

**Fort Monroe Authority**  
(A Component Unit of the Commonwealth of Virginia)

Financial Statements  
Year Ended June 30, 2014

# Fort Monroe Authority

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## 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, 2014, 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, 2014, 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*

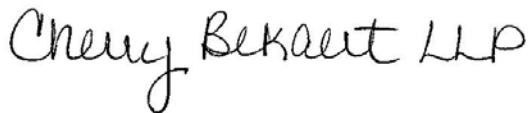
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-15 and 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Schedule of Planning and Development Expenditures – General Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements. The 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 6, 2014, 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.



Virginia Beach, Virginia  
October 6, 2014

**Fort Monroe Authority**  
Component Unit of the Commonwealth of Virginia  
Management's Discussion and Analysis

This section of the Fort Monroe Authority's (the "Authority") annual financial report represents management's discussion and analysis of the Authority's financial performance during the fiscal year ended June 30, 2014. 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 2014 by \$855,388. The increase resulted from a net operating surplus from governmental activities of \$2,794,901 offset by a net operating deficit of \$1,939,513 from business-type activities. The increase in Net Position for the government activities was due to several factors:
  - During the preparation of the FY14 budget request, the Authority expected to transfer all utility accounts (electric, natural gas, water and sewer) from the Army no later than September 2013. The natural gas, water and sewer accounts were successfully transferred. However, as of June 30, 2014, the Army and Dominion Virginia Power (DVP) are still in discussions about the termination of the Army's contract with DVP. The delay in the transfer of the account resulted in a \$720 thousand in savings to the Authority.
  - Due to the strong demand for residential leasing at Fort Monroe, in September 2013 the Authority requested additional FY14 appropriation funds to complete repairs to residential units that were not suitable for leasing. In April 2014, the Authority received \$701,620 in supplemental FY14 appropriations. Due to the timing of the receipt the Authority was not able to complete the repairs prior to fiscal year end. The repairs will be completed in FY15.
  - As it became apparent that the General Assembly would not agree on a compromise budget package for the Governor's consideration, the Authority began to delay necessary but discretionary spending to preserve cash in the event of a government shutdown. The Authority was successful in delaying approximately \$1.37 million in project spending. A portion of these savings was transferred to the Enterprise Fund to cover the Enterprise Fund operating deficit.
  - As the Authority prepared its budget for FY14 in September of 2012, it relied on information provided by the Army for building repair and utility costs. Since receiving the property in June 2013, the Authority has been addressing critical repairs and maintaining heating and cooling levels in buildings as required by the Mothball Plan. This has resulted in higher than budgeted expenses in the Enterprise Fund. A portion of the government fund surplus mentioned above was transferred to the Enterprise Fund to compensate for the larger deficit from Enterprise Fund operations.

## **Fort Monroe Authority**

Component Unit of the Commonwealth of Virginia

### Management's Discussion and Analysis

- The Authority had a total of \$10,706,651 in program revenues for the fiscal year ended June 30, 2014. Governmental activities accounted for \$7,467,448 of the program revenue. The majority of these revenues came from state general fund appropriations (\$5,766,770) and federal intergovernmental grants (\$1,338,119). Business-type charges for services, principally rental income, accounted for \$3,239,203 in revenue.
- The Authority and its component unit, the Fort Monroe Foundation, had donations and earned revenue of \$119,058.
- Operating expenses of the Authority for the fiscal year were \$9,970,321. Expenses for governmental activities (planning and development) were \$4,791,510. Expenses related to business-type activities (property leasing and maintenance) were \$5,178,811.
- For fiscal years 2014 and 2013, the Authority's capital assets were \$318,245 and \$170,411, net of accumulated depreciation, respectively. During fiscal year 2014, the Authority invested \$74,907 for capital assets related to governmental activities. The Casemate Museum received artifacts donated by the Army appraised at \$59,705. The Government Fund had \$34,392 of construction in progress related to the renovation of Building 83 for its future headquarters. During the fiscal year, the Authority invested \$15,468 related to business-type activities for construction in progress related to the renovation of Building 80 into efficiency apartments.
- The Authority has no long-term debt as of June 30, 2014.

**Fort Monroe Authority**  
Component Unit of the Commonwealth of Virginia  
Management's Discussion and Analysis

**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, 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 - is one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in an entity's Net Position are an indicator of whether its financial health is improving or deteriorating, respectively.

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 deconstructed the 118 apartment units but continued to lease the 176 residential units and commercial space to government and private tenants.

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

**Fort Monroe Authority**  
Component Unit of the Commonwealth of Virginia  
Management's Discussion and Analysis

**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 Governmental 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. With the transfer of property, the Authority took responsibility for natural gas, water and sewer utility systems and accounts. The Authority began billing third-party users for natural gas, water and sewer consumption based on either metered readings or on a per-square foot basis. To track the utility revenue and costs the Authority has established a utility sub-fund as part of the Enterprise Fund. As of June 30, 2014, the Army and Dominion Virginia Power (DVP) have not completed the termination of the Army's electrical contract with DVP. It is expected that this termination will be completed in the next fiscal year at which time the Authority will establish a facility contract with DVP for the provision of electrical service.



