Fort Monroe Authority

(A Component Unit of the Commonwealth of Virginia)

Financial Statements
Year Ended June 30, 2013

Fort Monroe Authority

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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

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, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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

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

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

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

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Authority, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-12 and 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Schedule of Planning and Development Expenditures – General Fund (the "schedule") is presented for purposes of additional analysis and is not a require part of the basic financial statements. The accompanying schedule of expenditures of federal awards is also presented for the purpose of additional analysis as required by the U.S. Office of Management and budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Virginia Beach, Virginia
October 15, 2013

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, 2013. Please read it in conjunction with the Authority's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Authority's Net Position increased during fiscal year 2013 by $584,214. The increase resulted from a net operating surplus from governmental activities of $1,768,062 offset by a net operating deficit of $1,183,848 from business-type activities. The large increase in Net Position for the government activities was due to the delay in property transfer from the Army to the Commonwealth. During the preparation of the FY13 budget request, the property was expected to transfer to Commonwealth ownership in October 2012. The first transfer of property (312.75 acres) was recorded by quit claim deed on June 14, 2013. Due to the delay the Commonwealth reduced the Authority's fourth quarter state appropriation by $1,509,979 to avoid a larger surplus. The operating deficit for the business-type activities resulted from vacancies in residential and non-residential buildings that were leased by the Authority prior to the property transfer to facilitate economic reuse through sub-leasing to third parties. With the transfer of 312.75 acres of property and more than 1 million square feet of non-residential property to Commonwealth ownership these operating deficits are expected to increase in the near term until such time as these property can be leased (or sold if authorized) to third party tenants (or owners) to generate sufficient revenue to cover the operating costs for heating/cooling, maintenance, insurance premiums and PILOT fees.

- The Authority had a total of $8,432,304 in program revenues for the fiscal year. Governmental activities accounted for $6,265,772 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 $2,166,532 in revenue.

- Operating expenses of the Authority for the fiscal year were $7,862,788. Expenses for governmental activities (planning) were $4,511,068. Expenses related to business-type activities (property leasing and maintenance) were $3,351,720.

- During fiscal years 2013 and 2012, the Authority's capital assets were $170,411 and $50,497, net of accumulated depreciation, respectively. In fiscal year 2013, the Authority invested $120,418 for capital assets related to governmental activities. During the fiscal year, the Authority invested $43,105 for capital assets related to business-type activities.

- The Authority has no long-term debt as of June 30, 2013.

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 the financial statements, and other supplemental information.

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

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

FUND FINANCIAL STATEMENTS

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

The Authority currently has two types of funds:

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

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 has leased residential properties to military families and the general public and commercial properties to various state and city entities as well as private businesses and religious organizations. On June 14, 2013 the Army transferred 312.75 acres of reversionary property and all the improvements thereon and therein to Commonwealth ownership. The parcel included approximately 425,000 square feet of residential structures and associated garages together with approximately 592,000 square feet of commercial and administrative space.

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

Net Position:

The following table reflects the condensed Net Position of the Authority (in thousands):

Table 1
Net Position
As of June 30, 2013 and 2012

	Governmental Activities		Business-Type Activities		Government-Wide Activities	
	2013	2012*	2013	2012	2013	2012*
Current and Other Assets	$ 5,038.8	$ 3,200.8	$ (883.9)	$ 211.4	$ 4,154.9	$ 3,412.2
Capital Assets	119.9	35.2	50.5	16.1	170.4	51.3
Total Assets	5,158.7	3,236.0	(833.4)	227.5	4,325.3	3,463.5
Current and Other Liabilities	634.3	479.7	363.4	240.4	997.7	720.1
Total Liabilities	634.3	479.7	363.4	240.4	997.7	720.1
Net Position						
Net investment in Capital Assets	119.9	35.2	50.5	16.1	170.4	51.3
Restricted	29.5	27.9	-	-	29.5	27.9
Unrestricted	4,375.0	2,693.2	(1,247.3)	(29.0)	3,127.7	2,664.2
Total Net Position	$ 4,524.4	$ 2,756.3	$ (1,196.8)	$ (12.9)	$ 3,327.6	$ 2,743.4

* - as restated

At June 30, 2013 and June 30, 2012, the total assets of the Authority were $4,325,304 and $3,463,461 respectively. Total liabilities were $997,729 and $720,100, respectively, while combined net position were $3,327,575 and 2,743,361, respectively.

