

Chesapeake Airport Authority

Financial Statements

Years Ended June 30, 2016 and 2015

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Independent Auditors' Report

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 (Authority), a component unit of the City of Chesapeake, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the 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 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 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.

Opinions

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, 2016 and 2015, 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 - 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 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 12, 2016, on our consideration of the 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 Authority's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

**Newport News, Virginia
September 12, 2016**

Management's Discussion and Analysis

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, 2016, (FY2016). 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 FY2016 and provides a comparison to FY2015 and FY2014:

Statements of Net Position

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Assets			
Current assets	\$ 487,588	\$ 538,567	\$ 710,461
Other assets	210,319	211,123	207,411
Capital assets, net	<u>7,732,537</u>	<u>8,066,443</u>	<u>8,078,412</u>
	<u>\$ 8,430,444</u>	<u>\$ 8,816,133</u>	<u>\$ 8,996,284</u>
Liabilities and net assets			
Current liabilities	\$ 202,269	\$ 541,356	\$ 210,446
Noncurrent liabilities	1,011,100	1,128,100	1,245,100
Net assets	<u>7,217,075</u>	<u>7,146,677</u>	<u>7,540,738</u>
	<u>\$ 8,430,444</u>	<u>\$ 8,816,133</u>	<u>\$ 8,996,284</u>

Airport Activity

This has been a busy year for your Airport Staff. The North Terminal Expansion despite some delays, is now under way and we hope to see the project's end before the end of next fiscal year. The City of Chesapeake (City) has many construction projects going on, one of them being the Dominion Bridge Project. The project is slated for completion April of 2017. Due to this project, traffic congestion has contributed to the downturn in our patronage at the Airport. Once this project is complete we anticipate that many customers will return to the Airport. The Airport has been in talks with the City and some vendors on how to get city sewer and city water to the Airport.

Two common indicators of Airport activity at non-towered general aviation airports are (1) based aircraft* and (2) annual fuel sales. Based aircraft has remained the same as last period and fuel sales are down approximately 16%**.

The Airport had struggled to get all hangars rented and at the end of this fiscal year, all hangars were rented. The struggle to be at capacity was affected by a struggling economy combined with military aircraft owners leaving the local area and the retirement of our older pilots from aviation as well as the renovation of the A hangar which was out of service for about 7 months. The airport now has a waiting list and interest in corporate hangars is growing.

* 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>2016</u>	<u>2015</u>	<u>2014</u>
Annual Fuel Flowage (gallons)**	137,507	159,809	148,272
Based Aircraft*	109	109	114

Chesapeake Airport Authority Management's Discussion and Analysis

Financial Highlights

Statements of Revenues, Expenses and Changes in Net Position

	<u>2016</u>	<u>2015</u>	<u>(as restated) 2014</u>
Operating revenues	\$ 434,638	\$ 427,789	\$ 429,654
Operating expenses (including depreciation)	\$ 1,263,745	\$ 1,549,471	\$ 1,307,285
Net nonoperating revenue	\$ 899,505	\$ 727,621	\$ 795,785
Change in net position	\$ 70,398	\$ (394,061)	\$ (81,846)
Net position, end of year	\$ 7,217,075	\$ 7,146,677	\$ 7,540,738

Total operating revenue increased from \$427,789 to \$434,638 in FY2016.

The increase in operating revenue is due to increased hangar occupancy. 2015's decrease in hangar occupancy was due to military relocations and retirement of some of our older tenants from flying as well as reconstruction of our A Hangar due to a tornado in June of 2014. The airport is now at full capacity.

The closing of the lawsuit in February 2016 directly impacted the contribution level from the City of Chesapeake. Contribution from the City was substantially decreased as the suit was dismissed requiring very little additional legal defense funding by the City.

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 2016 (principal \$90,000 and interest \$26,030) 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 FY2016 was paid in full.

Chesapeake Airport Authority Management's Discussion and Analysis

The Airport received funds of \$693,989 in state and federal grants in FY2016, as follows:

State (DOAV)	\$	178,683
Federal (FAA)	\$	515,306

The Commonwealth of Virginia provided grants in three major categories: Capital Development (\$63,335), Airport Maintenance (\$100,948) and Security (\$14,400). Of the funds received for capital development, (\$61,328) was ancillary to FAA grants for (1) the purchase of wetlands credits that will allow for the design and development of the North Terminal Area and (2) the acquisition of property easements on two parcels that will complete the necessary control of the Runway 05 Runway Protection Zone (RPZ) (\$2,007). The \$100,948 of maintenance grants funded miscellaneous maintenance activities including repairs to the Automated Weather Observing System (AWOS), crack fill and runway remarking, generator maintenance, the purchase of herbicide and runway and taxiway replacement lamps.