**Fort Monroe Authority**  
Component Unit of the Commonwealth of Virginia  
Management's Discussion and Analysis

**FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE**

**Net Position:**

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

	Governmental Activities		Business-Type Activities		Government-Wide Activities	
	2014	2013	2014	2013	2014	2013
Current and Other Assets	\$ 7,477.3	\$ 5,038.8	\$ (2,787.8)	\$ (883.9)	\$ 4,689.5	\$ 4,154.9
Capital Assets	266.9	119.9	51.2	50.5	318.1	170.4
Total Assets	<u>7,744.2</u>	<u>5,158.7</u>	<u>(2,736.6)</u>	<u>(833.4)</u>	<u>5,007.6</u>	<u>4,325.3</u>
Current and Other Liabilities	424.9	634.3	399.7	363.4	824.6	997.7
Total Liabilities	<u>424.9</u>	<u>634.3</u>	<u>399.7</u>	<u>363.4</u>	<u>824.6</u>	<u>997.7</u>
Net Position						
Net investment in Capital Assets	267.0	119.9	51.2	50.5	318.2	170.4
Restricted	11.4	29.5	-	-	11.4	29.5
Unrestricted	<u>7,040.9</u>	<u>4,375.0</u>	<u>(3,187.5)</u>	<u>(1,247.3)</u>	<u>3,853.4</u>	<u>3,127.7</u>
Total Net Position	<u>\$ 7,319.3</u>	<u>\$ 4,524.4</u>	<u>\$ (3,136.3)</u>	<u>\$ (1,196.8)</u>	<u>\$ 4,183.0</u>	<u>\$ 3,327.6</u>

At June 30, 2014, the total assets of the Authority were \$5,007,577 compared to \$4,325,304 as of June 30, 2013. Total liabilities as of June 30, 2014 were \$824,614 compared to \$997,729 at the end of the prior fiscal year. For the current fiscal year combined net position was \$4,182,963 compared to \$3,327,575 as of June 30, 2013.

During fiscal year 2014, the book value of the Authority's assets increased by \$682,273. The largest changes from the prior year were increases in cash on deposit (\$357,170), grant receivables (\$227,526) and net capital assets (\$147,834). During the same period, the Authority's liabilities decreased by \$173,115. For the year, accounts payable decreased by \$219,583 and deposits payable increased by \$33,981.

**Fort Monroe Authority**  
Component Unit of the Commonwealth of Virginia  
Management's Discussion and Analysis

**Changes in Net Position:**

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

	Governmental Activities		Business-Type Activities		Government-Wide Activities	
	2014	2013	2014	2013	2014	2013
<b>Revenues</b>						
Program Revenue						
Charges for Services	\$ -	\$ -	\$ 3,239.2	\$ 2,166.5	\$ 3,239.2	\$ 2,166.5
Operating Grants and Contributions	1,338.1	6,265.8	-	-	1,338.1	6,265.8
Capital Grants and Contributions	362.6	-	-	-	362.6	-
General Revenue						
Operating Appropriations	5,766.7	-	-	-	5,766.7	-
Other Revenue	119.0	13.4	-	-	119.0	13.4
Interest Income	-	-	0.1	1.3	0.1	1.3
<b>Total Revenues</b>	<b>7,586.4</b>	<b>6,279.2</b>	<b>3,239.3</b>	<b>2,167.8</b>	<b>10,825.7</b>	<b>8,447.0</b>
<b>Expenses</b>						
Planning and Development	4,791.5	4,511.1	-	-	4,791.5	4,511.1
Property Admin and Maintenance	-	-	5,178.8	3,351.7	5,178.8	3,351.7
<b>Total Expenses</b>	<b>4,791.5</b>	<b>4,511.1</b>	<b>5,178.8</b>	<b>3,351.7</b>	<b>9,970.3</b>	<b>7,862.8</b>
Change in Net Position	2,794.9	1,768.1	(1,939.5)	(1,183.9)	855.4	584.2
Net Position - Beginning of Year	4,524.4	2,756.3	(1,196.8)	(12.9)	3,327.6	2,743.4
Net Position - End of Year	<b>\$ 7,319.3</b>	<b>\$ 4,524.4</b>	<b>\$ (3,136.3)</b>	<b>\$ (1,196.8)</b>	<b>\$ 4,183.0</b>	<b>\$ 3,327.6</b>

**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 year ended June 30, 2014, revenues totaled \$10,825,709 compared to \$8,447,002 in the prior fiscal year. Total grant and operating funds increased from \$6,265,772 to \$7,467,448 due to an increase in the state appropriation from the General Fund and the supplemental General Fund appropriation received in April. Business-type activities generated \$3,239,203 in revenue during the current fiscal year compared to \$2,166,532 for the prior fiscal year. The increase in revenue resulted in continuing success in residential leasing, an improvement in commercial leasing and the commencement of the utility fund for water, sewer and natural gas charges to governmental and private entities.

**Fort Monroe Authority**  
Component Unit of the Commonwealth of Virginia  
Management's Discussion and Analysis

**Expenses:**

Expenses for the fiscal year ended June 30, 2014 totaled \$9,970,321 compared to \$7,862,788 in the previous fiscal year. These expenses represent the costs for the development of and planning for the implementation of the reuse plan for the 565-acre property formerly used by the 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 \$306,055. While expenses increased moderately compared to the prior year, there were notable variances in several expense categories. Architectural and engineering services increased by \$233,663 compared to the prior year as a result of two major building condition assessment projects that were both 90% funded by the OEA grant. Security costs increased by \$218,922 resulting from the commencement of the Hampton Police Division providing 24-hour patrols on Fort Monroe with an extra duty officer. Management Services costs decreased by \$257,338 due to the substantial completion of the Master Land Plan by Sasaki Associates in October 2013.