During fiscal year 2013, the Authority's assets increased by $861,843. The increase results principally from the additional cash on deposit resulting from the aforementioned delay in property transfer. During the same period, the Authority's liabilities increased by $277,629. The largest components of this increase were 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 Position:

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

Table 2
Changes in Net Position
Year Ended June 30, 2013 and 2012

	Governmental Activities		Business-Type Activities		Government-Wide Activities	
	2013	2012*	2013	2012	2013	2012*
Revenues						
Program Revenue						
Charges for Services	$ -	$ -	$ 2,166.5	$ 1,572.4	$ 2,166.5	$ 1,572.4
Operating Grants and Contributions	6,265.8	5,414.9	-	-	6,265.8	5,414.9
General Revenue						
Other Revenue	13.4	-	-	409.6	13.4	409.6
Interest Income	-	0.6	1.3	-	1.3	0.6
Total Revenues	6,279.2	5,415.5	2,167.8	1,982.0	8,447.0	7,397.5
Expenses						
Planning and Development	4,511.1	3,464.4	-	-	4,511.1	3,464.4
Property Admin and Maintenance	-	-	3,351.7	2,079.1	3,351.7	2,079.1
Total Expenses	4,511.1	3,464.4	3,351.7	2,079.1	7,862.8	5,543.5
Change in Net Position	1,768.1	1,951.1	(1,183.9)	(96.9)	584.2	1,854.2
Net Position - Beginning of Year	2,756.3	805.2	(12.9)	84.0	2,743.4	889.2
Net Position - End of Year	$ 4,524.4	$ 2,756.3	$ (1,196.8)	$ (12.9)	$ 3,327.6	$ 2,743.4

* - as restated

Revenues:

Revenues attributable to governmental activities were in the form of state appropriations from the Commonwealth of Virginia General Fund and federal grants from the Office of Economic Adjustment. For the years ended June 30, 2013 and 2012, revenues totaled $8.45 and $7.40 million, respectively. Total grant and operating funds increased from $5.40 million to $6.28 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 $2.17 million in revenue during the current fiscal year in comparison to $1.57 million for the prior year.

Expenses:

In the fiscal years ended June 30, 2013 and 2012, expenses totaled $7,862,788 and $5,543,431 respectively, representing costs for the development of and planning for the implementation of the reuse plan for the 565-acre property formerly used by the U.S. Army at Fort Monroe, Virginia and the costs of operation for the residential and commercial interim leasing activities during the planning period.

For the fiscal year, government fund planning and development expenses increased by $1,046,604. The major components of the increase in cost were the full-year impact of the Veolia Water public works contract which started in April 2013 ($638,756 increase versus prior fiscal year) and the recruitment of professional staff at the Casemate Museum to transfer operational responsibility of the Museum to the Authority ($350,417 increase versus prior year). Two of the largest planning-related categories decreased compared to the prior year - Architecture/Engineering Consulting Services decreased from $451,025 to $403,163 and Business Management Consulting Services decreased from $670,174 to $448,367. The Authority expects the spending levels for these two categories to continue to decrease as it completes the planning phase and moves into the implementation phase of the reuse plan.

