

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

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
AND COMPLIANCE REPORTING

As of and for the Year Ended June 30, 2020

And Report of Independent Auditor

PENINSULA AIRPORT COMMISSION
TABLE OF CONTENTS

COMMISSION MEMBERS (UNAUDITED)

REPORT OF INDEPENDENT AUDITOR.....1-3

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED).....4

BASIC FINANCIAL STATEMENTS

Statements of Net Position 10
Statements of Revenue, Expenses, and Changes in Net Position 12
Statements of Cash Flows 13
Notes to Financial Statements 15

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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 43
Schedule of Income (Loss) from Operations before Depreciation per Activity 44
Schedule of Pledged Revenue Coverage..... 45
Schedule of Collections and Expenditures of Passenger Facility Charges 46

COMPLIANCE SECTION

Report of Independent Auditor 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*..... 47

Report of Independent Auditor 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* 49

Report of Independent Auditor on Compliance for the Major Federal Program and on
Internal Control over Compliance Required by the Uniform Guidance 51

Schedule of Expenditures and Federal Awards..... 53

Schedule of Findings and Questioned Costs..... 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

Report of Independent Auditor

To the Board of Commissioners
Peninsula Airport Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the Peninsula Airport Commission (the “Commission”), a component unit of the City of Newport News, Virginia, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Commission’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. 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 Peninsula Airport Commission, as of June 30, 2020, and the respective changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Summarized Comparative Information

The financial statements of the Commission, as of and for the year ended June 30, 2019, were audited by other auditors whose report dated October 18, 2019, expressed an unmodified opinion on those financial statements. The 2019 financial information is provided for comparative purposes only. Our opinion is not modified with respect to this matter.

Uncertainties

As discussed in Note 18 to the financial statements, in March 2020, the World Health Organization declared COVID-19 a global pandemic. Given the uncertainty of the situation and the duration of any business disruption, the related financial impact cannot be reasonably estimated at this time. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the pension and other postemployment benefits trend information, and the notes to the Required Supplemental Information, as listed in the table of contents, 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 Commission's basic financial statements. The Commission Members and Supplementary Information, including the Schedule of Collections and Expenditures of Passenger Facility Charges, as required by the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Supplementary Information and the Schedule of Expenditures of Federal Awards 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 Supplementary Information and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Commission Members have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2020, on our consideration of the 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 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 Commission's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Cheryl Behrnt CP". The signature is written in a cursive style.

Richmond, Virginia
November 24, 2020

PENINSULA AIRPORT COMMISSION

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2020

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, 2020. 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

Airport activities increased (decreased) in major areas in relation to previous years as follows:

| | <u>2020</u> | <u>2019</u> |
|--------------------------|-------------|-------------|
| Enplanements | 157,073 | 204,052 |
| % Increase (decrease) | (23.02%) | 0.13% |
| Aircraft operations | 54,441 | 64,265 |
| % Increase (decrease) | (15.29%) | 5.13% |
| Landed weight | 182,226,046 | 230,356,896 |
| % Increase (decrease) | (20.89%) | (3.21%) |
| Parking (vehicles) | 66,557 | 91,383 |
| % Increase (decrease) | (27.17%) | (2.89%) |
| Parking (revenue) | \$1,355,469 | \$1,801,311 |
| % Increase (decrease) | (24.75%) | (4.44%) |
| Rental car commissions | \$1,056,946 | \$1,334,093 |
| % Increase (decrease) | (20.77%) | 7.54% |
| Customer facility charge | \$969,225 | \$1,227,051 |
| % Increase (decrease) | (21.01%) | 12.62% |

While the numbers above paint an accurate depiction of the past two fiscal years, for one to truly gain a solid basis for evaluation, outside influences to that fiscal climate must be denoted. The first seven months of FY20 stood strong operationally and financially, with passenger numbers 111% compared to prior year and total revenues surpassing budget by 9% or nearly half a million dollars. The Newport News-Williamsburg International Airport was getting ready to announce new commercial airline service with up to four daily non-stops to a major U.S. hub. Then, a global pandemic struck.

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared a global pandemic as a result of the outbreak and spread of a novel strain of coronavirus (“COVID-19”). Following this, on March 16th, U.S. guidelines were issued to restrict discretionary travel. As you will see in the operating activity totals, the pandemic greatly impacted the Airport’s airline passenger totals during last four months of FY20. From March to June of 2020, passenger totals dropped an average of 77% compared to the same period of prior year. In March, United Airlines halted service planning at PHF, and Delta announced suspension of service effective May 12th and consolidated to Norfolk under the U.S. Department of Transportation authorization.

The longer-term effects of the COVID-19 impact on the Commission’s operations and financials remain uncertain.

PENINSULA AIRPORT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

At June 30, 2020, the Airport was served by American Airlines, while Delta's service remained in suspension.

Financial Operations Highlights

Net position decreased by \$3.1 million in 2020 compared to a \$4.5 million decrease in 2019.

- Operating income decreased by 14.07% from \$8.7 million to \$7.5 million due to COVID-19, decreases in passenger travel, airline service and rental car revenues.
- Cost of sales from Take PHFlight restaurant decreased by 7.7% from \$472 thousand to \$435 thousand as a result of COVID-19, decreased passengers and sales during the fiscal year.
- Operating expenses decreased by 7.46% from \$7.6 million to \$7.0 million as a result of decreases in legal fees, repairs and maintenance, utilities, and supplies.
- Depreciation expense decreased slightly by .26% from \$7.87 million to \$7.85 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 \$556 thousand more than the 2019 results. This variance compared to the prior year's gain was due from the effects of COVID-19, the decreases in passenger travel, airline service and rental car revenues.
- Nonoperating income (expenses) increased by approximately \$1.7 million from 2019, with a net nonoperating gain of \$1.39 million in 2020 compared to a net loss of \$319 thousand in 2019. This increase in nonoperating activity was primarily due to the CARES Act Federal Grant reimbursements.
- Capital contributions received in the form of grants from the federal government and Commonwealth of Virginia increased by 6.7% from \$3.1 million in 2019 to \$3.4 million in 2020 due to the timing of capital projects.
- Capital projects that were completed or started in FY 2020 included \$311 thousand on airfield perimeter road design, \$253 thousand on airfield perimeter road construction, \$334 thousand on taxiway A and D shoulders and lights, \$183 thousand on maintenance equipment and vehicles, \$68 thousand on terminal equipment, \$83 thousand on a new beacon, \$60 thousand for parking lot projects, and \$45 thousand on miscellaneous projects. There is \$91 thousand in terminal equipment that incurred no additional costs in FY 2020 and was still open at year end.

PENINSULA AIRPORT COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

Summary of Operations and Changes in Net Position

| | <u>2020</u> | <u>2019</u> |
|--|-----------------------|-----------------------|
| Operating income | \$ 7,450,219 | \$ 8,669,959 |
| Cost of sales | (435,369) | (471,695) |
| Operating expenses | <u>(7,010,129)</u> | <u>(7,616,915)</u> |
| Income from operations before depreciation | 4,721 | 581,349 |
| Depreciation | <u>(7,847,448)</u> | <u>(7,867,862)</u> |
| Loss before other nonoperating income and expenses | (7,842,727) | (7,286,513) |
| Other nonoperating income (expense) | <u>1,385,074</u> | <u>(318,764)</u> |
| Loss before capital contributions | (6,457,653) | (7,605,277) |
| Capital contributions | <u>3,361,001</u> | <u>3,121,562</u> |
| Change in net position | <u>\$ (3,096,652)</u> | <u>\$ (4,483,715)</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 \$80.91 million at June 30, 2020, a \$3.097 million decrease from June 30, 2019.

| | <u>2020</u> | <u>2019</u> |
|----------------------------------|----------------------|----------------------|
| Assets: | | |
| Current and other assets | \$ 13,953,875 | \$ 10,919,623 |
| Capital assets | <u>81,713,974</u> | <u>88,699,140</u> |
| Total assets | <u>95,667,849</u> | <u>99,618,763</u> |
| Deferred outflows of resources | <u>668,586</u> | <u>273,648</u> |
| Liabilities: | | |
| Long-term liabilities | 12,476,223 | 12,324,589 |
| Current liabilities | <u>1,117,909</u> | <u>1,178,666</u> |
| Total liabilities | <u>13,594,132</u> | <u>13,503,255</u> |
| Deferred inflows of resources | <u>1,830,526</u> | <u>2,380,727</u> |
| Net position: | | |
| Net investment in capital assets | 74,736,760 | 81,199,082 |
| Restricted | 10,728,097 | 8,592,284 |
| Unrestricted | <u>(4,553,080)</u> | <u>(5,782,937)</u> |
| Total net position | <u>\$ 80,911,777</u> | <u>\$ 84,008,429</u> |

PENINSULA AIRPORT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

The largest portion of the Commission's net position each year (92% at June 30, 2020), 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.

An additional portion of the Commission's net position (13% at June 30, 2020), 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 \$1.98 per 1,000 lbs. of landed weight at June 30, 2020. Terminal rental rates are \$34 per square foot at June 30, 2020. 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 for FY 2020 and went into effect on July 1, 2019.

