

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

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

As of and for the Year Ended June 30, 2022

And Report of Independent Auditor

PENINSULA AIRPORT COMMISSION
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PENINSULA AIRPORT COMMISSION
COMMISSION MEMBERS

JUNE 30, 2022

| | |
|----------------|---------------------|
| Lindsey Smith | Chair |
| Brian Kelly | Vice-Chair |
| Jay Joseph | Treasurer |
| Sharon Scott | Secretary |
| Jennifer Smith | Assistant Treasurer |
| Thomas Garner | Assistant Secretary |

Independent Auditor's Report

To the Board of Commissioners
Peninsula Airport Commission

Report on the Financial Statements

Opinion

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 twelve months ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Commission, as of June 30, 2022, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Our responsibilities under those standards and specifications are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Commission and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for one year beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards; *Government Auditing Standards*; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards; *Government Auditing Standards*; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Commission's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the Commission's basic financial statements. The schedule of operating income, schedule of income (loss) from operations before depreciation per activity, and the schedule of pledged revenue coverage are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 schedule of operating income, schedule of income (loss) from operations before depreciation per activity, and the schedule of pledged revenue coverage are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Commission Members but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Cherry Bekaert LLP

Richmond, Virginia
December 21, 2022

PENINSULA AIRPORT COMMISSION MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2022

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 as of and for the fiscal year ended June 30, 2022. 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 the 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>2022</u> | <u>2021</u> |
|--------------------------|-------------|-------------|
| Enplanements | 96,200 | 63,473 |
| % Increase (decrease) | 51.56% | -68.89% |
| Aircraft operations | 52,000 | 39,090 |
| % Increase (decrease) | 33.03% | -39.17% |
| Landed weight | 105,384,600 | 106,622,340 |
| % Increase (decrease) | -1.16% | -53.71% |
| Parking (vehicles) | 37,746 | 27,863 |
| % Increase (decrease) | 35.47% | -69.51% |
| Parking (revenue) | 792,118 | 490,841 |
| % Increase (decrease) | 61.38% | -72.75% |
| Rental car commissions | 1,826,740 | 1,498,710 |
| % Increase (decrease) | 21.89% | 12.34% |
| Customer facility charge | 729,212 | 676,137 |
| % Increase (decrease) | 7.85% | -44.90% |

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 influence to that fiscal climate must be denoted. The year of FY 2022 remained weak due to the COVID-19 Pandemic.

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 16, U.S. guidelines were issued to restrict discretionary travel. On January 21, 2021, the President of the United States mandated the wearing of masks at airports. Subsequently the United States Department of Homeland Security issued masks be worn on commercial aircraft and airports. As you will see in the operating activity totals, the pandemic continues to greatly impact the Airport's airline passenger totals during FY 2022 when compared with pre-pandemic performance. The longer-term effects of the COVID-19 impact on the Commission's operations and financials remain uncertain. The entire fiscal year, the Airport was served by American Airlines.

PENINSULA AIRPORT COMMISSION MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2022

Financial Operations Highlights

Net position increased by \$1.8 million in 2022 compared to a \$2.2 million decrease in 2021.

- Operating income increased by 22.09% from \$4.8 million to \$5.9 million due to partial post-COVID-19 recovery increases in passenger travel, airline service, and rental car revenues.
- Cost of sales from Take PHFlight restaurant increased by 33.03% from \$265 thousand to \$352 thousand as a result of general inflation increases and partial recovery in passengers and sales during the fiscal year.
- Operating expenses increased by 10.57% from \$6.3 million to \$6.9 million as a result of general inflation increases in expenses and increases in general maintenance activities suspended during the COVID-19 slow down period.
- Depreciation expense decreased slightly by 2.42% from \$7.9 million to \$7.7 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 \$.5 million less than the 2021 results. This slight variance compared to the gains in the fiscal year ended June 30, 2019, was a result of the slower than expected recovery from the COVID-19 suspensions and the returns to pre-pandemic levels by the airline industry.
- Nonoperating income (expenses) increased by approximately \$2.2 million from 2021, with a net nonoperating gain of \$4.4 million in 2022 compared to a net gain of \$2.2 million in 2021. This increase in nonoperating activity was primarily due to the Coronavirus Aid, Relief, and Economic Security Act Federal Grant reimbursements.
- Capital contributions received in the form of grants from the federal government and the Commonwealth of Virginia increased by 27.32% from \$5.2 million in 2021 to \$6.6 million in 2022 due to the timing of capital projects.
- Capital projects that were completed or started in FY 2022 included \$5.47 million on taxiway A and D shoulders and lights, \$228 thousand on maintenance equipment and vehicles, \$648 thousand on terminal equipment, \$891 thousand for parking lot projects, and \$1.18 million on general aviation airfield projects.

