



Financial Report for
Fort Monroe Authority Board of Trustees Meeting
Bay Breeze Conference Center
April 16, 2015

Financial Statements

The statements presented here are for the nine-month period ended March 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 March 31, 2015, the Authority government fund had \$4,264,501 in cash on deposit in public fund accounts at Old Point National Bank (OPNB). The Authority also has \$350,097 in restricted cash on deposit at the same bank. The restricted fund balance has decreased since the beginning of the year due to completion of the building condition assessment, the payment of the outstanding FY14 VDOT invoices, and the commencement of the renovation to Building 83.

As of the same date, the Authority had \$5,099,117 in other current assets compared to \$3,029,197 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 commercial real estate and utility fund operations.

The Authority had net fixed assets of \$326,178 as of March 31, 2015 compared to \$132,812 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 \$10,041,179 in total assets as of March 31, 2015 compared to \$5,457,865 for the prior year.

As of March 31, 2015, the Authority had a debit balance of \$11 in current liabilities compared to \$74,698 in the prior year.

The government fund net position as of March 31, 2015 was \$10,041,190 compared to \$5,383,167 as of March 31, 2014.

Statement of Activities (Page 2)

For the first nine months of the fiscal year the government fund had revenues of \$5,735,729 compared to \$4,101,000 for the prior year. The principal source of government fund revenue was \$5,068,826 in state appropriations. The Authority also received \$212,034 in reimbursements from the Office of Economic Adjustment (OEA) and \$279,454 in pass-through VDOT funds from the City of Hampton. After more than three years of persistence the Authority received \$156,378 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 and 100% reimbursement for debris removal.

Government fund expenses for the nine-month period were \$2,988,881 compared to \$3,583,909 for the prior fiscal year. Consulting expenses have decreased compared to prior year by \$409,491, 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 \$155.7k 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 nine-month period was \$2,746,848 compared to an excess of \$517,091 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 projects on Buildings 83 and 80. Funding for the renovations for Buildings 83 and 80 will come from the current year surplus.

Casemate Museum Statement of Activities (Page 3)

This statement reflects the activities of the Casemate Museum for the first nine 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 \$3,724 in revenue from tour groups. Expenses for the first five months were \$341,247 compared to \$287,852 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 nine months of the fiscal year was \$337,523 compared to \$287,852 in the prior year.

Enterprise Fund (Accrual Basis)

Balance Sheet (Page 1)

As of March 31, 2015 the Authority enterprise fund had \$344,045 in cash on deposit as well as \$275,449 in restricted security deposits in public fund accounts at OPNB and \$500 in petty cash.

Other current assets totaled \$75,096 in pre-paid expenses and accounts receivable for the current year compared to \$120,077 as of March 31, 2014.

The Enterprise Fund had \$186,937 in net fixed assets on March 31, 2015 compared to \$44,445 for the prior year. The increase in net fixed assets results from the commencement of the renovation on Building 83. Once these renovations are complete the asset will move to the Government Fund.

As of March 31, 2015, the Enterprise Fund had \$5,789,123 in current liabilities compared to \$3,620,573 on March 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 March 31, 2015 is a deficit of \$4,907,096 compared to a deficit of \$2,716,894 for the prior year.

Income Statement (Page 2)

Business activity revenue for the nine-month period was \$2,772,134 compared to \$2,243,203 for the prior fiscal year. Residential rental revenue increased by \$171,999 compared to the prior year. Commercial revenue increased over the prior year by \$169,465 net of rent incentives. The new Utility Fund accounted for \$163,676 of the increased revenue. Special Events revenue increased by \$23,791 compared to FY14.

Business-related expenses for the nine-month period were \$4,542,929 compared to \$3,763,649 for the prior fiscal year. The largest components of the increase in expenses were repair and maintenance costs related to the completion of maintenance activity on property transferred to Commonwealth ownership in June 2013 (\$493.1k), costs for utility consumption associated with the Authority's operation of the non-electric utility systems (\$321.4k), and leasing commissions for new commercial leases (\$84.4k). On a positive note, expenses for the lead abatement program decreased by \$126,051 versus the prior year, the largest decrease of any line item.

The net operating deficit for the nine-month period year was \$1,770,795 compared to a net deficit of \$1,520,446 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 March 31, 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 \$1,221,056 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 \$5,334,433 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 nine months of the fiscal year, residential leasing generated \$552,600 in net income while special events generated \$21,400 in net income. Commercial leasing operated at a deficit of \$1,959,681 for the first nine 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 \$385,114 through March 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 nine months of the fiscal year increased from \$1,783,333 in FY14 to \$1,955,332 in FY15. During the same time frame commercial net revenue increased from \$277,982 to \$447,447.

Expenses for residential leasing increased slightly from \$1,388,424 in the prior year to \$1,402,732 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 nine months were \$1,811,468 in the current year compared to \$2,407,128 in the prior fiscal year. The largest increase in expenses were in leasing commissions, utility charges, and repair and maintenance costs.

For the first nine months of the fiscal year, residential leasing generated \$552,600 in net income compared to \$394,909 in the prior year. Commercial leasing operated at a deficit of \$1,959,681 for the first five months compared to \$1,533,486 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 nine months of the fiscal year, the Authority generated \$28,116 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 \$6,716 for the same period. As a result the special events sub-fund reported a net income of \$21,400 for the first nine months of the fiscal year.

Cash on Deposit

As of the close of business on April 3, 2015, the Fort Monroe Authority had on deposit at Old Point National Bank the following account balances:

Government Fund Operating Account	\$ 5,031,307
Government Fund Restricted Accounts	341,861
Flexible Spending Employee Account Balances	9,431
Enterprise Fund Residential Operating Account	307,805
Enterprise Fund Residential Security Deposit Account	235,082
Enterprise Fund Utility Operating Account	91,003
Enterprise Fund Special Events Account	40,023

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

Governor McAuliffe signed the revised FY15/16 state budget on March 26th. There were three items of note in the approved state budget that effect the Authority:

- (1) The approved budget does not change the existing cap on the annual PILOT fee funding to the City of Hampton. The approved budget states: "*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 in FY 2015 and \$983,960 in FY 2016.*" Since the General Assembly eliminated the Governor's request for an increase in the PILOT cap and an increase in the annual appropriation to pay for the increased PILOT fee there is no change required to the PILOT fee currently in the approved FY15/16 budget.
- (2) The approved state budget contains language authorizing a salary increase of 2% on August 10, 2015 provided certain state revenue targets are achieved for FY15. In July 2013 the FMA Board of Trustees passed a resolution containing the following language:

"BE IT RESOLVED by the Fort Monroe Authority Board of Trustees, that the employees of the Fort Monroe Authority shall be eligible for all merit increases, bonuses and other compensation programs available to state employees as provided by law or granted by the Governor or General Assembly."

There is currently no salary increase reflected in the approved FY16 budget.

- (3) The budget savings strategies requested by the Governor in August 2014 have been incorporated into the budget. This will reduce the FY15 state appropriation by \$286,710 from \$6,718,155 to \$6,431,445. The FY16 state appropriation will be reduced by \$315,355 from \$5,489,033 to \$5,173,678. These reductions have already been included in the current budget approved by the Board on December 18, 2014.

The Authority expects to bring a revised FY15/16 budget to the Board for consideration at its meeting on June 18, 2015 meeting.

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

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. After meeting with OEA Project Manager Jay Sweat, it was determined that this proposal will be part of the FY16 OEA grant request. The Authority is currently working on its application for the FY16 grant.