

CHESAPEAKE AIRPORT AUTHORITY

FINANCIAL REPORT

June 30, 2019 and 2018

CONTENTS

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Statements of Net Position.....	6
Statements of Revenues, Expenses and Changes in Net Position	7
Statements of Cash Flows.....	8
Notes to Financial Statements.....	10
COMPLIANCE SECTION	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19

INDEPENDENT AUDITORS' REPORT

To the Members of the Authority
Chesapeake Airport Authority
Chesapeake, Virginia

We have audited the accompanying financial statements of the business-type activities of Chesapeake Airport Authority, a component unit of the City of Chesapeake, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Chesapeake Airport 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.

Auditors' Responsibility

Our responsibility is to express an opinion 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 *Governmental 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 auditors' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Chesapeake Airport Authority as of June 30, 2019, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on 2018 Financial Statements

The financial statements of Chesapeake Airport Authority as of and for the year ended June 30, 2018 were audited by other auditors whose report dated September 4, 2018, expressed an unmodified opinion on those statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2019, on our consideration of the Chesapeake Airport 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 the 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 Chesapeake Airport Authority's internal control over financial reporting and compliance.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Newport News Virginia
September 4, 2019

CHESAPEAKE AIRPORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019 and 2018

This section of the Chesapeake Airport Authority's (Authority or Airport) annual financial report presents our discussion and analysis of the Authority's financial performance for the year ended June 30, 2019, (FY2019). Please read it in conjunction with the financial statements that follow this section. The following table summarizes the financial condition and operations of the Authority for FY2019 and provides a comparison to FY2018 and FY2017:

Statements of Net Position

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Assets:			
Current assets	\$ 918,692	\$ 833,425	\$ 902,794
Other assets	220,509	214,140	209,366
Capital assets, net	<u>8,332,490</u>	<u>8,575,849</u>	<u>9,122,148</u>
	<u>\$ 9,471,691</u>	<u>\$ 9,623,414</u>	<u>\$ 10,234,308</u>
Liabilities and net position:			
Current liabilities	\$ 202,047	\$ 256,398	\$ 404,883
Noncurrent liabilities	645,100	772,100	894,100
Net position	<u>8,624,544</u>	<u>8,594,916</u>	<u>8,935,325</u>
	<u>\$ 9,471,691</u>	<u>\$ 9,623,414</u>	<u>\$ 10,234,308</u>
Net Position:			
Net investment in capital assets	\$ 7,560,390	\$ 7,681,749	\$ 8,111,048
Restricted	220,509	214,140	209,366
Unrestricted	<u>843,645</u>	<u>699,027</u>	<u>614,911</u>
Total net position	<u>\$ 8,624,544</u>	<u>\$ 8,594,916</u>	<u>\$ 8,935,325</u>

Airport Activity

The Airport approached adjacent property owners with the need to purchase easements over their property to ensure the airspace around the airport remains within federal standards. Offer letters were delivered and follow up correspondence sent. As of the close of FY2019, no agreement had been reached on just compensation for the affected parcels. Consequently, the easement acquisition project will be carried over as an active project into FY2020.

Construction phase of the Corporate Hangar Site preparation began in July 2018. This project was the construction resulting from the corporate hangar site design project. The site is substantially complete and will be ready for the construction of the two corporate hangars in the upcoming year.

An Environmental Assessment project was completed to address the future needs of an aircraft ramp rehabilitation project. The airside pavements were studied as a part of a statewide pavement evaluation project under direction of the Virginia Department of Aviation in 2015. The environmental assessment was completed as a Categorical Exclusion or "CATEX" and will allow for the rehabilitation of aging pavements around the hangars and aircraft parking areas.

CHESAPEAKE AIRPORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019 and 2018

Airport Activity (Continued)

Two common indicators of airport activity at non-towered general aviation airports are (1) based aircraft and (2) annual fuel sales. Based aircraft has decreased 11.1% and fuel sales are down approximately 1.1% since last year**.

* A report of based aircraft is provided to the Virginia Department of Aviation annually as of January 1, which is the midpoint of our fiscal year, thus providing a representative snapshot of based aircraft for the fiscal year.

