

CHESAPEAKE AIRPORT AUTHORITY

FINANCIAL REPORT

June 30, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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 years ended June 30, 2020 and 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 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 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, 2020 and 2019, and the changes in financial position and cash flows for the years 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 on pages 3 through 7 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 1, 2020, 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 solely 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 1, 2020

CHESAPEAKE AIRPORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020 and 2019

Mission Statement

Provide safe, maximum access to the National Airspace System by offering diverse, superior support benefitting City of Chesapeake's aviation activities in a balanced manner between business and individual users. (Adopted September 11, 2019).

Vision Statement

Be an airport with the finest, fully developed facilities and services to meet Chesapeake's business and individual aviation activities. (Adopted September 11, 2019).

Authority Operations

The Chesapeake Airport Authority operates the Chesapeake Regional Airport at 2800 Airport Drive, Chesapeake Virginia. The airport has 5 employees at this time to include the Airport Manager, Accounting Manager, Maintenance Facilities Manager, Part-time Maintenance Technician and a Seasonal Landscaper. The Authority maintains the airport and its waste water treatment facility that services the airport and 10 civilian customers in the area.

Financial Highlights

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, 2020, (FY2020). 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 FY2020 and provides a comparison to FY2019 and FY2018:

Condensed Statements of Net Position

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>% of Change</u>	<u>June 30, 2018</u>	<u>% of Change</u>
Assets:					
Current assets	\$ 979,870	\$ 918,692	6.66%	\$ 833,425	10.23%
Other assets	214,501	220,509	-2.72%	214,140	2.97%
Capital assets, net	<u>8,086,237</u>	<u>8,332,490</u>	-2.96%	<u>8,575,849</u>	-2.84%
	<u>\$ 9,280,608</u>	<u>\$ 9,471,691</u>		<u>\$ 9,623,414</u>	
Liabilities and net position:					
Current liabilities	\$ 188,892	\$ 202,047	-6.51%	\$ 256,398	-21.20%
Noncurrent liabilities	518,100	645,100	-19.69%	772,100	-16.45%
Net position	<u>8,573,616</u>	<u>8,624,544</u>	-.59%	<u>8,594,916</u>	0.34%
	<u>\$ 9,280,608</u>	<u>\$ 9,471,691</u>		<u>\$ 9,623,414</u>	
Net Position:					
Net investment in capital assets	\$ 7,441,137	\$ 7,560,390	-1.58%	\$ 7,681,749	-1.58%
Restricted	214,501	220,509	-2.72%	214,140	2.97%
Unrestricted	<u>917,978</u>	<u>843,645</u>	8.80%	<u>699,027</u>	20.69%
Total net position	<u>\$ 8,573,616</u>	<u>\$ 8,624,544</u>		<u>\$ 8,594,916</u>	

(Continued)

CHESAPEAKE AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020 and 2019

Assets

Assets decreased slightly in FY 2020 and in FY 2019 primarily because of impact of depreciation expense.

Net Position

Net Position decreased in FY 2020 from FY 2019 an overall -.59% due to the net of decreased expenses and a decrease in nonoperating revenue. Net position increased slightly from FY 2019 from FY 2018 primarily due to an increase in nonoperating revenue.

Liabilities

Current liabilities decreased in FY 2020 by -6.51% from FY 2019 and a further decrease in current liabilities of 21.20% in FY 2019. Non-current liabilities decreased by -19.69% in fiscal year 2020 and a further decrease in non-current liabilities of -16.45% in FY 2019. These decreases are primarily due to project/maintenance costs that used state grant funds to mitigate those costs and the Authority continuing to make payments on the Authority's bond.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2020</u>	<u>2019</u>	<u>% of Change</u>	<u>2018</u>	<u>% of Change</u>
Operating revenues	\$ 499,493	\$ 472,310	5.76%	\$ 473,455	-0.24%
Operating expenses	\$ (1,211,477)	\$ (1,345,417)	-9.96%	\$ (1,294,646)	3.92%
Net nonoperating revenue	\$ 661,056	\$ 902,735	-26.77%	\$ 480,782	87.76%
Change in net position	\$ (50,928)	\$ 29,628	271.89%	\$ (340,409)	108.70%
Net position - end of year	\$ 8,573,616	\$ 8,624,544	-.59%	\$ 8,594,916	0.34%

Operating Revenues

Total operating revenue increased from \$472,310 to \$499,493 in FY2020. The increase in operating revenue is due to increased rental rates and increased fees from the previous year. Total operating revenue decreased slightly from \$473,455 to \$472,310 in FY 2019. This slight decrease was due to decrease in reimbursements during the year.