PENINSULA AIRPORT COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2022

Summary of Operations and Changes in Net Position

| | <u>2022</u> | <u>2021</u> |
|--|---------------------|-----------------------|
| Operating income | \$ 5,850,493 | \$ 4,792,082 |
| Cost of sales | (351,950) | (264,558) |
| Operating expenses | <u>(6,921,083)</u> | <u>(6,259,271)</u> |
| Income from Operations before Depreciation | (1,422,540) | (1,731,747) |
| Depreciation | <u>(7,697,145)</u> | <u>(7,888,361)</u> |
| Loss Before Other Nonoperating Income and Expenses | (9,119,685) | (9,620,108) |
| Other nonoperating income | <u>4,364,569</u> | <u>2,210,853</u> |
| Loss Before Capital Contributions | (4,755,116) | (7,409,255) |
| Capital contributions | <u>6,591,638</u> | <u>5,177,358</u> |
| Change in Net Position | <u>\$ 1,836,522</u> | <u>\$ (2,231,897)</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 \$78.65 million at June 30, 2022, a \$2.26 million decrease from June 30, 2021.

| | <u>2022</u> | <u>2021</u> |
|----------------------------------|----------------------|----------------------|
| Assets: | | |
| Current and other assets | \$ 18,190,193 | \$ 16,296,435 |
| Capital assets | <u>77,044,898</u> | <u>78,080,381</u> |
| Total Assets | <u>95,235,091</u> | <u>94,376,816</u> |
| Deferred outflows of resources | <u>539,090</u> | <u>859,506</u> |
| Liabilities: | | |
| Long-term liabilities | 9,509,207 | 10,447,682 |
| Current liabilities | <u>1,669,111</u> | <u>2,797,767</u> |
| Total Liabilities | <u>11,178,318</u> | <u>13,245,449</u> |
| Deferred inflows of resources | <u>4,604,548</u> | <u>3,310,993</u> |
| Net Position: | | |
| Net investment in capital assets | 71,140,007 | 71,647,480 |
| Restricted | 16,618,850 | 12,538,838 |
| Unrestricted | <u>(7,242,455)</u> | <u>(5,506,438)</u> |
| Total Net Position | <u>\$ 80,516,402</u> | <u>\$ 78,679,880</u> |

The largest portion of the Commission's net position each year (91% at June 30, 2022), 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.

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

JUNE 30, 2022

An additional portion of the Commission's net position (18% at June 30, 2022), 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, 2022. Terminal rental rates are \$34 per square foot at June 30, 2022. 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>2022</u> | <u>Percent of Total</u> | <u>2021</u> | <u>Percent of Total</u> |
|----------------------------------|----------------------|-----------------------------|---------------------|-----------------------------|
| Operating Revenues: | | | | |
| Airfield | \$ 1,438,942 | 13.8% | \$ 1,283,617 | 17.6% |
| Terminal and landside | 3,555,794 | 34.0% | 2,581,738 | 35.5% |
| Other rents | 400,351 | 3.8% | 351,690 | 4.8% |
| Trailer park rent | 397,939 | 3.8% | 526,063 | 7.2% |
| Administrative and miscellaneous | 57,467 | 0.5% | 48,624 | 0.7% |
| Maintenance reimbursement | - | 0.0% | 350 | 0.0% |
| Total Operating Revenues | <u>5,850,493</u> | <u>55.9%</u> | <u>4,792,082</u> | <u>65.9%</u> |
| Nonoperating Income: | | | | |
| Federal grants | 4,300,989 | 41.1% | 2,478,952 | 34.1% |
| Interest income | 1,919 | 0.0% | 1,516 | 0.0% |
| Other | 307,728 | 2.9% | 1,827 | 0.0% |
| Gain on sale of assets | 302,520 | 2.0% | - | 0.0% |
| Total Nonoperating Income | <u>4,610,636</u> | <u>44.1%</u> | <u>2,482,295</u> | <u>34.1%</u> |
| Total Revenues | <u>\$ 10,461,129</u> | <u>100.0%</u> | <u>\$ 7,274,377</u> | <u>100.0%</u> |