Revenues

A summary of revenues is as follows:

| | <u>2020</u> | <u>Percent of Total</u> | <u>2019</u> | <u>Percent of Total</u> |
|----------------------------------|---------------------|-----------------------------|---------------------|-----------------------------|
| Operating revenues: | | | | |
| Airfield | \$ 1,612,863 | 17.7% | \$ 1,683,391 | 19.4% |
| Terminal and landside | 4,829,339 | 52.9% | 6,022,144 | 69.5% |
| Other rents | 392,854 | 4.3% | 501,497 | 5.8% |
| Trailer park rent | 539,616 | 5.9% | 423,053 | 4.9% |
| Administrative and miscellaneous | 73,397 | 0.8% | 38,787 | 0.4% |
| Maintenance reimbursement | 2,150 | 0.0% | 1,087 | 0.0% |
| Total operating revenues | <u>7,450,219</u> | <u>81.6%</u> | <u>8,669,959</u> | <u>100.0%</u> |
| Nonoperating income: | | | | |
| Federal grants | 1,656,926 | 18.2% | - | - |
| Interest income | 1,587 | 0.0% | 1,183 | - |
| Other | 19,472 | 0.2% | - | - |
| Total nonoperating income | <u>1,677,985</u> | <u>18.4%</u> | <u>1,183</u> | <u>-</u> |
| Total revenues | <u>\$ 9,128,204</u> | <u>100.0%</u> | <u>\$ 8,671,142</u> | <u>100.0%</u> |

**PENINSULA AIRPORT COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

JUNE 30, 2020

Expenses

A summary of expenses is as follows:

| | <u>2020</u> | <u>Percent of Total</u> | <u>2019</u> | <u>Percent of Total</u> |
|----------------------------------|----------------------|-----------------------------|----------------------|-----------------------------|
| Cost of sales | \$ 435,369 | 2.8% | \$ 471,695 | 2.9% |
| Operating expenses: | | | | |
| Airfield | 787,000 | 5.0% | 1,018,436 | 6.3% |
| Terminal and landside | 2,414,249 | 15.5% | 2,408,360 | 14.8% |
| Other rents | 382,805 | 2.5% | 447,775 | 2.8% |
| Trailer park rent | 390,799 | 2.5% | 440,955 | 2.7% |
| Administrative and miscellaneous | 2,692,974 | 17.5% | 2,884,313 | 17.7% |
| Maintenance | 342,302 | 2.2% | 417,076 | 2.5% |
| Total operating revenues | <u>7,010,129</u> | <u>45.2%</u> | <u>7,616,915</u> | <u>46.8%</u> |
| Depreciation expense | <u>7,847,448</u> | <u>50.2%</u> | <u>7,867,862</u> | <u>48.3%</u> |
| Nonoperating expense: | | | | |
| Interest expense | 292,911 | 1.8% | 313,809 | 1.9% |
| Loss on sale of assets | - | 0.0% | 6,138 | 0.1% |
| Total nonoperating expenses | <u>292,911</u> | <u>1.8%</u> | <u>319,947</u> | <u>2.0%</u> |
| Total expenses | <u>\$ 15,585,857</u> | <u>100.0%</u> | <u>\$ 16,276,419</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>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Cash flow from operating activities | \$ 205,007 | \$ 355,756 |
| Cash flow from noncapital financing activities | 944,000 | - |
| Cash flow from capital and related financing activities | 1,529,618 | 2,044,877 |
| Cash flow from investing activities | <u>(2,504,957)</u> | <u>(2,364,284)</u> |
| Net change in cash and cash equivalents | 173,668 | 36,349 |
| Cash and cash equivalents, beginning of period | <u>1,629,123</u> | <u>1,592,774</u> |
| Cash and cash equivalents, end of period | <u>\$ 1,802,791</u> | <u>\$ 1,629,123</u> |

The Commission's available cash and cash equivalents increased by \$174 thousand between 2019 and 2020. Pending Reimbursements from the FAA on capital projects at June 30, 2020 totaled \$822 thousand and is not reflected in the cash flow above.

PENINSULA AIRPORT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

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 and construction-in-progress) 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 2020, the Commission expended \$1.02 million on capital activities. This included costs incurred during 2020 for \$658 thousand on airfield projects, \$183 thousand on maintenance equipment and vehicles, \$68 thousand on terminal equipment and \$110 thousand on other miscellaneous projects. During 2020, completed projects totaling \$712 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, 2020 - \$953,963 and 2019 - \$1,077,522.

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, 2020 - \$4,142,242 and 2019 - \$4,414,878.

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, 2020 - \$1,881,009 and 2019 - \$2,007,658.

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, Peninsula Airport Commission, Newport News - Williamsburg International Airport, 900 Bland Boulevard, Suite G, Newport News, VA 23602 or by email to JMinor@flyphf.com.

PENINSULA AIRPORT COMMISSION
STATEMENTS OF NET POSITION

JUNE 30, 2020 (WITH 2019 COMPARATIVE BALANCES)

| | 2020 | For Comparative Purposes Only 2019 |
|---|---------------|---|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents (Note 3) | \$ 1,802,791 | \$ 1,629,123 |
| Accounts receivable, net of \$5,000 allowance for doubtful accounts | 232,322 | 567,383 |
| Accounts receivable - Federal Aviation Administration (Note 4) | 822,480 | 31,215 |
| Inventories | 36,695 | 45,540 |
| Prepaid expenses | 203,618 | 54,078 |
| Total Current Assets | 3,097,906 | 2,327,339 |
| Restricted Assets: | | |
| Cash and cash equivalents (Notes 3 and 6) | 10,843,534 | 8,330,784 |
| Total Restricted Assets | 10,843,534 | 8,330,784 |
| Capital Assets (Note 5): | | |
| Land | 6,604,658 | 6,769,250 |
| Construction in progress | 751,780 | 444,706 |
| Airfield | 91,052,152 | 90,658,261 |
| Terminal | 89,414,632 | 89,367,640 |
| Other | 6,640,833 | 6,422,304 |
| Trailer park and rental units | 1,548,885 | 1,548,885 |
| | 196,012,940 | 195,211,046 |
| Less accumulated depreciation | (114,298,966) | (106,511,906) |
| Total Capital Assets, Net | 81,713,974 | 88,699,140 |
| Other assets - net pension asset (Note 9) | 12,435 | 261,500 |
| Total Assets | \$ 95,667,849 | \$ 99,618,763 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Pension (Note 9) | \$ 270,719 | \$ 147,248 |
| Healthcare OPEB Local (Note 10) | 351,345 | 104,670 |
| GLI OPEB VRS (Note 11) | 46,522 | 21,730 |
| Total Deferred Outflows of Resources | \$ 668,586 | \$ 273,648 |

PENINSULA AIRPORT COMMISSION
STATEMENTS OF NET POSITION (CONTINUED)

JUNE 30, 2020 (WITH 2019 COMPARATIVE BALANCES)

| | 2020 | For Comparative Purposes Only 2019 |
|--|----------------------|---|
| LIABILITIES | | |
| Current Liabilities: | | |
| Current portion of bonds payable (Note 8) | \$ 542,221 | \$ 521,763 |
| Accounts payable | 276,463 | 256,992 |
| Accrued liabilities | 271,993 | 370,659 |
| Security deposits | 27,232 | 29,252 |
| Total Current Liabilities | <u>1,117,909</u> | <u>1,178,666</u> |
| Long-Term Liabilities: | | |
| Bonds payable, less current portion (Note 8) | 6,434,993 | 6,978,295 |
| Net Healthcare OPEB - local (Note 10) | 5,837,984 | 5,164,294 |
| Net GLI OPEB - VRS (Note 11) | 203,246 | 182,000 |
| Total Long-Term Liabilities | <u>12,476,223</u> | <u>12,324,589</u> |
| Total Liabilities | <u>\$ 13,594,132</u> | <u>\$ 13,503,255</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Pension (Note 9) | \$ 218,123 | \$ 415,497 |
| Healthcare OPEB Local (Note 10) | 1,586,011 | 1,931,230 |
| GLI OPEB VRS (Note 11) | 26,392 | 34,000 |
| Total Deferred Inflows of Resources | <u>\$ 1,830,526</u> | <u>\$ 2,380,727</u> |
| NET POSITION | | |
| Net investment in capital assets | \$ 74,736,760 | \$ 81,199,082 |
| Restricted | 10,728,097 | 8,592,284 |
| Unrestricted | <u>(4,553,080)</u> | <u>(5,782,937)</u> |
| Total Net Position | <u>\$ 80,911,777</u> | <u>\$ 84,008,429</u> |

PENINSULA AIRPORT COMMISSION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2020 (WITH 2019 COMPARATIVE BALANCES)

| | 2020 | For Comparative Purposes Only 2019 |
|---|----------------------|---|
| Operating income | \$ 7,450,219 | \$ 8,669,959 |
| Cost of sales | (435,369) | (471,695) |
| Gross Profit | <u>7,014,850</u> | <u>8,198,264</u> |
| Operating expenses | (7,010,129) | (7,616,915) |
| Depreciation | (7,847,448) | (7,867,862) |
| Loss from Operations | <u>(7,842,727)</u> | <u>(7,286,513)</u> |
| Nonoperating Revenues (Expenses): | | |
| Federal grant revenues | 1,656,926 | - |
| Interest income | 1,587 | 1,183 |
| Interest expenses | (292,911) | (313,809) |
| Other income | 11,356 | - |
| Gain (loss) on sale of capital assets | 8,116 | (6,138) |
| Net Nonoperating Revenues (Expenses) | <u>1,385,074</u> | <u>(318,764)</u> |
| Loss before Capital Contributions | <u>(6,457,653)</u> | <u>(7,605,277)</u> |
| Capital Contributions | <u>3,361,001</u> | <u>3,121,562</u> |
| Change in Net Position | (3,096,652) | (4,483,715) |
| Total net position, beginning of the year | <u>84,008,429</u> | <u>88,492,144</u> |
| Total net position, end of the year | <u>\$ 80,911,777</u> | <u>\$ 84,008,429</u> |

The accompanying notes to the financial statements are an integral part of these statements.

