

PENINSULA AIRPORT COMMISSION
A Component Unit of the City of Newport News, Virginia

**FINANCIAL REPORT AND
SUPPLEMENTARY INFORMATION**

June 30, 2019

CONTENTS

| | |
|---|----|
| INDEPENDENT AUDITOR'S REPORT..... | 1 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS..... | 3 |
| BASIC FINANCIAL STATEMENTS | |
| Statement of Net Position..... | 9 |
| Statement of Revenue, Expenses and Changes in Net Position | 11 |
| Statement of Cash Flows..... | 12 |
| Notes to Financial Statements..... | 14 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| Schedule of Changes in Net Pension Liability (Asset) and Related Ratios | 38 |
| Schedule of Changes in Total Healthcare OPEB Liability and Related Ratios | 39 |
| Schedule of Employer's Share of Net Group Life Insurance OPEB Liability | 40 |
| Schedule of Employer Contributions | 41 |
| Notes to Required Supplementary Information..... | 42 |
| SUPPLEMENTARY INFORMATION | |
| Schedule of Operating Income | 44 |
| Schedule of Income (Loss) from Operations before Depreciation per Activity..... | 45 |
| Schedule of Pledged Revenue Coverage..... | 46 |
| Schedule of Collections and Expenditures of Passenger Facility Charges | 47 |

CONTENTS (Continued)

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 <i>Government Auditing Standards</i> | 48 |
| Independent Auditor's Report on Compliance with Requirements Applicable to the Passenger Facility Charge Program and on Internal Control over Compliance in Accordance with the <i>Passenger Facility Charge Audit Guide for Public Agencies</i> | 50 |
| Summary of Compliance Matters..... | 52 |
| Schedule of Findings and Responses | 53 |
| Status of Prior Year Findings | 54 |

PENINSULA AIRPORT COMMISSION

COMMISSION MEMBERS

| | |
|-----------------|---------------------|
| Sharon P. Scott | Chair |
| Jay Joseph | Vice-Chair |
| Thomas Herbert | Treasurer |
| Lindsey Smith | Secretary |
| Rob Coleman | Assistant Treasurer |
| George Wallace | Assistant Secretary |

INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Peninsula Airport Commission
Newport News, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Peninsula Airport Commission (a Component Unit of the City of Newport News, Virginia) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Peninsula Airport Commission's, component unit of the City of Newport News, Virginia, 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 audit. We conducted our audit in accordance with 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; and the *Specification for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications 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 the Peninsula Airport Commission, as of June 30, 2019, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Summarized Comparative Information

The financial statements of Peninsula Airport Commission as of June 30, 2018, were audited by other auditors whose report dated October 31, 2018, expressed an unmodified opinion on those financial statements. The 2018 financial information is provided for comparative purposes only.

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 8; the schedules of changes in net pension liability and related ratios, schedule of changes in total healthcare OPEB liability and related ratios, schedule of changes in net GLI OPEB liability and related ratios, and schedules of employer contributions on pages 38 through 42, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Peninsula Airport Commission's basic financial statements. The listing of Commission members and the supplementary information in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of collections and expenditures of passenger facility charges are presented for purposes of additional analysis as required by the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, and are not a required part of the basic financial statements.

The supplementary information on pages 44 and 47 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2019, on our consideration of the Peninsula Airport Commission'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 solely 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 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 Peninsula Airport Commission's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Newport News, Virginia
October 18, 2019

PENINSULA AIRPORT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

Management's Discussion and Analysis (MD&A) of the Peninsula Airport Commission's (Commission) activities and financial performance provides the reader with an introduction and overview to the basic financial statements of the Commission for the fiscal year ended June 30, 2019. The Commission is directly responsible for the operation of the Newport News-Williamsburg International Airport's (PHF or Airport) activities. The information contained in MD&A should be considered in conjunction with the financial statements and various historic summaries of activities and financial performance included in this report.

Following MD&A are the basic financial statements of the Commission together with the notes thereto, which are essential to a full understanding of the data contained in the financial statements. In addition to the basic financial statements and accompanying notes, this section also presents certain supplementary information regarding debt service requirements to maturity and information regarding capital acquisition and construction activities.

Airport Activities and Highlights

Newport News-Williamsburg International Airport activities increased (decreased) in major areas in relation to previous years as follows:

| | <u>2019</u> | <u>2018</u> |
|--------------------------|-------------|-------------|
| Enplanements | 204,052 | 203,777 |
| % Increase (decrease) | .13% | .28% |
| Aircraft operations | 94,661 | 90,039 |
| % Increase (decrease) | 5.13% | (8.40%) |
| Landed weight | 230,356,896 | 237,992,053 |
| % Increase (decrease) | (3.21%) | (1.46%) |
| Parking (vehicles) | 91,383 | 94,104 |
| % Increase (decrease) | (2.89%) | (5.18%) |
| Parking (revenue) | \$1,801,311 | \$1,884,994 |
| % Increase (decrease) | (4.44%) | .24% |
| Rental car commissions | \$1,334,093 | \$1,240,546 |
| % Increase (decrease) | 7.54% | (2.16%) |
| Customer facility charge | \$1,227,051 | \$1,089,513 |
| % Increase (decrease) | 12.62% | (6.66%) |

While the numbers above paint an accurate depiction of the past few fiscal years, for one to truly gain a solid basis for evaluation, outside influences to that fiscal climate must be denoted. This past year, considering the environment from which this airport has navigated, which included public litigation regarding past management, the numbers are actually a precursor to a story of recovery and future growth. Weighted by that past, the first six months of the fiscal year, particularly in enplanements, which subsequently effects parking revenue, were not strong. A strong final six months of the fiscal year helped post more respectable annual numbers. The silver lining is that the trend looks very good heading into the coming fiscal year, specifically in enplanements.

(Continued)

PENINSULA AIRPORT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS June 30, 2019

There continues to be a serious lack of options available for customers, with only two existing air carriers, American Airlines and Delta providing commercial service to just three destinations. Despite these limited service options, the public has responded that they want to fly PHF versus other airports within driving distance when possible as load factors remain strong at around 80%, with a growth of just under 2% from the previous year. Continuing to engage airlines and pursue reasonable options to increase air service remain the top priority for management. At the end of the fiscal year, a significant step was put in motion through the submission of a Small Community Air Service Grant to the US DOT, with a goal of spawning non-stop service to Washington Dulles in the near future. Through enplanements, peninsula area residents are making it clear with their wallets that they want and will support service through PHF, provided it is to the right destinations for a competitive price.

At June 30, 2019, the Airport was served by American Airlines and Delta Air Lines/Delta Connection.

Financial Operations Highlights

Net position decreased by \$4.5 million in 2019 compared to a \$3.3 million decrease in 2018.

- Operating income increased by 7.00% from \$8.1 million to \$8.7 million due an increase in airline and rental car revenue, as well as increased sales from the Take PHFlight restaurant.
- Cost of sales from Take PHFlight restaurant increased by 9.94% from \$429 thousand to \$472 thousand as a result of increased sales during the fiscal year.
- Operating expenses increased by 1.29% from \$7.5 million to \$7.6 million as a result of increases in personnel costs, utilities, and marketing costs offset by a reduction in OPEB expense.
- Depreciation expense decreased slightly by 1.21% from \$8.0 million to \$7.9 million as a result of assets primarily in the administrative, maintenance and airfield areas being fully depreciated in the current fiscal year.
- The above factors resulted in a loss from operations of \$301 thousand less than the 2018 results. This 4.09% decreased compared to the prior year's loss was due to the decrease in legal costs and depreciation expense.
- Nonoperating income (expenses) decreased by approximately \$357 thousand from 2018, with a net nonoperating loss of \$319 thousand in 2019 compared to a net loss of \$676 thousand in 2018. This decrease in net loss from nonoperating activity was primarily the result of the loss on the retirement of assets.
- Capital contributions received in the form of grants from the federal government and Commonwealth of Virginia decreased by 39.77% from \$5.2 million in 2018 to \$3.1 million in 2019 due to the timing of capital projects.
- Capital projects that were completed or started in FY 2019 included an airfield perimeter road design - \$297 thousand, repaving of terminal roads & parking lot - \$301 thousand, airfield wetland & security projects - \$152 thousand, terminal equipment - \$41 thousand, maintenance equipment - \$27 thousand, wetlands mitigation - \$29 thousand, and a new beacon - \$23 thousand. There is \$91 thousand in terminal equipment that incurred no additional costs in FY 2019 and was still open at year end.

(Continued)

PENINSULA AIRPORT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

Financial Operations Highlights (Continued)

Summary of Operations and Changes in Net Position

| | <u>2019</u> | <u>2018</u> |
|--|-----------------------|-----------------------|
| Operating income | \$ 8,669,959 | \$ 8,102,495 |
| Cost of sales | 471,695 | 429,048 |
| Operating expenses | <u>7,616,915</u> | <u>7,520,253</u> |
| Income from operations before depreciation | 581,349 | 153,194 |
| Depreciation | <u>7,867,862</u> | <u>7,964,440</u> |
| Loss before other nonoperating income and expenses | (7,286,513) | (7,811,246) |
| Other nonoperating income and expenses, net | <u>(318,764)</u> | <u>(675,866)</u> |
| Loss before capital contributions | (7,605,277) | (8,487,112) |
| Capital contributions | <u>3,121,562</u> | <u>5,182,855</u> |
| Change in net position | <u>\$ (4,483,715)</u> | <u>\$ (3,304,257)</u> |

Financial Position Summary

Net position may serve over time as a useful indicator of the Commission's financial position. The Commission's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$84.0 million at June 30, 2019, a \$4.5 million decrease from June 30, 2018.

| | <u>2019</u> | <u>2018</u> |
|----------------------------------|----------------------|----------------------|
| Assets: | | |
| Current and other assets | \$ 10,919,623 | \$ 8,690,333 |
| Capital assets | <u>88,699,140</u> | <u>95,831,447</u> |
| Total assets | <u>99,618,763</u> | <u>104,521,780</u> |
| Deferred outflows of resources | <u>273,648</u> | <u>348,491</u> |
| Liabilities: | | |
| Long-term liabilities | 12,324,589 | 14,144,163 |
| Current liabilities | <u>1,178,666</u> | <u>1,218,328</u> |
| Total liabilities | <u>13,503,255</u> | <u>15,362,491</u> |
| Deferred inflows of resources | <u>2,380,727</u> | <u>1,015,636</u> |
| Net position: | | |
| Net investment in capital assets | 81,199,082 | 87,827,944 |
| Restricted | 8,592,284 | 5,968,432 |
| Unrestricted | <u>(5,782,937)</u> | <u>(5,304,232)</u> |
| Total net position | <u>\$ 84,008,429</u> | <u>\$ 88,492,144</u> |

The largest portion of the Commission's net position each year (96.7% at June 30, 2019), represents its investment in capital assets (e.g., land, buildings, improvements, and equipment), less the related indebtedness outstanding used to acquire those capital assets. The Commission uses these capital assets to provide services to its passengers and visitors to the Airport; consequently these assets are not available for future spending. Although the Commission's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be liquidated to pay liabilities.