** Annual fuel sales are determined from annual fuel flowage fees paid by the FBO.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Annual Fuel Flowage (gallons) **	151,876	153,621	142,458
Based Aircraft *	112	126	112

Financial Highlights

Statements of Revenues, Expenses and Changes in Net Position

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 472,310	\$ 473,455	\$ 466,335
Operating expenses (including depreciation)	\$ 1,345,417	\$ 1,294,646	\$ 1,243,895
Net nonoperating revenue	\$ 902,735	\$ 480,782	\$ 2,495,810
Change in net position	\$ 29,628	\$ (340,409)	\$ 1,718,250
Net position - end of year	\$ 8,624,544	\$ 8,594,916	\$ 8,935,325

Total operating revenue decreased from \$473,455 to \$472,310 in FY2019.

The decrease in operating revenue is due to decreased reimbursements from the previous year.

Issuance of Series 2011 Refunding Bond

Through the execution of a financing agreement with the Virginia Resources Authority (VRA) dated November 1, 2011, the Authority issued a \$1,220,000 Series 2011 Bond at an interest rate of 2.74% which fully matures on August 1, 2024. The proceeds of this bond were used (in concert with the existing funds in the then existing Series 1999 Debt Service Account and the Debt Service Reserve Account) to (1) pay in full the outstanding principal balance of the Series 1999 Bonds, (2) establish a debt service account for the Series 2011 Bond and (3) pay all expenses pursuant to the issuance of the Series 2011 Bond. The debt service due in FY2019 (principal \$95,000 and interest \$17,480) was paid in full.

City of Chesapeake Promissory Note

In September 2008, the Authority signed a \$439,100 noninterest-bearing, fifteen-year promissory note with the City, refinancing the balance due on two existing promissory notes. The new note requires semi-annual payments of \$13,500 due and payable on June 15 and December 15 of each year with a final balloon payment of \$47,600 due on June 15, 2023. The \$27,000 debt service due in FY2019 was paid in full.

The Airport received funds totaling \$446,792 from the Virginia Department of Aviation ("DOAV") in FY2019.

CHESAPEAKE AIRPORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019 and 2018

Financial Highlights (Continued)

The Commonwealth of Virginia provided grants through the DOAV in two major categories: Capital Development (\$389,092) and Airport Maintenance (\$57,700). There were no federal funds drawn in FY2019. The \$54,285 of maintenance grants funded miscellaneous maintenance activities including lamp sockets, weed control, Automated Weather Observation System "AWOS", terminal building roof system and the purchase of a Land Pride mower. The \$3,415 of the Facilities and Equipment DOAV grants purchased a runway edge light regulator.

Capital Development

Corporate Hangar Site Design

The Federal Aviation Administration (FAA) has established the goal for all airports to be financially self-sustaining. A key component of achieving a positive cash flow for a General Aviation airport is hangar leases. General Aviation Manufacturer Association metrics show a year over year growth in corporate aircraft sales while smaller, personal aircraft sales have been declining. To position Chesapeake Regional Airport for continued patronage and relevance, the Authority has taken steps to prepare a site for the eventual construction of two 12,000 square foot hangars large enough to suit the demands of mid-sized corporate aircraft. The preparation of the site is an eligible project for state funding participation.

Easement Acquisition Services

In order to ensure compliance with federally defined dimensions of unobstructed airspace, Chesapeake Airport Authority is pursuing the purchase of easements to allow the Airport to maintain unobstructed airspace. The current phase of the project involves easement acquisition administrative services working towards the eventual purchase of those aviation easements over 11 adjacent parcels. The services include title research, land surveys and legal documentation. The land owners have been presented with offer letters for fair market value as documented by certified appraisal firms.

Contacting the Authority's Financial Management

The financial report is to provide federal, state and local grantors, citizens, taxpayers, customers and creditors with a general overview of the Authority's finances and to show accountability for the money it receives. If you have questions about this report or need to get additional information, contact the Airport Manager at 2800 Airport Drive, Chesapeake, Virginia 23323, phone (757) 432-8110.