Business activity expenses for property administration and maintenance expenses increased in almost every area due to the costs associated with the additional commercial buildings received as part of the June 2013 transfer of 312.75 acres from the Army. While General and Administrative expenses decreased slightly from \$353,559 to \$336,061, Facilities Maintenance and Operations expenses increased substantially from \$2,989,482 to \$4,828,065.

**Fort Monroe Authority**  
Component Unit of the Commonwealth of Virginia  
Management's Discussion and Analysis

**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 appropriations and federal grants. The Authority's Enterprise Fund activities reflect business-related operations. The fund financial statements provide a more detailed look at the Authority's most significant activities by focusing on the individual activities of the major funds. A fund is a grouping of related accounts that is used to maintain accountability and control over resources that have been segregated for specific activities or objectives. For fiscal years 2014 and 2013, the Authority operated two funds - Governmental and Enterprise. For fiscal year 2014, government fund expenditures totaled \$4,940,363 and Enterprise Fund expenditures totaled \$5,178,811. In comparison, during fiscal year 2013, government fund expenditures totaled \$4,583,831 and Enterprise Fund expenditures totaled \$3,351,720.

**BUDGETARY HIGHLIGHTS**

The Authority submitted its request for FY14 state general fund appropriation in September 2012 based on a provisional operating budget. During the last quarter of 2012, the Authority worked with representatives from SFC, HAC and DPB to obtain funding in the state budget. The state budget was introduced by the Governor in December 2012 which contained a general fund appropriation of \$5,065,150 and a maintenance reserve allocation of \$2,500,000 for utility and infrastructure projects at Fort Monroe. During the General Assembly session, the Authority worked to maintain the proposed level of state funding. Once the state budget was approved the Authority revised its budget based on the approved state appropriation of \$5,065,150. The \$2,500,000 in maintenance reserve funding was added to the \$4,000,000 in project funding from FY12 and FY13. The maintenance reserve funding is managed by the Department of General Services and used to complete projects on the Capital Improvement Plan based on the priority determined by the Authority.

At approximately the same time, the Authority began working on a grant application for funding from the Office of Economic Adjustment (OEA) to support planning activities at Fort Monroe. Since the OEA grant was not approved by June, the Authority developed a budget based on an estimated grant amount of \$750,000. The proposed budget was presented to the Finance Committee at its meeting on June 20, 2013. The Finance Committee unanimously approved the budget and recommended it favorably to the Board of Trustees for approval. The Fort Monroe Authority is required to submit a budget to the Senate Finance Committee (SFC), the House Appropriations Committee (HAC) and the Department of Planning and Budget (DPB) by July 1<sup>st</sup> of each year. In past years, the Board of Trustees held its meeting on the third Thursday of June. However, since the Board meeting was moved to July 25, 2013 the Authority submitted the budget approved by the Finance Committee to SFC, HAC and DPB to meet the filing requirement. The budget was subsequently approved by the Board of Trustees at its meeting on July 25, 2013.

## **Fort Monroe Authority**

Component Unit of the Commonwealth of Virginia

### Management's Discussion and Analysis

The Army transferred 312.75 acres of land and all the associated building and utility systems to the Commonwealth on June 14, 2013. During the first few months of managing the additional property, the Authority realized that it needed additional funding for building repairs and general maintenance. In September 2013, the Authority submitted a supplemental FY14 appropriation request of \$701,620 to fund building and infrastructure repairs and to pay for utility costs that were well above budgeted amounts. The supplemental appropriation was approved by the General Assembly. The Authority received the supplemental appropriation in April 2014.

In September 2013, the Authority submitted its request for state General Fund support for the biennial period beginning on July 1, 2014 and ending June 30, 2016 (FY15 and FY16). The original submittal requested \$6,718,155 for operations support and \$5,686,410 for capital projects in FY15. The request for FY16 was \$5,489,033 in operations support and \$5,305,000 for capital projects. The Authority provided a briefing on its funding request to representatives from DPB and the Department of Treasury. After the meeting, the Treasury Department made a recommendation to the Governor that was incorporated in the Governor's budget released in December 2013. The Governor's budget included \$6,718,155 in general fund support for FY15 and \$5,686,400 in general fund support in FY16. In addition, the Governor's budget authorized the Virginia Public Building Authority to issue \$22.5 million in state revenue bonds to be designated for the Authority to complete utility and infrastructure projects at Fort Monroe. This amount greatly exceeds the total of \$10,990,410 that the Authority had requested for capital projects in the biennial period.

On September 18, 2013, the Office of Economic Adjustment approved a grant in the amount of \$1,167,634 to assist the Authority in planning for the reuse of the Fort Monroe property. The grant amount exceeded the estimated amount of \$750,000 based on OEA funding for two additional projects that could only be completed with the support of the OEA.

At the end of each fiscal year, the Authority prepares a reforecast of the annual budget for the Finance Committee and Board. The Authority may request that any surplus funds be committed to projects that were in progress but not completed by the end of the fiscal year. For FY14, the Board of Trustees committed \$790,000 of surplus funds for four projects that were underway at year-end: the renovation of Building 83 as the new headquarters for the Authority, the completion of the VDOT Roadway System improvements which had been completed but not paid by year-end, the remainder of the building condition assessment for 35 commercial buildings and the historic structure report for the Casemate Museum premises (both of which are funded by OEA grant funds).