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

JUNE 30, 2022

Expenses

A summary of expenses is as follows:

| | <u>2022</u> | <u>Percent of Total</u> | <u>2021</u> | <u>Percent of Total</u> |
|----------------------------------|----------------------|-----------------------------|----------------------|-----------------------------|
| Cost of sales | \$ 351,950 | 2.3% | \$ 264,558 | 1.8% |
| Operating Expenses: | | | | |
| Airfield | 993,454 | 6.5% | 838,217 | 5.7% |
| Terminal and landside | 2,581,557 | 17.0% | 2,309,977 | 15.7% |
| Other rents | 352,120 | 2.3% | 350,514 | 2.4% |
| Trailer park rent | 554,747 | 3.6% | 401,550 | 2.7% |
| Administrative and miscellaneous | 2,718,224 | 17.9% | 2,010,523 | 13.7% |
| Maintenance | (279,019) | -1.8% | 348,490 | 2.4% |
| Total Operating Expenses | <u>6,921,083</u> | <u>45.5%</u> | <u>6,259,271</u> | <u>42.6%</u> |
| Depreciation Expense | <u>7,697,145</u> | <u>50.6%</u> | <u>7,888,361</u> | <u>53.6%</u> |
| Nonoperating Expense: | | | | |
| Interest expense | <u>246,068</u> | <u>1.6%</u> | <u>292,911</u> | <u>2.0%</u> |
| Total Nonoperating Expenses | <u>246,068</u> | <u>1.6%</u> | <u>292,911</u> | <u>2.0%</u> |
| Total Expenses | <u>\$ 15,216,246</u> | <u>100.0%</u> | <u>\$ 14,705,101</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>2022</u> | <u>2021</u> |
|---|---------------------|---------------------|
| Cash flow from operating activities | \$ (3,291,577) | \$ (86,036) |
| Cash flow from noncapital financing activities | 5,480,914 | 2,478,952 |
| Cash flow from capital and related financing activities | (546,383) | (450,032) |
| Cash flow from investing activities | <u>(1,362,308)</u> | <u>(2,504,957)</u> |
| Net change in cash and cash equivalents | 280,646 | (562,073) |
| Cash and cash equivalents, beginning of period | <u>2,931,084</u> | <u>1,802,791</u> |
| Cash and cash equivalents, end of period | <u>\$ 3,211,730</u> | <u>\$ 1,240,718</u> |

The Commission's available cash and cash equivalents increased by \$1.13 million between 2021 and 2022. Pending reimbursements from the Federal Aviation Administration on capital projects totaled \$200.73 thousand at June 30, 2022 and is not reflected in the cash flow above.

PENINSULA AIRPORT COMMISSION MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2022

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 2022, the Commission expended \$8.42 million on capital activities. This included costs incurred during 2022 for \$6.65 million on airfield projects, \$228 thousand on maintenance equipment and vehicles, \$648 thousand on terminal equipment, and \$891 thousand on parking lot projects. Construction-in-progress during FY 2022 related primarily to airfield and terminal improvements.

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, 2022 – \$696,006 and 2021 – \$826,667.

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, 2022 – \$3,585,264 and 2021 – \$3,857,168.

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, 2022 – \$1,623,621 and 2021 – \$1,749,066.

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.

PENINSULA AIRPORT COMMISSION
STATEMENTS OF NET POSITION

JUNE 30, 2022

ASSETS

Current Assets:

| | |
|---|------------------|
| Cash and cash equivalents (Note 3) | \$ 3,211,730 |
| Accounts receivable, net of \$5,000 allowance for doubtful accounts | 236,785 |
| Accounts receivable - Federal Aviation Administration (Note 4) | 200,727 |
| Leases receivable | 83,249 |
| Prepaid expenses and other assets | <u>221,420</u> |
| Total Current Assets | <u>3,953,911</u> |

Restricted Assets:

| | |
|---|-------------------|
| Cash and cash equivalents (Notes 3 and 6) | <u>13,030,904</u> |
| Total Restricted Assets | <u>13,030,904</u> |