CHESAPEAKE AIRPORT AUTHORITY

STATEMENTS OF NET POSITION

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 3)	\$ 902,701	\$ 753,114
Grants receivable	3,415	51,760
Accounts receivable, other	12,576	28,551
Total current assets	<u>918,692</u>	<u>833,425</u>
RESTRICTED CURRENT ASSETS		
Bond escrows, cash and cash equivalents (Note 3)	<u>220,509</u>	<u>214,140</u>
CAPITAL ASSETS (Note 4)		
Improvements	21,787,285	21,874,742
Land and easements	2,266,581	2,266,581
Construction in progress	682,692	-
Equipment	<u>258,246</u>	<u>249,940</u>
	24,994,804	24,391,263
Accumulated depreciation	<u>(16,662,314)</u>	<u>(15,815,414)</u>
Total capital assets	<u>8,332,490</u>	<u>8,575,849</u>
	<u><u>\$ 9,471,691</u></u>	<u><u>\$ 9,623,414</u></u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 37,994	\$ 91,798
Hangar security deposits	25,767	24,451
Office space security deposits	200	200
Accrued interest	7,196	8,280
Unearned revenue	3,890	9,669
Current portion of loans payable (Note 6)	27,000	27,000
Current portion of bonds payable (Note 5)	<u>100,000</u>	<u>95,000</u>
Total current liabilities	<u>202,047</u>	<u>256,398</u>
NONCURRENT LIABILITIES		
Bonds payable, less current portion (Note 5)	530,000	630,000
Loans payable, less current portion (Note 6)	<u>115,100</u>	<u>142,100</u>
Total noncurrent liabilities	<u>645,100</u>	<u>772,100</u>
NET POSITION		
Net investment in capital assets	7,560,390	7,681,749
Restricted	220,509	214,140
Unrestricted	<u>843,645</u>	<u>699,027</u>
Total net position	<u>8,624,544</u>	<u>8,594,916</u>
	<u><u>\$ 9,471,691</u></u>	<u><u>\$ 9,623,414</u></u>

The Notes to Financial Statements are an integral part of this statement.

CHESAPEAKE AIRPORT AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2019 and 2018

	2019	2018
OPERATING REVENUES		
Rental income	\$ 434,684	\$ 432,088
Reimbursements and fees collected	37,626	41,367
Total revenues	<u>472,310</u>	<u>473,455</u>
OPERATING EXPENSES		
Salaries and wages	152,115	139,289
Maintenance	75,942	68,745
Storm water management fees	66,568	66,568
Utilities	47,789	46,945
Payroll taxes and employee benefits	35,476	31,989
Insurance	31,128	31,126
Waste disposal costs	25,153	24,771
Professional fees	20,932	21,421
Supplies	13,535	15,049
Telephone	9,996	9,954
Other expenses	6,565	3,338
Advertising	4,710	6,669
Conference and meetings	2,139	2,517
Bad debt expense	-	703
Total operating expenses	<u>492,048</u>	<u>469,084</u>
Operating (loss) income before depreciation	(19,738)	4,371
DEPRECIATION	<u>853,369</u>	<u>825,562</u>
Operating loss	<u>(873,107)</u>	<u>(821,191)</u>
NONOPERATING REVENUES (EXPENSES)		
City and state appropriations operating	470,557	344,992
Grant revenue	446,792	155,481
Interest income	3,410	1,823
Other income	3,143	23,983
Gain on sale of asset	2,105	-
Other expense	(1,244)	(10,947)
Grant expense	(4,548)	(14,477)
Interest expense	(17,480)	(20,073)
Total nonoperating revenues	<u>902,735</u>	<u>480,782</u>
Change in net position	29,628	(340,409)
Net position, beginning of year	<u>8,594,916</u>	<u>8,935,325</u>
Net position, end of year	<u><u>\$ 8,624,544</u></u>	<u><u>\$ 8,594,916</u></u>

The Notes to Financial Statements are an integral part of this statement.

CHESAPEAKE AIRPORT AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES		
Cash receipts from customers	\$ 482,506	\$ 438,238
Cash payments to employees for services	(152,115)	(139,289)
Cash payments for other operating expenses	(393,505)	(464,522)
	<u>(63,114)</u>	<u>(165,573)</u>
NONCAPITAL FINANCING ACTIVITIES		
City appropriations	294,050	278,506
Grant revenue	61,629	9,100
Other income and expense	1,899	13,036
Interest income	3,410	1,823
Grant expense	(4,548)	(14,477)
	<u>356,440</u>	<u>287,988</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Repayment of bonds payable	(95,000)	(90,000)
Repayment of loans payable	(27,000)	(27,000)
Acquisition of property and equipment	(610,010)	(279,263)
Gain on sale of assets	2,105	-
City appropriations	176,507	64,572
State appropriations	-	1,914
Grant revenue	433,508	114,751
Change in accrued interest	(17,480)	(21,098)
	<u>(137,370)</u>	<u>(236,124)</u>
Net cash used by capital and related financing activities	<u>(137,370)</u>	<u>(236,124)</u>
Net increase (decrease) in cash and cash equivalents	155,956	(113,709)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>967,254</u>	<u>1,080,963</u>
End of year	<u>\$ 1,123,210</u>	<u>\$ 967,254</u>
CASH AND CASH EQUIVALENTS, AS SHOWN ON THE STATEMENTS OF NET POSITION		
Cash and cash equivalents, current assets	\$ 902,701	\$ 753,114
Cash and cash equivalents, restricted assets	<u>220,509</u>	<u>214,140</u>
	<u>\$ 1,123,210</u>	<u>\$ 967,254</u>

The Notes to Financial Statements are an integral part of this statement.