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PENINSULA AIRPORT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

Financial Operations Highlights (Continued)

Financial Position Summary (Continued)

An additional portion of the Commission's net position (10.2% at June 30, 2019), represents federal and state grant funds that are subject to external restrictions as well as the net pension asset. These restrictions stipulate how funds can be used. Annual entitlement funds from the Commonwealth of Virginia can be used for 100% of the nonfederal portion of projects that are funded under provisions of the Federal Airport Improvement Program as well as other approved uses as stipulated in the Airport Program Manual. Passenger Facility Charge Funds are reserved for Federal Aviation Administration and Airline approved projects.

Airport Rates and Charges

The Commission established an Airline Use and Lease Agreement (Agreement) effective November 1, 1992, which in part establishes the rates and charges for the use of the Airport. Landing fees are \$1.75 per 1,000 lbs. of landed weight at June 30, 2019. Terminal rental rates are \$29 per square foot at June 30, 2019. The Commission also has the ability under the Agreement to adjust Airport rates and charges annually to ensure adherence to all financial covenants in its bond resolutions. It establishes new rates and charges for the use of its facilities and for services provided to its customers on an annual basis. Airline permits were negotiated with the airlines in 2012 and are on a month-to-month schedule. New Airport rates and charges were approved in FY 2019 and went into effect on July 1, 2018.

Revenue

A summary of revenue is as follows:

| | <u>2019</u> <u>Amount</u> | <u>Percent</u> <u>of Total</u> | <u>2018</u> <u>Amount</u> | <u>Percent</u> <u>of Total</u> |
|----------------------------------|------------------------------|-----------------------------------|------------------------------|-----------------------------------|
| Operating: | | | | |
| Airfield | \$ 1,683,391 | 19.4% | \$ 1,518,833 | 18.7% |
| Terminal and landside | 6,022,144 | 69.5% | 5,620,471 | 69.2% |
| Other rents | 501,497 | 5.8% | 484,558 | 6.0% |
| Trailer park rents | 423,053 | 4.9% | 457,930 | 5.6% |
| Administrative and miscellaneous | 38,787 | 0.4% | 11,168 | 0.1% |
| Maintenance reimbursement | 1,087 | 0.0% | 9,535 | 0.1% |
| Total operating | <u>8,669,959</u> | <u>100.0%</u> | <u>8,102,495</u> | <u>99.7%</u> |
| Nonoperating: | | | | |
| Federal grants | - | 0.0% | 22,834 | 0.3% |
| Interest income | 1,183 | 0.0% | 50 | 0.0% |
| Total nonoperating | <u>1,183</u> | <u>0.0%</u> | <u>22,884</u> | <u>0.3%</u> |
| Total revenue | <u>\$ 8,671,142</u> | <u>100.0%</u> | <u>\$ 8,125,379</u> | <u>100.0%</u> |

(Continued)

PENINSULA AIRPORT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

Financial Operations Highlights (Continued)

Expenses

A summary of expenses is as follows:

| | <u>2019</u> <u>Amount</u> | <u>Percent</u> <u>of Total</u> | <u>2018</u> <u>Amount</u> | <u>Percent</u> <u>of Total</u> |
|----------------------------------|------------------------------|-----------------------------------|------------------------------|-----------------------------------|
| Cost of sales | \$ 471,695 | 2.9% | \$ 429,048 | 2.6% |
| Operating: | | | | |
| Airfield | 1,018,436 | 6.3% | 907,488 | 5.5% |
| Terminal and Landside | 2,408,360 | 14.8% | 2,300,100 | 13.8% |
| Other rents | 447,775 | 2.8% | 351,921 | 2.1% |
| Trailer park rents | 440,955 | 2.7% | 414,336 | 2.5% |
| Administrative and miscellaneous | 2,884,313 | 17.7% | 3,183,238 | 19.2% |
| Maintenance | <u>417,076</u> | <u>2.5%</u> | <u>363,170</u> | <u>2.2%</u> |
| Total operating | <u>7,396,021</u> | <u>46.8%</u> | <u>7,075,681</u> | <u>45.3%</u> |
| Depreciation | <u>7,867,862</u> | <u>48.3%</u> | <u>7,964,440</u> | <u>47.9%</u> |
| Nonoperating: | | | | |
| Interest expense | 313,809 | 1.9% | 350,111 | 2.1% |
| Loss on sale of assets | <u>6,138</u> | <u>0.0%</u> | <u>348,639</u> | <u>2.1%</u> |
| Total nonoperating | <u>319,947</u> | <u>1.9%</u> | <u>698,750</u> | <u>4.2%</u> |
| Total expenses | <u>\$ 16,276,419</u> | <u>100.0%</u> | <u>\$ 16,612,491</u> | <u>100.0%</u> |

Summary of Cash Flow Activities

The following shows a summary of the major sources and uses of cash and cash equivalents for the past two years. Cash equivalents are considered cash-on-hand and bank deposits with an original maturity of three months or less.

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| Cash flow from operating activities | \$ 355,756 | \$ 385,118 |
| Cash flow from noncapital financing activities | - | 22,834 |
| Cash flow from capital and related financing activities | 2,044,877 | 4,745,762 |
| Cash flow from investing activities | <u>(2,364,284)</u> | <u>(3,870,801)</u> |
| Net change in cash and cash equivalents | 36,349 | 1,282,913 |
| Cash and cash equivalents, beginning of period | <u>1,592,774</u> | <u>309,861</u> |
| Cash and cash equivalents, end of period | <u>\$ 1,629,123</u> | <u>\$ 1,592,774</u> |

The Commission's available cash and cash equivalents remained consistent between 2018 and 2019. Capital contributions of State Entitlement Funds from the Virginia Department of Aviation returned to historical levels. In addition, spending on capital improvements decreased during the current fiscal year.

(Continued)

PENINSULA AIRPORT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS June 30, 2019

Financial Operations Highlights (Continued)

Financial Statements

The Commission's financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The Commission is structured as a single enterprise fund with operating income recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and (except land) are depreciated over their useful lives. Reference the notes to the financial statements for a summary of the Commission's significant accounting policies.

Capital Acquisitions and Construction Activities

During FY 2019, the Commission expended \$744 thousand on capital activities. This included costs incurred during 2019 for \$301 thousand on the terminal road & parking lot repavement projects, \$342 thousand on airfield projects, and \$101 thousand on other miscellaneous projects. During 2019, completed projects totaling \$520 thousand were closed from construction-in-progress to their respective capital accounts.

Capital asset acquisitions and improvements, exceeding \$5,000, are capitalized at cost. Acquisitions are funded using a variety of financing techniques, including federal grants with matching state grants and Airport funds, debt issuance, and Airport revenue.

Long-Term Debt

In 2002, the Airport issued \$2,500,000 of Virginia Resources Authority Airport Improvement Revenue Bonds, Subordinate Series 2002, at 4.5% interest, maturing in July 2027. The Airport used the proceeds to pay down \$2,500,000 of 3.93% short-term financing. State entitlement funds are designated for payment of these bonds. During 2016, the interest rate was reduced to 2.75%

Balance outstanding June 30, 2019 - \$1,077,522; 2018 - \$1,197,733.

In 2006, the Airport issued \$7,000,000 of Airport Improvements Bonds, Unsecured Tax-Exempt Bond, Series 2005A, dated December 21, 2005, at 4.30% interest, maturing in January 2032. The Airport used the proceeds to pay for the construction of a parking garage.

Balance outstanding June 30, 2019 - \$4,414,878; 2018 - \$4,676,272.

In 2006, the Airport issued \$3,000,000 of Airport Improvements Bonds, Unsecured Taxable Bond, Series 2005B, dated December 21, 2005, at 5.81% interest, maturing in January 2032. During 2018, the interest rate was reduced to 3.95%. The Airport used the proceeds to pay for the construction of a parking garage.

Balance outstanding June 30, 2019 - \$2,007,658; 2018 - \$2,129,498.

Request for Information

This financial report is designed to provide a general overview of the Commission's finances for all those interested. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the Director of Finance and Administration, Peninsula Airport Commission, Newport News - Williamsburg International Airport, 900 Bland Boulevard, Newport News, VA 23602 or by email to rcarr@flyphf.com.

PENINSULA AIRPORT COMMISSION

STATEMENT OF NET POSITION

June 30, 2019

| | 2019 | For Comparative Purposes Only 2018 |
|--|---------------|---|
| | <hr/> | <hr/> |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents (Note 3) | \$ 1,629,123 | \$ 1,592,774 |
| Accounts receivable, less allowance for doubtful accounts - \$5,000 for 2019 and \$6,346 for 2018 | 567,383 | 528,104 |
| Accounts receivable - Federal Aviation Administration (Note 4) | 31,215 | 510,683 |
| Inventories | 45,540 | 55,948 |
| Prepaid expenses | 54,078 | 34,392 |
| | <hr/> | <hr/> |
| Total current assets | 2,327,339 | 2,721,901 |
| | <hr/> | <hr/> |
| CAPITAL ASSETS (Note 5) | | |
| Land | 6,769,250 | 6,766,135 |
| Airfield | 90,658,261 | 90,534,862 |
| Terminal | 89,367,640 | 89,549,984 |
| Other | 6,422,304 | 6,461,603 |
| Trailer park and rental units | 1,548,885 | 1,548,885 |
| Construction-in-progress | 444,706 | 221,424 |
| | <hr/> | <hr/> |
| | 195,211,046 | 195,082,893 |
| Accumulated depreciation | (106,511,906) | (99,251,446) |
| | <hr/> | <hr/> |
| | 88,699,140 | 95,831,447 |
| | <hr/> | <hr/> |
| OTHER ASSETS | | |
| Net pension asset - restricted (Note 9) | 261,500 | - |
| Cash and cash equivalents - restricted (Notes 3 and 6) | 8,330,784 | 5,968,432 |
| | <hr/> | <hr/> |
| | 8,592,284 | 5,968,432 |
| | <hr/> | <hr/> |
| Total assets | 99,618,763 | 104,521,780 |
| | <hr/> | <hr/> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Pension deferrals (Note 9) | 147,248 | 232,819 |
| Healthcare OPEB deferrals (Note 10) | 104,670 | 103,860 |
| GLI OPEB deferrals (Note 11) | 21,730 | 11,812 |
| | <hr/> | <hr/> |
| Total deferred outflows of resources | 273,648 | 348,491 |
| | <hr/> | <hr/> |
| | \$ 99,892,411 | \$ 104,870,271 |
| | <hr/> | <hr/> |

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

PENINSULA AIRPORT COMMISSION

STATEMENT OF NET POSITION

(Continued)

June 30, 2019

| | 2019 | For Comparative Purposes Only 2018 |
|--|----------------------|---|
| | <u>2019</u> | <u>2018</u> |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Current maturities of long-term debt (Note 8) | \$ 521,763 | \$ 502,109 |
| Accounts payable | 256,992 | 293,618 |
| Accrued liabilities | 370,659 | 393,028 |
| Security deposits | 29,252 | 29,573 |
| | <u>1,178,666</u> | <u>1,218,328</u> |
| LONG-TERM LIABILITIES | | |
| Long-term debt, less current maturities (Note 8) | 6,978,295 | 7,501,394 |
| Net pension liability (Note 9) | - | 317,803 |
| Total healthcare OPEB liability (Note 10) | 5,164,294 | 6,137,966 |
| Net GLI OPEB liability (Note 11) | 182,000 | 187,000 |
| | <u>13,503,255</u> | <u>15,362,491</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Pension deferrals (Note 9) | 415,497 | 142,112 |
| Healthcare OPEB deferrals (Note 10) | 1,931,230 | 840,524 |
| GLI OPEB deferrals (Note 11) | 34,000 | 33,000 |
| | <u>2,380,727</u> | <u>1,015,636</u> |
| NET POSITION | | |
| Net investment in capital assets | 81,199,082 | 87,827,944 |
| Restricted | 8,592,284 | 5,968,432 |
| Unrestricted | (5,782,937) | (5,304,232) |
| | <u>84,008,429</u> | <u>88,492,144</u> |
| Total net position | <u>\$ 99,892,411</u> | <u>\$ 104,870,271</u> |