Operating Expenses

Total operating expenses decreased from \$1,345,417 to \$1,211,477 in FY2020. The decrease in operating expenses is due to decreased depreciation from the previous year. Total operating expenses increased from \$1,294,646 to \$1,345,417 in FY 2019. This increase was due to increase expenditures in maintenance and the implementation of the Authorities three-year plan to bring employee salaries in line with the industry.

Non-Operating Revenue

Total nonoperating revenues decreased from \$902,735 to \$661,056 in FY2020. The decrease in nonoperating revenue is due to decreased state and city contributions from the previous year. Total nonoperating revenue increased from \$480,782 to \$902,735 in FY 2019. This increase was due to increased contributions from the state and the city.

(Continued)

CHESAPEAKE AIRPORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020 and 2019

Airport Capital 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 FY 2019, no agreement has been reached on just compensation for the affected parcels. As of the close of FY 2020, 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 FY 2021.

The construction phase of the corporate hangar Site Preparation began in July 2018. This project followed the corporate hangar site design project. As of the end of FY 2019, the project was substantially complete. As of the end of FY 2020, the site is complete and is ready for the construction of 2 corporate hangars in the upcoming year.

A Categorical Exclusion project was completed to address the future needs of an equipment storage shed. The environmental coordination has been completed.

A Categorical Exclusion project was initiated to study the environmental effects of replacing the aging airfield lighting system. The environmental review determined that the replacement of the lighting would not trigger additional environmental study.

Ramp rehabilitation Phase 1 (design) project is substantially complete and awaiting bids. The airside pavements are in the first year of a multi-year rehabilitation project. The rehabilitation which will involve milling and paving including the reestablishment of some grades will be done in three phases. The Phase 1 (design) was approved by the Virginia Aviation Board in August of 2019. The Phase 1 (construction) and Phase 2 (design) will be presented to the Virginia Aviation Board for funding at their next meeting.

Other Airport Activity

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 and fuel sales are down approximately .98% since last year. In FY 2019 fuel sales had decreased by 1.01%. In FY 2018 fuels sales had been up 7.8% **.

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>2020</u>	<u>2019</u>	<u>2018</u>
Annual Fuel Flowage (gallons) **	149,782	151,876	153,621
Based Aircraft *	126	112	126

(Continued)

CHESAPEAKE AIRPORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020 and 2019

Bond and Note Discussion

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 FY 2020 and FY 2019 (principal of \$100,000 and \$95,000 and interest \$15,892 and \$17,480, respectively) 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 FY 2020 and FY 2019 was paid in full.

Grants

State Grants

The Airport received grant funds totaling \$284,442 from the state in FY2020.

State (DOAV)	\$	284,442
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The Commonwealth of Virginia provided grants through the Virginia Department of Aviation "DOAV" in two major categories: Capital Development (\$205,926) and Airport Maintenance (\$78,516). There were no federal funds drawn in 2020. The \$30,755 of maintenance grants funded miscellaneous maintenance activities including AWOS, terminal building roof system and the purchase of a Kubota Zero Turn. The \$47,761 of the Facilities and Equipment DOAV grants purchased Lamps/Windsocks, NAVAID Road Rehab and Rotating Beacon Cell/Lamp.

The Airport received funds totaling \$446,793 from the state in FY2019.

State (DOAV)	\$	446,793
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The Commonwealth of Virginia provided grants through the Virginia Department of Aviation "DOAV" in two major categories: Capital Development (\$389,092) and Airport Maintenance (\$57,701). There were no federal funds drawn in 2019. The \$54,285 of maintenance grants funded miscellaneous maintenance activities including lamp sockets, weed control, AWOS, terminal building roof system and the purchase of a Land Pride mower. The \$3,416 of the Facilities and Equipment DOAV grants purchased a runway edge light regulator.

The State (DOAV) funding decreased from \$446,793 to \$284,442 in FY 2020. The decrease in state funding is due to the Airport not doing any large-scale projects in FY 2020. The State (DOAV) funding increased from \$148,168 in FY 2018 to \$446,793 in FY 2019 due to the large runway project in FY 2019.