Business activity expenses for property administration and maintenance expenses also increased versus prior year. Expenses increased in almost every category as the Authority continued the property management transition from a third-party contractor to Authority management. Office and administrative expenses increased from $149,108 to $353,559 largely due to the recruitment of state employees to manage the leasing and management of the property. Property and maintenance expenses increased from $1,734,561 to $2,989,482. The expense increase resulted principally from the repair and maintenance activity for residential properties as the Authority was successful in leasing nearly 90% of the 160 leasable residential units by the end of the fiscal year. The remaining 16 residential units are either currently being used as office buildings or need significant repairs to bring them to rentable condition.

During the fiscal year, the Authority spent $638,669 to remove 30 of the 31 Wherry Apartment buildings damaged by Hurricane Irene in August 2011. The demotion was paid for by a combination of insurance proceeds and FEMA public assistance grants. Building 300, a single-story duplex located adjacent to the public beach area, was retained for future conversion to a public bathhouse and rental facility.

FINANCIAL ANALYSIS OF THE AUTHORITY'S FUNDS

The Authority's government fund activities reflect operations of its planning and development efforts that are funded by state 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 years 2013 and 2012, the Authority operated two funds - Government and Enterprise. During fiscal year 2013, government fund expenditures totaled $4,583,831 and enterprise fund expenditures totaled $3,351,720. For fiscal year 2012, government fund expenditures totaled $3,438,711 and enterprise fund expenditures totaled $2,005,676.

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. At the start of fiscal year 2013, the Authority's Finance Committee and Board of Trustees adopted a budget (which includes both governmental and enterprise funds) with revenue of $9,122,827 and expenses of $9,122,827. This budget was based on an expected reversionary property transfer date of October 1, 2012. Since the property did not transfer in October as expected and the negotiations with the Army had not produced a new transfer date the Department of Planning and Budget requested that the FMA revise its budget in December 2012 to reflect a delay in property transfer until July 1, 2013. During the General Assembly session in early 2013 the Authority state appropriation for 2013 fiscal year was reduced from $6,226,474 to $4,716,495. Based on the delayed date of property transfer the Board of Trustees approved a revised budget for fiscal year 2013 with revenue from business activities and state and federal appropriation and grants and surplus from prior years of $10,041,789 and expenditures of $8,118,176, resulting in a net carryover of surplus funds to next fiscal year of $1,923,613. Planning and development expenses for fiscal year 2013 were budgeted at $5,452,726. Actual expenses for planning and development for the fiscal year were $4,556,437, a positive variance of $896,289.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

As of June 30, 2013, the Authority had invested $305,125 in capital assets as reflected in Table 3 (reflected in thousands). As of June 30, 2012, the Authority had capital assets of $151,918. The Authority depreciates or amortizes assets based on straight-line methodology over the useful life of the asset. As of June 30, 2013, the accumulated depreciation was $134,714 compared to $100,685 on June 30, 2012.

Table 3
Capital Assets
As of June 30, 2013 and 2012

	Governmental Activities		Business-Type Activities		Government-Wide Activities	
	2013	2012	2013	2012	2013	2012
Construction in Process	$ 71.7	$ -	$ -	$ -	$ 71.7	$ -
Property and Improvement	99.8	99.8	-	-	99.8	99.8
Motor Vehicle Equipment	20.2	18.8	26.6	18.0	46.8	36.8
Furniture and Equipment	52.3	15.3	34.5	-	86.8	15.3
Accumulated Depreciation	(124.1)	(98.7)	(10.6)	(1.9)	(134.7)	(100.6)
Total Capital Assets, net	$ 119.9	$ 35.2	$ 50.5	$ 16.1	$ 170.4	$ 51.3

After experiencing an outage of critical technology systems during Hurricane Irene, the Authority invested $41,837 in upgrading its voice and data networks during fiscal year 2013 to improve the reliability of its network infrastructure. The Authority invested $5,385 in upgrading the electronic components of the marquee sign near the front entrance of the property. Working with the National Park Service on a Captain John Smith Watertrails grant, the Authority invested $71,743 in site improvements and maintenance to the existing Mill Creek dock and installation of a handicapped accessible kayak/canoe launch in Mill Creek. To support the transition of the real estate leasing the Authority invested $8,585 to purchase a golf cart, $16,075 to purchase hardware and software to protect access to building keys, and $18,445 for Siemens control system monitoring software.