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

PENINSULA AIRPORT COMMISSION

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
Year Ended June 30, 2019

| | <u>2019</u> | <u>For Comparative Purposes Only 2018</u> |
|-----------------------------------|-----------------------------|---|
| OPERATING INCOME | \$ 8,669,959 | \$ 8,102,495 |
| COST OF SALES | <u>(471,695)</u> | <u>(429,048)</u> |
| Gross profit | 8,198,264 | 7,673,447 |
| OPERATING EXPENSES | (7,616,915) | (7,520,253) |
| DEPRECIATION | <u>(7,867,862)</u> | <u>(7,964,440)</u> |
| Loss from operations | <u>(7,286,513)</u> | <u>(7,811,246)</u> |
| NONOPERATING INCOME (EXPENSES) | | |
| Federal grants | - | 22,834 |
| Interest income | 1,183 | 50 |
| Interest expense | (313,809) | (350,111) |
| Loss on sale of capital assets | <u>(6,138)</u> | <u>(348,639)</u> |
| Total nonoperating expenses | <u>(318,764)</u> | <u>(675,866)</u> |
| Loss before capital contributions | (7,605,277) | (8,487,112) |
| CAPITAL CONTRIBUTIONS | <u>3,121,562</u> | <u>5,182,855</u> |
| Change in net position | (4,483,715) | (3,304,257) |
| NET POSITION, beginning of year | <u>88,492,144</u> | <u>91,796,401</u> |
| Net position, end of year | <u><u>\$ 84,008,429</u></u> | <u><u>\$ 88,492,144</u></u> |

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

PENINSULA AIRPORT COMMISSION

STATEMENT OF CASH FLOWS

Year Ended June 30, 2019

| | <u>2019</u> | <u>For Comparative Purposes Only 2018</u> |
|--|--------------|---|
| OPERATING ACTIVITIES | | |
| Receipts from customers and users | \$ 8,630,680 | \$ 8,113,706 |
| Payments to suppliers for goods and services | (4,174,648) | (3,594,542) |
| Payments to employees | (4,100,276) | (4,134,046) |
| | <hr/> | <hr/> |
| Net cash provided by operating activities | 355,756 | 385,118 |
| | <hr/> | <hr/> |
| NONCAPITAL FINANCING ACTIVITIES | | |
| Noncapital contributions from federal grants | - | 22,834 |
| | <hr/> | <hr/> |
| CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Purchase of property and equipment | (743,709) | (461,981) |
| Proceeds from sale of assets | 5,131 | - |
| Changes in security deposits | (321) | 402 |
| Principal payments on long-term debt | (503,445) | (465,357) |
| Interest payments on long-term debt | (313,809) | (350,111) |
| Capital contributions | 3,601,030 | 6,022,809 |
| | <hr/> | <hr/> |
| Net cash provided by capital and and related financing activities | 2,044,877 | 4,745,762 |
| | <hr/> | <hr/> |
| INVESTING ACTIVITIES | | |
| Investment in future projects | (3,115) | (6,904) |
| Interest received on cash and investments | 1,183 | 50 |
| Change in restricted cash and investments | (2,362,352) | (3,863,947) |
| | <hr/> | <hr/> |
| Net cash used by investing activities | (2,364,284) | (3,870,801) |
| | <hr/> | <hr/> |
| Net increase in cash and cash equivalents | 36,349 | 1,282,913 |
| | <hr/> | <hr/> |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | 1,592,774 | 309,861 |
| | <hr/> | <hr/> |
| End of year | \$ 1,629,123 | \$ 1,592,774 |
| | <hr/> <hr/> | <hr/> <hr/> |

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

PENINSULA AIRPORT COMMISSION

STATEMENT OF CASH FLOWS
Year Ended June 30, 2019

(Continued)

| | <u>2019</u> | <u>For Comparative Purposes Only 2018</u> |
|--|-------------------|---|
| RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Loss from operations | \$ (7,286,513) | \$ (7,811,246) |
| Adjustments to reconcile loss from operations to net cash provided by operating activities: | | |
| Depreciation | 7,867,862 | 7,964,440 |
| Change in current assets and liabilities: | | |
| Accounts receivable, net | (39,279) | 11,211 |
| Inventories | 10,408 | 7,459 |
| Prepaid expenses | (19,686) | 68,853 |
| Accounts payable | (36,626) | (131,631) |
| Accrued liabilities | (22,369) | (88,016) |
| Net pension liability (asset) and related deferred inflows/outflows of resources | (220,347) | 35,149 |
| Net OPEB liability and related deferred inflows/outflows of resources | 102,306 | 328,899 |
| | <u>\$ 355,756</u> | <u>\$ 385,118</u> |
| Net cash provided by operating activities | | |
| NONCASH SUPPLEMENTAL DISCLOSURES | | |
| Contributed capital funded by accounts receivable - FAA at June 30 | <u>\$ 31,215</u> | <u>\$ 510,683</u> |

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

PENINSULA AIRPORT COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

1. Organization and Nature of Business

The Peninsula Airport Commission (Commission) is a municipal corporation created by the Virginia General Assembly in February 1946. The Commission is directly responsible for operation of the Newport News - Williamsburg International Airport (Airport) and is the owner of approximately 2,000 acres of property surrounding the Airport. A Board of Commissioners consisting of six members, four appointed by the City of Newport News, Virginia (City) and two by the City of Hampton, Virginia, exercise oversight responsibility. Professional management conducts the day-to-day operations of the Commission.

The Commission is considered a component unit of the City for governmental accounting standards purposes. The criteria for including the Commission within the City's reporting entity, as set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, and amended by GASB Statement No. 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statement No. 14 and No. 34, 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. The City appoints four of the Commission's six board members.

2. Summary of Significant Accounting Policies

Method of accounting

The Commission's financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The Commission reports as a business-type activity, as defined by the Governmental Accounting Standards Board (GASB). Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. The Commission's activities are accounted for similar to those often found in the private sector using the flow of economic resources measurement focus and the accrual basis of accounting. The Commission is structured as a single enterprise fund with operating income recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid.

Operating income

The Commission's main sources of operating income are from operation of the Newport News-Williamsburg International Airport, parking facilities and rental fees from operation of a trailer park.

Cash and cash equivalents

The Commission includes all cash accounts not subject to withdrawal restrictions or penalties and all highly liquid debt instruments with an original purchased maturity of three months or less as cash and cash equivalents in the accompanying statements of net position.

Inventories

Inventories consisting of maintenance and janitorial supplies are valued at the lower of cost or net realizable value on the first-in, first-out (FIFO) basis, and are not for resale. The cost is recorded as an operating expense as inventory items are consumed.

(Continued)

PENINSULA AIRPORT COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

2. Summary of Significant Accounting Policies (Continued)

Inventories consisting of food and beverage are valued at the lower of cost or net realizable value on the FIFO basis. The cost is recorded in cost of sales as inventory items are sold.

Capital assets

Capital assets are stated at cost or fair value at the date of acquisition if acquired without cost. Capital acquisitions and improvements exceeding \$5,000 are capitalized at cost. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

| | |
|-------------------------------|--------------|
| Airfield | 5 - 33 years |
| Terminal | 3 - 33 years |
| Other | 3 - 30 years |
| Trailer park and rental units | 3 - 33 years |

Maintenance and repairs, including replacement of minor items of physical properties that do not improve or extend the life of the respective assets, are expensed currently.

Income taxes

The Commission is exempt from federal and state income taxes under provisions of Section 115 of the Internal Revenue Code of 1954, as amended, and the statutes of the Commonwealth of Virginia.

Allowance for doubtful accounts

The Commission evaluates its accounts receivable individually. A charge to income to absorb possible credit losses is provided when, in the opinion of management, it is appropriate.

Estimates

The preparation of 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 the disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affected the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Use of restricted/unrestricted net position

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the Commission's policy is to apply restricted net position first.

Advertising

Advertising costs are charged to operations when incurred. During 2019, the Commission expensed \$264,538 in advertising costs within operating expenses.

(Continued)

PENINSULA AIRPORT COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

2. Summary of Significant Accounting Policies (Continued)

Virginia Retirement System (VRS) Pensions and Other Postemployment Benefits (OPEB):

For purposes of measuring all financial statement elements related to pension and OPEB plans, information about the fiduciary net position of the Commission's Plans and the additions to/deductions from the Commission's Plan's net fiduciary position have been determined on the same basis as they were reported by the VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred outflows/inflows of resources:

In addition to assets, the statements that presents net position reports a separate section for deferred outflows of resources. These items represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources until then. In addition to liabilities, the statements that presents financial position reports a separate section for deferred inflows of resources. These items represent an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources until that time. The Commission has the following items that qualifies for reporting as either deferred inflows or outflows:

- Contributions subsequent to the measurement date for pensions and OPEB are always a deferred outflow; this will be applied to the net pension or OPEB liability in the next fiscal year.
- Differences between expected and actual experience for economic/demographic factors in the measurement of the total pension or OPEB liability. These differences will be recognized in pension or OPEB expense over the expected average remaining service life of all employees provided with benefits in the plan and may be reported as a deferred inflow or outflow.
- Differences resulting from changes in assumptions on pension plan or OPEB investments. These differences will be recognized in pension or OPEB expense over the estimated remaining service life of employees subject to the plan.
- Difference between projected and actual earnings on pension and OPEB plan investments. This difference will be recognized in pension or OPEB expense over the closed five year period and may be reported as a deferred inflow.
- Difference resulting from a change in the Commission's proportion of the collective net OPEB liability. This difference will be recognized in OPEB expense over the expected average remaining service life of all employees provided with benefits in the plan and may be reported as a deferred inflow.

Reclassifications

Certain reclassifications have been made to the 2018 basic financial statements to conform to the 2019 financial statement presentation. Total net position and change in net position are unchanged due to these reclassifications.

(Continued)

PENINSULA AIRPORT COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

2. Summary of Significant Accounting Policies (Continued)

Subsequent events

In preparing these financial statements, the Commission has evaluated events and transactions for potential recognition or disclosure through October 18, 2019, the date the financial statements were available to be issued.

3. Cash and Cash Equivalents

The Commission is governed by the Virginia Security for Public Deposits Act and the Investment of Public Funds Act. The deposits held and reported at carrying value are shown below:

| Type | 2019 Carrying Value | For Comparative Purposes Only 2018 Carrying Value |
|--|------------------------------------|--|
| Demand deposits | \$ 3,634,328 | \$ 5,550,698 |
| Cash on hand | 6,011 | 6,011 |
| Money market funds | 6,319,568 | 2,004,497 |
| Total deposits | \$ 9,959,907 | \$ 7,561,206 |
| | 2019 | 2018 |
| Reconciliation to Statement of Net Position: | | |
| Current: | | |
| Cash and cash equivalents | \$ 1,629,123 | \$ 1,592,774 |
| Other assets: | | |
| Cash and cash equivalents - restricted | 8,330,784 | 5,968,432 |
| | \$ 9,959,907 | \$ 7,561,206 |

Custodial credit risk and concentration of investments

Deposits in financial institutions, reported as components of cash and cash equivalents, had a bank balance of \$10,038,848 at June 30, 2019, which was fully insured by depository insurance or secured with collateral held by the Commission's agent in its name. At June 30, 2019, amounts subject to custodial credit risk as they were uninsured by the Federal Deposit Insurance Corporation, due to exceeding the \$250,000 financial institutions limit were \$9,709,314 and were fully collateralized by securities held by the pledging financial institution. All investments, if any, evidenced by individual securities, are registered in the name of the Commission.

