



Financial Report for
Fort Monroe Authority Board of Trustees Meeting
Bay Breeze Conference Center
June 18, 2015

Personnel Change

For more than five years, Luann Roane served as the Authority's Senior Accountant. Her last day with the Authority was May 18th. We have hired a new Senior Accountant, Sharon Howell, who is still learning the processes for month-end close. Due to the change in personnel, the May financial statements were not ready in time to include them in the advance package for the meeting. We will distribute the May financial statements as soon as they are completed.

Financial Statements

The statements presented here are for the ten-month period ended April 30, 2015. These statements conform to government accounting standards for the presentation of government-wide and fund-based activity.

Government Fund (Cash Basis)

Statement of Net Assets (Page 1)

As of April 30, 2015, the Authority government fund had \$4,105,093 in cash on deposit in public fund accounts at Old Point National Bank (OPNB). The Authority also has \$350,865 in restricted cash on deposit at the same bank.

As of the same date the Authority had \$5,203,702 in other current assets compared to \$3,133,615 in the prior year. The current asset balance continues to increase as a result of the net operating deficit for commercial real estate and utility fund operations, which is funded by transfers from the Government Fund and reflected in the Interfund Receivable.

The Authority had net fixed assets of \$503,669 as of April 30, 2015 compared to \$199,272 in the prior year. As previously mentioned, the increase in computer hardware and software results from the Authority relocating its central network equipment and servers to a physically secure location in an access-controlled building as recommended by the Authority's external auditor. The construction in process reflects the renovation of Building 83 as the new FMA administrative offices.

After including the small balance in other assets, the Authority had \$10,164,528 in total assets as of April 30, 2015 compared to \$7,821,776 for the prior year.

As of April 30, 2015, the Authority had \$718 in current liabilities compared to \$73,265 in the prior year.

The government fund net position as of April 30, 2015 was \$10,163,810 compared to \$7,748,511 as of April 30, 2014.
Statement of Activities (Page 2)

For the first ten months of the fiscal year, the government fund had revenues of \$6,309,653 compared to \$6,687,321 for the prior year. The principal source of government fund revenue was \$5,633,707 in state appropriations. The Authority also received \$279,454 in pass-through VDOT funds from the City of Hampton and \$212,034 in reimbursements from the Office of Economic Adjustment (OEA).

Government fund expenses for the ten-month period were \$3,440,185 compared to \$3,804,886 for the prior fiscal year. Consulting expenses have decreased compared to prior year by \$397,887. Site Operating Costs have increased by \$283.1k as a result of Veolia increasing full-time staffing to six employees effective June 1, 2014. As previously reported, the decrease in VDOT-related expenses results from FY13 expenses (\$316.3k) paid in FY14.

The excess of revenues over expenditures for the ten-month period was \$2,869,468 compared to an excess of \$2,882,435 in the prior year. As previously reported, the large surplus results from a delay in the transfer of the electric facility contract, the timing of VDOT-funded projects that occur in the last quarter of the year and the delay in the commencement of the renovation projects on Buildings 83 and 80.

Casemate Museum Statement of Activities (Page 3)

This statement reflects the activities of the Casemate Museum for the first ten months of the year. The revenue and expenses reflected here are included in the Government Fund statement on the previous page.

For the period, the Casemate Museum collected \$4,485 in revenue from tour groups. Expenses for the first ten months were \$379,577 compared to \$322,479 for the prior fiscal year. The increase in expenses results from the recruitment of the remaining employees during the previous fiscal year. The net cost to operate the Museum for the first ten months of the fiscal year was \$375,092 compared to \$321,739 in the prior year.

Enterprise Fund (Accrual Basis)

Balance Sheet (Page 1)

As of April 30, 2015 the Authority enterprise fund had \$265,418 in cash on deposit as well as \$274,660 in restricted security deposits in public fund accounts at OPNB and \$500 in petty cash.

Other current assets (pre-paid expenses and accounts receivable) for the current year totaled \$53,884 compared to \$140,079 as of April 30, 2014.

The Enterprise Fund had \$39,043 in net fixed assets on April 30, 2015 compared to \$43,221 for the prior year.

As of April 30, 2015, the Enterprise Fund had \$5,750,349 in current liabilities compared to \$3,893,021 on April 30, 2014. The increase in current liabilities results from the increase in the interfund payable to the Government Fund for operational deficit funding for the commercial real estate and utility funds.

The enterprise fund net equity position as of April 30, 2015 is a deficit of \$5,116,844 compared to a deficit of \$2,805,418 for the prior year.

Income Statement (Page 2)

Business activity revenue for the ten-month period was \$3,080,871 compared to \$2,567,729 for the prior fiscal year. Residential rental revenue (net of rent incentives) increased by \$185,110 compared to the prior year. Commercial revenue increased over the prior year by \$174,961 net of rent incentives. The new Utility Fund accounted for \$132,080 of the increased revenue. Special Events facility rental revenue increased by \$20,991 compared to FY14.