LONG-TERM DEBT

As of June 30, 2013, 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 Position
June 30, 2013

Assets	Governmental Activities	Business-Type Activities	Total
Cash and Cash Equivalents	$ 3,268,989	$ 170,638	$ 3,439,627
Restricted Cash and Cash Equivalents	29,535	195,825	225,360
Grants and Other Receivables	203,676	27,323	230,999
Internal Balances	1,373,075	(1,373,075)	-
Prepaid Expenses	163,479	95,428	258,907
Capital Assets:			
Property and Improvements	99,786	-	99,786
Construction in Process	71,743	-	71,743
Motor Vehicle Equipment	20,210	26,609	46,819
Furniture and Equipment	52,257	34,520	86,777
Accumulated Depreciation	(124,082)	(10,632)	(134,714)
Total Assets	5,158,668	(833,364)	4,325,304
Liabilities			
Accounts Payable	533,846	150,995	684,841
Accrued Salaries	44,257	11,765	56,022
Accrued Payroll Tax and Benefits	9,647	-	9,647
Accrued Annual Leave - Due Within One Year	33,983	4,841	38,824
Unearned Revenue	12,570	-	12,570
Deposits Payable	-	195,825	195,825
Total Liabilities	634,303	363,426	997,729
Net Position			
Net Investment in Capital Assets	119,914	50,497	170,411
Restricted	29,535	-	29,535
Unrestricted	4,374,916	(1,247,287)	3,127,629
Total Net Position	$ 4,524,365	$ (1,196,790)	$ 3,327,575

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

Fort Monroe Authority

Statement of Activities
Year Ended June 30, 2013

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	$ (4,511,068)	$ -	$ 6,265,772	$ 1,754,704	$ -	$ 1,754,704
Business-Type Activities:						
Property Administration and Maintenance	(3,351,720)	2,166,532	-	-	(1,185,188)	(1,185,188)
Total	$ (7,862,788)	$ 2,166,532	$ 6,265,772	1,754,704	(1,185,188)	569,516
General Revenues						
Other Revenue				13,108	1,270	14,378
Interest Income				250	70	320
Change in Net Position				1,768,062	(1,183,848)	584,214
Net Position, Beginning of Year				2,756,303	(12,942)	2,743,361
Net Position, End of Year				$ 4,524,365	$ (1,196,790)	$ 3,327,575

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

Fort Monroe Authority

Balance Sheet - Governmental Funds
June 30, 2013

	General	Special Revenue Fort Monroe Foundation	Total Governmental Funds
Assets			
Cash and Cash Equivalents	$ 3,195,153	$ 73,836	$ 3,268,989
Restricted Cash and Cash Equivalents	24,512	5,023	29,535
Grants and Other Receivables	203,676	-	203,676
Due from Other Funds	1,373,075	-	1,373,075
Prepaid Expenditures	155,146	8,333	163,479
Total Assets	$ 4,951,562	$ 87,192	$ 5,038,754
Liabilities			
Accounts Payable	$ 533,846	$ -	$ 533,846
Accrued Salaries	44,257	-	44,257
Accrued Payroll Tax and Benefits	9,647	-	9,647
Unearned Revenue	199,638	12,570	212,208
Total Liabilities	787,388	12,570	799,958
Fund Balance			
Nonspendable	155,146	8,333	163,479
Restricted	24,512	5,023	29,535
Committed	600,000	-	600,000
Assigned	1,323,613	-	1,323,613
Unassigned	2,060,903	61,266	2,122,169
Total Fund Balance	4,164,174	74,622	4,238,796
Total Liabilities and Fund Balance	$ 4,951,562	$ 87,192	$ 5,038,754

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

Fort Monroe Authority

Reconciliation of Balance Sheet of Governmental Funds to Statement of Net Position
June 30, 2013