Capital Assets (Note 5):

| | |
|-------------------------------|----------------------|
| Land | 6,832,612 |
| Construction in progress | 6,903,618 |
| Airfield | 93,814,416 |
| Terminal | 90,585,554 |
| Other | 7,241,285 |
| Trailer park and rental units | <u>1,551,885</u> |
| | 206,929,370 |
| Less accumulated depreciation | <u>(129,884,472)</u> |
| Total Capital Assets, Net | <u>77,044,898</u> |

| | |
|---|-----------------------------|
| Leases receivable | 525,087 |
| Other assets - net pension asset (Note 9) | <u>1,205,378</u> |
| Total Assets | <u><u>\$ 95,760,178</u></u> |

DEFERRED OUTFLOWS OF RESOURCES:

| | |
|--------------------------------------|--------------------------|
| Pension (Note 9) | \$ 255,202 |
| Healthcare OPEB Local (Note 10) | 244,577 |
| GLI OPEB VRS (Note 11) | <u>39,311</u> |
| Total Deferred Outflows of Resources | <u><u>\$ 539,090</u></u> |

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

PENINSULA AIRPORT COMMISSION
STATEMENTS OF NET POSITION (CONTINUED)

JUNE 30, 2022

LIABILITIES

Current Liabilities:

| | |
|---|------------------|
| Current portion of bonds payable (Note 8) | \$ 585,551 |
| Accounts payable | 597,750 |
| Accrued liabilities (Note 8) | 462,074 |
| Security deposits | <u>23,736</u> |
| Total Current Liabilities | <u>1,669,111</u> |

Long-Term Liabilities:

| | |
|--|----------------------|
| Bonds payable, less current portion (Note 8) | 5,319,340 |
| Net pension liability (Note 9) | - |
| Net healthcare OPEB - (Note 10) | 4,061,448 |
| Net GLI OPEB - VRS (Note 11) | <u>128,419</u> |
| Total Long-Term Liabilities | <u>9,509,207</u> |
| Total Liabilities | <u>\$ 11,178,318</u> |

DEFERRED INFLOWS OF RESOURCES:

| | |
|-------------------------------------|---------------------|
| Pension (Note 9) | \$ 1,246,221 |
| Healthcare OPEB (Note 10) | 2,677,457 |
| GLI OPEB VRS (Note 11) | 72,534 |
| Leases | <u>608,336</u> |
| Total Deferred Inflows of Resources | <u>\$ 4,604,548</u> |

NET POSITION:

| | |
|----------------------------------|----------------------|
| Net investment in capital assets | \$ 71,140,007 |
| Restricted | 16,618,850 |
| Unrestricted | <u>(7,242,455)</u> |
| Total Net Position | <u>\$ 80,516,402</u> |

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

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

YEAR ENDED JUNE 30, 2022

| | |
|---|----------------------|
| Operating income | \$ 5,850,493 |
| Cost of sales | <u>(351,950)</u> |
| Gross Profit | <u>5,498,543</u> |
| Operating expenses | (6,921,083) |
| Depreciation | <u>(7,697,145)</u> |
| Loss from Operations | <u>(9,119,685)</u> |
| Nonoperating Revenues (Expenses): | |
| Federal grant revenues | 4,300,989 |
| Interest income | 1,919 |
| Interest expenses | (246,068) |
| Other income | 5,208 |
| Gain on sale of capital assets | <u>302,520</u> |
| Net Nonoperating Revenues | <u>4,364,569</u> |
| Loss Before Capital Contributions | <u>(4,755,116)</u> |
| Capital Contributions | <u>6,591,638</u> |
| Change in net position | 1,836,522 |
| Total net position, beginning of the year | <u>78,679,880</u> |
| Total net position, end of the year | <u>\$ 80,516,402</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, 2022

| | |
|---|---------------------|
| Cash flows from operating activities: | |
| Receipts from customers and users | \$ 5,696,445 |
| Payments to employees | (4,882,127) |
| Payments to suppliers | <u>(4,105,895)</u> |
| Net cash flows from operating activities | <u>(3,291,577)</u> |
| Cash flows from noncapital and related financing activities: | |
| Contributions provided by federal grants | <u>5,480,914</u> |
| Cash flows from capital and related financing activities: | |
| Acquisition of capital assets | (6,661,662) |
| Proceeds from the sale of equipment | 302,520 |
| Changes in security deposits | (4,801) |
| Principal payments on bonds | (528,010) |
| Interest paid on debt | (246,068) |
| Capital contributions | <u>6,591,638</u> |
| Net cash flows from capital and related financing activities | <u>(546,383)</u> |
| Cash flows from investing activities: | |
| Interest received and other income | 7,128 |
| Change in restricted cash and cash equivalents | <u>(1,369,436)</u> |
| Net cash flows from investing activities | <u>(1,362,308)</u> |
| Net change in cash and cash equivalents | 280,646 |
| Cash and cash equivalents, beginning of year | <u>2,931,084</u> |
| Cash and cash equivalents, end of year | <u>\$ 3,211,730</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, 2022