PENINSULA AIRPORT COMMISSION
STATEMENTS OF CASH FLOWS

YEAR ENDED JUNE 30, 2020 (WITH 2019 COMPARATIVE BALANCES)

| | 2020 | For Comparative Purposes Only 2019 |
|---|---------------------|---|
| Cash flows from operating activities: | | |
| Receipts from customers and users | \$ 7,777,164 | \$ 8,630,680 |
| Payments to employees | (4,501,510) | (4,100,276) |
| Payments to suppliers | (3,070,647) | (4,174,648) |
| Net cash provided by operating activities | <u>205,007</u> | <u>355,756</u> |
| Cash flows from noncapital and related financing activities: | | |
| Contributions from Federal grants | <u>944,000</u> | <u>-</u> |
| Cash flows from capital and related financing activities: | | |
| Acquisition of capital assets | (1,021,724) | (743,709) |
| Proceeds from the sale of equipment | 8,116 | 5,131 |
| Changes in security deposits | (2,020) | (321) |
| Principal payments on bonds | (522,844) | (503,445) |
| Interest paid on debt | (292,911) | (313,809) |
| Capital contributions | 3,361,001 | 3,601,030 |
| Net cash provided by capital and related financing activities | <u>1,529,618</u> | <u>2,044,877</u> |
| Cash flows from investing activities: | | |
| Investment in future projects | (5,150) | (3,115) |
| Interest received and other income | 12,943 | 1,183 |
| Change in restricted cash and cash equivalents | (2,512,750) | (2,362,352) |
| Net cash used in investing activities | <u>(2,504,957)</u> | <u>(2,364,284)</u> |
| Net increase in cash and cash equivalents | 173,668 | 36,349 |
| Cash and cash equivalents, beginning of year | <u>1,629,123</u> | <u>1,592,774</u> |
| Cash and cash equivalents, end of year | <u>\$ 1,802,791</u> | <u>\$ 1,629,123</u> |

The accompanying notes to the financial statements are an integral part of these statements.

PENINSULA AIRPORT COMMISSION
STATEMENTS OF CASH FLOWS (CONTINUED)

YEAR ENDED JUNE 30, 2020 (WITH 2019 COMPARATIVE BALANCES)

| | <u>2020</u> | <u>For Comparative Purposes Only 2019</u> |
|---|-------------------|---|
| Reconciliation of operating loss to net cash provided by operating activities: | | |
| Loss from operations | \$ (7,842,727) | \$ (7,286,513) |
| Adjustments to reconcile loss from operations to net cash provided by operating activities: | | |
| Depreciation | 7,847,448 | 7,867,862 |
| Decrease (increase) in operating assets: | | |
| Accounts receivable | 256,722 | (39,279) |
| Prepaid expenses | 15,052 | (19,686) |
| Inventories | 8,845 | 10,408 |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable | 19,471 | (36,626) |
| Accrued liabilities | (98,666) | (22,369) |
| Net pension liability (asset) and related flows of resources | (71,780) | (220,347) |
| Net OPEB liability and related flows of resources | 70,642 | 102,306 |
| Net cash provided by operating activities | <u>\$ 205,007</u> | <u>\$ 355,756</u> |
| Supplemental disclosure of noncash capital and related financing activities: | | |
| Contributed capital funded by accounts receivable - FAA | <u>\$ 822,480</u> | <u>\$ 31,215</u> |

PENINSULA AIRPORT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 1—Organization and nature of business

The Peninsula Airport Commission (the “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, exercises oversight responsibility. Professional management conducts the day-to-day operations of the Commission.

The Commission is considered a component unit of the City in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The criteria for including the Commission within the City’s reporting entity is financial accountability, which 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.

Note 2—Summary of significant accounting policies

Measurement focus and basis of accounting

The Commission’s financial statements are presented as a business-type activity using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. GAAP as prescribed by the Governmental Accounting Standards Board (GASB). Under the accrual basis of accounting, revenues are recorded when earned, and expenses are recorded when incurred. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Current assets include cash and amounts convertible to cash during the next normal operating cycle, or one year. Current liabilities include those obligations to be liquidated with current assets. The Commission generally uses restricted assets first for expenses incurred for which both restricted and unrestricted assets are available. The Commission may defer the use of restricted assets based on a review of the specific transaction.

Operating income

The Commission’s main sources of operating income are from operation of the Newport News/Williamsburg International Airport, parking facilities, concessions 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.

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 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 (“Commonwealth”).

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.

Advertising

Advertising costs are charged to operations when incurred. During 2020, the Commission expensed \$241,247 in advertising costs within operating expenses.

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.

PENINSULA AIRPORT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 2—Summary of significant accounting policies (continued)

Deferred outflows/inflows of resources:

In addition to assets, the Statements of Net Position report a separate section for deferred outflows of resources, representing 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 of Net Position report a separate section for deferred inflows of resources, representing 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 a deferred outflow and 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. This change in flow of resources 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 change in flow of resources will be recognized in pension or OPEB expense over a closed five-year period.
- Difference resulting from a change in the Commission's proportion of the collective net OPEB liability. This change in flow of resources will be recognized in OPEB expense over the expected average remaining service life of all employees provided with benefits in the plan.

Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses and changes in net position during the reporting period. Significant items subject to such estimates include the valuation allowance for receivables, capital assets and obligations related to employee benefits. Actual results could differ from those estimates and assumptions.

Subsequent events

In preparing these financial statements, the Commission has evaluated events and transactions for potential recognition or disclosure through November 24, 2020, the date the financial statements were available to be issued.

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 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 | 2020 Carrying Value | For Comparative Purposes Only 2019 Carrying Value |
|---|------------------------|--|
| Demand deposits | \$ 6,290,719 | \$ 3,634,328 |
| Cash on hand | 4,750 | 6,011 |
| Money market funds | 6,350,856 | 6,319,568 |
| Total deposits | 12,646,325 | \$ 9,959,907 |
| Reconciliation to Statement of Net Position: | | |
| Current - cash and cash equivalents | \$ 1,802,791 | \$ 1,629,123 |
| Restricted assets - cash and cash equivalents | 10,843,534 | 8,330,784 |
| Total | \$ 12,646,325 | \$ 9,959,907 |

Custodial credit risk and concentration of investments

Deposits in financial institutions, reported as components of cash and cash equivalents, had a bank balance of approximately \$12,741,500 at June 30, 2020, which was fully insured by depository insurance or secured with collateral held by the Commission's agent in its name. At June 30, 2020, amounts subject to custodial credit risk as they were uninsured by the Federal Deposit Insurance Corporation ("FDIC"), due to exceeding the \$250,000 financial institutions limit, were approximately \$12,214,000 and were fully collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act"). Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks. A multiple financial institution collateral pool that provides for additional assessments is similar to depository insurance. If any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. If the value of the pool's collateral is inadequate to cover a loss, additional amounts would be assessed on a pro rata basis to the members of the pool.

All investments, if any, evidenced by individual securities, are registered in the name of the Commission.

PENINSULA AIRPORT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 3—Cash and cash equivalents (continued)

The Commission places no limit on the amount it may invest in any one issuer. At June 30, 2020, the Commission's concentration of credit risk from cash and investments is detailed in this note.

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, 2020.

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 above.

Note 4—Accounts receivable - Federal Aviation Administration

The Virginia Department of Aviation and the Federal Aviation Administration (FAA) contributes grant funds to finance construction costs for Airport improvements and terminal expansion. At June 30, 2020, \$822,480 was receivable by the Commission on cost reimbursable grants.