The Airport was offered and accepted \$69,000 from the FAA Cares Act program due to the COVID-19 pandemic to cover expenses during the pandemic that were incurred beginning January 20, 2020. The Authority identified \$57,410 in expenses that will be requested through the Cares Act for FY 2020.

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CHESAPEAKE AIRPORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020 and 2019

Capital Development

Corporate Hangar Site Design

The Federal Aviation Administration 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 completed the site for the eventual construction of 2 each 12,000 square foot hangars large enough to suit the demands of mid-sized corporate aircraft. The construction of the site was funded through a grant by the Virginia Department of Aviation.

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.

Taxiway and Runway Lighting Rehab/Design

The Federal Aviation Administration issued their determination that an environmental assessment would not be necessary to install replacement lighting as proposed. Talbert & Bright developed a cost to design the replacement. That cost was evaluated by an independent airport engineering firm and found to be in line. The design of the lighting rehabilitation project is funded by the FAA as part of our non-primary entitlement AIP funds. Due to the CARES Act, federally funded projects have no local match requirement at this time.

SWPP, SPCC, ODCP Update

The Storm Water Pollution Prevention, Spill Prevention Control and Countermeasure and Oil Discharge Contingency Plan were updated in accordance with state environmental requirements. Those programs are good for 5 years and funded by the Virginia Department of Aviation at 80%.

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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Notes 2 and 3)	\$ 861,759	\$ 902,701
Grants receivable (Note 11)	57,410	3,415
Accounts receivable, other	60,701	12,576
Total current assets	<u>979,870</u>	<u>918,692</u>
RESTRICTED CURRENT ASSETS		
Bond escrows, cash and cash equivalents (Notes 2 and 3)	<u>214,501</u>	<u>220,509</u>
CAPITAL ASSETS (Note 4)		
Improvements	22,457,208	21,787,285
Land and easements	2,354,747	2,266,581
Construction in progress	355,614	682,692
Equipment	211,130	258,246
	25,378,699	24,994,804
Accumulated depreciation	<u>(17,292,462)</u>	<u>(16,662,314)</u>
Total capital assets	<u>8,086,237</u>	<u>8,332,490</u>
	<u><u>\$ 9,280,608</u></u>	<u><u>\$ 9,471,691</u></u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 24,153	\$ 37,994
Hangar security deposits	25,529	25,767
Office space security deposits	200	200
Accrued interest	6,054	7,196
Unearned revenue	5,956	3,890
Current portion of loans payable (Note 6)	27,000	27,000
Current portion of bonds payable (Note 5)	100,000	100,000
Total current liabilities	<u>188,892</u>	<u>202,047</u>
NONCURRENT LIABILITIES		
Bonds payable, less current portion (Note 5)	430,000	530,000
Loans payable, less current portion (Note 6)	88,100	115,100
Total noncurrent liabilities	<u>518,100</u>	<u>645,100</u>
NET POSITION		
Net investment in capital assets	7,441,137	7,560,390
Restricted	214,501	220,509
Unrestricted	917,978	843,645
Total net position	<u>8,573,616</u>	<u>8,624,544</u>
	<u><u>\$ 9,280,608</u></u>	<u><u>\$ 9,471,691</u></u>

The Notes to Financial Statements are an integral part of these statements.

CHESAPEAKE AIRPORT AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
Rental income	\$ 455,440	\$ 434,684
Reimbursements and fees collected	44,053	37,626
Total revenues	<u>499,493</u>	<u>472,310</u>
OPERATING EXPENSES		
Salaries and wages	164,921	152,115
Maintenance	80,298	75,942
Storm water management fees	66,568	66,568
Utilities	46,363	47,789
Payroll taxes and employee benefits	36,565	35,476
Insurance	31,973	31,128
Waste disposal costs	31,728	25,153
Professional fees	21,121	20,932
Supplies	15,535	13,535
Telephone	10,064	9,996
Other expenses	5,128	6,565
Advertising	4,867	4,710
Conference and meetings	4,574	2,139
Total operating expenses	<u>519,705</u>	<u>492,048</u>
Operating loss before depreciation	(20,212)	(19,738)
DEPRECIATION	<u>691,772</u>	<u>853,369</u>
Operating loss	<u>(711,984)</u>	<u>(873,107)</u>
NONOPERATING REVENUES (EXPENSES)		
City appropriations	307,711	470,557
Grant revenue	341,852	446,792
Interest income	2,176	3,410
Other income	50,107	3,143
Gain on sale of asset	-	2,105
Other expense	(853)	(1,244)
Grant expense	(25,187)	(4,548)
Interest expense	(14,750)	(17,480)
Total nonoperating revenues	<u>661,056</u>	<u>902,735</u>
Change in net position	(50,928)	29,628
Net position, beginning of year	<u>8,624,544</u>	<u>8,594,916</u>
Net position, end of year	<u><u>\$ 8,573,616</u></u>	<u><u>\$ 8,624,544</u></u>

