



Financial Report for
Fort Monroe Authority Board of Trustees Meeting
Bay Breeze Conference Center
March 5, 2015

Financial Statements

The statements presented here are for the seven-month period ended January 31, 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 January 31, 2015, the Authority government fund had \$4,524,237 in cash on deposit in public fund accounts at Old Point National Bank (OPNB). The Authority also has \$525,835 in restricted cash on deposit at the same bank.

As of the same date, the Authority had \$4,720,747 in other current assets compared to \$2,707,657 in the prior year. The current asset balance continues to increase due to the increase in the receivable from the enterprise fund resulting from government fund transfers to cover the net operating deficit for real estate operations.

The Authority had net fixed assets of \$305,876 as of January 31, 2015 compared to \$119,914 in the prior year. The increase in computers and data/network systems is related to the Authority relocating its central network equipment and servers to a physically secured and separated area as recommended by the Authority's external auditor and to connect the satellite offices to the central servers using the existing fiber-optic connections. The construction in process results from design fees for the renovation of Building 83 as the Authority's new office building.

After including the small balance in other assets the Authority had \$10,078,152 in total assets as of January 31, 2015 compared to \$5,738,313 for the prior year.

As of January 31, 2015, the Authority had \$103,979 in current liabilities compared to \$10,795 in the prior year.

The government fund net position as of January 31, 2015 was \$9,974,173 compared to \$5,727,518 as of January 31, 2014.

Statement of Activities (Page 2)

For the first seven months of the fiscal year the government fund had revenues of \$5,065,364 compared to \$3,828,465 for the prior year. The principal source of government fund revenue was \$4,503,944 in state appropriations. The Authority also received \$212,034 in reimbursements from the Office of Economic Adjustment (OEA) and \$186,303 in pass-through VDOT funds from the City of Hampton. After more than 3 years of persistence the Authority received \$145,478 in reimbursement from FEMA. This represents 50% of the amount approved by FEMA for demolition of the Wherry Apartments due to severe damage caused by Hurricane Irene in August 2011.

Government fund expenses for the seven-month period were \$2,385,533 compared to \$2,967,023 for the prior fiscal year. Consulting expenses have decreased compared to prior year by \$391,416, largely resulting from the completion of the Building Condition Assessment for commercial properties (\$266.4k) and the Master Land Plan (\$68k) in FY14. Site Operating Costs have increased by \$34.2k 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 seven-month period was \$2,679,831 compared to an excess of \$861,442 in the prior year. The large surplus resulted 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 project on Building 83.

Casemate Museum Statement of Activities (Page 3)

This statement reflects the activities of the Casemate Museum for the first seven 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 \$3,240 in revenue from tour groups. Expenses for the first five months were \$279,990 compared to \$220,202 for the prior fiscal year. The increase in expenses results from the recruitment of the remaining employees (to a total of five) during the previous fiscal year. The net cost to operate the Museum for the first seven months of the fiscal year was \$276,750 compared to \$220,202 in the prior year.

Enterprise Fund (Accrual Basis)

Balance Sheet (Page 1)

As of January 31, 2015 the Authority enterprise fund had \$412,686 in cash on deposit as well as \$260,833 in restricted security deposits in public fund accounts at OPNB and \$500 in petty cash.

Other current assets totaled \$94,799 in pre-paid expenses and accounts receivable for the current year compared to \$91,607 as of January 31, 2014.

The Enterprise Fund had \$42,715 in net fixed assets on January 31, 2015 compared to \$41,931 for the prior year.

As of January 31, 2015 the Enterprise Fund had \$5,330,211 in current liabilities compared to \$3,171,168 on January 31, 2014. The increase in current liabilities results largely from the increase in the interfund payable to the Government Fund for operational deficit funding transfers for the commercial real estate portfolio.

The enterprise fund net equity position as of January 31, 2015 is a deficit of \$4,518,678 compared to a deficit of \$2,377,748 for the prior year.

Income Statement (Page 2)

Business activity revenue for the seven-month period was \$2,171,706 compared to \$1,665,324 for the prior fiscal year. Residential rental revenue continues to grow with an increase of \$149,071 compared to the prior year. Commercial revenue increased over the prior year by \$139,540 net of rent incentives. The new Utility Fund accounted for \$195,080 of the increased revenue.

Business-related expenses for the seven-month period were \$3,554,083 compared to \$2,846,624 for the prior fiscal year. The increase in expenses stems from the increased costs for utility consumption associated with the Authority's operation of the non-electric utility systems (\$196.5k), leasing commissions for new commercial leases (\$78.8k), an increase in the PILOT fee allocated to the Enterprise Fund (\$65.0K) and increased repair and maintenance costs related to the completion of maintenance activity on property transferred to Commonwealth ownership in June 2013 (\$372.1k). Expenses for the lead abatement program decreased by \$139,180 versus the prior year.