**Reconciliation of operating loss to net cash from
operating activities:**

| | |
|--|-----------------------|
| Loss from operations | \$ (9,119,685) |
| Adjustments to reconcile loss from operations to net cash used in operating activities: | |
| Depreciation | 7,697,145 |
| Decrease (increase) in operating assets: | |
| Accounts receivable | (154,048) |
| Prepaid expenses and other assets | 19,074 |
| Lease receivable | (608,336) |
| Increase (decrease) in operating liabilities: | |
| Accounts payable | (1,210,656) |
| Accrued liabilities | 67,433 |
| Net pension liability (asset) and related flows of resources | (751,346) |
| Net OPEB liability and related flows of resources | 160,506 |
| Lease related deferred inflows of resources | 608,336 |
| Net cash flows from operating activities | <u>\$ (3,291,577)</u> |

**Supplemental disclosure of noncash capital and
related financing activities:**

| | |
|---|-------------------|
| Contributed capital funded by accounts receivable - FAA | <u>\$ 200,727</u> |
|---|-------------------|

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

PENINSULA AIRPORT COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

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.

New Accounting Pronouncement – As of July 1, 2021, the Commission adopted the provisions of Governmental Accounting Standards Board (“GASB”) 87, *Leases*, which amended the existing accounting standards for lease reporting. The new guidance requires lessors in a leasing arrangement to recognize a lease receivable and a deferred inflow of resources for most leases (other than leases that meet the definition of a short-term lease or regulated lease) at lease commencement. The liability (lessees) or deferred inflow (lessors) will be equal to the present value of lease payments.

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 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 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 and Statements of Cash Flows.

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.

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.

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

Note 2—Summary of significant accounting policies (continued)

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 2022, the Commission expensed \$638,587 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 fiduciary net position have been determined on the same basis as they were reported by the VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources – In addition to assets, the Statements 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.

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

Note 2—Summary of significant accounting policies (concluded)

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 December 21, 2022, the date the financial statements were available to be issued.

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:

| <u>Type</u> | <u>Carrying Value</u> |
|---|-----------------------|
| Demand deposits | \$ 9,826,363 |
| Cash on hand | 4,500 |
| Money market funds | 6,411,771 |
| Total deposits | <u>\$ 16,242,634</u> |
| Reconciliation to Statement of Net Position: | |
| Current - cash and cash equivalents | \$ 3,211,730 |
| Restricted assets - cash and cash equivalents | 13,030,904 |
| | <u>\$ 16,242,634</u> |

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 \$16,374,000 at June 30, 2022, which was fully insured by depository insurance or secured with collateral held by the Commission’s agent in its name. At June 30, 2022, 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 \$16,124,000 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. The Commission places no limit on the amount it may invest in any one issuer. At June 30, 2022, the Commission’s concentration of credit risk from cash and investments is detailed in this note.

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

Note 3—Cash and cash equivalents (concluded)

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, 2022.

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, 2022, \$200,727 was receivable by the Commission on cost reimbursable grants.