The Notes to Financial Statements are an integral part of these statements.

CHESAPEAKE AIRPORT AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
OPERATING ACTIVITIES		
Cash receipts from customers	\$ 453,434	\$ 482,506
Cash payments to employees for services	(164,921)	(152,115)
Cash payments for other operating expenses	(370,005)	(393,505)
	<u>(81,492)</u>	<u>(63,114)</u>
Net cash used by operating activities		
NONCAPITAL FINANCING ACTIVITIES		
City appropriations	300,937	294,050
Grant revenue	27,396	61,629
Other income and expense	49,254	1,899
Interest income	2,176	3,410
Grant expense	(25,187)	(4,548)
	<u>354,576</u>	<u>356,440</u>
Net cash provided by noncapital financing activities		
CAPITAL AND RELATED FINANCING ACTIVITIES		
Repayment of bonds payable	(100,000)	(95,000)
Repayment of loans payable	(27,000)	(27,000)
Acquisition of property and equipment	(445,519)	(610,010)
Gain on sale of assets	-	2,105
City appropriations	6,774	176,507
Grant revenue	260,461	433,508
Interest	(14,750)	(17,480)
	<u>(320,034)</u>	<u>(137,370)</u>
Net cash used by capital and related financing activities		
Net increase (decrease) in cash and cash equivalents	(46,950)	155,956
CASH AND CASH EQUIVALENTS		
Beginning of year	1,123,210	967,254
End of year	<u>\$ 1,076,260</u>	<u>\$ 1,123,210</u>
CASH AND CASH EQUIVALENTS, AS SHOWN ON THE STATEMENTS OF NET POSITION		
Cash and cash equivalents, current assets	\$ 861,759	\$ 902,701
Cash and cash equivalents, restricted assets	214,501	220,509
	<u>\$ 1,076,260</u>	<u>\$ 1,123,210</u>

The Notes to Financial Statements are an integral part of these statements.

CHESAPEAKE AIRPORT AUTHORITY**STATEMENTS OF CASH FLOWS**
Years Ended June 30, 2020 and 2019**(Continued)**

	<u>2020</u>	<u>2019</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES		
Operating loss	\$ (711,984)	\$ (873,107)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	691,772	853,369
Change current in assets and liabilities:		
Accounts receivable, other	(48,125)	15,975
Accounts payable	(13,841)	(53,804)
Accrued interest	(1,142)	(1,084)
Capital and related financing:		
Hangar and office space security deposits	(238)	1,316
Unearned revenue	<u>2,066</u>	<u>(5,779)</u>
Net cash used by operating activities	<u><u>\$ (81,492)</u></u>	<u><u>\$ (63,114)</u></u>

The Notes to Financial Statements are an integral part of these statements.

CHESAPEAKE AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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.

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CHESAPEAKE AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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, 2020 and 2019, 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 2020 and 2019 was \$4,867 and \$4,710, 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.

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CHESAPEAKE AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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, 2020, 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

(Continued)

CHESAPEAKE AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

2. Summary of Significant Accounting Policies (Continued)

	Liability Coverage Limits
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.

(Continued)

CHESAPEAKE AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

3. Cash, Cash Equivalents 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 and also 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, 2020 and 2019, the carrying amounts of the Authority's deposits were \$845,558 and \$886,759, respectively, and the associated bank balances were \$875,926 and \$905,304, respectively. Of this amount, \$579,213 and \$608,531 were in excess of FDIC limits but is covered by the Act at June 30, 2020 and 2019, 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, 2020 and 2019, of \$214,501 and \$220,509, 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, 2020 and 2019, the Authority had an investment of \$16,201 and \$15,942, 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, 2020 and 2019.