**Fort Monroe Authority**  
Component Unit of the Commonwealth of Virginia  
Management's Discussion and Analysis

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**CAPITAL ASSETS**

As of June 30, 2014, the Authority had invested \$489,597 in capital assets as reflected in Table 3 (reflected in thousands). This amount includes \$181,308 in non-depreciable assets and \$308,289 in depreciable assets. As of June 30, 2013, the Authority had capital assets of \$305,125. The Authority depreciates or amortizes assets based on straight-line methodology over the useful life of the asset. As of June 30, 2014, the accumulated depreciation was \$171,352 compared to \$134,714 on June 30, 2013.

	Governmental Activities		Business-Type Activities		Government-Wide Activities	
	2014	2013	2014	2013	2014	2013
Donated Artifacts for Museum	\$ 59.7	\$ -	\$ -	\$ -	\$ 59.7	\$ -
Construction in Process	106.1	71.7	15.4	-	121.5	71.7
Property and Improvement	99.8	99.8	-	-	99.8	99.8
Motor Vehicle Equipment	20.2	20.2	26.6	26.6	46.8	46.8
Furniture and Equipment	127.1	52.3	34.5	34.5	161.6	86.8
Accumulated Depreciation	(146.0)	(124.1)	(25.3)	(10.6)	(171.3)	(134.7)
Total Capital Assets, net	<u>\$ 266.9</u>	<u>\$ 119.9</u>	<u>\$ 51.2</u>	<u>\$ 50.5</u>	<u>\$ 318.1</u>	<u>\$ 170.4</u>

During the current fiscal year, the Authority incurred construction in process expenses for three projects: (1) improvements to the Mill Creek small craft launch (\$18,952), (2) construction drawings for the renovation of Building 83 for the new Fort Monroe headquarters (\$15,440), and (3) construction drawings for the conversion of Building 80 from hotel units to apartment units (\$15,468).

In response to a management recommendation in the FY13 audit, the Authority relocated its network and financial server assets to a secured location in Building 182. This relocation required the Authority to install fiber-optic switches in four buildings to utilize the existing fiber optic cables abandoned by the Army. Access to the server location is restricted and employees or contractors must sign out a key to access the server equipment. The total cost for the project was \$46,634.

## **Fort Monroe Authority**

Component Unit of the Commonwealth of Virginia

### Management's Discussion and Analysis

In March 2014, the Army donated over 800 artifacts to the Authority for use in the Casemate Museum. The collection of artifacts donated by the Army was appraised at \$59,705. In order to inventory and manage the artifacts donated from the Army, the Authority purchased artifact collection management software. The software will allow the Museum staff to manage both physical and digital collections. The cost of the software was \$8,415.

In response to the loss of copper gutters and downspouts in September 2013, the Authority installed security cameras at the front gate to track vehicles entering and leaving the property. The video will only be used for the investigation of suspected criminal activity. The cost of the cameras and image storage system was \$12,065.

In order to comply with electronic records retention requirements for public bodies, the Authority installed an email archival server that will store all electronic mail communication. The cost of the archival server including installation was \$7,793.

#### **LONG-TERM DEBT**

As of June 30, 2014, the Authority has no long-term debt.

**Fort Monroe Authority**  
Component Unit of the Commonwealth of Virginia  
Management's Discussion and Analysis

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

During the redevelopment process the Authority will be largely dependent on state appropriations to bridge the gap between revenue received from rental operations and the cost to maintain the property including the large inventory of vacant residential and commercial buildings. The current state of the federal and state economy may impact state revenues which, in turn, may limit the level of state general fund support available to the Authority.

While the Authority has achieved great success in attracting tenants for most of the 176 residential properties, many of those tenants received incentives (free rent) to induce them to sign a lease. The Authority believes the Fort Monroe property is now seen as a desirable place to live and will attempt to phase out any rent incentives for new leases. If the Authority is not successful in recruiting tenants without lease incentives, it may be required to restore rent incentives which will result in lower residential revenue.

As of the end of the fiscal year, the Authority had 159 residential units that were in leasable condition. Using funds from the FY14 supplemental appropriation, the Authority will make repairs to six additional units. Since the Authority has maintained occupancy rates in excess of 90% during the fiscal year, it is expected that these six units will be leased once the units are repaired. The remaining 11 units will be vacant until additional funds become available. Due to the scarcity of leasable residential inventory, the Authority has developed plans to renovate a former historic inn into 8 one-bedroom and 2 two-bedroom units. Once the renovation is complete, the Authority will have reached the maximum residential inventory of 186 units. The lack of funds to repair the 11 "down" units and the limited additional residential inventory will limit the Authority's ability to generate residential leasing revenue.

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

The Authority, working with its commercial leasing contractor, continues to pursue new tenants for approximately 1.1 million square feet of vacant office and warehouse space. The majority of the vacant space is not fully ADA-accessible due to the lack of elevators. In addition, many of the buildings are subject to historic preservation standards that may limit the ability to reconfigure buildings to suit prospective tenant uses. To date, the Authority has been successful leasing buildings built since 2004



**Fort Monroe Authority**  
Component Unit of the Commonwealth of Virginia  
Management's Discussion and Analysis

since these building have open floor plans and modern construction. Once the inventory of these modern building is fully leased, the Authority may be unable to generate additional commercial rental income without funds to renovate buildings for accessibility and usability.