Business-related expenses for the ten-month period were \$5,061,414 compared to \$4,176,699 for the prior fiscal year. The largest components of the increase in expenses were repair and maintenance (\$545.4k), costs for utility consumption (\$259.9k) and leasing commissions for new commercial leases (\$74.4k).

The net operating deficit for the ten-month period was \$1,980,543 compared to a net deficit of \$1,608,970 in the prior year. The net deficit is expected to continue as a result of the portfolio of vacant commercial buildings that must be maintained by the Authority until the buildings are leased or sold.

Balance Sheet by Sub-Fund (Page 3)

This report presents the balance sheet as of April 30, 2015 for the four sub-funds of the Enterprise Fund – residential leasing, commercial leasing, special events and utility. On this report you can see that residential leasing has generated \$1,241,258 in net earnings since the Authority started leasing residential properties in August 2011. In comparison, over the same time period, commercial leasing has operated at a \$5,582,582 deficit due to the high vacancy rates in the commercial portfolio.

Income Statement by Sub-Fund (Page 4)

This report presents the income statement for each of the four sub-funds listed above. For the first ten months of the fiscal year, residential leasing generated \$572,802 in net income while special events generated \$21,332 in net income. Commercial leasing operated at a deficit of \$2,207,830 for the first ten months due to the large number of vacant commercial buildings that must be insured, conditioned and maintained. The utility fund operated at a deficit of \$366,847 through April 30, 2015 which reflects the Authority expenses related to unbillable utility consumption for street lights, parking lots and infrastructure buildings.

Comparable Income Statement for Leasing Activities (Page 5)

This report details the year-to-year comparison for the two property leasing sub-funds. Residential net revenue for the first ten months of the fiscal year increased to \$2,176,403 in FY15 compared to \$1,991,293 in FY14. During the same time frame commercial net revenue was \$495,059 compared to \$320,098 in the previous fiscal year.

For the first ten months expenses for residential leasing were \$1,603,601 compared to \$1,505,153 in the prior year. Increases in repair and maintenance costs and the PILOT allocation accounted for the majority of the increase. Commercial expenses for the first ten months of the current year were \$2,702,889 compared to \$2,046,541 in the current fiscal year. The largest increase in expenses were in leasing commissions, utility charges and repair and maintenance costs.

For the first ten months of the fiscal year, residential leasing generated \$572,802 in net income compared to \$486,140 in the prior year. Commercial leasing operated at a deficit of \$2,207,830 for the first five months compared to \$1,726,443 for the prior year.

Statement of Activities for Special Events (Page 6)

This statement reflects the results of the various special events permitted or produced by the Authority. For the first ten months of the fiscal year the Authority generated \$30,316 in facility rental and ticket sales. Many of these activities are supported by Foundation sponsorships, which resulted in the net expenses of \$8,984 for the same period. As a result the special events sub-fund reported a net income of \$21,332 for the first ten months of the fiscal year.

Cash on Deposit

As of the close of business on June 8, 2015, the Fort Monroe Authority had on deposit at Old Point National Bank the following account balances:

Government Fund Operating Account	\$ 5,269,642
Government Fund Restricted Accounts	225,191
Flexible Spending Employee Account Balances	8,652
Enterprise Fund Residential Operating Account	259,579
Enterprise Fund Residential Security Deposit Account	234,813
Enterprise Fund Utility Operating Account	57,403
Enterprise Fund Special Events Account	56,588

The finance department believes that the current cash balance, together with the remaining general fund transfers and business revenue ,will provide enough funding to meet the near-term operating requirements of the Fort Monroe Authority.

FY15/16 Budget

Submitted with this Financial Report are the revised FY15/16 budgets for both the Government and Enterprise Funds for review and action by the Board.

In preparing the revisions to the budgets, the Authority Finance and Procurement departments worked together to forecast the year-end FY15 expenses for each fund. The projected year-end expenses can be found in the darker pink columns under the headings "YEAR-END FORECAST FY14-15 BUDGET For Board Approval on 6/18/15". The change in forecast versus previously approved budgeted can be seen in the darker pink column with the heading "NET CHANGE".

After the revenue and expenses were forecast, the Authority determined any surplus funds that would be carried into FY16. The Finance and Procurement departments worked with department directors and consultants to determine any changes for FY16 since the previous FY16 budget was approved in December 2014. These changes are reflected in the darkest tan columns under the headings "REVISED FY15-16 BUDGET For Board Approval on 6/18/15". The impact of these changes on the budget versus the previously approved budgeted can be seen in the darker tan column with the heading "NET CHANGE".

While the changes are many, there are a few items of note which are highlighted in blue on each budget:

Government Fund

Line 36 – The approved biennial budget signed by Governor McAuliffe includes a provision for a 2% salary increase for state employees on August 10, 2015 provided that certain state revenue targets are achieved. Based on the previous resolution passed by the FMA Board, the Authority will follow state programs for salary increases. The amount on line 36 in the darker tan reflects the impact of the salary increase for the 21 Government Fund employees including any increase in taxes and fringe resulting from the salary increase.