The net operating deficit for the seven-month period year was \$1,382,377 compared to a net deficit of \$1,181,300 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 January 31, 2015 for the four sub-funds of the Enterprise Fund – residential leasing, commercial leasing, special events and utility.

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 seven months of the fiscal year, residential leasing generated \$390,724 in net income while special events generated \$21,424 in net income. Commercial leasing operated at a deficit of \$1,558,235 for the first seven months due to the large number of vacant commercial buildings that must be conditioned and maintained. The utility fund also operated at a deficit of \$236,290 through January 31, 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 seven months of the fiscal year increased from \$1,373,100 in FY14 to \$1,522,171 in FY15. During the same time frame commercial net revenue increased from \$216,750 to \$356,290.

Expenses for residential leasing increased slightly from \$1,128,345 in the prior year to \$1,131,447 in the current fiscal year. Increases in repair and maintenance costs and the PILOT allocation were nearly offset by reductions in payroll and lead abatement expenses. Commercial expenses for the first seven months were \$1,914,525 in the current year compared to \$1,410,676 in the prior fiscal year. The largest increase in expenses were in leasing commissions, utility charges and repair and maintenance costs.

For the first five months of the fiscal year, residential leasing generated \$390,724 in net income compared to \$244,755 in the prior year. Commercial leasing operated at a deficit of \$1,558,235 for the first five months compared to \$1,193,926 for the prior year.

Statement of Activities for Public Events (Page 6)

This statement reflects the results of the various special events permitted or produced by the Authority. For the first seven months of the fiscal year the Authority generated \$27,016 in facility rental and ticket sales. Of special note is the \$7,351 in ticket revenue for the Ghost Tours and \$9,490 for the Mistletoe Holiday Homes Tour. Both of these are new programs introduced by the Authority during FY15. Since many of these activities are supported by Foundation sponsorships the expenses were only \$5,592 for the same period. As a result the special events sub-fund reported a net income of \$21,424 for the first five months of the fiscal year.

Cash on Deposit

As of the close of business on February 18, 2015, the Fort Monroe Authority had on deposit at Old Point National Bank the following account balances:

Government Fund Operating Account	\$ 4,314,946
Government Fund Restricted Accounts	516,003
Flexible Spending Employee Account Balances	7,331
Enterprise Fund Residential Operating Account	467,278
Enterprise Fund Residential Security Deposit Account	225,727
Enterprise Fund Special Events Account	31,422

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

There is no action to take at this meeting related to changes in the state budget since the budget has not been finalized as of the date of this report. Two items of note in the state budget.

- (1) The Governor's submitted FY15-16 budget included a proposal to increase the annual PILOT fee funding to the City of Hampton by \$345,563: "*Notwithstanding any other provision of law or agreement, the amount paid from all sources of funds by the FMA to the City of Hampton pursuant to § 2.2-2342, Code of Virginia, shall not exceed ~~\$983,960~~ \$1,329,623 in FY 2015 and ~~\$983,960~~ \$1,329,623 in FY 2016.*" The Governor's budget also included an increase in appropriation to fund the increase: "*Out of the amounts in this Item, ~~\$6,718,155~~ \$7,063,818 the first year and ~~\$5,489,033~~ \$5,834,696 the second year from the general fund shall be provided for the Commonwealth's share of the estimated operating expenses of the Fort Monroe Authority (FMA).*" Both the House and Senate have rejected the increase in the PILOT Fee cap and the increase in the appropriation with the following explanation: "*This amendment eliminates a proposal to increase the payment in lieu of taxes paid by Fort Monroe to the City of Hampton by \$345,663 each year. The General Assembly rejected this increase in the 2014 Session.*"
- (2) Although the two chambers disagree on the formula, both the House and the Senate budget proposals include salary increases for state employees of between 1.5-3.0%. The Authority's original FY15-16 had money set aside for bonuses for employees. These bonus dollars were removed as part of the mandated 5-7% budget savings plan earlier in FY15. Since the FMA Board previously voted to follow the state's guidance on salary increases and bonuses, the Board will need to consider a new budget to incorporate the salary increases if the increases are included in the budget signed by the Governor.

OEA Grant Status

The Authority is currently working with the 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 is also working with the OEA for possible funding for a signage design consultant to begin work on an overall signage standards program for the property. The estimated cost of the project is \$100,000.