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

Fund Balance - General Fund	$ 4,238,796
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	119,914
Other noncurrent assets are not available to pay for current expenditures and are deferred in the fund.	199,638
Annual leave is not due and payable in the current year and, therefore, are not reported in the fund.	(33,983)
Net Position of Governmental Activities	$ 4,524,365

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

Fort Monroe Authority

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds
Year Ended June 30, 2013

	General	Special Revenue Fort Monroe Foundation	Total Governmental Funds
Revenues			
Intergovernmental Revenue - State	$ 5,068,841	$ -	$ 5,068,841
Intergovernmental Revenue - Federal	1,415,036	-	1,415,036
Other Income	6,399	51,298	57,697
Interest Income	232	18	250
Total Revenues	6,490,508	51,316	6,541,824
Expenditures			
Planning and Development	3,926,021	27,394	3,953,415
Capital Outlay	630,416	-	630,416
Total Expenditures	4,556,437	27,394	4,583,831
Excess of Revenues Over Expenditures	1,934,071	23,922	1,957,993
Fund Balance, Beginning of Year	2,230,103	50,700	2,280,803
Fund Balance, End of Year	$ 4,164,174	$ 74,622	$ 4,238,796

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, 2013

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

Excess of Revenues Over Expenditures - General Fund	$ 1,957,993
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	120,418
Loss on Disposal	(5,674)
Depreciation Expense	(29,992)
	84,752
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. Unearned revenues decreased by this amount this year.	(262,694)
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.	(11,989)
Change in Net Position	$ 1,768,062

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

Fort Monroe Authority

Statement of Net Position - Enterprise Fund
June 30, 2013

Assets	
Current Assets:	
Cash	$ 170,638
Restricted Cash	195,825
Other Receivables	27,323
Prepaid Expenses	95,428
Total Current Assets	489,214
Non-Current Assets:	
Capital Assets:	
Motor Vehicle Equipment	26,609
Furniture and Equipment	34,520
Accumulated Depreciation	(10,632)
Net Capital Assets	50,497
Total Assets	539,711
Liabilities	
Current Liabilities:	
Accounts Payable	150,995
Due to Other Funds	1,373,075
Accrued Salaries	11,765
Accrued Annual Leave - Current Portion	4,841
Deposits Payable	195,825
Total Liabilities	1,736,501
Net Position	
Net Investment in Capital Assets	50,497
Unrestricted	(1,247,287)
Total Net Position	$ (1,196,790)

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

Fort Monroe Authority

Statement of Revenues, Expenses, and Changes in Net Position - Enterprise Fund
Year Ended June 30, 2013

Revenues	
Charges for services:	
Rental Income	$ 2,166,532
Total Revenues	2,166,532
Expenses	
Facilities maintenance and operation	2,989,482
General and administrative	353,559
Depreciation	8,679
Total Expenses	3,351,720
Operating loss	(1,185,188)
Nonoperating Revenues and Expenses	
Interest Income	70
Miscellaneous Revenue	1,270
Total Nonoperating Revenues, net	1,340
Change in Net Position	(1,183,848)
Net Position, Beginning of Year	(12,942)
Net Position, End of Year	$ (1,196,790)

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, 2013

Cash Flows from Operating Activities	
Cash Received From Tenants	$ 2,232,543
Cash Payments to Suppliers for Goods and Services	(1,970,389)
Net Cash Provided by Operating Activities	262,154
Cash Flows from Capital and Related Financing Activities	
Acquisition of Capital Assets	(43,105)
Cash Flows from Non-Financing Activities	
Other Receipts	1,270
Cash Flows from Investing Activities	
Interest	70
Net Increase in Cash	220,389
Cash, Beginning of Year	146,074
Cash, End of Year	$ 366,463
Reported in the Statement of Net Position as follows:	
Cash	$ 170,638
Restricted Cash	195,825
	$ 366,463