The Commission places no limit on the amount it may invest in any one issuer. At June 30, 2019, the Commission's concentration of credit risk from cash and investments is detailed above.

(Continued)

PENINSULA AIRPORT COMMISSION

NOTES TO FINANCIAL STATEMENTS
June 30, 2019

3. Cash and Cash Equivalents (Continued)

Investment interest rate risk

The Commission has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. No investments were held by the Commission at June 30, 2019.

Investment credit risk

The Commission has no investment policy that limits its investment choices other than the limitation of state law as follows:

1. Direct obligations of the U.S. government, its agencies, and instrumentalities to which the full faith and credit of the U.S. government is pledged, or obligations to the payment of which the full faith and credit of the Commonwealth of Virginia is pledged;
2. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out of state financial institutions;
3. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper, and repurchase agreements with certain limitations;
4. County, municipal, or school district tax supported debt obligations; bond or revenue anticipation notes; money judgments; or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality, or school district;
5. Notes or bonds secured by a mortgage or trust deed insured by the Federal Housing Administration and debentures issued by the Federal Housing Administrator, and obligations of the National Mortgage Association; and
6. Money market funds regulated by the Securities and Exchange Commission (SEC) in which investments consist of the investments mentioned in points 1., 2., 3., and 4.

4. Accounts Receivable - Federal Aviation Administration

The Virginia Department of Aviation and the Federal Aviation Administration (FAA) contribute grant funds to finance construction costs for Airport improvements and terminal expansion. At June 30, 2019, \$31,215 was receivable by the Commission on cost reimbursable grants.

PENINSULA AIRPORT COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

5. Capital Assets

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

| | <u>Balance July 1, 2018</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance June 30, 2019</u> |
|---|-------------------------------------|-----------------------|-------------------|--------------------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 6,766,135 | \$ 3,115 | \$ - | \$ 6,769,250 |
| Construction-in-progress | <u>221,424</u> | <u>743,708</u> | <u>520,426</u> | <u>444,706</u> |
| Total capital assets not being depreciated | <u>6,987,559</u> | <u>746,823</u> | <u>520,426</u> | <u>7,213,956</u> |
| Depreciable capital assets: | | | | |
| Airfield | 90,534,862 | 123,399 | - | 90,658,261 |
| Terminal | 89,549,984 | 341,707 | 524,051 | 89,367,640 |
| Other | 6,461,603 | 55,321 | 94,620 | 6,422,304 |
| Trailer park and rental units | <u>1,548,885</u> | <u>-</u> | <u>-</u> | <u>1,548,885</u> |
| Total depreciable capital assets | <u>188,095,334</u> | <u>520,427</u> | <u>618,671</u> | <u>187,997,090</u> |
| Accumulated depreciation: | | | | |
| Airfield | 54,514,492 | 3,823,904 | - | 58,338,396 |
| Terminal | 39,778,480 | 3,700,358 | 512,782 | 42,966,056 |
| Other | 3,409,589 | 343,600 | 94,620 | 3,658,569 |
| Trailer park and rental units | <u>1,548,885</u> | <u>-</u> | <u>-</u> | <u>1,548,885</u> |
| Total accumulated depreciation | <u>99,251,446</u> | <u>7,867,862</u> | <u>607,402</u> | <u>106,511,906</u> |
| Other depreciable assets, net | <u>88,843,888</u> | <u>(7,347,435)</u> | <u>11,269</u> | <u>81,485,184</u> |
| | <u>\$95,831,447</u> | <u>\$ (6,600,612)</u> | <u>\$ 531,695</u> | <u>\$ 88,699,140</u> |

The Commission capitalized costs incurred on professional fees to obtain regulatory approval connected with potential future sale of land and will be recognized in expense in the period the transaction occurs. At June 30, 2019, \$164,592 has been capitalized and is included above in land.

(Continued)

PENINSULA AIRPORT COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

6. Restricted Cash

The Commission receives annual entitlement funds from the Commonwealth of Virginia (Commonwealth). The amount allocated to each airport is calculated on the basis of the previous calendar year's enplaned passengers at that airport as a percentage of the total enplaned passengers in the Commonwealth. Entitlement funds may be used for 100% of the nonfederal portion of projects that are funded under provisions of the Federal Airport Improvement Program and for various projects not funded by the Airport Improvement Program, including air service development projects. Restricted cash also includes the Passenger Facility Charge (PFC) disclosed in Note 14 as well as asset forfeiture funds. Asset forfeitures are funds received through federal agencies for assisting in a law enforcement effort resulting in a federal forfeiture. These funds may be used to supplement, not supplant, the law enforcement department's normal operating budget. At June 30, 2019, the Commission's restricted cash from entitlement funds, asset forfeiture funds and from PFC was \$8,330,784.

7. Compensated Absences and Sick Leave Accrual

All employees of the Commission are entitled to vacation in accordance with Commission policy. At termination or retirement, employees are paid for any unused leave up to 240 hours. The Commission has accrued \$140,928 for compensated absences as of June 30, 2019.

All employees of the Commission are also entitled to sick leave in accordance with Commission policy. At retirement, employees are paid for unused leave. The Commission has accrued \$49,054 for sick leave as of June 30, 2019. These liabilities are recorded in accrued liabilities on the statement of net position.

8. Long-Term Debt

Following is a summary of debt transactions of the Commission:

| | <u>July 1, 2018</u> | <u>Additions</u> | <u>Reductions</u> | <u>June 30, 2019</u> | <u>Amounts Due Within One Year</u> |
|----------------------------|-------------------------|------------------|-------------------|--------------------------|--|
| Airport Improvement Bonds: | | | | | |
| Series 2002 | \$ 1,197,733 | \$ - | \$ 120,211 | \$ 1,077,522 | \$ 123,559 |
| Series 2005A | 4,676,272 | - | 261,394 | 4,414,878 | 271,843 |
| Series 2005B | <u>2,129,498</u> | <u>-</u> | <u>121,840</u> | <u>2,007,658</u> | <u>126,361</u> |
| | <u>\$ 8,003,503</u> | <u>\$ -</u> | <u>\$ 503,445</u> | <u>\$ 7,500,058</u> | <u>\$ 521,763</u> |

(Continued)

PENINSULA AIRPORT COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

8. Long-Term Debt (Continued)

Long-term debt of the Commission is comprised of the following:

| | 2019 | For Comparative Purposes Only 2018 |
|--|---------------------|---|
| <p>Airport Improvement Bonds Series 2002 - In July 2002, the Commission issued \$2,500,000 of Virginia Resources Authority (VRA) Airport Improvement Revenue Bonds, Subordinate Series 2002, at 4.5% interest with monthly principal and interest payments of \$13,971. During 2016, the Commission negotiated an interest rate reduction to 2.75% for the remainder of the term of the bond, which reduced the monthly principal and interest payment to \$12,637 and accelerated the maturity date to May 2027. The bonds also contain a financial covenant with which management determined the Commission was not in compliance, but received an automatic waiver from the VRA after meeting the covenant notification requirements.</p> | \$ 1,077,522 | \$ 1,197,733 |
| <p>Airport Improvement Bonds Series 2005A - In December 2005, the Commission issued \$7,000,000 of Unsecured Tax-Exempt Bonds, at 4.30% interest. Interest only payments are required until February 2007, at which time, monthly principal and interest payments of \$38,118 are due. The bonds mature in January 2032.</p> | 4,414,878 | 4,676,272 |
| <p>Airport Improvement Bonds Series 2005B - In December 2005, the Commission issued \$3,000,000 of Unsecured Taxable Bonds, at 5.81% interest with monthly principal and interest payments of \$18,982. During 2018, the Commission negotiated an interest rate reduction to 3.95% for the remainder of the term of the bond, which reduced the monthly principal and interest payment to \$16,982. The bonds mature in January 2032.</p> | <u>2,007,658</u> | <u>2,129,498</u> |
| | 7,500,058 | 8,003,503 |
| Current maturities | <u>(521,763)</u> | <u>(502,109)</u> |
| | <u>\$ 6,978,295</u> | <u>\$ 7,501,394</u> |

(Continued)

PENINSULA AIRPORT COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

8. Long-Term Debt (Continued)

Debt service on the Commission's long-term debt is as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|---------------------------------|---------------------|---------------------|
| 2020 | \$ 521,763 | 291,087 |
| 2021 | 542,207 | 270,642 |
| 2022 | 563,475 | 249,375 |
| 2023 | 585,599 | 227,251 |
| 2024 | 608,615 | 204,235 |
| 2025-2029 | 3,097,423 | 650,892 |
| 2030-2032 | <u>1,580,976</u> | <u>91,898</u> |
| | <u>\$ 7,500,058</u> | <u>\$ 1,985,380</u> |

9. Defined Benefit Pension Plan

Plan description

All full-time, salaried permanent employees of the Commission are automatically covered by the VRS Retirement Plan upon employment. This multi-employer agent plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees - Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are available at

- <https://www.varetire.org/members/benefits/defined-benefit/plan1.asp>,
- <https://www.varetire.org/members/benefits/defined-benefit/plan2.asp>,
- <https://www.varetirement.org/hybrid.html>.

Employees covered by benefit terms

As of the June 30, 2017, actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

(Continued)

PENINSULA AIRPORT COMMISSION

NOTES TO FINANCIAL STATEMENTS
June 30, 2019

9. Defined Benefit Pension Plan (Continued)

| | Number |
|--|---------------|
| Inactive members or their beneficiaries currently receiving benefits | 39 |
| Inactive members: | |
| Vested inactive members | 9 |
| Non-vested inactive members | 18 |
| Inactive members active elsewhere in VRS | 20 |
| Total inactive members | 47 |
| Active members | 43 |
| Total covered employees | 129 |

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement.

The Commission’s contractually required contribution rate for the year ended June 30, 2019 was 4.54% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Commission were \$110,854 for the year ended June 30, 2019.

Net pension liability (asset)

The net pension liability (asset) is calculated separately for each employer and represents that particular employer’s total pension liability determined in accordance with GASB Statement No. 68, less that employer’s fiduciary net position. For political subdivisions, the net pension liability (asset) was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation performed as of June 30, 2017, rolled forward to the measurement date of June 30, 2018.

PENINSULA AIRPORT COMMISSION

NOTES TO FINANCIAL STATEMENTS
June 30, 2019

9. Defined Benefit Pension Plan (Continued)

Actuarial assumptions

The total pension liability for General Employees in the Political Subdivision’s Retirement Plan was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

| | |
|--|--------------|
| Inflation | 2.50% |
| General Employees - Salary increases, including inflation | 3.50 - 5.35% |
| Public Safety Employees with hazardous duty benefits - Salary increases, including inflation | 3.50 - 4.75% |
| Investment rate of return, net of pension plan investment expense, including inflation | 7.00%* |

*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: General employees - 15 to 20% of deaths are assumed to be service related. Public Safety Employees - 70% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2014 Mortality Table Projected to 2020 with various setbacks or set forwards for both males and females.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees - Largest 10 - Non-Hazardous Duty and All Others (Non 10 Largest): Update mortality table; lowered retirement rates at older ages, changed final retirement from 70 to 75; lowered disability rates, no change to salary scale, increased rate of line of duty disability from 14% to 20%.