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

**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](http://www.fmauthority.com).

## Fort Monroe Authority

### Statement of Net Position June 30, 2014

<b>Assets</b>	Governmental Activities	Business-Type Activities	Total
Cash and Cash Equivalents	\$ 3,253,317	\$ 543,480	\$ 3,796,797
Restricted Cash and Cash Equivalents	11,357	229,847	241,204
Grants and Other Receivables	387,748	70,777	458,525
Internal Balances	3,641,130	(3,641,130)	-
Prepaid Expenses	183,662	9,144	192,806
Capital Assets:			
Donated Artifacts for Museum	59,705	-	59,705
Construction in Process	106,135	15,468	121,603
Property and Improvements	99,786	-	99,786
Motor Vehicle Equipment	20,210	26,609	46,819
Furniture and Equipment	127,164	34,520	161,684
Accumulated Depreciation	(146,035)	(25,317)	(171,352)
<b>Total Assets</b>	<b>7,744,179</b>	<b>(2,736,602)</b>	<b>5,007,577</b>
<b>Liabilities</b>			
Accounts Payable	311,554	153,704	465,258
Accrued Salaries	48,995	9,773	58,768
Accrued Payroll Tax and Benefits	11,784	-	11,784
Accrued Annual Leave - Due Within One Year	32,181	6,418	38,599
Unearned Revenue	20,399	-	20,399
Deposits Payable	-	229,806	229,806
<b>Total Liabilities</b>	<b>424,913</b>	<b>399,701</b>	<b>824,614</b>
<b>Net Position</b>			
Net Investment in Capital Assets	266,965	51,280	318,245
Restricted	11,357	41	11,398
Unrestricted	7,040,944	(3,187,624)	3,853,320
<b>Total Net Position</b>	<b>\$ 7,319,266</b>	<b>\$ (3,136,303)</b>	<b>\$ 4,182,963</b>

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

## Fort Monroe Authority

Statement of Activities  
Year Ended June 30, 2014

<u>Functions/Programs</u>	Program Revenues				Net (Expense) Revenue and Change in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
Planning and Development	\$ (4,791,510)	\$ -	\$1,338,119	362,559	\$ (3,090,832)	\$ -	\$ (3,090,832)
<b>Business-Type Activities:</b>							
Property Administration and Maintenance	(5,178,811)	3,239,203	-	-	-	(1,939,608)	(1,939,608)
<b>Total</b>	<u>\$ (9,970,321)</u>	<u>\$3,239,203</u>	<u>\$1,338,119</u>	<u>\$ 362,559</u>	(3,090,832)	(1,939,608)	(5,030,440)
<b>General Revenues</b>							
Operating Appropriations from Primary Government					5,766,770	-	5,766,770
Other Revenue					118,938	-	118,938
Interest Income					25	95	120
<b>Change in Net Position</b>					2,794,901	(1,939,513)	855,388
<b>Net Position, Beginning of Year</b>					4,524,365	(1,196,790)	3,327,575
<b>Net Position, End of Year</b>					<u>\$ 7,319,266</u>	<u>\$ (3,136,303)</u>	<u>\$ 4,182,963</u>

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

## Fort Monroe Authority

### Balance Sheet - Governmental Funds

June 30, 2014

	General	Special Revenue Fort Monroe Foundation	Total Governmental Funds
<b>Assets</b>			
Cash and Cash Equivalents	\$ 3,170,880	\$ 82,437	\$ 3,253,317
Restricted Cash and Cash Equivalents	6,334	5,023	11,357
Grants and Other Receivables	387,748	-	387,748
Due from Other Funds	3,641,130	-	3,641,130
Prepaid Expenditures	167,083	16,579	183,662
<b>Total Assets</b>	<b>\$ 7,373,175</b>	<b>\$ 104,039</b>	<b>\$ 7,477,214</b>
<b>Liabilities</b>			
Accounts Payable	\$ 310,903	\$ 651	\$ 311,554
Accrued Salaries	48,995	-	48,995
Accrued Payroll Tax and Benefits	11,784	-	11,784
Unearned Revenue	-	20,399	20,399
<b>Total Liabilities</b>	<b>371,682</b>	<b>21,050</b>	<b>392,732</b>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue	364,998	965	365,963
<b>Total Deferred Inflows of Resources</b>	<b>364,998</b>	<b>965</b>	<b>365,963</b>
<b>Fund Balance</b>			
Nonspendable	167,083	16,579	183,662
Restricted	6,334	5,023	11,357
Committed	790,000	-	790,000
Assigned	1,649,342	60,422	1,709,764
Unassigned	4,023,736	-	4,023,736
<b>Total Fund Balance</b>	<b>6,636,495</b>	<b>82,024</b>	<b>6,718,519</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balance</b>	<b>\$ 7,373,175</b>	<b>\$ 104,039</b>	<b>\$ 7,477,214</b>

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, 2014

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

<b>Fund Balance - General Fund</b>	\$ 6,718,519
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	266,965
Other noncurrent assets are not available to pay for current expenditures and are deferred in the fund.	365,963
Annual leave is not due and payable in the current year and, therefore, are not reported in the fund.	<u>(32,181)</u>
<b>Net Position of Governmental Activities</b>	<u><u>\$ 7,319,266</u></u>