(Continued)

CHESAPEAKE AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS June 30, 2020 and 2019

4. Capital Assets

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

	Balance June 30, 2019	Increases	Decreases	Balance June 30, 2020
Capital assets not being depreciated:				
Construction in progress	\$ 682,692	\$ 355,614	\$ (682,692)	\$ 355,614
Land and easements	<u>2,266,581</u>	<u>88,166</u>	<u>-</u>	<u>2,354,747</u>
Total capital assets not being depreciated	<u>2,949,273</u>	<u>443,780</u>	<u>(682,692)</u>	<u>2,710,361</u>
Other capital assets:				
Equipment	258,246	14,508	(61,624)	211,130
Improvements	<u>21,787,285</u>	<u>669,923</u>	<u>-</u>	<u>22,457,208</u>
Total other capital assets at historical cost	<u>22,045,531</u>	<u>684,431</u>	<u>(61,624)</u>	<u>22,668,338</u>
Less – accumulated depreciation:				
Equipment	(232,731)	(6,653)	61,624	(177,760)
Improvements	<u>(16,429,583)</u>	<u>(685,119)</u>	<u>-</u>	<u>(17,114,702)</u>
Total accumulated depreciation	<u>(16,662,314)</u>	<u>(691,772)</u>	<u>61,624</u>	<u>(17,292,462)</u>
Total capital assets being depreciated, net	<u>5,383,217</u>	<u>(7,341)</u>	<u>-</u>	<u>5,375,876</u>
Capital assets, net	<u>\$ 8,332,490</u>	<u>\$ 436,439</u>	<u>\$ (682,692)</u>	<u>\$ 8,086,237</u>
	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 depreciation:				
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>

(Continued)

CHESAPEAKE AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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 2020 and 2019 follows:

<u>Description</u>	<u>Balance June 30, 2019</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2020</u>	<u>Amount Due Within One Year</u>
Total bonds outstanding	\$ 630,000	\$ -	\$ (100,000)	\$ 530,000	\$ 100,000

<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

Series 2011 Debt service is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 100,000	\$ 13,152	\$ 113,152
2022	105,000	10,344	115,344
2023	105,000	7,467	112,467
2024	110,000	4,521	114,521
2025	110,000	1,507	111,507
	<u>\$ 530,000</u>	<u>\$ 36,991</u>	<u>\$ 566,991</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.

(Continued)

CHESAPEAKE AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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>Year Ending</u> <u>June 30,</u>	
2021	\$ 27,000
2022	27,000
2023	<u>61,100</u>
	<u>\$ 115,100</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, 2020 and 2019.

8. Commitment

Land easements

On July 9, 2018, the Authority sent fair value offers aggregating \$61,278 to property landowners with land adjacent to the Airport with the intent of purchasing easements which would enable the Authority to clear obstructions to air navigation. The Federal Aviation Administration will reimburse the Authority subsequent to each purchase. Since offers had neither been accepted nor rejected, the Authority's counsel, Pender & Coward filed condemnation proceedings with the court on June 7, 2019, against the landowners. Just compensation trial dates were scheduled. Due to the COVID-19 Pandemic, original trial dates are likely to be delayed considerably.

(Continued)

CHESAPEAKE AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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 2020 and 2019 was 13.11% and 14.19%, respectively, of annual payroll for full-time employees.

Annual pension cost

The Authority's contributions to the VRS for 2020 and 2019 was \$21,285 and \$21,185, respectively, which equaled 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.

(Continued)

CHESAPEAKE AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

11. Subsequent Event

In December 2019, a novel strain of Coronavirus was reported in Wuhan, China. The World Health Organization has declared the outbreak to constitute a “Public Health Emergency of International Concern.” The COVID-19 Outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the Authority’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the Authority’s customers, employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Authority’s financial condition or results of operations is uncertain. During 2020, the Authority was notified that they were eligible to receive \$69,000 in CARES relief funding. Subsequent to year end, the Authority requested this funding to reimburse expenses incurred in 2020 and 2021 of \$57,410 and \$11,590, respectively.

COMPLIANCE SECTION

**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**

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 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, 2020, 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 1, 2020.

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 1, 2020.

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 1, 2020