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

Fort Monroe Authority

Statement of Cash Flows - Enterprise Fund (continued)
Year Ended June 30, 2013

Operating Loss	$ (1,185,188)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation Expense	8,679
Changes in:	
Accounts Receivable	(25,370)
Prepaid Expenses	62,947
Accounts Payable	1,304,354
Accrued Liabilities	5,351
Deposits Payable	91,381
Total Adjustments	1,447,342
Net Cash Provided by Operating Activities	$ 262,154

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

Fort Monroe Authority

Notes to the Financial Statements
Year Ended June 30, 2013

1. Nature of the Organization

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

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

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

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

2. Summary of Significant Accounting Policies

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

2. Summary of Significant Accounting Policies (continued)

Fort Monroe Foundation - Virginia Acts of Assembly, 2010 Session, §15.2-7204 (B)(8), the Fort Monroe Authority Act stipulates the Authority shall have the powers to "establish nonprofit corporations as instrumentalities to assist in administering the affairs of the Authority". On February 9, 2010, the State Corporation Commission registered Old Point Comfort Foundation on its records with its By-Laws and Articles of Incorporation. On March 28, 2011, the State Corporation Commission accepted the Articles of Restatement of Incorporation of Fort Monroe Foundation (formerly Old Point Comfort Foundation) and registered Fort Monroe Foundation on its records. On May 23, 2011, the Internal Revenue Service granted exemption from federal income tax under Section 501(c)(3) to Fort Monroe Foundation.

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

Government-wide and Fund Financial Statements - The basic financial statements include both government-wide (based upon the Authority as a whole) and fund financial statements. These statements distinguish between the governmental and business-type activities of the Authority. In 2013, in addition to its blended component unit, the Authority had two funds:

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

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

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

2. Summary of Significant Accounting Policies (continued)

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.

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

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

Proprietary funds distinguish between operating revenues and expenses and non-operating items. Operating revenues result from providing residential housing and commercial space for rent. 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.

2. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

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.

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.

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

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

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

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

Fort Monroe Authority

Notes to the Financial Statements
Year Ended June 30, 2013

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, 2013, the Authority had $3,439,627 in bank deposits and $225,360 in restricted deposits represented by the following: $24,574 in certificates of deposit, and $200,786 in other deposits. The certificates of deposit are required by the bank as collateral for the Authority's credit cards. Security deposits of $189,902 represent deposits held for tenants who have leased the residential and commercial properties, $5,925 represents deposits held for future public event contracts and $4,959 represents flex spending accounts available for the employees.

	June 30, 2013
Operating Accounts	
Government Funds	$ 3,268,989
Enterprise Fund	170,638
Total Operating Accounts	3,439,627
Restricted Accounts	
Government Funds	
Flex Spending Accounts	4,959
Certificates of Deposit	24,574
Enterprise Fund	
Security Deposits on Tenant Leases	189,902
Event Deposits for Public Programs	5,925
Total Restricted Accounts	225,360
Total Cash and Cash Equivalents	$ 3,664,987

Fort Monroe Authority

Notes to the Financial Statements
Year Ended June 30, 2013

4. Capital Assets

The following is a summary of the Authority's change in capital assets for the year ended June 30, 2013:

Governmental Activities:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Capital Assets not Depreciated				
Construction in Process	$ -	$ 71,743	$ -	$ 71,743
Total Capital Assets not Depreciated	-	71,743	-	71,743
Capital Assets being Depreciated				
Property and Improvements	99,786	-	-	99,786
Motor Vehicle Equipment	18,757	1,453	-	20,210
Furniture and Equipment	15,351	47,222	10,316	52,257
Total Capital Assets being Depreciated	133,894	48,675	10,316	172,253
Less Accumulated Depreciation				
Property and Improvements	(82,771)	(17,015)	-	(99,786)
Motor Vehicle Equipment	(9,377)	(3,896)	-	(13,273)
Furniture and Equipment	(6,584)	(9,081)	(4,642)	(11,023)
Total Accumulated Depreciation	(98,732)	(29,992)	(4,642)	(124,082)
Total Capital Assets	$ 35,162	$ 90,426	$ 5,674	$ 119,914