Public Safety Employees - Largest 10 - Hazardous Duty and All Others (Non 10 Largest): Update mortality table; adjustment to rates of retirement by increasing rate at 50 and lowering rate at older ages; adjusted rates of withdrawal and disability to better fit experience; changes to line of duty rates, and no changes to salary scale.

PENINSULA AIRPORT COMMISSION

NOTES TO FINANCIAL STATEMENTS
June 30, 2019

9. Defined Benefit Pension Plan (Continued)

Long-term expected rate of return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class (Strategy)</u> | <u>Target Allocation</u> | <u>Arithmetic Long-Term Expected Rate of Return</u> | <u>Weighted Average Long-Term Expected Rate of Return</u> |
|-------------------------------|------------------------------|---|---|
| Public Equity | 40.00% | 4.54% | 1.82% |
| Fixed Income | 15.00% | 0.69% | 0.10% |
| Credit Strategies | 15.00% | 3.96% | 0.59% |
| Real Assets | 15.00% | 5.76% | 0.86% |
| Private Equity | 15.00% | 9.53% | 1.43% |
| | 100.00% | | 4.80% |
| | Inflation | | 2.50% |
| | | *Expected arithmetic nominal return | 7.30% |

*The above allocation provides for a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.5%.

(Continued)

PENINSULA AIRPORT COMMISSION

NOTES TO FINANCIAL STATEMENTS
June 30, 2019

9. Defined Benefit Pension Plan (Continued)

Discount rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2018, the alternate rate was the employer contribution rate used in the FY 2012 or 90% of the actuarially determined employer contribution rate from the June 30, 2015, actuarial valuations, whichever is greater. From July 1, 2018 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in net pension liability (asset)

| | Total Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (Asset) (a) - (b) |
|--|------------------------------------|--|--|
| | <u> </u> | <u> </u> | <u> </u> |
| Balances at June 30, 2017 | \$ 7,597,472 | \$ 7,279,669 | \$ 317,803 |
| Changes for the year: | | | |
| Service cost | 196,971 | - | 196,971 |
| Interest | 517,397 | - | 517,397 |
| Differences between expected and actual experience | (523,768) | - | (523,768) |
| Contributions - employer | - | 132,061 | (132,061) |
| Contributions - employee | - | 108,617 | (108,617) |
| Net investment income | - | 534,359 | (534,359) |
| Benefit payments, including refunds of employee contributions | (412,169) | (412,169) | - |
| Administrative expenses | - | (4,660) | 4,660 |
| Other changes | - | (474) | 474 |
| | <u> </u> | <u> </u> | <u> </u> |
| Net changes | (221,569) | 357,734 | (579,303) |
| Balances at June 30, 2018 | \$ 7,375,903 | \$ 7,637,403 | \$ (261,500) |

(Continued)

PENINSULA AIRPORT COMMISSION

NOTES TO FINANCIAL STATEMENTS
June 30, 2019

9. Defined Benefit Pension Plan (Continued)

Sensitivity of the net pension liability (asset) to changes in the discount rate

The following presents the net pension liability (asset) of the political subdivision using the discount rate of 7.00%, as well as what the Commission's net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

| | 1% Decrease <u>6.00%</u> | Current Discount Rate <u>7.00%</u> | 1% Increase <u>8.00%</u> |
|--|------------------------------------|--|------------------------------------|
| Commission's Net Pension Liability (Asset) | \$ <u>673,577</u> | \$ <u>(261,500)</u> | \$ <u>(1,040,134)</u> |

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions

For the year ended June 30, 2019, the Commission recognized pension expense of \$109,493. At June 30, 2019, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---------------------------------------|--------------------------------------|
| Differences between expected and actual experience | \$ 36,394 | \$ 332,612 |
| Change in assumptions | - | 20,677 |
| Net difference between projected and actual earnings on pension plan investments | - | 62,208 |
| Employer contributions subsequent to the measurement date | <u>110,854</u> | <u>-</u> |
| | <u>\$ 147,248</u> | <u>\$ 415,497</u> |

The \$110,854 reported as deferred outflows of resources related to pensions resulting from the Commission's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability (Asset) in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ending June 30,</u> | <u>Reduction to Pension Expense</u> |
|------------------------------------|--|
| 2020 | \$ (151,429) |
| 2021 | (146,628) |
| 2022 | (74,854) |
| 2023 | (6,192) |

(Continued)

PENINSULA AIRPORT COMMISSION

NOTES TO FINANCIAL STATEMENTS
June 30, 2019

9. Defined Benefit Pension Plan (Continued)

Pension plan data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

10. Other Postemployment Benefits, Healthcare

Plan description

In addition to providing the pension benefits described in Note 9, the Commission provides postemployment healthcare benefits (OPEB) for retired employees through a single-employer defined benefit plan. The benefits, benefit levels, employee contributions and employer contributions are governed by the Commission and can be amended by the Commission through its personnel manual and employment contracts. The OPEB plan does not issue a publicly available report.

Benefits provided

The Commission provides postemployment healthcare benefits to its retirees. Employees hired prior to July 1, 2010 are eligible to retire and receive postretirement medical benefits at the earlier of age 55 with at least five years of service or age 50 with 30 years of service. Employees hired on or after July 1, 2010 are eligible to retire and receive postretirement medical benefits at the earlier of age 60 with at least five years of service or when the employees’ age plus service is greater than or equal to 90.

The Commission receives health coverage through the City of Newport News, Virginia which offers medical coverage to eligible retirees and their eligible dependents through Anthem KeyCare Plans, a Humana Plan and Delta Dental. Benefits include general inpatient and outpatient medical services, dental care and prescription drugs. NonMedicare eligible retirees have a choice of three Anthem KeyCare Plans: a PPO Plan, a HMO Plan or a High-Deductible Health Plan with a health savings account. For those retirees eligible for Medicare, the Commission provides the benefits available through the Humana Plan reduced by any amounts payable by Medicare.

Employees covered by benefit terms

As of the June 30, 2018 measurement date, the following employees were covered by the benefit terms of the plan:

| | <u>Number</u> |
|--|---------------|
| Inactive employees or beneficiaries: | |
| Currently receiving benefits | 44 |
| Entitled to but not yet receiving benefits | <u>7</u> |
| Total inactive employees | 51 |
| Active plan members | <u>49</u> |
| | <u>100</u> |

PENINSULA AIRPORT COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

10. Other Postemployment Benefits, Healthcare (Continued)

Total OPEB liability

The Commission's total OPEB liability of \$5,164,294 was measured as of June 30, 2018, and was determined based on an actuarial valuation performed as of July 1, 2018.

Actuarial assumptions and other inputs

The total OPEB liability was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|--|-----------------------------------|
| Inflation | 2.8% |
| Salary increases, including inflation | 3.0% |
| Healthcare cost trend rates | 4.0% |
| Retirees' share of benefit-related costs | 45% of projected health insurance |

Mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on scale BB.

The actuarial assumptions used in the July 1, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2017 through June 30, 2018.

Changes in the total OPEB liability

| | |
|---|---------------------|
| Balance at June 30, 2017 | <u>\$ 6,137,966</u> |
| Changes for the year: | |
| Service cost | 333,653 |
| Interest | 229,887 |
| Differences between expected and actual experience | (795,584) |
| Assumption changes | (640,341) |
| Benefit payments | <u>(101,287)</u> |
| Net changes | <u>(973,673)</u> |
| Balance at June 30, 2018 | <u>\$ 5,164,294</u> |

Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the total OPEB liability of the Commission, as well as what the Commission's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.87%) or one percentage point higher (4.87%) than the current discount rate:

(Continued)

PENINSULA AIRPORT COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

10. Other Postemployment Benefits, Healthcare (Continued)

| | 1% Decrease | Current Discount Rate | 1% Increase |
|----------------------|---------------------|------------------------------|---------------------|
| | <u>2.87%</u> | <u>3.87%</u> | <u>4.87%</u> |
| Total OPEB liability | \$ <u>5,989,008</u> | \$ <u>5,164,294</u> | \$ <u>4,491,587</u> |

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates

The following presents the total OPEB liability of the Commission, as well as what the Commission's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (3.00%) or one percentage point higher (5.00%) than the current healthcare cost trend rates:

| | 1% Decrease | Current Healthcare Cost Trend | 1% Increase |
|----------------------|---------------------|--------------------------------------|---------------------|
| | <u>3.00%</u> | <u>4.00%</u> | <u>5.00%</u> |
| Total OPEB liability | \$ <u>4,402,925</u> | \$ <u>5,164,294</u> | \$ <u>6,124,355</u> |

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB

For the year ended June 30, 2019, the Commission recognized OPEB expense of \$220,894. At June 30, 2019, the Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---------------------------------------|--------------------------------------|
| | <u></u> | <u></u> |
| Differences between projected and actual experience | \$ - | \$ 681,929 |
| Changes in assumptions | - | 1,249,301 |
| Employer contributions subsequent to the measurement date | <u>104,670</u> | <u>-</u> |
| | \$ <u>104,670</u> | \$ <u>1,931,230</u> |

The \$104,670 reported as deferred outflows of resources related to OPEB resulting from the Commission's contributions subsequent to the measurement date will be recognized as a reduction of the OPEB Liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

(Continued)

PENINSULA AIRPORT COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

10. Other Postemployment Benefits, Healthcare (Continued)

| <u>Year Ending June 30,</u> | <u>Reduction to OPEB Expense</u> |
|---------------------------------|--|
| 2020 | \$ (345,219) |
| 2021 | (345,219) |
| 2022 | (345,219) |
| 2023 | (345,219) |
| 2024 | (345,221) |
| Thereafter | (205,133) |

11. Other Postemployment Benefits, Group Life Insurance Program

Plan descriptions

In addition to their participation in the pension plans offered through the VRS, the Commission also participates in the Group Life Insurance Program OBEP plan.

All full-time teachers and employees of political subdivisions are automatically covered by the VRS Group Life Insurance (GLI) Program upon employment.

In addition to the Basic Group Life Insurance Benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the GLI Program OPEB.

Specific information for the GLI is available at <https://www.varetire.org/members/benefits/life-insurance/basic-group-life-insurance.asp>.

The GLI is administered by the VRS along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia. These plans are considered multiple employer, cost sharing plans.

Contributions

Contributions to the VRS OPEB programs were based on actuarially determined rates from actuarial valuations as of June 30, 2017. The actuarially determined rates were expected to finance the cost of benefits earned by employees during the year, with an additional amount to fund any unfunded accrued liability. Specific details related to the contributions for the VRS OPEB programs are as follows:

(Continued)

PENINSULA AIRPORT COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

11. Other Postemployment Benefits, Group Life Insurance Program (Continued)

Group Life Insurance Program

| | |
|----------------------------|---|
| Governed by: | <i>Code of Virginia</i> 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly. |
| Total rate: | 1.31% of covered employee compensation. Rate allocated 60/40; 0.79% employee and 0.52% employer. Employers may elect to pay all or part of the employee contribution. |
| June 30, 2019 Contribution | \$12,730 |
| June 30, 2018 Contribution | \$11,812 |

OPEB liability, OPEB expense and deferred inflows and outflows of resources related to OPEB

The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by the actuarial valuation as of that date. The covered employer's proportion of the net OPEB liability was based on the covered employer's actuarially determined employer contributions for the year ended June 30, 2018, relative to the total of the actuarially determined employer contributions for all participating employers.