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 5—Capital assets

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

| | Balances, June 30, 2019 | Increases | Decreases | Balances, June 30, 2020 |
|---------------------------------------|------------------------------------|-----------------------|---------------------|------------------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 6,769,250 | \$ - | \$ (164,592) | \$ 6,604,658 |
| Construction in progress | 444,706 | 617,715 | (310,641) | 751,780 |
| Total non-depreciable | <u>7,213,956</u> | <u>617,715</u> | <u>(475,233)</u> | <u>7,356,438</u> |
| Other capital assets: | | | | |
| Airfield | 90,658,261 | 393,891 | - | 91,052,152 |
| Terminal | 89,367,640 | 99,264 | (52,272) | 89,414,632 |
| Other | 6,422,304 | 218,529 | - | 6,640,833 |
| Trailer park and rental units | 1,548,885 | - | - | 1,548,885 |
| Total depreciable | <u>187,997,090</u> | <u>711,684</u> | <u>(52,272)</u> | <u>188,656,502</u> |
| Less accumulated depreciation for: | | | | |
| Airfield | 58,338,396 | 3,832,523 | (60,388) | 62,110,531 |
| Terminal | 42,966,056 | 3,675,010 | - | 46,641,066 |
| Other | 3,658,569 | 339,915 | - | 3,998,484 |
| Trailer park and rental units | 1,548,885 | - | - | 1,548,885 |
| Total accumulated depreciation | <u>106,511,906</u> | <u>7,847,448</u> | <u>(60,388)</u> | <u>114,298,966</u> |
| Depreciable capital assets, net | <u>81,485,184</u> | <u>(7,135,764)</u> | <u>8,116</u> | <u>74,357,536</u> |
| Capital assets, net | <u>\$ 88,699,140</u> | <u>\$ (6,518,049)</u> | <u>\$ (467,117)</u> | <u>\$ 81,713,974</u> |

Note 6—Restricted cash

The Commission receives annual entitlement funds from the 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. 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, 2020, the Commission's restricted cash from entitlement funds, asset forfeiture funds and from PFC was \$10,843,534.

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 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 \$151,291 for compensated absences as of June 30, 2020. These liabilities are recorded in accrued liabilities on the Statement of Net Position.

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 \$44,291 for sick leave as of June 30, 2020. These liabilities are recorded in accrued liabilities on the Statement of Net Position.

Note 8—Long-term obligations

Following is a summary of long-term obligations of the Commission:

| | Balance, June 30, 2019 | Additions | Reductions | Balance, June 30, 2020 | Current portion |
|-----------------------------------|---------------------------|-------------------|---------------------|---------------------------|--------------------|
| Airport Improvement Bonds: | | | | | |
| Series 2002 | \$ 1,077,522 | \$ - | \$ (123,559) | \$ 953,963 | \$ 127,000 |
| Series 2005A | 4,414,878 | - | (272,636) | 4,142,242 | 283,765 |
| Series 2005B | 2,007,658 | - | (126,649) | 1,881,009 | 131,456 |
| Total improvement bonds | <u>\$ 7,500,058</u> | <u>\$ -</u> | <u>\$ (522,844)</u> | <u>\$ 6,977,214</u> | <u>\$ 542,221</u> |
| Compensated absences - vacation | <u>\$ 140,928</u> | <u>\$ 10,363</u> | <u>\$ -</u> | <u>\$ 151,291</u> | |
| Compensated absences - sick | <u>\$ 49,054</u> | <u>\$ -</u> | <u>\$ (4,763)</u> | <u>\$ 44,291</u> | |
| Net pension liabilities (assets) | <u>\$ (261,500)</u> | <u>\$ -</u> | <u>\$ 249,065</u> | <u>\$ (12,435)</u> | |
| Net OPEB liabilities - local | <u>\$ 5,164,294</u> | <u>\$ 673,690</u> | <u>\$ -</u> | <u>\$ 5,837,984</u> | |
| Net OPEB liabilities - GLI | <u>\$ 182,000</u> | <u>\$ 21,246</u> | <u>\$ -</u> | <u>\$ 203,246</u> | |

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 8—Long-term obligations (continued)

| | <u>2020</u> | <u>For Comparative Purposes Only 2019</u> |
|--|-------------------------|---|
| 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. | \$ 953,963 | \$ 1,077,522 |
| 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. | 4,142,242 | 4,414,878 |
| 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. | <u>1,881,009</u> | <u>2,007,658</u> |
| Total maturities | 6,977,214 | 7,500,058 |
| Less current maturities | <u>(542,221)</u> | <u>(521,763)</u> |
| Net long-term maturities | <u>\$ 6,434,993</u> | <u>\$ 6,978,295</u> |
| | | |
| <u>Years Ending June 30:</u> | <u>Principal</u> | <u>Interest</u> |
| 2021 | \$ 542,221 | \$ 268,022 |
| 2022 | 566,183 | 244,963 |
| 2023 | 577,352 | 224,429 |
| 2024 | 611,529 | 200,169 |
| 2025 | 635,626 | 186,221 |
| 2026–2030 | 3,062,496 | 508,646 |
| 2031–2032 | <u>981,807</u> | <u>30,312</u> |
| | <u>\$ 6,977,214</u> | <u>\$ 1,662,762</u> |

PENINSULA AIRPORT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 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 VRS 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 VRS administers three different benefit structures for covered employees - Plan 1, Plan 2, and Hybrid. Each of these benefit structures has 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, 2018, actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

| | |
|--|-----|
| Inactive members or their beneficiaries currently receiving benefits | 39 |
| Inactive members: | |
| Vested inactive members | 9 |
| Nonvested 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, 2020 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 \$111,829 for the year ended June 30, 2020.

PENINSULA AIRPORT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 9—Defined benefit pension plan (continued)

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 U.S. GAAP, less that employer's fiduciary net position. For political subdivisions, the net pension liability (asset) was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation performed as of June 30, 2018, rolled forward to the measurement date of June 30, 2019.

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, 2019.

| | |
|--|---------------|
| 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 | 6.75%* |

- * 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 U.S. GAAP purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of pension liabilities.

Mortality rates: General employees - 15% of deaths are assumed to be service related. Public Safety Employees - 45% 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, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees:

- Mortality Rates (Pre-retirement, postretirement healthy, and disabled) - updated to a more current mortality table (RP-2014 projected to 2020)
- Retirement Rates - lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal Rates - adjusted rates to better fit experience at each year age and service through 9 years of service
- Disability Rates - lowered rates
- Line of Duty Disability - increased rate from 14% to 15%
- Discount Rate - decreased rate from 7.00% to 6.75%

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 9—Defined benefit pension plan (continued)

Public Safety Employees:

- Mortality Rates (Pre-retirement, postretirement healthy, and disabled) - updated to a more current mortality table (RP-2014 projected to 2020)
- Retirement Rates - increased age 50 rates at older ages and lowered rates at older ages
- Withdrawal Rates - adjusted rates to better fit experience at each year age and service through 9 years of service
- Disability Rates – adjusted rates to better fit experience
- Line of Duty Disability - decreased rate from 60% to 45%
- Discount Rate - decrease rate from 7.00% to 6.75%

Long-term expected rate of return

The long-term expected rate of return on pension 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 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 | 34.00% | 5.61% | 1.91% |
| Fixed income | 15.00 | 0.88 | 0.13 |
| Credit strategies | 14.00 | 5.13 | 0.72 |
| Real assets | 14.00 | 5.27 | 0.74 |
| Private equity | 14.00 | 8.77 | 1.23 |
| MAPS - multi-asset public strategies | 6.00 | 3.52 | 0.21 |
| PIP - private investment partnership | 3.00 | 6.29 | 0.19 |
| Total | <u>100.00%</u> | | 5.13 |
| | | Inflation | <u>2.50</u> |
| | | *Expected arithmetic nominal return | <u>7.63%</u> |

* The above allocation provides for a one-year return of 7.63%. 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 7.11%, including expected inflation of 2.5%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 9—Defined benefit pension plan (continued)

Discount rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that VRS 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, 2019, the alternate rate was the employer contribution rate used in FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017, actuarial valuations, whichever was greater. From July 1, 2019, 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 Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability(Asset) (a) – (b) |
|--|--|--|---|
| Balances at June 30, 2018 | \$ 7,375,903 | \$ 7,637,403 | \$ (261,500) |
| Changes for the year: | | | |
| Service cost | 218,774 | - | 218,774 |
| Interest | 502,928 | - | 502,928 |
| Differences between expected and actual experience | 12,947 | - | 12,947 |
| Contributions – employer | - | 97,542 | (97,542) |
| Contributions – employee | - | 115,053 | (115,053) |
| Net investment income | - | 505,920 | (505,920) |
| Benefit payments, including refunds of employee contributions | (382,446) | (382,446) | - |
| Administrative expenses | - | (5,070) | 5,070 |
| Other changes | 227,543 | (318) | 227,861 |
| Net changes | 579,746 | 330,681 | 249,065 |
| Balances at June 30, 2019 | \$ 7,955,649 | \$ 7,968,084 | \$ (12,435) |

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

The following presents the net pension liability of the Commission using the discount rate of 6.75%, as well as what the Commission's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

| | 1% Decrease (5.75%) | Current Discount Rate (6.75%) | 1% Increase (7.75%) |
|-----------------------|------------------------------------|--|------------------------------------|
| Net Pension Liability | \$ 976,279 | \$ (12,435) | \$ 800,565 |

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 9—Defined benefit pension plan (continued)

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

For the year ended June 30, 2020, the Commission recognized pension expense of \$21,916. At June 30, 2020, 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 |
|--|---|--|
| Net difference between projected and actual earnings on pension plan investments | \$ - | \$ 73,664 |
| Change of assumptions | 146,854 | 3,003 |
| Differences between expected and actual experience | 12,036 | 141,456 |
| Employer contributions subsequent to the measurement date | 111,829 | - |
| Total as of June 30, 2020 | <u>\$ 270,719</u> | <u>\$ 218,123</u> |