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, 2014

	General	Special Revenue Fort Monroe Foundation	Total Governmental Funds
<b>Revenues</b>			
Intergovernmental Revenue - State	\$ 6,129,329	\$ -	\$ 6,129,329
Intergovernmental Revenue - Federal	1,032,185	-	1,032,185
Other Income	112,438	146,109	258,547
Interest Income	20	5	25
	<b>7,273,972</b>	<b>146,114</b>	<b>7,420,086</b>
<b>Expenditures</b>			
Planning and Development	4,120,758	138,712	4,259,470
Capital Outlay	680,893	-	680,893
	<b>4,801,651</b>	<b>138,712</b>	<b>4,940,363</b>
<b>Excess of Revenues Over Expenditures</b>	<b>2,472,321</b>	<b>7,402</b>	<b>2,479,723</b>
<b>Fund Balance, Beginning of Year</b>	<b>4,164,174</b>	<b>74,622</b>	<b>4,238,796</b>
<b>Fund Balance, End of Year</b>	<b>\$ 6,636,495</b>	<b>\$ 82,024</b>	<b>\$ 6,718,519</b>

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, 2014

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

**Excess of Revenues Over Expenditures - General Fund** \$ 2,479,723

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	169,004
Depreciation Expense	(21,953)
	<hr/> 147,051

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 inflows of resources decreased by this amount this year.

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166,325

Some expenses reported in the Statement of Activities do not require the use of current resources and, therefore, are not reported as expenditures in the fund. Accrued annual leave decreased by this amount this year.

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1,802

**Change in Net Position** \$ 2,794,901

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, 2014

#### Assets

##### Current Assets:

Cash	\$ 543,480
Restricted Cash	229,847
Other Receivables	70,777
Prepaid Expenses	9,144

Total Current Assets 853,248

##### Non-Current Assets:

##### Capital Assets:

Construction in Progress	15,468
Motor Vehicle Equipment	26,609
Furniture and Equipment	34,520
Accumulated Depreciation	(25,317)

Net Capital Assets 51,280

**Total Assets** 904,528

#### Liabilities

##### Current Liabilities:

Accounts Payable	153,704
Due to Other Funds	3,641,130
Accrued Salaries	9,773
Accrued Annual Leave - Current Portion	6,418
Deposits Payable	229,806

**Total Liabilities** 4,040,831

#### Net Position

Net Investment in Capital Assets	51,280
Restricted	41
Unrestricted	(3,187,624)

**Total Net Position** \$ (3,136,303)

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, 2014

#### Revenues

Charges for services:

Rental Income	\$ 2,918,432
Utility Income	320,771
<b>Total Revenues</b>	<u>3,239,203</u>

#### Expenses

Facilities maintenance and operation	4,828,065
General and administrative	336,061
Depreciation	14,685
<b>Total Expenses</b>	<u>5,178,811</u>

**Operating loss** (1,939,608)

#### Nonoperating Revenues and Expenses

Interest Income	95
<b>Total Nonoperating Revenues, net</b>	<u>95</u>

**Change in Net Position** (1,939,513)

**Net Position, Beginning of Year** (1,196,790)

**Net Position, End of Year** \$ (3,136,303)

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, 2014

<b>Cash Flows from Operating Activities</b>	
Cash Received From Tenants	\$ 3,229,730
Cash Payments to Suppliers for Goods and Services	<u>(2,807,493)</u>
<b>Net Cash Provided by Operating Activities</b>	<u>422,237</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Acquisition of Capital Assets	<u>(15,468)</u>
<b>Cash Flows from Investing Activities</b>	
Interest	<u>95</u>
<b>Net Increase in Cash</b>	406,864
<b>Cash, Beginning of Year</b>	<u>366,463</u>
<b>Cash, End of Year</b>	<u><u>\$ 773,327</u></u>
<b>Reported in the Statement of Net Position as follows:</b>	
Cash	\$ 543,480
Restricted Cash	<u>229,847</u>
	<u><u>\$ 773,327</u></u>

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, 2014

<b>Operating Loss</b>	<u>\$ (1,939,608)</u>
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation Expense	14,685
Changes in:	
Accounts Receivable	(43,454)
Prepaid Expenses	86,284
Accounts Payable	2,270,764
Accrued Liabilities	(415)
Deposits Payable	33,981
Total Adjustments	<u>2,361,845</u>
<b>Net Cash Provided by Operating Activities</b>	<u><u>\$ 422,237</u></u>

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

## **Basic Financial Statements**

# Fort Monroe Authority

Notes to the Financial Statements  
Year Ended June 30, 2014

## 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.

## Fort Monroe Authority

Notes to the Financial Statements  
Year Ended June 30, 2014

### 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. On March 6, 2014 the Foundation voted to adopt a calendar year for budget and tax return purposes. The Internal Revenue Service has not been asked to approve this request and the Foundation is aware that the vote is not made permanent until they do so.

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

**Government-wide and Fund Financial Statements** - The basic financial statements include both government-wide (based upon the Authority as a whole) and fund financial statements. These statements distinguish between the governmental and business-type activities of the Authority. In 2014, in addition to its blended component unit, the Authority had two funds:

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

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

## Fort Monroe Authority

Notes to the Financial Statements  
Year Ended June 30, 2014

### 2. Summary of Significant Accounting Policies (continued)

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.

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.

# Fort Monroe Authority

Notes to the Financial Statements  
Year Ended June 30, 2014

## 2. Summary of Significant Accounting Policies (continued)

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.