CHESAPEAKE AIRPORT AUTHORITY**STATEMENTS OF CASH FLOWS**
Years Ended June 30, 2019 and 2018**(Continued)**

	<u>2019</u>	<u>2018</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES		
Operating loss	\$ (873,107)	\$ (821,191)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	853,369	825,562
Bad debt expense	-	703
Other noncash expenses	-	322
Change current in assets and liabilities:		
Accounts receivable, other	15,975	(17,484)
Accounts payable	(53,804)	(134,258)
Accrued interest	(1,084)	(1,025)
Capital and related financing:		
Hangar and office space security deposits	1,316	(469)
Unearned revenue	(5,779)	(17,733)
	<u> </u>	<u> </u>
Net cash used by operating activities	<u>\$ (63,114)</u>	<u>\$ (165,573)</u>

The Notes to Financial Statements are an integral part of this statement.

CHESAPEAKE AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

1. Organization and Nature of Business

Chesapeake Airport Authority (Authority or CAA) was created on March 10, 1966 by Chapter 133 of the Acts of Assembly of 1966 of the Commonwealth of Virginia to construct, operate, and maintain an airport to serve the needs of the City of Chesapeake (City).

2. Summary of Significant Accounting Policies

Reporting authority

The Authority is considered a component unit of the City for governmental accounting standards purposes. The criteria for including the Authority within the City's reporting entity, as set forth in Governmental Accounting Standards Board (GASB) Statement No. 14 and Statement No. 61 (which amends Statement No. 14), The Financial Reporting Entity, is financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose the primary government's will or the possibility that the component unit will provide a financial benefit to, or impose a financial burden on, the primary government. Specifically, the Authority is considered a component unit because of the City Council's ability to appoint the Board members and the Authority's financial dependency on the City; this gives the City the potential to impose its will on the Authority.

Basis of accounting

The Authority utilizes the economic resources management focus and the accrual basis of accounting in preparing its financial statements where revenues are recognized when earned and expenses when incurred.

The Authority follows the reporting requirements for special purpose governments involved in business-type activities, which provide an Authority-wide perspective in the financial statement presentation. These standards require presentation of Management's Discussion and Analysis as required supplementary information, and presentation of a statement of net position, statement of revenues, expenses, and changes in net position using a specified format which distinguishes between operating and nonoperating revenues and expenses, and statement of cash flows using the direct method.

The Statement of Net Position presents the Authority's assets and liabilities, with the difference reported as net position. Net position is categorized into three components:

Net investment in capital assets - represents the Authority's total investment in capital assets, net of accumulated depreciation reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.

Restricted net position - results when constraints placed on net position use are either externally imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - consists of net position which do not meet the definition of the two preceding categories.

CHESAPEAKE AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents

For purposes of the statement of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Restricted cash - bond escrows

Upon the issuance of the Series 1999 Bonds, and pursuant to the Master Indenture to those bonds, the Authority and the bond trustee established (1) a Debt Service Account for the monthly accumulation of funds for the annual payment of the principal amount and the semi-annual payment of the interest amount of the annual debt service of the bonds and (2) a Debt Service Reserve Account in which The Authority is required to deposit amounts sufficient to maintain the Debt Service Reserve in an amount equal to the annual Debt Service Requirement. This requirement is equal to the maximum amount of required payments for principal and interest on the Series 1999 Bonds including mandatory sinking fund redemptions with respect to the Bonds, scheduled to come due in any year.

With the refunding of the Series 1999 Bonds, this requirement of the Master Indenture continues to apply to the Series 2011 Bond. As of June 30, 2019 and 2018, the Authority was in compliance with the above requirements.