Group Life Insurance Program

| | | |
|--|----|----------|
| June 30, 2019 proportionate share of liability | \$ | 182,000 |
| June 30, 2018 proportion | | 0.01194% |
| June 30, 2017 proportion | | 0.01240% |
| June 30, 2019 expense | \$ | 1,188 |

Since there was a change in proportionate share between measurement dates, a portion of the OPEB expense above was related to deferred amount from changes in proportion.

Group Life Insurance Program

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ 9,000 | \$ 3,000 |
| Change in assumptions | - | 8,000 |
| Net difference between projected and actual earnings on OPEB plan investments | - | 6,000 |
| Changes in proportion | - | 17,000 |
| Employer contributions subsequent to the measurement date | <u>12,730</u> | <u>-</u> |
| | <u>\$ 21,730</u> | <u>\$ 34,000</u> |

(Continued)

PENINSULA AIRPORT COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

11. Other Postemployment Benefits, Group Life Insurance Program (Continued)

The deferred outflows of resources related to OPEB resulting from the Commission's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Group Life Insurance Program

| Year Ending June 30, | Reduction to OPEB Expense |
|---------------------------------|--|
| 2020 | \$ (6,000) |
| 2021 | (6,000) |
| 2022 | (6,000) |
| 2023 | (4,000) |
| 2024 | (2,000) |
| Thereafter | (1,000) |

Actuarial assumptions and other inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2017, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018:

| | |
|--|--------------|
| Inflation | 2.50% |
| Salary increases, including inflation: | |
| Locality- general employees | 3.50 - 5.35% |
| Investment rate of return, net of expenses, including inflation | 7.00%, |

Mortality rates used for the various VRS OPEB plans are the same as those used for the actuarial valuations of the VRS pension plans. The mortality rates are discussed in detail at Note 9.

Net OPEB liability

The net OPEB liability represent the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2018, net OPEB liability amounts for the GLI VRS OPEB program is as follows (amounts expressed in thousands):

(Continued)

PENINSULA AIRPORT COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

11. Other Postemployment Benefits, Group Life Insurance Program (Continued)

| | Group Life Insurance Program |
|---|---|
| Total OPEB Liability | \$ 3,113,508 |
| Plan fiduciary net position | 1,594,773 |
| Employers' net OPEB liability | \$ 1,518,735 |
| Plan fiduciary net position as a percentage of total OPEB liability | 51.22% |

The total liability is calculated by the VRS actuary and each plan's fiduciary net position is reported in the VRS financial statements. The net OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the VRS notes to the financial statements and required supplementary information.

Long-term expected rate of return

The long-term expected rate of return on VRS investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class (Strategy)</u> | <u>Target Allocation</u> | <u>Arithmetic Long-Term Expected Rate of Return</u> | <u>Weighted Average Long-Term Expected Rate of Return</u> |
|-------------------------------|------------------------------|---|---|
| Public Equity | 40.00% | 4.54% | 1.82% |
| Fixed Income | 15.00% | 0.69% | 0.10% |
| Credit Strategies | 15.00% | 3.96% | 0.59% |
| Real Assets | 15.00% | 5.76% | 0.86% |
| Private Equity | 15.00% | 9.53% | 1.43% |
| | 100.00% | | 4.80% |
| | Inflation | | 2.50% |
| | | *Expected arithmetic nominal return | 7.30% |

*The above allocation provides for a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.5%.

(Continued)

PENINSULA AIRPORT COMMISSION

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

11. Other Postemployment Benefits, Group Life Insurance Program (Continued)

Discount rate

The discount rate used to measure the GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the OPEB liabilities will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the OPEB plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate

The following presents the net GLI OPEB liability of the Commission, as well as what the Commission's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current discount rate:

| | 1% Decrease <u>6.00%</u> | Current Discount Rate <u>(7.00%)</u> | 1% Increase <u>(8.00%)</u> |
|------------------------|---|---|---|
| GLI net OPEB liability | \$ <u>237,000</u> | \$ <u>182,000</u> | \$ <u>137,000</u> |

OPEB plan fiduciary net position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

12. Leasing Arrangements as Lessor

The Commission leases property to tenants including terminal space, hangars and land. Lease terms range from one to twenty-five years.

PENINSULA AIRPORT COMMISSION

NOTES TO FINANCIAL STATEMENTS
June 30, 2019

12. Leasing Arrangements as Lessor (Continued)

Future minimum lease payments to be received from non-cancelable operating leases are as follows:

| <u>Year Ending</u> <u>June 30,</u> | | |
|---------------------------------------|-----------|------------------|
| 2020 | \$ | 863,853 |
| 2021 | | 769,368 |
| 2022 | | 732,474 |
| 2023 | | 739,453 |
| 2023 | | 635,292 |
| Thereafter | | <u>1,805,081</u> |
| | <u>\$</u> | <u>5,545,521</u> |

The City of Newport News Public Schools (NNPS) leased space in the old terminal under a one year lease through June 2019 for \$86,885. As of the date of the audit report, NNPS and the Commission were negotiating terms for a new non-cancelable operating lease.

In 2018, the City of Newport News renewed a lease for the fire station. The new lease is effective from July 2018 through June 2021 with an option to extend for two additional one year periods. The lease calls for lease payments of \$20,700 per year.

13. Leased Equipment

The Commission leases equipment under a long-term non-cancelable operating lease. The lease term is five years and expires in August 2024. Lease expense was \$13,000 during 2019.

Future minimum annual rentals are as follows:

| <u>Year Ending</u> <u>June 30,</u> | | |
|---------------------------------------|-----------|---------------|
| 2020 | \$ | 15,090 |
| 2021 | | 14,340 |
| 2022 | | 14,340 |
| 2023 | | 14,340 |
| 2024 | | <u>2,390</u> |
| | <u>\$</u> | <u>60,500</u> |

14. Passenger Facility Charge

As of July 1, 2010, the Federal Aviation Administration (FAA) has given the Commission authority to impose a Passenger Facility Charge (PFC), under multiple PFC applications, of \$4.50 per passenger for twenty-eight planned projects. The total approved revenue to be collected under these multiple applications is \$26,821,415. During 2019, \$833,413 of PFC revenue was collected under these agreements and was recognized as capital contributions on the statement of revenue, expenses, and changes in net position.

(Continued)

PENINSULA AIRPORT COMMISSION

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

15. Concentration of Operating Income

The primary source of the Commission's operating income is from activity associated with airlines that utilize the Airport's facilities. Due to the vulnerability of the industry in which the Commission operates, operating income and expenses are susceptible to rapid fluctuations. In addition to revenue generated by airlines and its passengers, there are other sources of income that are being explored using the Airport's property for development of non-aeronautical revenue and maximizing aeronautical revenues by way of increasing rates and charges.

16. Contingencies

Federally assisted grant programs

The Commission participates in a number of federally assisted grant programs. Although the Commission has been audited in accordance with provisions of the Uniform Guidance, these programs remain subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursements to the grantor agency for disallowed expenditures under terms of the grant. Based on prior experience, the Commission believes such disallowances, if any, will not be significant.

Lawsuits

The Commission is a party to several lawsuits and claims incidental to its business. While the ultimate outcome of the lawsuits or other proceedings against the Commission cannot be estimated, management does not expect that these matters will have a material adverse effect on the Commission's financial position or results of operations.

17. Commitments

At June 30, 2019, the Commission had commitments outstanding, in the form of contracts and purchase orders, of approximately \$504,706, primarily for construction projects.

REQUIRED SUPPLEMENTARY INFORMATION

PENINSULA AIRPORT COMMISSION

SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS
Year Ended June 30, 2019

| | Plan Year | | | | |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| TOTAL PENSION LIABILITY | | | | | |
| Service cost | \$ 196,971 | \$ 245,825 | \$ 252,646 | \$ 247,082 | \$ 238,814 |
| Interest | 517,397 | 492,440 | 463,530 | 431,301 | 408,005 |
| Differences between expected and actual experience | (523,768) | 68,645 | 74,866 | 145,651 | - |
| Changes in assumptions | - | (56,025) | - | - | - |
| Benefit payments | (412,169) | (376,548) | (379,542) | (347,684) | (280,352) |
| Net change in total pension liability | (221,569) | 374,337 | 411,500 | 476,350 | 366,467 |
| Total pension liability - beginning | 7,597,472 | 7,223,135 | 6,811,635 | 6,335,285 | 5,968,818 |
| Total pension liability - ending (a) | <u>\$ 7,375,903</u> | <u>\$ 7,597,472</u> | <u>\$ 7,223,135</u> | <u>\$ 6,811,635</u> | <u>\$ 6,335,285</u> |
| PLAN FIDUCIARY NET POSITION | | | | | |
| Contributions - employer | \$ 132,061 | \$ 137,317 | \$ 156,792 | \$ 158,360 | \$ 220,175 |
| Contributions - employee | 108,617 | 116,965 | 117,182 | 118,594 | 117,539 |
| Net investment income | 534,359 | 801,269 | 113,294 | 291,702 | 870,249 |
| Benefit payments | (412,169) | (376,548) | (379,542) | (347,684) | (280,352) |
| Administrative expenses | (4,660) | (4,659) | (4,133) | (4,010) | (4,591) |
| Other changes | (474) | (711) | (48) | (61) | 45 |
| Net change in plan fiduciary net position | 357,734 | 673,633 | 3,545 | 216,901 | 923,065 |
| Plan fiduciary net position - beginning | 7,279,669 | 6,606,036 | 6,602,491 | 6,385,590 | 5,462,525 |
| Plan fiduciary net position - ending (b) | <u>\$ 7,637,403</u> | <u>\$ 7,279,669</u> | <u>\$ 6,606,036</u> | <u>\$ 6,602,491</u> | <u>\$ 6,385,590</u> |
| Commission's net pension liability (asset) - ending (a) - (b) | <u>\$ (261,500)</u> | <u>\$ 317,803</u> | <u>\$ 617,099</u> | <u>\$ 209,144</u> | <u>\$ (50,305)</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 103.5% | 95.8% | 91.5% | 96.9% | 100.8% |
| Covered-employee payroll | \$ 2,268,631 | \$ 2,286,395 | \$ 2,369,678 | \$ 2,382,571 | \$ 2,352,297 |
| Net pension (asset) liability as a percentage of covered-employee payroll | -11.5% | 13.9% | 26.0% | 8.8% | -2.1% |

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year - i.e., plan year 2014 information was presented in the entity's fiscal year 2015 financial report.

This schedule is intended to show information for 10 years. Since fiscal year 2015 (plan year 2014) was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

See accompanying notes and Independent Auditor's Report.