The \$515,306 of federal grants was for (1) the purchase of wetlands credits that will allow for the design and development of the North Terminal Area and (2) the acquisition of property easements on two parcels that will complete the necessary control of the Runway 05 Runway Protection Zone (RPZ).

Capital Development

Land Acquisition

This project involved the acquiring of two easements upon land to complete the satisfactory control of the Runway Protection Zone (RPZ) for Runway 05. After having the two properties appraised, the Authority provided the two property owners with written offers of purchase which both owners rejected. As a result, one mediation proceeding was completed for one easement acquisition, followed by a negotiated settlement for a similar restrictive easement on the second. This project is funded through a combination of federal and state grants with local share funding provided by the City. The second easement has not been reimbursed yet.

North Terminal Apron Phase 1 and 2

The North Terminal Area Expansion began construction in late April. It is scheduled for completion the third week of November, weather permitting. This project is funded through a combination of federal, and state grants with local share funding provided by the City.

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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 454,815	\$ 496,254
Grants receivable	6,837	-
Accounts receivable, other	25,936	42,313
Total current assets	<u>487,588</u>	<u>538,567</u>
Restricted current assets:		
Bond escrows, cash and cash equivalents	<u>210,319</u>	<u>211,123</u>
Capital assets:		
Improvements	19,500,956	19,644,782
Land and easements	2,175,164	1,577,244
Equipment	249,030	236,760
	<u>21,925,150</u>	<u>21,458,786</u>
Accumulated depreciation	<u>(14,192,613)</u>	<u>(13,392,343)</u>
Total capital assets	<u>7,732,537</u>	<u>8,066,443</u>
	<u><u>\$ 8,430,444</u></u>	<u><u>\$ 8,816,133</u></u>
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	\$ 19,551	\$ 363,440
Hangar security deposits	25,336	23,509
Office space security deposits	200	200
Accrued interest	10,337	11,358
Deferred revenue	29,845	25,849
Current portion of loans payable	27,000	27,000
Current portion of bonds payable	90,000	90,000
Total current liabilities	<u>202,269</u>	<u>541,356</u>
Noncurrent liabilities:		
Bonds payable, less current portion	815,000	905,000
Loans payable, less current portion	196,100	223,100
Total noncurrent liabilities	<u>1,011,100</u>	<u>1,128,100</u>
Net position:		
Invested in capital assets, net of related debt	6,604,437	6,821,343
Restricted	210,319	211,123
Unrestricted	402,319	114,211
Total net position	<u>7,217,075</u>	<u>7,146,677</u>
	<u><u>\$ 8,430,444</u></u>	<u><u>\$ 8,816,133</u></u>

See accompanying notes.

Chesapeake Airport Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2016 and 2015

	2016	2015
Revenues:		
Rental income	\$ 395,358	\$ 381,058
Reimbursements and fees collected	39,280	46,731
Total revenues	434,638	427,789
Operating expenses:		
Salaries and wages	127,733	131,505
Maintenance	85,712	120,566
Storm water management fees	66,568	66,568
Utilities	42,264	41,117
Payroll taxes and employee benefits	31,550	31,863
Insurance	30,674	31,459
Waste disposal costs	23,000	27,166
Professional fees	19,564	249,662
Supplies	14,825	17,140
Telephone	10,144	12,225
Conference and meetings	4,586	2,956
Advertising	3,620	4,824
Other expenses	3,235	8,836
Bad debt expense	-	1,334
Total operating expenses	463,475	747,221
Operating loss before depreciation	(28,837)	(319,432)
Depreciation	800,270	802,250
Operating loss	(829,107)	(1,121,682)
Nonoperating revenues (expense):		
Grant revenue	693,989	157,790
City appropriations operating	273,000	546,141
Other income	8,527	56,886
Interest income	490	476
Interest expense	(25,008)	(27,456)
Grant expense	(44,437)	(3,136)
Other expense	(7,056)	(3,080)
Total nonoperating revenues	899,505	727,621
Change in net position	70,398	(394,061)
Net position, beginning of year	7,146,677	7,540,738
Net position, end of year	\$ 7,217,075	\$ 7,146,677

See accompanying notes.