Capital assets

Capital assets, which include property, plant and equipment, are stated at cost. Assets acquired by grant or bequest are recorded at their fair value on the date of transfer. When assets are disposed, the related costs and accumulated depreciation are removed from the respective accounts and any profit or loss on disposition is recognized currently.

Depreciation is computed using the straight-line method over the estimated useful lives of assets as follows:

Improvements	15 - 40 years
Equipment	5 - 7 years

Maintenance and ordinary repairs are charged to expense as incurred. Expenditures which materially increase values, change capacities, or extend useful lives are capitalized.

Advertising

The Authority expenses advertising costs as they are incurred. Advertising expense for 2019 and 2018 was \$4,710 and \$6,669, respectively.

Grants receivable

Grants receivable represent the amount of allowable expenditures incurred for which funding has been approved but not yet been received. Since this balance consists of amounts owed by the federal and state governments, it is considered fully collectible at year end, and as such, no allowance has been recorded.

CHESAPEAKE AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

Operating and nonoperating classification

The Authority's policy is to report as operating revenues and expenses activity that result from providing services in connection with the principal ongoing activities of the Authority. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Use of estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses reported during that period. Actual results could differ from those estimates and assumptions.

Risk management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. Deductibles and coverage limits at June 30, 2019, are as follows:

	<u>Deductibles</u>
Property:	
Blanket building	\$ 1,000
Blanket personal property	1,000
Airport operator's liability:	
Bodily Injury	1,000
Products-Completed operations	1,000
Malpractice	1,000
Fire Damage	1,000
Medical Expense	1,000
Hangar keepers limit any one aircraft	1,000
Hangar keepers limit any one occurrence	1,000
Non-owned aircraft liability	1,000
Automobile:	
Liability	250
Uninsured motorist	200
Worker's compensation	None

CHESAPEAKE AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

	<u>Liability Coverage Limits</u>
Property:	
Blanket building	\$ 6,310,275
Blanket personal property	354,800
Airport operator's liability:	
Bodily Injury	1,000,000
Products-Completed operations	5,000,000
Malpractice	5,000,000
Fire Damage	50,000
Medical Expense	1,000
Hangar keepers limit any one aircraft	5,000,000
Hangar keepers limit any one occurrence	5,000,000
Non-owned aircraft liability	5,000,000
Automobile:	
Liability	1,000,000
Uninsured motorist	1,000,000
Worker's compensation	Statutory

There have been no reductions in insurance coverages from the prior year, and any settled claims have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Reclassifications

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 financial statement presentation. Such reclassifications do not affect the previously reported net position.

Subsequent events

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through September 4, 2019, the date the financial statements were available to be issued.

CHESAPEAKE AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

3. Cash and Investments

Deposits

The Authority follows a deposit policy in accordance with statutes of the Commonwealth of Virginia. All of the Authority's deposits were insured by federal depository insurance but insured under the provisions of the Commonwealth of Virginia Security for Public Deposits Act (Act). Under the Act, banks holding public deposits in excess of the amounts insured by federal depository insurance must pledge collateral in the amount of 50 percent of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100 percent of deposits in excess of federal depository insurance limits. The State Treasury Board has the authority to assess additional collateral from participating financial institutions to cover collateral shortfalls in the event of default and is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loan institutions. At June 30, 2019 and 2018, the carrying amounts of the Authority's deposits were \$886,759 and \$737,549, respectively, and the associated bank balances were \$905,304 and \$745,930, respectively. Of this amount, \$608,531 and \$495,930 were in excess of FDIC limits but is covered by the Act at June 30, 2019 and 2018, respectively. Differences between the Authority's carrying value of deposits and the bank balance were due to outstanding checks, deposits in transit and other reconciling items. The Authority also had bond escrow funds on deposit at June 30, 2019 and 2018 of \$220,509 and \$214,140, respectively.

Investments

Investment Policy

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). At June 30, 2019 and 2018, the Authority had an investment of \$15,942 and \$15,565, respectively, in Virginia's LGIP money market funds and are included in cash and cash equivalents on the statements of net position.

Concentration of Credit Risk

The Policy establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. No more than 5% of the Authority's portfolio will be invested in the securities of any one issuer with the exception of: (1) the U.S. government or Agencies thereof, (2) fully insured/collateralized certificates of deposit or repurchase agreements that are collateralized by the U.S. government or Agencies thereof, and (3) mutual funds whereby the portfolio is limited to U.S. government or Agency securities.

Interest Rate Risk

The Authority is exposed to little interest rate risk since all investments had maturities of less than one year at June 30, 2019 and 2018.