The \$111,829 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 Asset in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,

| | |
|-------|--------------------|
| 2021 | \$ (56,835) |
| 2022 | (411) |
| 2023 | (1,679) |
| 2024 | (308) |
| Total | <u>\$ (59,233)</u> |

Pension plan data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2019 Comprehensive Annual Financial Report ("CAFR"). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2019-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 10—Other postemployment benefits, healthcare

Plan description

In addition to providing the pension benefits described in Note 9, the Commission provides OPEB for retired employees through a single-employer defined benefit plan (“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, which offers medical coverage to eligible retirees and their eligible dependents through Anthem KeyCare Plans and Optima Health, a Humana Plan and Delta Dental. Benefits include general inpatient and outpatient medical services, dental care and prescription drugs. NonMedicare eligible retirees had 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 the first half of the fiscal year. Optima Health Plans were offered for the second half of the fiscal year. 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, 2019 measurement date, the following employees were covered by the benefit terms of the plan:

Inactive members:

| | |
|--|-----------|
| Currently receiving benefits | 44 |
| Entitled to but not yet receiving benefits | 7 |
| Total inactive members | <u>51</u> |

Active members

| | |
|-------------------------|-------------------|
| Total covered employees | <u><u>100</u></u> |
|-------------------------|-------------------|

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 10—Other postemployment benefits, healthcare (continued)

Total OPEB liability

The Commission's total OPEB liability of \$5,837,984 was based on the total OPEB liability as of the valuation date, July 1, 2018 projected to the measurement date of June 30, 2019.

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, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2017 through June 30, 2019.

| | Total OPEB liability |
|--|-------------------------------------|
| Balances at June 30, 2018 | <u>\$ 5,164,294</u> |
| Changes for the year: | |
| Service cost | 305,601 |
| Interest | 208,945 |
| Change in assumptions | 302,125 |
| Benefit payments, including refunds of employee contributions | (142,981) |
| Net changes | <u>673,690</u> |
| Balances at June 30, 2019 | <u><u>\$ 5,837,984</u></u> |

Discount Rate

Since the Plan is pay-as-you-go and is not funded, the discount rate will be based on a 20-year, tax-exempt general obligation municipal bond index. This Plan uses the Bond Buyer GO 20-Bond Municipal Bond Index to satisfy the requirements of U.S. GAAP. As this index is issued weekly, the value closest to, but not after the, reporting date is used in determining the appropriate rate. Based on this practice, the municipal bond rate at June 27, 2019 was 3.50%.

The Plan does not have a trust established for the payment of OPEB benefits.

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 10—Other postemployment benefits, healthcare (continued)

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 (2.5%) or one percentage point higher (4.5%) than the current discount rate:

| | 1% Decrease (2.5%) | Current Discount Rate (3.5%) | 1% Increase (4.5%) |
|-----------------|-----------------------------------|---|-----------------------------------|
| OPEB Liability: | \$ 6,779,955 | \$ 5,837,984 | \$ 5,070,485 |

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 or one percentage point higher than the current healthcare cost trend rates:

| | Trend Minus 1% | Current Healthcare Cost Trend % | Trend Plus 1% |
|-----------------|---------------------------|--|--------------------------|
| OPEB Liability: | \$ 4,920,029 | \$ 5,837,984 | \$ 7,004,355 |

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

For the year ended June 30, 2020, the Commission recognized OPEB expense of \$174,176. At June 30, 2020, 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 |
|---|---|--|
| Change of assumptions | \$ 258,964 | \$ 1,017,737 |
| Differences between expected and actual experience | - | 568,274 |
| Employer contributions subsequent to the measurement date | 92,381 | - |
| Total as of June 30, 2020 | <u>\$ 351,345</u> | <u>\$ 1,586,011</u> |

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 10—Other postemployment benefits, healthcare (continued)

The \$92,381 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 ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| <u>Years Ending June 30,</u> | |
|------------------------------|-----------------------|
| 2021 | \$ (302,058) |
| 2022 | (302,058) |
| 2023 | (302,058) |
| 2024 | (302,060) |
| 2025 | (161,972) |
| Thereafter | 43,159 |
| Total | <u>\$ (1,327,047)</u> |

Note 11—Other postemployment benefits - VRS Group Life Insurance Program (“GLI”)

Plan descriptions

In addition to their participation in the pension plans offered through the VRS, the Commission also participates in the VRS GLI OBEP plan, which is a multiple employer, cost-sharing plan providing coverage to state employees, teachers, and employees of participating political subdivisions. The GLI was established pursuant to § 51.1-500 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The GLI is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net GLI OPEB liability, deferred outflows of resources and deferred inflows of resources related to the GLI OPEB, and GLI OPEB expense, information about the fiduciary net position of the VRS GLI OPEB and the additions to/deductions from the VRS GLI OPEB’s net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

In addition to the Basic GLI Benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional GLI. 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 OPEB.

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

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 11—Other postemployment benefits - VRS Group Life Insurance (GLI) Program (continued)

Contributions

The contribution requirements for the GLI Program are governed by § 51.1-506 and § 51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2020, was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the GLI Program from the Commission were \$12,835 and \$12,730 for the years ended June 30, 2020, and 2019, respectively.

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

The Net GLI OPEB Liability was measured as of June 30, 2019 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Program for the year ended June 30, 2019, relative to the total of the actuarially determined employer contributions for all participating employers.

| | |
|---|-----------|
| June 30, 2020 proportionate share of liability | \$203,246 |
| June 30, 2019 proportion share of contributions | 0.01249% |
| June 30, 2018 proportion share of contributions | 0.01194% |
| June 30, 2020 expense | \$2,535 |

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.

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Net difference between projected and actual earnings on OPEB plan investments | \$ - | \$ 4,175 |
| Change of assumptions | 12,832 | 6,129 |
| Change in proportion | 7,338 | 13,452 |
| Differences between expected and actual experience | 13,517 | 2,636 |
| Employer contributions subsequent to the measurement date | 12,835 | - |
| Total as of June 30, 2020 | <u>\$ 46,522</u> | <u>\$ 26,392</u> |

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 11—Other postemployment benefits - VRS Group Life Insurance (GLI) Program (continued)

The \$12,835 reported 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| <u>Years Ending June 30,</u> | |
|------------------------------|-----------------|
| 2021 | \$ (1,443) |
| 2022 | (1,443) |
| 2023 | 325 |
| 2024 | 3,174 |
| 2025 | 5,064 |
| Thereafter | <u>1,618</u> |
| Total | <u>\$ 7,295</u> |

Actuarial assumptions and other inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2018, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019:

| | |
|--|-------------|
| Inflation | 2.50% |
| Salary increases, including inflation: | |
| Locality- general employees | 3.50 -5.35% |
| Investment rate of return, net of expenses, including inflation * | 6.75% |

* 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 U.S. GAAP purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of OPEB liabilities.

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.

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 11—Other postemployment benefits - VRS Group Life Insurance (GLI) Program (continued)

Net OPEB liability

The net OPEB liability represent the program's total OPEB liability determined in accordance with U.S. GAAP, less the associated fiduciary net position. As of June 30, 2019, net OPEB liability amounts for the GLI VRS OPEB program is as follows (amounts expressed in thousands):

| | Group Life Insurance Program |
|---|---|
| Total OPEB Liability | \$ 3,390,238 |
| Plan fiduciary net position | <u>1,762,972</u> |
| Employers' net OPEB liability | <u>\$ 1,627,266</u> |
| Plan fiduciary net position as a percentage of total OPEB liability | 52.00% |

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 U.S. GAAP 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 | 34.00% | 5.61% | 1.91% |
| Fixed income | 15.00 | 0.88 | 0.13 |
| Credit strategies | 14.00 | 5.13 | 0.72 |
| Real assets | 14.00 | 5.27 | 0.74 |
| Private equity | 14.00 | 8.77 | 1.23 |
| MAPS - multi-asset public strategies | 6.00 | 3.52 | 0.21 |
| PIP - private investment partnership | <u>3.00</u> | 6.29 | <u>0.19</u> |
| Total | <u>100.00%</u> | | 5.13 |
| | | Inflation | <u>2.50</u> |
| | | *Expected arithmetic nominal return | <u>7.63%</u> |

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 11—Other postemployment benefits - VRS Group Life Insurance (GLI) Program (continued)

- * The above allocation provides for a one-year return of 7.63%. 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 VRS, 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 7.11%, including expected inflation of 2.5%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation

Discount rate

The discount rate used to measure the GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that VRS 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 ended June 30, 2019, 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, 2019 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 using the discount rate of 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current discount rate:

| | 1% Decrease (5.75%) | Current (6.75%) | 1% Increase (7.75%) |
|--------------------|------------------------------------|----------------------------|------------------------------------|
| Net OPEB Liability | \$ 267,009 | \$ 203,246 | \$ 151,536 |

OPEB plan fiduciary net position

Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2019 CAFR. A copy of the 2019 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2019-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 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.