Chesapeake Airport Authority
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash receipts from customers	\$ 460,033	\$ 633,736
Cash payments to employees for services	(127,732)	(131,505)
Cash payments for other operating expenses	(688,048)	(288,832)
Net cash provided (used) by operating activities	<u>(355,747)</u>	<u>213,399</u>
Cash flows from financing activities:		
Repayment of bonds payable	(90,000)	(85,000)
Repayment of loans payable	(27,000)	(27,000)
Acquisition of property and equipment	(503,618)	(736,000)
City appropriations	273,000	546,141
Grant revenue	687,152	160,183
Interest paid on bonds and loans	(26,030)	(28,428)
Net cash provided (used) by financing activities	<u>313,504</u>	<u>(170,104)</u>
Net increase (decrease) in cash and cash equivalents	(42,243)	43,295
Cash and cash equivalents, beginning of year	<u>707,377</u>	<u>664,082</u>
Cash and cash equivalents, end of year	<u><u>\$ 665,134</u></u>	<u><u>\$ 707,377</u></u>
Cash and cash equivalents, as shown on statements of net assets:		
Cash and cash equivalents, current assets	\$ 454,815	\$ 496,254
Cash and cash equivalents, restricted assets	<u>210,319</u>	<u>211,123</u>
	<u><u>\$ 665,134</u></u>	<u><u>\$ 707,377</u></u>
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	\$ (829,107)	\$ (1,121,682)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	800,270	802,250
Bad debts	-	1,334
Change in assets and liabilities:		
Accounts receivable	16,377	204,613
Accounts payable	(348,089)	334,465
Hangar and office suite security deposits	1,827	2,448
Deferred revenue	<u>2,975</u>	<u>(10,029)</u>
Net cash provided (used) by operating activities	<u><u>\$ (355,747)</u></u>	<u><u>\$ 213,399</u></u>

See accompanying notes.

Notes to Financial Statements

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 Authority, as set forth in Governmental Accounting Standards Board (GASB) Statement No. 14 and Statement No. 61 (which amends Statement No. 14), The Financial Reporting Authority, 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 has adopted GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting. The Authority has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989, as allowed by GASB Statement No. 20.

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:

Invested in capital assets, net of related debt - 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.

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, 2016 and 2015, 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 2016 and 2015 was \$3,620 and \$4,824, respectively.

Grants receivable

Grants receivable represent the amount of allowable expenditures incurred for which funding has 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.

Operating and nonoperating classification

The Authority's policy is to report as operating revenues and expenses items 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.

Chesapeake Airport Authority

Notes to Financial Statements

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. Property, liability and worker's compensation coverages are provided through a self-insurance pool. The Authority's retention is through deductibles. Deductibles and coverage limits at June 30, 2016 are as follows:

	<u>Deductibles</u>
Property	\$ 1,000
Equipment breakdown	1,000
Airport operators	1,000
Automobile:	
Liability	250
Uninsured motorist	200
Worker's compensation	None
	<u>Liability Coverage Limits</u>
Property insurance	\$ 6,665,075
Airport operators:	
Liability	5,000,000
Fire damage	50,000
Medical expense	1,000
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.

Reclassification

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 financial statement presentation. Total net position and the change in net position are unchanged due to these reclassifications.

Subsequent events

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through September 12, 2016, the date the financial statements were available to be issued.

3. Cash and Investments

Deposits

The Authority follows a deposit policy in accordance with statutes of the Commonwealth of Virginia. On June 30, 2016, the Authority had no deposits in excess of the amount insured by the Federal Deposit Insurance Corporation. 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, 2016 and 2015, the carrying amounts of the Authority's deposits were \$439,593 and \$481,081, respectively, and the associated bank balances were \$489,757 and \$479,882, respectively. Of this amount, \$239,757 and \$174,420 were in excess of FDIC limits and not covered by the Act at June 30, 2016 and 2015, 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, 2016 and 2015 of \$210,319 and \$211,123, 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, 2016 and 2015, the Authority had an investment of \$15,222 and \$15,173, respectively, in the LGIP.

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, 2016 and 2015.

4. Capital Assets

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

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Capital assets not being depreciated:				
Land and easements	<u>\$ 1,577,244</u>	<u>\$ 597,920</u>	<u>\$ -</u>	<u>\$ 2,175,164</u>
Other capital assets:				
Equipment	236,760	12,270	-	249,030
Improvements	<u>19,644,782</u>	<u>292,469</u>	<u>436,295</u>	<u>19,500,956</u>
Total other capital assets at historical cost	<u>19,881,542</u>	<u>304,739</u>	<u>436,295</u>	<u>19,749,986</u>
Accumulated equipment	201,872	10,929	-	212,799
Improvements	<u>13,190,471</u>	<u>789,342</u>	<u>-</u>	<u>13,979,814</u>
Total accumulated depreciation	<u>13,392,343</u>	<u>800,270</u>	<u>-</u>	<u>14,192,613</u>
Total capital assets being depreciated, net	<u>6,489,199</u>	<u>(495,531)</u>	<u>436,295</u>	<u>5,557,373</u>
Capital assets, net	<u>\$ 8,066,443</u>	<u>\$ 102,389</u>	<u>\$ 436,295</u>	<u>\$ 7,732,537</u>

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.