4. Capital Assets (continued)

Business-Type Activities

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Capital Assets being Depreciated				
Motor Vehicle Equipment	$ 18,024	$ 8,585	$ -	$ 26,609
Furniture and Equipment	-	34,520	-	34,520
Total Capital Assets being Depreciated	18,024	43,105	-	61,129
Less Accumulated Depreciation				
Motor Vehicle Equipment	(1,953)	(4,463)	-	(6,416)
Furniture and Equipment	-	(4,216)	-	(4,216)
Total Accumulated Depreciation	(1,953)	(8,679)	-	(10,632)
Total Capital Assets	$ 16,071	$ 34,426	$ -	$ 50,497

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, 2013:

Governmental Activities

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013	Due Within One Year
Accrued Annual Leave					
Governmental Activities	$ 21,994	$ 37,643	$ (25,654)	$ 33,983	$ 33,983

Business-type Activities

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013	Due Within One Year
Accrued Annual Leave					
Business-type Activities	$ 3,764	$ 3,378	$ (2,301)	$ 4,841	$ 4,841

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 $1,373,075 at June 30, 2013 primarily represents property insurance, utilities and PILOT fees paid from the General Fund for the residential, commercial and public events business-type divisions and to fund the operations of the Commercial Division.

7. Deferred Compensation Plan

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

8. Defined Benefit Pension and Other Post Employment Benefit Plans

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 Authority began remitting their contributions directly to VRS during the year ended June 30, 2012. The Authority's contribution rate for employees for the fiscal year ended June 30, 2013 was 13.76% of annual covered payroll for the defined benefit pension plan and 2.66% for other post-employment benefits. The Authority's actual contributions equaled required contributions in the amounts of $209,647, $75,368 and $0 for the years ended June 30, 2013, 2012 and 2011, respectively.

9. Contingencies

Payments in lieu of taxes

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

Budget Bill, Department of Housing and Community Development, FY2013 and FY2014, Item 109 H.5 specifically limits the amount of the fee as follows: "Notwithstanding any other provision of law or agreement, the amount paid from all sources of funds by the Fort Monroe Authority to the City of Hampton pursuant to §2.2.2342, Code of Virginia, shall not exceed $562,540 in FY 2013 and $983,960 in FY 2014." PILOT fees (payments in lieu of taxes) paid in 2013 were $510,819.

Utilities

The Authority's Memorandum of Understanding with the Army outlines transition of the management of the Fort Monroe utility system to the Authority by September 30, 2013. The Authority has directed its public works contractor, Veolia Water, to begin installing water meters on occupied buildings. Once these meters are in place the Authority plans to purchase a utility billing software to facilitate billing individual residential and commercial customers for actual usage of water, sewer and natural gas.

10. Fund Balance Classifications

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

	General Fund
Nonspendable	
Prepaid Expenditures	$ 155,146
Total Nonspendable	155,146
Restricted	
Flex Savings Cash Account	4,959
Collateral on Credit Cards	19,553
Total Restricted	24,512
Committed	
Operating Cash	600,000
	600,000
Assigned	
Operating Cash	1,119,937
Grants and Other Receivables	203,676
Total Assigned	1,323,613
Unassigned	2,060,903
Total Fund Balance	$ 4,164,174

11. New Standards Implementation and Change in Reporting Entity

During the year ended June 30, 2013, the Authority implemented Government Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34,* GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.*

GASB Statement No. 61 requires the Authority to report the Fort Monroe Foundation as a blended component unit. As a result, the Authority has restated beginning fund balance and beginning net position due to a change in accounting principal from implementation of this statement, as follows:

	Special Revenue Fort Monroe Foundation	Total Governmental Funds
Fund Balance, beginning of year, as previously reported	$ -	$ 2,230,103
Restatement	50,700	50,700
Fund Balance, beginning of year, as restated	$ 50,700	$ 2,280,803

	Governmental Activities	Total
Net Position, beginning of year, as previously reported	$ 2,705,603	$ 2,692,661
Restatement	50,700	50,700
Net Position, beginning of year, as restated	$ 2,756,303	$ 2,743,361

GASB Statement No. 62 did not have a significant impact on the Authority's financial statements. GASB Statement No. 63 improves financial reporting by standardizing the presentation of deferred outflows and inflows of resources and their effects on net position. The Authority does not have any deferred outflows and inflows as defined by this statement, but has reflected the net position terminology throughout the financial statements.

Supplementary Information

Fort Monroe Authority

Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual - General Fund
Year Ended June 30, 2013

	Budget			Variance With Final Budget Positive
Revenues	Original	Final	Actual	(Negative)
Intergovernmental Revenue - State	$ 6,557,839	$ 3,737,000	$ 5,068,841	$ 1,331,841
Intergovernmental Revenue - Federal	1,273,433	1,353,726	1,415,036	61,310
Other Revenue	50,000	362,000	6,399	(355,601)
Interest Income	-	-	232	232
Total Revenues	7,881,272	5,452,726	6,490,508	1,037,782
Expenditures				
Current				
Planning and Development	7,570,372	5,012,766	3,926,021	1,086,745
Capital Outlay	310,900	439,960	630,416	(190,456)
Total Expenditures	7,881,272	5,452,726	4,556,437	896,289
Excess of Revenues over Expenditures	$ -	$ -	$ 1,934,071	$ 1,934,071

Fort Monroe Authority

Schedule of Planning and Development Expenditures - General Fund
Year Ended June 30, 2013

Planning and Development Expenditures	
Salaries and Wages	$ 1,060,416
Employee Benefits	335,759
Architectural and Engineering Services	403,563
Legal Services	209,616
Management Services	464,117
Dues, Subscriptions and Seminars	20,323
Fees - Banking and Payroll Processing	4,100
Meetings	6,672
Miscellaneous	28,635
Office Supplies and Postage	35,934
PILOT Fees	3,039
Public Information and Relations Services	163,394
Public Programs Signage and Special Events	2,768
Rentals and Leases	16,973
Security	70,445
Site Operating Costs	1,030,768
Telephone and Communications	29,148
Travel	19,817
Utilities and Trash Disposal	20,534
	$ 3,926,021

Cherry Bekaert LLP
CPAs & Advisors

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

The Board of Trustees
Fort Monroe Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, business-type activities and each major fund of the Fort Monroe Authority (the "Authority"), as of and for the year ended June 30, 2013, and the related notes to the financial statements and have issued our report thereon dated October 15, 2013.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

We identified certain other matters that we reported to management of the Authority in a separate letter dated October 15, 2013.

Purpose of This Report

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

Cherry Bekaert LLP

Virginia Beach, Virginia
October 15, 2013

Cherry Bekaert LLP
CPAs & Advisors

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

Report on Compliance for Each Major Federal Program

We have audited Fort Monroe Authority's (the "Authority") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2013. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control over Compliance

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

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

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

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

Cherry Bekaert LLP

Virginia Beach, Virginia
October 15, 2013

Fort Monroe Authority

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

	Federal Catalog Number	Expenditures
Direct Payments		
Office of Economic Adjustment		
Community Planning Assistance Funds	12.607	$ 1,152,342
Total Expenditures of Federal Awards		$ 1,152,342

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, 2013

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:	**No**

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

Identification of major federal programs:

CFDA #	Program Name
12.607	Community Planning Assistance Funds

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

B. Findings - Financial Statement Audit
None

C. Findings and Questioned Costs - Major Federal Program
None

D. Findings and Questioned Costs - Commonwealth of Virginia
None

E. Summary Schedule of Prior Audit Findings
2012-1: Corrected