Future minimum lease payments to be received from noncancelable operating leases are as follows:

| <u>Years Ending June 30,</u> | |
|------------------------------|---------------------|
| 2021 | \$ 863,328 |
| 2022 | 751,527 |
| 2023 | 745,472 |
| 2024 | 641,311 |
| 2025 | 291,384 |
| Thereafter | <u>1,518,001</u> |
| | <u>\$ 4,811,023</u> |

In 2019, the City renewed a lease for the fire station. The new lease is effective from July 2019 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.

Note 13—Leased equipment

The Commission leases equipment under a long-term noncancelable operating lease. The lease term is five years and expires in August 2022. Lease expense was \$15,090 during 2020.

Future minimum annual rentals are as follows:

| <u>Years Ending June 30,</u> | |
|------------------------------|------------------|
| 2021 | \$ 14,340 |
| 2022 | <u>2,390</u> |
| | <u>\$ 16,730</u> |

Note 14—Passenger facility charge

As of July 1, 2010, the FAA has given the Commission authority to impose a 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 \$26,346,720. During 2020, \$792,910 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.

PENINSULA AIRPORT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 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.

Note 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

From time to time, the Commission is a defendant in certain lawsuits and claims which are incidental to its operations. Management is of the opinion that the accompanying financial statements will not be materially affected by the ultimate resolution of litigation pending or threatened as of June 30, 2020.

Note 17—Commitments

At June 30, 2020, the Commission had commitments outstanding, in the form of contracts and purchase orders, of approximately \$750,000, primarily for construction projects.

Note 18—Uncertainties

On March 11, 2020, the World Health Organization declared a global pandemic as a result of the outbreak and spread of a novel strain of coronavirus ("COVID-19"). Following this, on March 16th, United States' guidelines were issued to restrict discretionary travel, which greatly impacted the Airport's airline passenger totals during last four months of the fiscal year. As there is still a significant level of uncertainty associated with pandemic, the Commission continues to actively monitor developments and will take steps to respond accordingly.

REQUIRED SUPPLEMENTARY INFORMATION

PENINSULA AIRPORT COMMISSION

SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS (UNAUDITED)

JUNE 30, 2020

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| Schedule of Changes in the Commission's Net Pension Liability (Asset) and Related Ratios: | | | | | | |
| Total pension liability: | | | | | | |
| Service cost | \$ 218,774 | \$ 196,971 | \$ 245,825 | \$ 252,646 | \$ 247,082 | \$ 238,814 |
| Interest | 502,928 | 517,397 | 492,440 | 463,530 | 431,301 | 408,005 |
| Differences between expected and actual experience | 12,947 | (523,768) | 68,645 | 74,866 | 145,651 | - |
| Changes of assumptions | 227,543 | - | (56,025) | - | - | - |
| Benefit payments, including refunds of employee contributions | (382,446) | (412,169) | (376,548) | (379,542) | (347,684) | (280,352) |
| Net change in total pension liability | 579,746 | (221,569) | 374,337 | 411,500 | 476,350 | 366,467 |
| Total pension liability – beginning | 7,375,903 | 7,597,472 | 7,223,135 | 6,811,635 | 6,335,285 | 5,968,818 |
| Total pension liability – ending (a) | 7,955,649 | 7,375,903 | 7,597,472 | 7,223,135 | 6,811,635 | 6,335,285 |
| Plan fiduciary net position: | | | | | | |
| Contributions – employer | 97,542 | 132,061 | 137,317 | 156,792 | 158,360 | 220,175 |
| Contributions – employee | 115,053 | 108,617 | 116,965 | 117,182 | 118,594 | 117,539 |
| Net investment income | 505,920 | 534,359 | 801,269 | 113,294 | 291,702 | 870,249 |
| Benefit payments, including refunds of employee contributions | (382,446) | (412,169) | (376,548) | (379,542) | (347,684) | (280,352) |
| Administrative expense | (5,070) | (4,660) | (4,659) | (4,133) | (4,010) | (4,591) |
| Other | (318) | (474) | (711) | (48) | (61) | 45 |
| Net change in plan fiduciary net position | 330,681 | 357,734 | 673,633 | 3,545 | 216,901 | 923,065 |
| Plan fiduciary net position – beginning | 7,637,403 | 7,279,669 | 6,606,036 | 6,602,491 | 6,385,590 | 5,462,525 |
| Plan fiduciary net position – ending (b) | 7,968,084 | 7,637,403 | 7,279,669 | 6,606,036 | 6,602,491 | 6,385,590 |
| Commission's net pension liability(asset) – ending (a)-(b) | \$ (12,435) | \$ (261,500) | \$ 317,803 | \$ 617,099 | \$ 209,144 | \$ (50,305) |
| Plan fiduciary net position as a percentage of the total pension liability (b) / (a) | 100.16 % | 103.55 % | 95.82 % | 91.46 % | 96.93 % | 100.79 % |
| Covered payroll (c) | \$ 2,441,718 | \$ 2,268,631 | \$ 2,286,395 | \$ 2,369,678 | \$ 2,382,571 | \$ 2,352,297 |
| Commission's net pension liability(asset) as a percentage of covered payroll [(a)-(b)] / (c) | (0.51)% | (11.53)% | 13.90 % | 26.04 % | 8.78 % | (2.14)% |

Net pension liabilities are reported using the measurement date, which is one year prior to the reporting date.

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

See accompanying notes to the RSI and Report of Independent Auditor.

PENINSULA AIRPORT COMMISSION**SCHEDULE OF CHANGES IN TOTAL HEALTHCARE OPEB LIABILITY AND RELATED RATIOS
(UNAUDITED)***JUNE 30, 2020*

| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|--|---------------------------|---------------------------|---------------------------|
| Schedule of Changes in the Commission's OPEB Liability and Related Ratios: | | | |
| Total OPEB liability: | | | |
| Service cost | \$ 305,601 | \$ 333,652 | \$ 387,298 |
| Interest | 208,945 | 229,887 | 198,590 |
| Differences between expected and actual experience | - | (795,584) | - |
| Changes of assumptions | 302,125 | (640,341) | (980,611) |
| Benefit payments, including refunds of employee contributions | <u>(142,981)</u> | <u>(101,287)</u> | <u>(95,518)</u> |
| Net change in total OPEB liability | 673,690 | (973,673) | (490,241) |
| | | | |
| Total OPEB liability – beginning | <u>5,164,294</u> | <u>6,137,967</u> | <u>6,628,208</u> |
| Total OPEB liability – ending (a)-(b) | <u><u>\$5,837,984</u></u> | <u><u>\$5,164,294</u></u> | <u><u>\$6,137,967</u></u> |

OPEB liabilities are reported using the measurement date, which is one year prior to the reporting date.

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.

PENINSULA AIRPORT COMMISSION

SCHEDULE OF EMPLOYER'S SHARE OF NET GLI OPEB LIABILITY (UNAUDITED)

YEAR ENDED JUNE 30, 2020

| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|--|-------------|-------------|-------------|
| GLI Plan: | | | |
| Commission's Proportion of the Net GLI OPEB Liability | 0.012490% | 0.01194% | 0.01240% |
| Commission's Proportionate Share of Net GLI OPEB Liability | \$ 203,246 | \$ 182,000 | \$ 187,000 |
| Employer's Covered Payroll | 2,441,718 | 2,268,631 | 2,286,395 |
| Employer's Proportionate Share of the Net GLI OPEB Liability as a Percentage of its Covered Payroll | 8.32% | 8.02% | 8.18% |
| Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability | 52.00% | 51.22% | 48.86% |

OPEB liabilities are reported using the measurement date, which is one year prior to the reporting date.

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.

PENINSULA AIRPORT COMMISSION
SCHEDULE OF EMPLOYER CONTRIBUTIONS (UNAUDITED)

YEAR ENDED JUNE 30, 2020

| <u>Year</u> | <u>Contractually Required Contribution</u> | <u>Contribution in Relation to Contractually Required Contribution</u> | <u>Contribution deficiency (excess)</u> | <u>Employer's Covered Payroll</u> | <u>Contributions as a % of Covered Payroll</u> |
|-------------------|--|--|---|---|--|
| VRS Pension Plan: | | | | | |
| 2020 | \$ 111,829 | \$ 111,829 | \$ - | \$ 2,462,544 | 4.54% |
| 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% |
| GLI OPEB Plan: | | | | | |
| 2020 | \$ 12,835 | \$ 12,835 | \$ - | \$ 2,462,544 | 0.52% |
| 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.