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

Note 5—Capital assets

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

| | Balances, June 30, 2021 | Increases | Decreases | Balances, June 30, 2022 |
|---------------------------------------|------------------------------------|--------------------|-----------------------|------------------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 6,808,769 | \$ 23,843 | \$ - | \$ 6,832,612 |
| Construction in progress | 1,761,977 | 6,782,416 | (1,640,775) | 6,903,618 |
| Total non-depreciable | <u>8,570,746</u> | <u>6,806,259</u> | <u>(1,640,775)</u> | <u>13,736,230</u> |
| Other capital assets: | | | | |
| Airfield | 93,452,410 | 362,006 | - | 93,814,416 |
| Terminal | 89,614,142 | 960,852 | - | 90,574,994 |
| Other | 7,081,525 | 173,320 | - | 7,254,845 |
| Trailer park and rental units | 1,548,885 | - | - | 1,548,885 |
| Total depreciable | <u>191,696,962</u> | <u>1,496,178</u> | <u>-</u> | <u>193,193,140</u> |
| Less accumulated depreciation for: | | | | |
| Airfield | 66,148,718 | 3,921,001 | - | 70,069,719 |
| Terminal | 50,132,820 | 3,423,391 | - | 53,556,211 |
| Other | 4,356,904 | 352,753 | - | 4,709,657 |
| Trailer park and rental units | 1,548,885 | - | - | 1,548,885 |
| Total accumulated depreciation | <u>122,187,327</u> | <u>7,697,145</u> | <u>-</u> | <u>129,884,472</u> |
| Depreciable capital assets, net | <u>69,509,635</u> | <u>(6,200,967)</u> | <u>-</u> | <u>63,308,668</u> |
| Capital assets, net | <u>\$ 78,080,381</u> | <u>\$ 605,292</u> | <u>\$ (1,640,775)</u> | <u>\$ 77,044,898</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, 2022, the Commission's restricted cash from entitlement funds, asset forfeiture funds, and from PFC was \$13,030,904.

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

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 \$215,484 for compensated absences as of June 30, 2022. These liabilities are recorded in accrued liabilities on the Statements 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 \$135,524 for sick leave as of June 30, 2022. These liabilities are recorded in accrued liabilities on the Statements of Net Position.

Note 8—Long-term obligations

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

| | <u>Balance,</u> <u>June 30, 2021</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance,</u> <u>June 30, 2022</u> | <u>Current</u> <u>Portion</u> |
|----------------------------------|---|-------------------|-----------------------|---|----------------------------------|
| Airport improvement bonds: | | | | | |
| Series 2002 | \$ 826,667 | \$ - | \$ (130,661) | \$ 696,006 | \$ 134,173 |
| Series 2005A | 3,857,168 | - | (271,904) | 3,585,264 | 309,202 |
| Series 2005B | 1,749,066 | - | (125,445) | 1,623,621 | 142,176 |
| Total improvement bonds | <u>\$ 6,432,901</u> | <u>\$ -</u> | <u>\$ (528,010)</u> | <u>\$ 5,904,891</u> | <u>\$ 585,551</u> |
| Compensated absences - vacation | <u>\$ 193,429</u> | <u>\$ 22,055</u> | <u>\$ -</u> | <u>\$ 215,484</u> | <u>\$ 215,484</u> |
| Compensated absences - sick | <u>\$ 155,534</u> | <u>\$ -</u> | <u>\$ (20,010)</u> | <u>\$ 135,524</u> | <u>\$ 135,524</u> |
| Net pension liabilities (assets) | <u>\$ 462,777</u> | <u>\$ -</u> | <u>\$ (1,668,155)</u> | <u>\$ (1,205,378)</u> | |
| Net OPEB liabilities - local | <u>\$ 3,918,094</u> | <u>\$ 143,354</u> | <u>\$ -</u> | <u>\$ 4,061,448</u> | |
| Net OPEB liabilities - GLI | <u>\$ 200,093</u> | <u>\$ -</u> | <u>\$ (71,674)</u> | <u>\$ 128,419</u> | |

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

Note 8—Long-term obligations (concluded)

| | |
|--|--------------|
| 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. | \$ 696,006 |
| 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. | 3,585,264 |
| 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. | 1,623,621 |
| Total maturities | 5,904,891 |
| Less current maturities | (585,551) |
| Net long-term maturities | \$ 5,319,340 |

Years Ending June 30:

| | Principal | Interest |
|-----------|---------------------|---------------------|
| 2023 | \$ 585,551 | \$ 227,299 |
| 2024 | 608,566 | 204,283 |
| 2025 | 632,512 | 180,338 |
| 2026 | 657,423 | 155,426 |
| 2027 | 670,706 | 129,507 |
| 2028-2032 | 2,372,286 | 272,522 |
| 2033 | 377,847 | 5,358 |
| | <u>\$ 5,904,891</u> | <u>\$ 1,174,733</u> |

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 is 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>.