Line 71 – The Army and Dominion have not resolved the contract termination issue so the Authority has not been responsible for the \$60,000 facility charge. This savings will be carried into FY16 to offset some of the increased cost associated with the Army property transfer projected for January 1, 2016.

Line 91– The Historic Structure Report being done on the Casemate Museum in cooperation with the National Park Service has been delayed while negotiating the project agreement for the scope of work and reimbursement process. The agreement was executed in late May. The majority of the work and the subsequent reimbursement from OEA will happen during FY16 under an extension of the Authority's FY14 OEA grant. As a result the majority of the expenses and the OEA reimbursement are shown to occur during FY16.

Line 94 and 95 – In working with contractors on the repairs of residential and commercial properties, the Authority realized that it would benefit from having one or more architectural and engineering firms under contract that could prepare sketches or diagrams detailing the appropriate treatment for a repair. The Authority expects to issue a Request for Qualifications for architecture and engineering firms in early FY16 to select the list of on-call firms.

Line 96 – The Authority had the opportunity, once again, to partner with NASA-Langley Research Center to obtain very high resolution aerial photography of Fort Monroe. The Authority's current aerial photography still shows the Wherry Apartments intact. The cost of obtaining this level of aerial photography would be much more expensive if the Authority tried to contract for this photography directly.

Line 97 – The Authority holds a Municipal Separate Storm Sewer System (MS-4) permit managed by the Department of Environmental Quality. The Authority must meet certain thresholds for the reduction of nutrients in the stormwater discharged into the Chesapeake Bay. The Authority will require the assistance of an environmental consultant to advise on the design and implementation of the required nutrient reduction program.

Line 226 – The Authority will be relocating its administrative office to Building 83 (B83), the original Post Office, on June 29th. During the renovation of B83 several unexpected conditions occurred that delayed the construction and resulted in an increase in the cost of the renovations. The three most significant issues were: (1) the discovery of substantial termite damage in the subfloor of three offices on the second floor that required the removal and replacement of approximately 500 square feet of subflooring, (2) the decision to expose both sides of the original post office wall that was beyond the original scope of the contract, and (3) the significant cost associated with the repair of the four original fireplaces that exceeding the allowance in the contract. While the Authority has worked hard to find deletions to offset these cost increases, the project is expected to exceed the original contract amount by approximately 10%.

Enterprise Fund

Line 13 – The approved biennial budget signed by Governor McAuliffe includes a provision for a 2% salary increase for state employees on August 10, 2015 provided that certain state revenue targets are achieved. Based on the previous resolution passed by the FMA Board, the Authority will follow state programs for salary increases. The amount on line 13 in the darker tan reflects the impact of the salary increase for the 5 Enterprise Fund employees including any increase in taxes and fringe resulting from the salary increase.

Line 135 – In addition to relocating the Administrative Office to Building 83, the Authority will be relocating the Leasing Office to Building 27A. This moves the Leasing Office to the building adjacent to the Maintenance Shop in the middle of the residential district and makes Building 73, which has good visibility and ample adjacent parking, available for marketing to a commercial tenant.

Line 136 – Since leasing the residential buildings from the Army prior to the property transfer, the Authority has struggled to determine the correct square footage for the residential units. Despite receiving hundreds of plans from the Army, the Authority is lacking current floor plans for many of the residential units. This makes marketing of the properties for lease (and eventually for sale) difficult due to the lack of accurate square footage data and floor plans. The Authority has hired a contractor to professionally measure all of the residential units and to prepare accurate scale floor plans for each of the residential units.

Line 137 – The Authority has started to rent the Post Theater to outside groups. There are some repairs that need to be made to the Theater which should result in the ability to increase the rental price.

Line 148 – The renovation of Building 80 (B80) into 10 apartment units has been delayed during the plan review process with BCOM. While the renovation is expected to start in June, the majority of the funds are being moved from FY15 to FY16.

These budgets were presented to the Finance Committee at its meeting on June 11, 2015. The Finance Committee unanimously recommended them to the Board for approval.

OEA Grant Status

The Authority is currently working with OEA to extend the FY14 grant for another 12 months with no additional funding to allow more time for the completion of the Historic Structure Report (HSR) on the Casemate Museum facility. The HSR is being completed by the NPS Historic Architecture Conservation and Engineering Center.

The Authority expects no changes to its FY15 grant that is due to expire on June 30, 2015.

The Authority is currently working on its application for the FY16 OEA grant. The amount reflected in the FY16 budget (\$550,551) is the amount for staffing and administrative expenses reflected in the two-year phase out of OEA funding. While the Authority expects to request additional funding for projects such as the previously mentioned sign standard project, there is no guarantee that any funds above the \$550,551 will be approved by OEA. As a result, the budget reflects the minimum amount that will be received from OEA for FY16. Any additional funds, once approved by OEA, will be reflected in a revised budget to be submitted to the Finance Committee and Board of Trustees for review and approval.