**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.



## Fort Monroe Authority

Notes to the Financial Statements  
Year Ended June 30, 2014

### 2. Summary of Significant Accounting Policies (continued)

**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.

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

**Deferred Outflows and Inflows of Resources** - Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Authority does not have any deferred outflows of resources at June 30, 2014. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Authority's deferred inflows of resources consist of revenues which are applicable to a future period, and will not be recognized until the period they become available. These amounts are recorded on the governmental funds balance sheet as deferred inflow of resources.

**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.

## Fort Monroe Authority

Notes to the Financial Statements  
Year Ended June 30, 2014

### 2. Summary of Significant Accounting Policies (continued)

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

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

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

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

### 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, 2014, the Authority had \$3,796,797 in bank deposits and \$241,204 in restricted deposits. The certificate of deposit of \$5,023 is required by the bank as collateral for the Authority's credit cards and \$6,334 represents flex spending accounts available for the employees. Security deposits of \$211,761 and \$11,511 represent deposits held for tenants who have leased the residential and commercial properties and \$6,575 represents deposits held for future public event contracts.

## Fort Monroe Authority

Notes to the Financial Statements  
Year Ended June 30, 2014

### 3. Cash and Cash Equivalents (continued)

	<u>June 30, 2014</u>
Operating Accounts	
Government Fund	\$ 3,253,317
Enterprise Fund	<u>543,480</u>
Total Operating Accounts	<u>3,796,797</u>
Restricted Accounts	
Government Fund	
Flex Spending Accounts	6,334
Certificates of Deposit	5,023
Enterprise Fund	
Security Deposits on Residential Leases	211,761
Security Deposits on Commercial Leases	11,511
Event Deposits for Public Programs	<u>6,575</u>
Total Restricted Accounts	<u>241,204</u>
Total Cash and Cash Equivalents	<u>\$ 4,038,001</u>

## Fort Monroe Authority

### Notes to the Financial Statements Year Ended June 30, 2014

#### 4. Capital Assets

The following is a summary of the Authority's change in capital assets for the year ended June 30, 2014:

##### Governmental Activities

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital Assets not Depreciated				
Donated Artifacts for Museum	\$ -	\$ 59,705	\$ -	\$ 59,705
Construction in Process	71,743	34,392	-	106,135
Total Capital Assets not Depreciated	71,743	94,097	-	165,840
Capital Assets being Depreciated				
Property and Improvements	99,786	-	-	99,786
Motor Vehicle Equipment	20,210	-	-	20,210
Furniture and Equipment	52,257	74,907	-	127,164
Total Capital Assets being Depreciated	172,253	74,907	-	247,160
Less Accumulated Depreciation				
Property and Improvements	(99,786)	-	-	(99,786)
Motor Vehicle Equipment	(13,273)	(4,916)	-	(18,189)
Furniture and Equipment	(11,023)	(17,037)	-	(28,060)
Total Accumulated Depreciation	(124,082)	(21,953)	-	(146,035)
Total Capital Assets	<u>\$ 119,914</u>	<u>\$ 147,051</u>	<u>\$ -</u>	<u>\$ 266,965</u>

## Fort Monroe Authority

Notes to the Financial Statements  
Year Ended June 30, 2014

### 4. Capital Assets (continued)

#### Business-Type Activities

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capitalized Assets Not Depreciated				
Construction in Process	\$ -	\$ 15,468	\$ -	\$ 15,468
Total Capitalized Assets Not Depreciated	-	15,468	-	15,468
Capital Assets being Depreciated				
Motor Vehicle Equipment	26,609	-	-	26,609
Furniture and Equipment	34,520	-	-	34,520
Total Capital Assets being Depreciated	61,129	-	-	61,129
Less Accumulated Depreciation				
Motor Vehicle Equipment	(6,416)	(5,322)	-	(11,738)
Furniture and Equipment	(4,216)	(9,363)	-	(13,579)
Total Accumulated Depreciation	(10,632)	(14,685)	-	(25,317)
Total Capital Assets	<u>\$ 50,497</u>	<u>\$ 783</u>	<u>\$ -</u>	<u>\$ 51,280</u>

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.

## Fort Monroe Authority

### Notes to the Financial Statements Year Ended June 30, 2014

#### 5. Accrued Annual Leave

The following is a summary of the Authority's change in accrued annual leave for the year ended June 30, 2014:

##### Governmental Activities

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014	Due Within One Year
Accrued Annual Leave					
Governmental Activities	\$ 33,983	\$ 20,074	\$ (21,876)	\$ 32,181	\$ 32,181

##### Business-Type Activities

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014	Due Within One Year
Accrued Annual Leave					
Business-type Activities	\$ 4,841	\$ 6,418	\$ (4,841)	\$ 6,418	\$ 6,418

#### 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 \$3,641,130 at June 30, 2014 primarily represents property insurance, utilities and PILOT fees paid from the General Fund for the residential, commercial, public events and utility fund business-type divisions and to fund the operations of the Commercial Division.

#### 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.

## Fort Monroe Authority

Notes to the Financial Statements  
Year Ended June 30, 2014

### 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, 2014 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 \$207,917, \$209,647 and \$75,368 for the years ended June 30, 2014, 2013 and 2012, 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 FY2013 and \$983,960 in FY2014." PILOT fees (payments in lieu of taxes) paid in 2014 were paid at the limit.