PENINSULA AIRPORT COMMISSION

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

YEAR ENDED JUNE 30, 2020

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

Changes of assumptions: The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

General Employees:

- Mortality Rates (Pre-retirement, postretirement healthy, and disabled) - updated to a more current mortality table (RP-2014 projected to 2020)
- Retirement Rates - lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal Rates - adjusted rates to better fit experience at each year age and service through 9 years of service
- Disability Rates - lowered rates
- Line of Duty Disability - increased rate from 14% to 15%
- Discount Rate - decreased rate from 7.00% to 6.75%

Public Safety Employees:

- Mortality Rates (Pre-retirement, postretirement healthy, and disabled) - updated to a more current mortality table (RP-2014 projected to 2020)
- Retirement Rates - increased age 50 rates at older ages and lowered rates at older ages
- Withdrawal Rates - adjusted rates to better fit experience at each year age and service through 9 years of service
- Disability Rates – adjusted rates to better fit experience
- Line of Duty Disability - decreased rate from 60% to 4%
- Discount Rate - decrease rate from 7.00% to 6.75%

SUPPLEMENTARY INFORMATION

PENINSULA AIRPORT COMMISSION
SCHEDULE OF OPERATING INCOME

YEAR ENDED JUNE 30, 2020 (WITH 2019 COMPARATIVE BALANCES)

| | 2020 | | For Comparative Purposes Only | |
|-----------------------------------|--------------|---------|-------------------------------|---------|
| | | | 2019 | |
| | Amount | Percent | Amount | Percent |
| AIRFIELD | | | | |
| Landing and tie-down fees | \$ 491,488 | | \$ 564,489 | |
| Fixed base operator commissions | 181,801 | | 180,488 | |
| Fuel flowage fees | 118,692 | | 140,967 | |
| Hangar rental and operations fees | 820,882 | | 797,447 | |
| Total airfield | 1,612,863 | 21.6% | 1,683,391 | 19.4% |
| TERMINAL AND LANDSIDE | | | | |
| Rents: | | | | |
| Airline offices | 600,380 | | 667,545 | |
| Car rental and other | 110,626 | | 119,411 | |
| Commissions: | | | | |
| Car rental | 2,026,171 | | 2,561,144 | |
| Communications and other | 551,250 | | 692,309 | |
| Parking lot fees | 1,381,397 | | 1,833,106 | |
| Other | 159,515 | | 148,629 | |
| Total terminal and landside | 4,829,339 | 64.9% | 6,022,144 | 69.5% |
| OTHER RENTS | 392,854 | 5.3% | 501,497 | 5.8% |
| TRAILER PARK RENTS | 539,616 | 7.2% | 423,053 | 4.9% |
| ADMINISTRATIVE AND MISCELLANEOUS | 73,397 | 1.0% | 38,787 | 0.4% |
| MAINTENANCE REIMBURSEMENT | 2,150 | 0.0% | 1,087 | 0.0% |
| Total operating income | \$ 7,450,219 | 100% | \$ 8,669,959 | 100% |

PENINSULA AIRPORT COMMISSION

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

YEAR ENDED JUNE 30, 2020 WITH 2019 COMPARATIVE BALANCES

| | Airfield | | Terminal and Landside | | Other Rents | | Trailer Park | | Allocated Costs - Administrative and Miscellaneous | | Allocated Costs - | | Total | |
|--|--------------|--------------|-----------------------|--------------|-------------|------------|--------------|-------------|--|----------------|-------------------|--------------|--------------|--------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| OPERATING INCOME | \$ 1,612,863 | \$ 1,683,391 | \$ 4,829,339 | \$ 6,022,144 | \$ 392,854 | \$ 501,497 | \$ 539,616 | \$ 423,053 | \$ 73,397 | \$ 38,787 | \$ 2,150 | \$ 1,087 | \$ 7,450,219 | \$ 8,669,959 |
| Cost of sales | - | - | (435,369) | (471,695) | - | - | - | - | - | - | - | - | (435,369) | (471,695) |
| Net operating income | 1,612,863 | 1,683,391 | 4,393,970 | 5,550,449 | 392,854 | 501,497 | 539,616 | 423,053 | 73,397 | 38,787 | 2,150 | 1,087 | 7,014,850 | 8,198,264 |
| OPERATING EXPENSES | | | | | | | | | | | | | | |
| Advertising | - | - | - | - | - | - | - | - | 240,861 | 264,538 | - | - | 240,861 | 264,538 |
| Audit | - | - | - | - | - | - | - | - | 37,400 | 49,710 | - | - | 37,400 | 49,710 |
| Auto and equipment | - | - | - | - | - | - | - | - | - | - | 89,501 | 117,779 | 89,501 | 117,779 |
| Bad debt | - | - | - | - | - | - | - | - | - | 5,000 | - | - | - | 5,000 |
| Commission fee | - | - | - | - | - | - | - | - | 17,267 | 14,174 | - | - | 17,267 | 14,174 |
| Communications | - | - | 42,199 | 43,560 | - | - | - | - | 24,601 | 20,446 | - | - | 66,800 | 64,006 |
| Crash and rescue | 17,800 | 18,031 | - | - | - | - | - | - | - | - | - | - | 17,800 | 18,031 |
| Dues and subscriptions | - | - | - | - | - | - | - | - | 14,441 | 17,365 | - | - | 14,441 | 17,365 |
| General office | - | - | - | - | - | - | - | - | 111,027 | 121,083 | - | - | 111,027 | 121,083 |
| Insurance | - | - | - | - | - | - | 2,576 | - | 261,784 | 270,100 | - | - | 264,360 | 270,100 |
| Janitorial supplies | - | - | 47,641 | 66,348 | - | - | - | - | - | - | - | - | 47,641 | 66,348 |
| Labor | 499,427 | 602,650 | 1,155,416 | 1,136,967 | 192,980 | 156,809 | 146,233 | 156,809 | 1,024,304 | 847,056 | 128,875 | 132,193 | 3,147,235 | 3,032,484 |
| Management fees | - | - | - | - | - | - | 854 | 26,617 | - | - | - | - | 854 | 26,617 |
| Miscellaneous | 2,434 | - | - | 17,289 | - | - | - | - | 560 | 75,776 | 780 | 345 | 3,774 | 93,410 |
| Payroll taxes and benefits | 149,876 | 185,029 | 319,829 | 226,033 | 57,326 | 52,873 | 39,638 | 52,873 | 232,652 | 169,536 | 46,437 | (18,125) | 845,758 | 668,219 |
| Postage | - | - | - | - | - | - | - | - | 3,385 | 2,006 | - | - | 3,385 | 2,006 |
| Professional services | - | - | - | - | - | - | - | - | 314,745 | 588,556 | - | - | 314,745 | 588,556 |
| Repairs, maintenance and supplies | 66,244 | 157,983 | 299,315 | 326,374 | 57,150 | 115,634 | 64,792 | 47,793 | 90,208 | 73,466 | 38,328 | 139,940 | 616,037 | 861,190 |
| Retiree healthcare OPEB | - | - | - | - | - | - | - | - | 174,176 | 220,894 | - | - | 174,176 | 220,894 |
| Shop and linen supplies | - | - | - | - | - | - | - | - | - | - | 4,445 | 10,020 | 4,445 | 10,020 |
| Small tools | - | - | - | - | - | - | - | - | - | - | 1,868 | 3,755 | 1,868 | 3,755 |
| Training | 5,213 | 4,851 | - | - | - | - | - | - | 2,548 | 489 | 1,526 | 779 | 9,287 | 6,119 |
| Trash removal | - | - | 50,141 | 55,037 | - | - | - | - | - | - | - | - | 50,141 | 55,037 |
| Travel and promotions | 764 | 1,440 | - | 239 | - | - | - | - | 33,742 | 38,340 | 139 | 2,330 | 34,645 | 42,349 |
| Uniforms | 5,915 | 4,684 | 17,819 | 18,650 | - | - | - | - | - | - | 24,047 | 19,451 | 47,781 | 42,785 |
| Utilities | 39,327 | 43,768 | 481,889 | 517,863 | 75,349 | 122,459 | 136,706 | 156,863 | 109,273 | 105,778 | 6,356 | 8,609 | 848,900 | 955,340 |
| Total operating expenses | 787,000 | 1,018,436 | 2,414,249 | 2,408,360 | 382,805 | 447,775 | 390,799 | 440,955 | 2,692,974 | 2,884,313 | 342,302 | 417,076 | 7,010,129 | 7,616,915 |
| Income(loss) from operations before depreciation | \$ 825,863 | \$ 664,955 | \$ 1,979,721 | \$ 3,142,089 | \$ 10,049 | \$ 53,722 | \$ 148,817 | \$ (17,902) | \$ (2,619,577) | \$ (2,845,526) | \$ (340,152) | \$ (415,989) | \$ 4,721 | \$ 581,349 |

See accompanying notes and Report of Independent Auditor.

PENINSULA AIRPORT COMMISSION
SCHEDULE OF PLEDGED REVENUE COVERAGE

YEARS ENDED JUNE 30,

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 | | |
|-------------|---------------------------------|--------------------------------------|---|--------------|-----------|----------|
| | | | | Principal | Interest | Coverage |
| 2020 | \$ 9,108,732 | \$ 7,738,409 | \$ 1,370,323 | \$522,844 | \$292,911 | 1.68 |
| 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 | 7,830,161 | 7,201,072 | 629,089 | 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 |

Note - Per Virginia Resources Authority guidance, CARES Act Federal assistance is to be used for operational purposes and, therefore, should be included in Operating Revenues for this analysis.

This schedule is intended to show information for 10 years. Additional years will be included as they become available.