PENINSULA AIRPORT COMMISSION

**SCHEDULE OF CHANGES IN TOTAL HEALTHCARE OPEB LIABILITY
AND RELATED RATIOS
June 30, 2019**

| | Plan Year | |
|--|---------------------|---------------------|
| | 2018 | 2017 |
| TOTAL OPEB LIABILITY | | |
| Service cost | \$ 333,652 | \$ 387,298 |
| Interest | 229,887 | 198,590 |
| Differences between expected and actual experience | (795,584) | - |
| Changes of assumptions | (640,341) | (980,611) |
| Benefit payments | (101,287) | (95,518) |
| | <hr/> | <hr/> |
| Net change in total OPEB liability | (973,673) | (490,241) |
| TOTAL OPEB LIABILITY | | |
| Beginning | 6,137,967 | 6,628,208 |
| | <hr/> | <hr/> |
| Ending | <u>\$ 5,164,294</u> | <u>\$ 6,137,967</u> |

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year - i.e., plan year 2017 information was presented in the entity's fiscal year 2018 financial report.

This schedule is intended to show information for 10 years. Since fiscal year 2018 (plan year 2017) is the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

See accompanying notes and Independent Auditor's Report.

PENINSULA AIRPORT COMMISSION

**SCHEDULE OF EMPLOYER'S SHARE OF NET GROUP LIFE INSURANCE OPEB LIABILITY
June 30, 2019**

| Measurement Date June 30 | Employer's Proportion of the Net OPEB Liability (Asset) | Employer's Proportionate Share of the Net OPEB Liability (Asset) | Employer's Covered Payroll | Employer's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability |
|-------------------------------------|--|---|---|--|--|
| 2018 | 1.19400% | \$ 182,000 | \$ 2,268,631 | 8.00% | 51.22% |
| 2017 | 0.01240% | 187,000 | 2,286,395 | 8.18% | 48.86% |

Schedule is intended to show information for 10 years. Since 2018 (plan year 2017) was the first year for this presentation, only two years of data is available. However, additional years will be included as they become available.

The covered payroll amounts above are for the measurement period, which is the twelve months prior to the entity's fiscal year.

See accompanying notes and Independent Auditor's Report.

PENINSULA AIRPORT COMMISSION

SCHEDULE OF EMPLOYER CONTRIBUTIONS

June 30, 2019

| Entity Fiscal Year Ended June 30, | Contractually Required Contribution | Contributions in Relation to Contractually Required Contribution | Contribution Deficiency (Excess) | Employer's Covered Payroll | Contributions as a % of Covered Payroll |
|--|--|---|---|---|--|
| VIRGINIA RETIREMENT SYSTEM -PENSION PLAN | | | | | |
| 2019 | \$ 110,854 | \$ 110,854 | \$ - | \$ 2,441,718 | 4.54% |
| 2018 | 139,067 | 139,067 | - | 2,268,631 | 6.13% |
| 2017 | 140,156 | 140,156 | - | 2,286,395 | 6.13% |
| 2016 | 158,058 | 158,058 | - | 2,369,678 | 6.67% |
| 2015 | 158,918 | 158,918 | - | 2,382,571 | 6.67% |
| 2014 | 220,175 | 220,175 | - | 2,352,297 | 9.36% |
| 2013 | 216,015 | 216,015 | - | 2,307,848 | 9.36% |
| 2012 | 202,606 | 202,606 | - | 2,535,744 | 7.99% |
| 2011 | 191,304 | 191,304 | - | 2,394,295 | 7.99% |
| 2010 | 185,696 | 185,696 | - | 2,226,569 | 8.34% |

VIRGINIA RETIREMENT SYSTEM - GROUP LIFE INSURANCE PROGRAM

| | | | | | |
|------|-----------|-----------|------|--------------|-------|
| 2019 | \$ 12,730 | \$ 12,730 | \$ - | \$ 2,441,718 | 0.52% |
| 2018 | 11,812 | 11,812 | - | 2,268,631 | 0.52% |
| 2017 | 11,889 | 11,889 | - | 2,286,395 | 0.52% |

This schedule is intended to present 10 years of information. GASB 68 and GASB 75 were implemented in fiscal year 2015 and 2018, respectively; additional years will be presented as the information becomes available.

The covered payroll amounts above are for the entity's fiscal year - i.e. the covered payroll on which required contributions were based for the same year.

See accompanying notes and Independent Auditor's Report.

PENINSULA AIRPORT COMMISSION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2019

1. Changes of Benefit Terms

Pension

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Other Postemployment Benefit (OPEB)

There have been no actuarially material changes to the System or local Plan benefit provisions since the prior actuarial valuation.

2. Changes of Assumptions

Pension and GLI OPEB

The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 - Non-Hazardous Duty:

- Update mortality table
- Lowered in rates of service retirement
- Update withdrawal rates to better fit experience
- Lowered in rates of disability retirement
- No changes to salary rates
- Increase Line of Duty Disability rates

Largest 10 - Hazardous Duty:

- Update mortality table
- Lowered rates of retirement at older ages
- Update withdrawal rates to better fit experience
- Increased disability rates
- No changes to salary rates
- Increased Line of Duty disability rates

All Others (Non 10 Largest) - Non-Hazardous Duty:

- Update mortality table
- Lowered rates of retirement at older ages and changed final retirement from 70 to 75
- Update withdrawal rates to better fit experience
- Lowered disability rates
- No changes to salary rates
- Increased Line of Duty disability rates from 14% to 15%

(Continued)

PENINSULA AIRPORT COMMISSION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2019

2. Changes of Assumptions (Continued)

Pension and GLI OPEB (Continued)

All Others (Non 10 Largest) - Hazardous Duty:

- Update mortality table
- Increased retirement rate at age 50 and lowered rates at older ages
- Update withdrawal rates to better fit experience
- Update disability rates to better fit experience
- No changes to salary rates
- Lowered Line of Duty rate from 60% to 45%

Healthcare OPEB

The following actuarial assumptions have changed since the last valuation to match the state employees assumptions in the June 30, 2018 VRS actuarial valuation.

- Update mortality table
- Lowered rates of service retirement
- Update withdrawal rates to better fit experience
- Lowered in rates of disability retirement
- Increased dependent age for current active employees

The following change in actuarial assumptions was made based on the most recent actuarial valuation:

| <u>Discount Rate</u> | |
|----------------------|-------|
| June 29, 2017 | 3.58% |
| June 30, 2018 | 3.87% |

SUPPLEMENTARY INFORMATION

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PENINSULA AIRPORT COMMISSION

SCHEDULE OF OPERATING INCOME

Year Ended June 30, 2019

| | 2019 | | 2018* | |
|-----------------------------------|---------------------|----------------|---------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| AIRFIELD | | | | |
| Landing and tie-down fees | \$ 564,489 | | \$ 404,728 | |
| Fixed base operator commissions | 180,488 | | 178,480 | |
| Fuel flowage fees | 140,967 | | 149,478 | |
| Hangar rental and operations fees | 797,447 | | 786,147 | |
| | <u>1,683,391</u> | <u>19.4 %</u> | <u>1,518,833</u> | <u>18.7 %</u> |
| TERMINAL AND LANDSIDE | | | | |
| Rents: | | | | |
| Airline offices | 667,545 | | 542,273 | |
| Car rental and other | 119,411 | | 111,359 | |
| Commissions: | | | | |
| Car rental | 2,561,144 | | 2,330,059 | |
| Communications and other | 692,309 | | 571,413 | |
| Parking lot fees | 1,833,106 | | 1,918,939 | |
| Other | 148,629 | | 146,428 | |
| | <u>6,022,144</u> | <u>69.5</u> | <u>5,620,471</u> | <u>69.4</u> |
| OTHER RENTS | <u>501,497</u> | <u>5.8</u> | <u>484,558</u> | <u>6.0</u> |
| TRAILER PARK RENTS | <u>423,053</u> | <u>4.9</u> | <u>457,930</u> | <u>5.7</u> |
| ADMINISTRATIVE AND MISCELLANEOUS | <u>38,787</u> | <u>0.4</u> | <u>11,168</u> | <u>0.1</u> |
| MAINTENANCE REIMBURSEMENT | <u>1,087</u> | <u>0.0</u> | <u>9,535</u> | <u>0.1</u> |
| Total operating income | <u>\$ 8,669,959</u> | <u>100.0 %</u> | <u>\$ 8,102,495</u> | <u>100.0 %</u> |

* For comparative purposes only.

See Independent Auditor's Report.

PENINSULA AIRPORT COMMISSION

**SCHEDULE OF INCOME (LOSS) FROM OPERATIONS
BEFORE DEPRECIATION PER ACTIVITY**

Year Ended June 30, 2019

| | <u>Airfield</u> | | <u>Terminal and Landside</u> | |
|--|-------------------|-------------------|------------------------------|---------------------|
| | <u>2019</u> | <u>2018*</u> | <u>2019</u> | <u>2018*</u> |
| OPERATING INCOME | \$ 1,683,391 | \$ 1,518,833 | \$ 6,022,144 | \$ 5,620,471 |
| Cost of sales | - | - | 471,695 | 72,480 |
| | 1,683,391 | 1,518,833 | 5,550,449 | 5,547,991 |
| OPERATING EXPENSES | | | | |
| Advertising | - | - | - | - |
| Audit | - | - | - | - |
| Auto and equipment | - | - | - | - |
| Bad debt | - | - | - | - |
| Commission fees | - | - | - | - |
| Communications | - | - | 43,560 | 42,275 |
| Crash and rescue | 18,031 | 16,187 | - | - |
| Dues and subscriptions | - | - | - | - |
| General office | - | - | - | - |
| Insurance | - | - | - | - |
| Janitorial supplies | - | - | 66,348 | 69,153 |
| Labor | 602,650 | 585,579 | 1,136,967 | 1,123,225 |
| Management fees | - | - | - | - |
| Miscellaneous | 0 | 0 | 17,289 | 12,801 |
| Payroll taxes and benefits | 185,029 | 178,362 | 226,033 | 304,864 |
| Postage | - | - | - | - |
| Professional services | - | - | - | - |
| Repairs, maintenance and supplies | 157,983 | 68,688 | 326,374 | 224,318 |
| Retiree healthcare OPEB | - | - | - | - |
| Shop and linen supplies | - | - | - | - |
| Small tools | - | - | - | - |
| Training | 4,851 | 8,895 | - | - |
| Trash removal | - | - | 55,037 | 28,685 |
| Travel and promotion | 1,440 | 334 | 239 | 140 |
| Uniforms | 4,684 | 6,625 | 18,650 | 18,624 |
| Utilities | 43,768 | 42,818 | 517,863 | 476,015 |
| | 1,018,436 | 907,488 | 2,408,360 | 2,300,100 |
| Income (loss) from operations before depreciation | <u>\$ 664,955</u> | <u>\$ 611,345</u> | <u>\$ 3,142,089</u> | <u>\$ 3,247,891</u> |