## Fort Monroe Authority

Notes to the Financial Statements  
Year Ended June 30, 2014

### 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	Special Revenue Fort Monroe Foundation	Total
<b>Nonspendable</b>			
Prepaid Expenditures	\$ 167,083	\$ 16,579	\$ 183,662
Total Nonspendable	167,083	16,579	183,662
<b>Restricted</b>			
Flex Savings Cash Account	6,334	5,023	11,357
Total Restricted	6,334	5,023	11,357
<b>Committed</b>			
Operating Cash	790,000	-	790,000
	790,000	-	790,000
<b>Assigned</b>			
Operating Cash	1,261,594	-	1,261,594
Grants and Other Receivables	387,748	60,422	448,170
Total Assigned	1,649,342	60,422	1,709,764
<b>Unassigned</b>			
	4,023,736	-	4,023,736
Total Fund Balance	\$ 6,636,495	\$ 82,024	\$ 6,718,519



## **Fort Monroe Authority**

### Notes to the Financial Statements Year Ended June 30, 2014

#### **11. New Standards Implementation**

During the year ended June 30, 2014, the Authority implemented Government Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

GASB Statement No. 65 classified items that were previously reported as assets and liabilities as deferred outflows or deferred inflows of resources or recognized certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows or resources (revenues). The Authority does not have any deferred outflows of resources. The Authority does have deferred inflows of resources; governmental fund revenues are recognized in the accounting period in which they become both measurable and available. When an asset is recorded in governmental fund financial statements but the revenue is not available, the government should report a deferred inflow of resources until such time as the revenue becomes available.

## **Supplementary Information**

## Fort Monroe Authority

Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget to Actual - General Fund  
Year Ended June 30, 2014

	Budget		Actual	Variance With
	Original	Final		Final Budget Positive (Negative)
<b>Revenues</b>				
Intergovernmental Revenue - State	\$ 5,572,590	\$ 3,568,572	\$ 6,129,329	\$ 2,560,757
Intergovernmental Revenue - Federal	825,335	1,185,435	1,032,185	(153,250)
Other Revenue	350,000	351,500	112,438	(239,062)
Interest Income	-	-	20	20
<b>Total Revenues</b>	<b>6,747,925</b>	<b>5,105,507</b>	<b>7,273,972</b>	<b>2,168,465</b>
<b>Expenditures</b>				
Current				
Planning and Development	5,480,986	4,576,507	4,120,758	455,749
Capital Outlay	1,266,939	529,000	680,893	(151,893)
<b>Total Expenditures</b>	<b>6,747,925</b>	<b>5,105,507</b>	<b>4,801,651</b>	<b>303,856</b>
<b>Excess of Revenues over Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,472,321</b>	<b>\$ 2,472,321</b>

## Fort Monroe Authority

### Schedule of Planning and Development Expenditures - General Fund Year Ended June 30, 2014

#### Planning and Development Expenditures

Salaries and Wages	\$ 1,087,105
Employee Benefits	364,575
Architectural and Engineering Services	637,226
Legal Services	190,701
Management Services	206,779
Dues, Subscriptions and Seminars	21,611
Fees - Banking and Payroll Processing	6,914
Meetings	3,990
Miscellaneous	16,977
Office Supplies and Postage	37,681
PILOT Fees	3,665
Public Information and Relations Services	81,411
Public Programs Signage and Special Events	4,771
Rentals and Leases	18,040
Security	289,367
Site Operating Costs	1,067,926
Telephone and Communications	41,914
Travel	14,242
Utilities and Trash Disposal	25,863
	<hr/>
	\$ 4,120,758
	<hr/> <hr/>

**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, 2014, and the related notes to the financial statements and have issued our report thereon dated October 6, 2014.

**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**

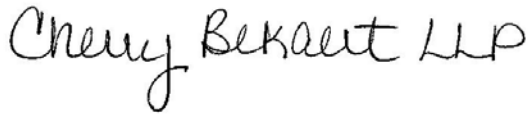
As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on 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*.

**Authority's Response to Finding**

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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.

A handwritten signature in black ink that reads "Cheryl Bekant LLP". The signature is written in a cursive, flowing style.

Virginia Beach, Virginia  
October 6, 2014

**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, 2014. 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, 2014.

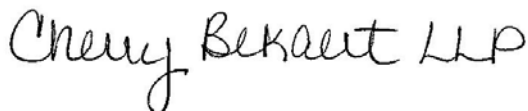
## **Report on Internal Control over Compliance**

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.

A handwritten signature in cursive script that reads "Cheryl Bekant LLP".

Virginia Beach, Virginia  
October 6, 2014



## Fort Monroe Authority

### Schedule of Expenditures of Federal Awards Year Ended June 30, 2014

	Federal Catalog Number	Expenditures
<b>Direct Payments</b>		
Office of Economic Adjustment		
Community Planning Assistance Funds	12.607	\$ 1,151,485
Department of the Interior		
National Park Service	15.930	\$ 46,060
<b>Total Expenditures of Federal Awards</b>		<u>\$ 1,197,545</u>

#### 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, 2014

### A. Summary of Auditors' Results

#### Financial Statements:

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

Internal control over financial reporting:

- Material weaknesses identified: **No**
- Significant deficiencies identified: **No**

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

#### Federal Awards:

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

Internal control over major programs:

- Material weaknesses identified: **No**
- Significant deficiencies identified: **None reported**

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

Identification of major federal programs:

CFDA #    Program Name

12.607    Community Planning Assistance Funds

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

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

None