval was given to demolish the apartment units in September 2012.

The Commonwealth of Virginia Division of Risk Management insured the properties and subsequently awarded $2 million to the Authority for the properties that were damaged. To date, the Authority has expensed $1.6 million on the repairs leaving $.4 million for disposition of the apartments. The Authority has requested grant funding from FEMA to assist with the cost of removing the apartment buildings.

In 2011, the Authority expended $89,375 for leasehold improvements to the apartments. In 2012, because of the demolition and uninhabitability of the units, the Authority wrote off the net value of the improvements.

Supplementary Information

Fort Monroe Authority

Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual - General Fund
Year Ended June 30, 2012

	Budget			Variance With Final Budget Positive
Revenues	Original	Final	Actual	(Negative)
Intergovernmental Revenue - State	$ 2,508,630	$ 1,989,792	$ 3,901,113	$ 1,911,321
Intergovernmental Revenue - Federal	2,057,740	1,466,595	1,013,422	(453,173)
Other Revenue	-	-	38,361	38,361
Interest Income	-	-	293	293
Total Revenues	4,566,370	3,456,387	4,953,189	1,496,802
Expenditures				
Current				
Planning and Development	3,884,176	3,370,387	3,300,430	69,957
Capital Outlay	682,194	86,000	111,885	(25,885)
Total Expenditures	4,566,370	3,456,387	3,412,315	44,072
Excess of Revenues over Expenditures	$ -	$ -	$ 1,540,874	$ 1,540,874

Fort Monroe Authority

Schedule of Planning and Development Expenditures - General Fund
Year Ended June 30, 2012

Planning and Development Expenditures	
Salaries and Wages	$ 868,134
Employee Benefits	184,362
Architectural and Engineering Services	462,508
Legal Services	183,908
Management Services	686,362
Dues, Subscriptions and Seminars	24,582
Fees - Banking and Payroll Processing	3,674
Meetings	9,011
Miscellaneous	22,688
Office Supplies and Postage	40,391
PILOT Fees	31,537
Public Information and Relations Services	305,143
Public Programs Signage and Special Events	27,379
Rentals and Leases	7,216
Security at Casemate	39,879
Site Operating Costs	347,012
Telephone and Communications	27,647
Travel	13,986
Utilities and Trash Disposal	15,011
	$ 3,300,430

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 Trustees
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, 2012, and have issued our report thereon dated November 16, 2012. 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

Management of the Authority is responsible for establishing and monitoring effective internal controls 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 Trustees, 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, L.L.P.

Virginia Beach, Virginia
November 16, 2012

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 Trustees
Fort Monroe Authority

Compliance

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, 2012. 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 compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-1.

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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2012-1. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's response, and accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management, the Board of Trustees, 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, L.L.P.

Virginia Beach, Virginia
November 16, 2012

Fort Monroe Authority

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

	Federal Catalog Number	Expenditures
Direct Payments		
Office of Economic Adjustment		
Community Planning Assistance Funds	12.607	$ 1,475,754
Total Expenditures of Federal Awards		$ 1,475,754

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, 2012

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:	**Yes**
Any audit findings disclosed that are required to be reported in Accordance with Section 510(a) of OMB Circular A-133?	**Yes**

Identification of major federal programs:

CFDA #	Program Name
12.607	Community Planning Assistance Funds

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

The Authority was qualified as a low risk auditee? **Yes**

B. Findings - Financial Statement Audit

None

C. Findings and Questioned Costs - Major Federal Program

2012-1 – Community Planning Assistance Funds, CFDA 12.607

Criteria
Per the grant agreement (CL0592-09-03), Section1P “Compliance of the Grantee – Grantee Reporting”, Interim Performance Reports are to be completed quarterly and are due one month after the quarter end.

Condition/Context
Our testing disclosed that some of the Interim Performance Reports were not timely filed.

Cause
Additional time and resources were required by the Authority’s staff for several unforeseen events and projects during the fiscal year related to Hurricane Irene, the transition of residential leasing from a management company to the Authority, a Federal audit of the 2009 grant expenditures, a software conversion and staff turnover. The conglomerate of these events and projects required the Authority’s small finance staff to expend significant time and resources on these other priorities, resulting in the Authority filing the quarterly reports after the deadline.

Effect
The grantor agency has delayed reimbursement of the Authority’s grant expenditures.

Recommendation
We recommend that management of the Authority allocate the appropriate resources and oversee the timely preparation and submission of these reports on a quarterly basis. In addition, we recommend the Authority timely respond to questions and rejections of these quarterly reports to prevent future delays in reimbursements.

Management’s Response
Due to the current workload of the finance department, the Director of Operations has directed the Authority’s Procurement Manager to take primary responsibility for ensuring that the quarterly reports are submitted on time. The Procurement Manager works on the grant application process and has thorough knowledge of the grant process. The finance staff will still be involved in the preparation and review of the report.

D. Findings and Questioned Costs - Commonwealth of Virginia
None

E. Summary Schedule of Prior Audit Findings
None