| Other Rents | | Trailer Park | | Allocated Costs Administrative and Miscellaneous | |
|--------------------|--------------|---------------------|--------------|---|----------------|
| 2019 | 2018* | 2019 | 2018* | 2019 | 2018* |
| \$ 501,497 | \$ 484,558 | \$ 423,053 | \$ 457,930 | \$ 38,787 | \$ 11,168 |
| - | - | - | - | - | - |
| 501,497 | 484,558 | 423,053 | 457,930 | 38,787 | 11,168 |
| - | - | - | - | 264,538 | 217,191 |
| - | - | - | - | 49,710 | 44,312 |
| - | - | - | - | - | - |
| - | - | - | - | 5,000 | - |
| - | - | - | - | 14,174 | 13,341 |
| - | - | - | - | 20,446 | 20,342 |
| - | - | - | - | - | - |
| - | - | - | - | 17,365 | 16,868 |
| - | - | - | - | 121,083 | 122,170 |
| - | - | - | - | 270,100 | 261,016 |
| - | - | - | - | - | - |
| 156,809 | 154,641 | 156,809 | 154,641 | 847,056 | 824,384 |
| - | - | 26,617 | 36,452 | - | - |
| - | - | - | - | 75,776 | 2,183 |
| 52,873 | 54,555 | 52,873 | 54,554 | 169,536 | 262,360 |
| - | - | - | - | 2,006 | 2,925 |
| - | - | - | 90 | 588,556 | 761,186 |
| 115,634 | 33,920 | 47,793 | 24,584 | 73,466 | 61,247 |
| - | - | - | - | 220,894 | 444,572 |
| - | - | - | - | - | - |
| - | - | - | - | 489 | 689 |
| - | - | - | - | - | - |
| - | - | - | - | 38,340 | 22,829 |
| - | - | - | - | - | - |
| 122,459 | 108,805 | 156,863 | 144,015 | 105,778 | 105,623 |
| 447,775 | 351,921 | 440,955 | 414,336 | 2,884,313 | 3,183,238 |
| \$ 53,722 | \$ 132,637 | \$ (17,902) | \$ 43,594 | \$ (2,845,526) | \$ (3,172,070) |

| Allocated Costs | | Totals | | Percentage of | |
|-----------------|--------------|--------------|--------------|---------------|----------|
| Maintenance | | | | Revenue | |
| 2019 | 2018* | 2019 | 2018* | 2019 | 2018* |
| \$ 1,087 | \$ 9,535 | \$ 8,669,959 | \$ 8,102,495 | 100.00 % | 100.00 % |
| - | - | 471,695 | 429,048 | 5.44 | 5.30 |
| 1,087 | 9,535 | 8,198,264 | 7,673,447 | | |
| - | - | 264,538 | 217,191 | 3.05 | 2.68 |
| - | - | 49,710 | 44,312 | 0.57 | 0.55 |
| 117,779 | 107,210 | 117,779 | 107,210 | 1.36 | 1.32 |
| - | - | 5,000 | - | - | - |
| - | - | 14,174 | 13,341 | 0.16 | 0.16 |
| - | - | 64,006 | 62,617 | 0.74 | 0.77 |
| - | - | 18,031 | 16,187 | 0.21 | 0.20 |
| - | - | 17,365 | 16,868 | 0.20 | 0.21 |
| - | - | 121,083 | 122,170 | 1.40 | 1.51 |
| - | - | 270,100 | 261,016 | 3.12 | 3.22 |
| - | - | 66,348 | 69,153 | 0.77 | 0.85 |
| 132,193 | 130,668 | 3,032,484 | 2,973,138 | 34.98 | 36.69 |
| - | - | 26,617 | 36,452 | 0.31 | 0.45 |
| 345 | 673 | 93,410 | 15,657 | 1.08 | 0.19 |
| (18,125) | 52,595 | 668,219 | 907,290 | 7.71 | 11.20 |
| - | - | 2,006 | 2,925 | 0.02 | 0.04 |
| - | - | 588,556 | 761,276 | 6.79 | 9.40 |
| 139,940 | 35,321 | 861,190 | 448,078 | 9.93 | 5.53 |
| - | - | 220,894 | 444,572 | 2.55 | 5.49 |
| 10,020 | 6,759 | 10,020 | 6,759 | 0.12 | 0.08 |
| 3,755 | 1,292 | 3,755 | 1,292 | 0.04 | 0.02 |
| 779 | 2,010 | 6,119 | 11,594 | 0.07 | 0.14 |
| - | - | 55,037 | 28,685 | 0.63 | 0.35 |
| 2,330 | - | 42,349 | 23,303 | 0.49 | 0.29 |
| 19,451 | 18,917 | 42,785 | 44,166 | 0.49 | 0.55 |
| 8,609 | 7,725 | 955,340 | 885,001 | 11.02 | 10.92 |
| 417,076 | 363,170 | 7,616,915 | 7,520,253 | 87.80 | 92.81 |
| \$ (415,989) | \$ (353,635) | \$ 581,349 | \$ 597,766 | 6.76 % | 1.89 % |

* For comparative purposes only.

See Independent Auditor's Report.

PENINSULA AIRPORT COMMISSION

SCHEDULE OF PLEDGED REVENUE COVERAGE

June 30, 2019

Airport Improvement Revenue Bonds, Series 2002

| Fiscal Year | Operating Revenues and Interest | Less Operating Expenses and Interest | Net Revenues Available for Debt Service | Debt Service | | Coverage |
|--------------------|--|---|--|---------------------|-----------------|-----------------|
| | | | | Principal | Interest | |
| 2019 | \$ 8,671,142 | \$ 7,709,830 | \$ 961,312 | \$ 503,445 | \$ 313,809 | 1.18 |
| 2018 | 8,102,545 | 7,425,792 | 676,753 | 465,357 | 350,111 | 0.83 |
| 2017 | 7,830,131 | 7,201,072 | 629,059 | 449,553 | 389,934 | 0.75 |
| 2016 | 7,778,757 | 6,829,019 | 949,738 | 427,513 | 421,375 | 1.12 |
| 2015 | 8,141,719 | 6,928,267 | 1,213,452 | 401,312 | 451,543 | 1.42 |
| 2014 | 7,745,280 | 7,725,871 | 19,409 | 383,101 | 472,159 | 0.02 |

This schedule is intended to present 10 years of information. Additional years will be presented as the information becomes available.

See Independent Auditor's Report.

PENINSULA AIRPORT COMMISSION

**SCHEDULE OF COLLECTIONS AND EXPENDITURE OF PASSENGER FACILITY CHARGES
Year and Each Quarter During the Year Ended June 30, 2019**

| | <u>Application No. 10-02-C-02-PHF</u> | <u>Application No. 12-03-C-03-PHF</u> | <u>Total</u> |
|------------------------------------|---|---|---------------------|
| BEGINNING BALANCE - July 1, 2018 | \$ - | \$ - | \$ 911,736 |
| Quarter Ended - September 30, 2018 | | | |
| Collections and interest | - | - | 224,796 |
| Expenditures | <u>1</u> | <u>5,675</u> | <u>5,676</u> |
| | (1) | (5,675) | 1,130,856 |
| Quarter Ended - December 31, 2018 | | | |
| Collections and interest | - | - | 269,763 |
| Expenditures | <u>-</u> | <u>3,510</u> | <u>3,510</u> |
| | (1) | (9,185) | 1,397,109 |
| Quarter Ended - March 31, 2019 | | | |
| Collections and interest | - | - | 113,290 |
| Expenditures | <u>-</u> | <u>-</u> | <u>-</u> |
| | (1) | (9,185) | 1,510,399 |
| Quarter Ended - June 30, 2019 | | | |
| Collections and interest | - | - | 232,292 |
| Expenditures | <u>-</u> | <u>-</u> | <u>-</u> |
| YEAR ENDED - June 30, 2019 | <u>\$ (1)</u> | <u>\$ (9,185)</u> | <u>\$ 1,742,691</u> |

See Independent Auditor's Report.

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 Commissioners of the
Peninsula Airport Commission
Newport News, 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 financial statements of the Peninsula Airport Commission, a component unit of the City of Newport News, Virginia, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Peninsula Airport Commission's basic financial statements, and have issued our report thereon dated October 18, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Peninsula Airport Commission'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Peninsula Airport Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Peninsula Airport Commission'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 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 the Peninsula Airport Commission'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 that are required to be reported under *Government Auditing Standards*.

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.

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

CERTIFIED PUBLIC ACCOUNTANTS

Newport News, Virginia
October 18, 2019

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO THE PASSENGER FACILITY CHARGE PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE
PASSENGER FACILITY CHARGE AUDIT GUIDE FOR PUBLIC AGENCIES**

To the Commissioners of the
Peninsula Airport Commission
Newport News, Virginia

Report on Compliance with the Passenger Facility Charge Program

We have audited the Peninsula Airport Commission’s (Commission) compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the “Guide”), issued by the Federal Aviation Administration, for its passenger facility charge (PFC) program (the “Program”) that could have a direct and material effect on the Program for the year and each quarter during the years ended June 30, 2019.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws and regulations applicable to the Program.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for the Peninsula Airport Commission’s compliance with the PFC Program based on our audit. We conducted our audit of compliance in accordance with 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 Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Program occurred. An audit includes examining, on a test basis, evidence about the Peninsula Airport Commission’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the PFC Program. However, our audit does not provide a legal determination of the Peninsula Airport Commission’s compliance.

Opinion on Compliance

In our opinion, the Peninsula Airport Commission, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the PFC Program for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the Peninsula Airport Commission is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations applicable to the Program. In planning and performing our audit, we considered the Peninsula Airport Commission's internal control over compliance with requirements that could have a direct and material effect on the Program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Peninsula Airport Commission's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report is intended solely for the information and use of the Commissioners, management, and the Federal Aviation Administration and is not intended to be and should not be used by anyone other than these specified parties

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

CERTIFIED PUBLIC ACCOUNTANTS

Newport News, Virginia
October 18, 2019

PENINSULA AIRPORT COMMISSION

SUMMARY OF COMPLIANCE MATTERS

June 30, 2019

As more fully described in the 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*, we performed tests of the Peninsula Airport Commission's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Cash and Investment Laws

Local Retirement Systems

Procurement Laws

Uniform Disposition of Unclaimed Property Act

PENINSULA AIRPORT COMMISSION

SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2019

1. Summary of Auditor's Results

- a. An unmodified opinion was issued on the financial statements.
- b. There was no material weakness and no significant deficiencies noted in internal control over financial reporting.
- c. The audit disclosed no items of noncompliance material to the financial statements.

2. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with *Government Auditing Standards*

None

3. Findings for Commonwealth of Virginia Laws, Regulations, Contracts, and Grants

None

4. Passenger Facility Charge Program

None

5. Status of Prior Year Findings

Finding IC-2018-001 - Management Override of Procurement Policies and Procedures

See accompanying status of prior year's findings.

PENINSULA AIRPORT COMMISSION

CLIENT'S STATUS OF PRIOR YEAR FINDINGS
June 30, 2019



Brown Edwards LLP
701 Town Center Drive, Suite 700
Newport News, VA 23606

As a result of our annual audit performed by your firm for fiscal year 2018 the following is the Status of Prior Year's Findings:

Management Override of Procurement Policies and Procedures (Finding IC2018-001) – Action plan below was completed during FY 2019. The responsibility for oversight over the procurement process was given to the Director of Business Development. (A newly created position) instead of the Office Manager.

The Peninsula Airport Commission has reviewed the revised Procurement Policy that was effective August 24, 2017. In addition Department Heads will develop a spreadsheet to track all contracts. This spreadsheet will be reviewed quarterly by the Assistant Executive Director in order to give proper notice on termination of contracts and rebidding of contracts as they expire. In addition the Peninsula Airport Commission is in the process of hiring an Office Manager to provide oversight over the procurement process, and the Commission has created an audit committee made up of two Commissioners to provide oversight as well.

Signature: *M. D. Giardino*

Michael Giardino, C.M.
Executive Director

Signature: *E. Renee Carr*

E. Renee Carr, CPA
Director of Finance & Administration