PENINSULA AIRPORT COMMISSION

SCHEDULE OF COLLECTIONS AND EXPENDITURE OF PASSENGER FACILITY CHARGES

YEAR ENDED JUNE 30, 2019 AND EACH QUARTER DURING THE YEAR ENDED JUNE 30, 2020

| | Quarter Ended | | | | Total Year Ended June 30, 2020 |
|--------------------------------|------------------------------|----------------------|---------------------|---------------------|-----------------------------------|
| | September 30, 2019 | December 31, 2019 | March 31, 2020 | June 30, 2020 | |
| Collections | \$ 314,559 | \$ 222,027 | \$ 191,069 | \$ 54,107 | \$ 781,762 |
| Interest | 2,441 | 2,682 | 2,914 | 3,111 | 11,148 |
| | <u>317,000</u> | <u>224,709</u> | <u>193,983</u> | <u>57,218</u> | <u>792,910</u> |
| Expenditures: Application #3 | | | | | |
| PFC application administration | 1,520 | 4,950 | - | - | \$ 6,470 |
| | <u>1,520</u> | <u>4,950</u> | <u>-</u> | <u>-</u> | <u>\$ 6,470</u> |
| | Beginning Balance | | | | Ending Balance |
| | <u>\$ 1,742,691</u> | | | | <u>\$ 2,529,131</u> |
| Running Quarter End Total | <u>\$ 2,058,171</u> | <u>\$ 2,277,930</u> | <u>\$ 2,471,913</u> | <u>\$ 2,529,131</u> | |
| Collected and unexpended PFCs | <u>\$ 1,742,691</u> | <u>\$ 315,480</u> | <u>\$ 219,759</u> | <u>\$ 57,218</u> | <u>\$ 2,529,131</u> |

Revenues received and expenditures spent on approved projects in the schedule above agree to the Passenger Facility Charge Quarterly Status Reports (PFC Reports) submitted by the Peninsula Airport Commission to the Federal Aviation Administration (FAA).

¹ PFC revenues are shown on this schedule when the cash is received (cash basis).

COMPLIANCE SECTION

**Report of Independent Auditor 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***

Board of Commissioners
Peninsula Airport Commission

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the Peninsula Airport Commission (the “Commission”), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Commission’s basic financial statements and have issued our report thereon dated November 24, 2020. Our report includes a reference to other auditors who audited the financial statements of the Commission, as of and for the year ended June 30, 2019, as described in our report on the Authority’s financial statements. This report does not include the results of the other auditors’ testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission’s internal control over financial reporting (internal control) as a basis for designing 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 Commission’s internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 financial statements. 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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the *Specifications for Audits of Authorities, Boards, and Commissions*.

Peninsula Airport Commission's Response to Finding

The Commission's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

A handwritten signature in blue ink that reads "Cheryl Behrman CPA". The signature is written in a cursive style.

Richmond, Virginia
November 24, 2020

**Report of Independent Auditor 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 Board of Commissioners
Peninsula Airport Commission

Report on Compliance for the Passenger Facility Charge Program

We have audited the Peninsula Airport Commission's (the "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, that could have a direct and material effect on the Commission's Passenger Facility Charge Program for the year ended June 30, 2020.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its Passenger Facility Charge Program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Commission's Passenger Facility Charge Program based on our audit of the types of compliance requirements referred to above. 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 a the Passenger Facility Charge Program occurred. An audit includes examining, on a test basis, evidence about the 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 Passenger Facility Charge Program. However, our audit does not provide a legal determination of the Commission's compliance.

Opinion on the Passenger Facility Charge

In our opinion, the Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its Passenger Facility Charge Program for the year ended June 30, 2020.

Report on Internal Control over Compliance

Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commission's internal control over compliance with the types of requirements that could have a direct and material effect on the Passenger Facility Charge Program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the Passenger Facility Charge Program and to test and report on 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 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 the Passenger Facility Charge Program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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 the Passenger Facility Charge Program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the passenger facility charge that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Cheryl Behrnt CP". The signature is written in a cursive style.

Richmond, VA
November 24, 2020

Report of Independent Auditor on Compliance for the Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Commissioners
Peninsula Airport Commission

Report on Compliance for the Major Federal Program

We have audited the Peninsula Airport Commission's (the "Commission") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Commission's major federal program for the year ended June 30, 2020. The Commission's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Commission's major federal program based on our audit of the types of compliance requirements referred to above. 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 audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance 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 a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 major federal program. However, our audit does not provide a legal determination of the Commission's compliance.

Opinion on the Major Federal Program

In our opinion, the Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

Report on Internal Control over Compliance

Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commission's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 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 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 a material weakness. However, material weaknesses may exist that have not been identified

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Cheryl Behrnt CP". The signature is written in a cursive style.

Richmond, Virginia
November 24, 2020

PENINSULA AIRPORT COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2020

| Federal Grantor/Program Title | CFDA Number | Project Number | Expenditures |
|--|------------------------|---------------------------|---------------------|
| Department of Transportation: | | | |
| Federal Aviation Administration: | | | |
| Airport Improvement Program | 20.106 | 3-51-0035-050-2018 | \$ 42,289 |
| Airport Improvement Program | 20.106 | 3-51-0035-051-2019 | 227,309 |
| Airport Improvement Program | 20.106 | 3-51-0035-052-2019 | 298,219 |
| COVID-19 - Airport Improvement Program | 20.106 | 3-51-0035-054-2020 | <u>1,656,926</u> |
| Total Airport Improvement Program | | | <u>\$ 2,224,743</u> |

PENINSULA AIRPORT COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2020

A. Summary of Auditor's Results

1. The type of report issued on the basic financial statements: **Unmodified opinion**
2. Significant deficiencies in internal control disclosed by the audit of the financial statements: **Yes, Finding 2020-001**
3. Material weaknesses in internal control disclosed by the audit of financial statements: **No**
4. Noncompliance, which is material to the financial statements: **No**
5. Significant deficiencies in internal control over major programs: **None reported**
6. Material weaknesses in internal control over major programs: **No**
7. The type of report issued on compliance for major programs: **Unmodified opinion**
8. Any audit findings which are required to be reported under the Uniform Guidance: **No**
9. The program tested as major programs were:

| <u>CFDA Number</u> | <u>Name of Federal Program and Cluster</u> |
|--------------------|--|
| 20.106 | Airport Improvement Program |

10. Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
11. The Peninsula Airport Commission did not qualify as a low-risk auditee under Section 530 of Uniform Guidance

B. Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

2020-001 – Significant Deficiency – Segregation of Duties

Criteria: Yearly, the Commission's Finance Department oversees the preparation, processing, and recordation of thousands of financial transactions that ultimately will be reported externally through its financial statements. The efficient, effective and timely preparation of the financial statement depends heavily on finance personnel to monthly close the Commission's general ledger, performing appropriate financial analyses and reconciliations of financial activity, and accumulating the required data for reporting and to ensure Federal Aviation Administration compliance. In order to verify that the transactions are fairly presented, procedures must be in place and functioning effectively to ensure the financial and operational information is complete, accurate, and in accordance with accounting principles generally accepted in the United States of America. Key to effectively functioning procedures is the segregation of duties throughout the performance of said procedures to reduce the risk of misstatement due to fraud or error.

PENINSULA AIRPORT COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2020

Condition: As of June 30, 2020, the Commission does not have adequate segregation of duties over initiating, recording, and reconciling transactions involving key financial cycles. Although the size of the Commission's accounting department limits the extent of separation of duties, we believe certain steps could be taken to separate duties performed by members of the accounting function. The basic premise is that no one employee or individual should have access to both physical assets and the related accounting records or to all phases of a transaction. Specifically, we noted the following examples lacking a segregation of duties:

- Our review of the general journal entries revealed that manual entries lack secondary review and approval by someone other than the preparer. We recommend the adoption of a policy whereby all journal entries are approved by a designated member of management of the Commission, separate of the preparer. All entries should be initialed, or electronically signed, by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals.
- Our review of bank reconciliations indicated there was no review function in place over these schedules. It is always a best practice that a preparer have a designated, knowledgeable reviewer to ensure the accuracy and completeness of accounting transactions

Cause: Turnover in finance related positions without additional hiring and other Commission personnel cross trained to fill the segregation void.

Effect: Lack of a segregation of duties increases the potential for inaccurate financial reporting and ineffective finance management.

Recommendation: The Commission should review the current level of finance personnel and responsibilities and address any identified deficiencies in number or knowledge of personnel through additional hiring's, re-assignment of responsibilities and cross-training of other Commission personnel to augment the finance control environment.

Views of Responsible Officials and Planned Corrective Actions: The effects of COVID-19 caused severe reductions in staffing. The Commission is retooling to ensure compliance. The national health emergency is temporary and so are the accommodations/responses to it that resulted in this deficiency. The Executive Director and staff have reviewed the internal controls over financial reporting and have discussed additional procedures to verify, review and document the review to ensure internal controls are appropriate and are in compliance with the requirements to perform an effective review.

PENINSULA AIRPORT COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2020

C. Findings and Questioned Costs Relating to Federal Awards

None reported

D. Findings and Questions Costs Related to Passenger Facility Charges

None reported

E. None reported Findings and Questioned Costs Relating to Compliance with Commonwealth of Virginia Laws, Regulations, Contracts, and Grants

None reported

F. Status of Prior Year Findings

None reported