Chesapeake Airport Authority
Notes to Financial Statements

Activity in Series 2011 bonds payable for fiscal year 2016 and 2015 follows:

<u>Description</u>	<u>Balance June 30, 2015</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2016</u>	<u>Amount Due Within One Year</u>
Total bonds outstanding	\$ 995,000	\$ -	\$ (90,000)	\$ 905,000	\$ 90,000

<u>Description</u>	<u>Balance June 30, 2014</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2015</u>	<u>Amount Due Within One Year</u>
Total bonds outstanding	\$ 1,080,000	\$ -	\$ (85,000)	\$ 995,000	\$ 90,000

Series 2011 Debt service is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 90,000	\$ 23,564	\$ 113,564
2018	90,000	21,098	111,098
2019	95,000	18,563	113,563
2020	100,000	15,892	115,892
2021	100,000	13,152	113,152
2022-2025	430,000	23,838	453,838
	<u>\$ 905,000</u>	<u>\$ 116,107</u>	<u>\$ 1,021,107</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 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 June 30,</u>	
2017	\$ 27,000
2018	27,000
2019	27,000
2020	27,000
2021	27,000
2022-2023	88,100
	<u>\$ 223,100</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, 2016 and 2015

Haynes et. al. v. CAA

The matter was concluded on February 5, 2016 when the Supreme Court of Virginia refused a petition to set aside a prior judgement in favor of Chesapeake Airport Authority and rehear the petition. It is the opinion of the Authority that the matter is finished.

CAA v. Deal Property LLC

In order to comply with the requirements of the Federal Aviation Administration (FAA), on December 10, 2012, the CAA filed a petition for condemnation in the Circuit Court of the City of Chesapeake in order to take a portion of the property belonging to Deal Property, LLC. The property to be taken is within the confines of the Runway Protection Zone (RPZ) of Runway 05 at Chesapeake Regional Airport, and was acquired to ensure the safety of aircraft approaching to land at the airport, the FAA requires that the CAA control the RPZ in its entirety.

The parties reached agreement on compensation in April 2016 and CAA has been granted suitable title subject to a restrictive use easement upon that property.

CAA v. West Road Real Estate Investment Trust (REIT)

In order to comply with the requirements of the Federal Aviation Administration (FAA), on December 10, 2012, the CAA filed a petition for condemnation in the Circuit Court of the City of Chesapeake in order to take a portion of the property belonging to West Road REIT. The property to be taken is within the confines of the Runway Protection Zone (RPZ) of Runway 05 at Chesapeake Regional Airport, and was acquired to ensure the safety of aircraft approaching to land at the airport, the FAA requires that the CAA control the RPZ in its entirety. The parties agreed to a mediation hearing in lieu of trial. The mediation was paused in August 2014 to gather clarification on valuation issues. Mediation resumed July 22, 2015.

On July 22, 2015, all parties came to an agreement, whereas, the Chesapeake Airport Authority agreed to pay \$330,000 for an easement on the property in question.

8. Pension Plan

Plan description

The Authority joined the City of Chesapeake Employees' Pension Plan, a cost sharing 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 keeping with the pension funding policy of the City of Chesapeake, this 5% contribution has been assumed by the Authority. 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 2016 and 2015 was 15.85% and 15.04%, respectively, of annual payroll for full-time employees.

Annual pension cost

The Authority's contributions to the VRS for 2016 and 2015 were \$19,685 and \$19,776, respectively, equal to the required contributions for each year.

9. Subsequent Event

On August 30, 2016, the Authority was awarded a grant from the FAA in the amount of \$121,500 for land acquisition for an easement for approaches at the Airport. The grant required state and local matching in the amount of 8% and 2%, respectively, bringing the total grant to \$135,000. The grant is for a four year term beginning on the date the Authority signed the agreement, September 6, 2016.

Compliance Report

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

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 and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the accompanying financial statements of Chesapeake Airport Authority which collectively comprise the Authority's basic financial statements as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, and have issued our report thereon dated September 12, 2016.

Internal Control over Financial Reporting

In planning and performing our audits 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 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 12, 2016.

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

Dixon Hughes Goodman LLP

**Newport News, Virginia
September 12, 2016**