CHESAPEAKE AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS June 30, 2019 and 2018

4. Capital Assets

A summary of changes in capital assets for the Authority follows:

	Balance June 30, 2018	Increases	Decreases	Balance June 30, 2019
Capital assets not being depreciated:				
Construction in progress	\$ 87,457	\$ 595,235	\$ -	\$ 682,692
Land and easements	<u>2,266,581</u>	<u>-</u>	<u>-</u>	<u>2,266,581</u>
Total capital assets not being depreciated	<u>2,354,038</u>	<u>595,235</u>	<u>-</u>	<u>2,949,273</u>
Other capital assets:				
Equipment	249,940	14,775	(6,469)	258,246
Improvements	<u>21,787,285</u>	<u>-</u>	<u>-</u>	<u>21,787,285</u>
Total other capital assets at historical cost	<u>22,037,225</u>	<u>14,775</u>	<u>(6,469)</u>	<u>22,045,531</u>
Less - accumulated:				
Equipment	(232,842)	(6,358)	6,469	(232,731)
Improvements	<u>(15,582,572)</u>	<u>(847,011)</u>	<u>-</u>	<u>(16,429,583)</u>
Total accumulated depreciation	<u>(15,815,414)</u>	<u>(853,369)</u>	<u>6,469</u>	<u>(16,662,314)</u>
Total capital assets being depreciated, net	<u>6,221,811</u>	<u>(838,594)</u>	<u>-</u>	<u>5,383,217</u>
Capital assets, net	<u>\$ 8,575,849</u>	<u>\$ (243,359)</u>	<u>\$ -</u>	<u>\$ 8,332,490</u>
	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 87,457	\$ -	\$ 87,457
Land and easements	<u>2,226,148</u>	<u>40,433</u>	<u>-</u>	<u>2,266,581</u>
Total capital assets not being depreciated	<u>2,226,148</u>	<u>127,890</u>	<u>-</u>	<u>2,354,038</u>
Other capital assets:				
Equipment	249,446	494	-	249,940
Improvements	<u>21,636,406</u>	<u>150,879</u>	<u>-</u>	<u>21,787,285</u>
Total other capital assets at historical cost	<u>21,885,852</u>	<u>151,373</u>	<u>-</u>	<u>22,037,225</u>
Less - accumulated				
Equipment	(223,288)	(9,554)	-	(232,842)
Improvements	<u>(14,766,564)</u>	<u>(816,008)</u>	<u>-</u>	<u>(15,582,572)</u>
Total accumulated depreciation	<u>(14,989,852)</u>	<u>(825,562)</u>	<u>-</u>	<u>(15,815,414)</u>
Total capital assets being depreciated, net	<u>6,869,000</u>	<u>(586,732)</u>	<u>-</u>	<u>6,302,043</u>
Capital assets, net	<u>\$ 9,122,148</u>	<u>\$ (546,299)</u>	<u>\$ -</u>	<u>\$ 8,575,849</u>

CHESAPEAKE AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

5. Bond Payable

The Authority issued Airport Revenue Bonds dated January 1, 1999 in the amount of \$2,500,000. The bonds were to finance the costs incurred in connection with the acquisition and equipping of airplane hangars and related facilities at the Chesapeake Municipal Airport. Interest payments are due semiannually beginning August 1, 1999 and principal payments are due annually beginning December 1, 2000. The bonds are collateralized by the net operating revenues of the Authority and the bond escrows. To take advantage of historically low interest rates, the Authority refunded the Series 1999 Bond through the issuance of a Series 2011 Bond. The Series 1999 Bond was retired on November 30, 2011.

Activity in Series 2011 bonds payable for fiscal year 2019 and 2018 follows:

<u>Description</u>	<u>Balance June 30, 2018</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2019</u>	<u>Amount Due Within One Year</u>
Total bonds outstanding	\$ 725,000	\$ -	\$ (95,000)	\$ 630,000	\$ 100,000

<u>Description</u>	<u>Balance June 30, 2017</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2018</u>	<u>Amount Due Within One Year</u>
Total bonds outstanding	\$ 815,000	\$ -	\$ (90,000)	\$ 725,000	\$ 95,000

Series 2011 Debt service is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 100,000	\$ 15,892	\$ 115,892
2021	100,000	13,152	113,152
2022	105,000	10,344	115,344
2023	105,000	7,467	112,467
2024-2025	220,000	6,028	226,028
	<u>\$ 630,000</u>	<u>\$ 52,883</u>	<u>\$ 682,883</u>

6. Related Party Transactions

In March 1992, the City approved a noninterest bearing loan for the Authority of \$232,000 to be used for improvements at the Airport. If the Authority sold land that it owned, then the amount of sale proceeds would have been used to pay the balance owed on the note. No such land was sold, as such; annual payments of one-fifteenth of the remaining principal of \$232,000 started December 15, 2005, and were to continue each year until paid in full, with the full balance due on December 15, 2019.

In June 2000, the City approved a noninterest bearing loan for the Authority of \$390,000 to be used for improvements at the airport. The loan requires semiannual payments of \$19,500 starting on June 15, 2005, with the full balance due by December 15, 2014.

CHESAPEAKE AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

6. Related Party Transactions (Continued)

In September 2008, the City restructured the loans described above into one non-interest bearing note requiring 39 semiannual payments of \$13,500, with a balloon payment due June 15, 2023.

The schedule of principle maturities is as follows:

<u>Years Ending</u> <u>June 30,</u>	
2020	\$ 27,000
2021	27,000
2022	27,000
2023	<u>61,100</u>
	<u>\$ 142,100</u>

7. Contingencies

State and Federal Grants

In connection with various grants awarded by the Commonwealth of Virginia and the Federal Aviation Administration, the Authority is required to operate an airport facility in the public interest for a period of 20 years commencing on the execution date of such grants. Should the Authority terminate the agreement, the State (or Federal government) shall be entitled to reimbursement of a proportionate share of the original grant. Management has no intentions of terminating this agreement and, accordingly, no liability has been established at June 30, 2019 and 2018.

8. Commitments

Hangar Construction

In March 2018, the Authority accepted a bid of approximately \$447,000 for the site preparation related to the future construction of a new corporate hangar. There are additional costs of approximately \$95,000 that will be associated with the construction of this hangar. As of June 26, 2018, the Authority accepted a \$379,080 grant from the Virginia Department of Aviation to fund the cost of this project. The remaining cost was funded by the City of Chesapeake. At June 30, 2019, the Authority had expended \$534,225 of these costs. This amount is included in construction in progress.

Land Easements

On July 9, 2018, the Authority sent fair value offers aggregating \$61,278 to property owners with land adjacent to the Airport with the intent of purchasing easements which would enable to Authority to clear obstructions to air navigation. The Federal Aviation Administration will reimburse the Authority subsequent to each purchase. Since no offers had been accepted or rejected, the Authority's counsel, Pender & Coward, filed condemnation proceedings with the court on June 7, 2019, against the landowners.

CHESAPEAKE AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

9. Pension Plan

Plan description

The Authority joined the City of Chesapeake Employees' Pension Plan, an agent multiple-employer defined benefit plan administered by the Virginia Retirement System (VRS). VRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

The VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the City of Chesapeake in total and, as such, a separate report for the Authority is not provided. A copy of the City of Chesapeake's report may be obtained by writing to VRS at P.O. Box 2500, Richmond, Virginia 23218.

Funding policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. In addition, the Authority is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The Authority's contribution rate for 2019 and 2018 was 14.19% and 13.45%, respectively, of annual payroll for full-time employees.

Annual pension cost

The Authority's contributions to the VRS for 2019 and 2018 were \$21,185 and \$18,741, respectively, equal to the required contributions for each year.

10. New Accounting Standards

The GASB issued Statement No. 87, *Leases* in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for periods beginning after December 15, 2019.

The GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* in June 2018. This Statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for periods beginning after December 15, 2019. The requirements of this Statement should be applied prospectively.

Management has not determined the effects these new GASB Statements may have on prospective financial statements.

COMPLIANCE SECTION

**INDEPENDENT AUDITORS' 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**

To the Members of the Authority
Chesapeake Airport Authority
Chesapeake, Virginia

We have audited, in accordance with the 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 Counties, Cities and Towns*, and the *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 business-type activities of the Chesapeake Airport Authority, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Chesapeake Airport Authority's basic financial statements, and have issued our report thereon dated September 4, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Chesapeake Airport 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 Chesapeake Airport Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Chesapeake Airport 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 over financial reporting 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 Chesapeake Airport Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Chesapeake Airport Authority, in a separate letter dated September 4, 2019.

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 Chesapeake Airport Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Newport News, Virginia
September 4, 2019