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

Note 9—Defined benefit pension plan (continued)

Employees Covered by Benefit Terms – As of the June 30, 2021, actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

| | |
|--|-----|
| Inactive members or their beneficiaries currently receiving benefits | 42 |
| Inactive members: | |
| Vested inactive members | 11 |
| Nonvested inactive members | 26 |
| Inactive members active elsewhere in VRS | 20 |
| Total inactive members | 57 |
| Active members | 49 |
| Total covered employees | 148 |

Contributions – The contribution requirement for active employees is governed by Section 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, 2022, was 5.60% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021.

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 \$75,639 for the year ended June 30, 2022.

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, 2021. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation performed as of June 30, 2020, rolled forward to the measurement date of June 30, 2021.

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, 2020, 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, 2021.

| | |
|--|---------------|
| 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 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.

Note 9—Defined benefit pension plan (continued)

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

Mortality Rates: General Employees – 25% 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, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2021. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees:

- Mortality Rates (Preretirement, 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 (Preretirement, 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%

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

Note 9—Defined benefit pension plan (continued)

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:

| Asset Class (Strategy) | Target Allocation | Arithmetic Long-Term Expected Rate of Return | Weighted Average Long-Term Expected Rate of Return |
|--------------------------------------|-------------------|--|--|
| Public equity | 34.00% | 5.00% | 1.70% |
| Fixed income | 15.00 | 0.57 | 0.09 |
| Credit strategies | 14.00 | 4.49 | 0.63 |
| Real assets | 14.00 | 4.76 | 0.67 |
| Private equity | 14.00 | 9.94 | 1.39 |
| MAPS - multi-asset public strategies | 6.00 | 3.29 | 0.20 |
| PIP - private investment partnership | 3.00 | 6.84 | 0.21 |
| | 100.00% | | 4.89 |
| | | Inflation | 2.50 |
| | | *Expected arithmetic nominal return | 7.39% |

* The above allocation provides for a one-year return of 7.39%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the System, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.94%, 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. On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

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, 2021, 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, 2021, 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.

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

Note 9—Defined benefit pension plan (continued)

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, 2020 | \$ 8,371,347 | \$ 7,908,570 | \$ 462,777 |
| Changes for the year: | | | |
| Service cost | 186,141 | - | 186,141 |
| Interest | 547,396 | - | 547,396 |
| Changes of assumptions | 344,663 | - | 344,663 |
| Differences between expected and actual experience | (416,205) | - | (416,205) |
| Contributions – employer | - | 106,315 | (106,315) |
| Contributions – employee | - | 101,911 | (101,911) |
| Net investment income | - | 2,127,188 | (2,127,188) |
| Benefit payments, including refunds of employee contributions | (523,568) | (523,568) | - |
| Administrative expenses | - | (5,065) | 5,065 |
| Other changes | - | (199) | 199 |
| Net changes | 138,427 | 1,806,582 | (1,668,155) |
| Balances at June 30, 2021 | \$ 8,509,774 | \$ 9,715,152 | \$ (1,205,378) |

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 asset | \$ (143,601) | \$ (1,205,378) | \$ (2,082,746) |

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – For the year ended June 30, 2022, the Commission recognized pension expense of \$(135,944). At June 30, 2022, 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 | \$ - | \$ 1,052,586 |
| Change of assumptions | 160,351 | - |
| Differences between expected and actual experience | 19,212 | 193,635 |
| Employer contributions subsequent to the measurement date | 75,639 | - |
| Total as of June 30, 2021 | \$ 255,202 | \$ 1,246,221 |

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

Note 9—Defined benefit pension plan (concluded)

The \$75,639 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, 2023. 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,

| | |
|------|-----------------------|
| 2022 | \$ (260,613) |
| 2023 | (240,349) |
| 2024 | (244,860) |
| 2025 | (320,836) |
| | <u>\$ (1,066,658)</u> |

Pension Plan Data – Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2021 Annual Comprehensive Financial Report (“Annual Report”). A copy of the 2021 VRS Annual Report may be downloaded from the VRS website at <https://www.varetire.org/Pdf/Publications/2021-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218 2500.

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. Non-Medicare 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.

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

Note 10—Other postemployment benefits, healthcare (continued)

Employees Covered by Benefit Terms – As of the June 30, 2021 measurement date, the following employees were covered by the benefit terms of the plan:

| | |
|--|-----|
| Inactive members: | |
| Currently receiving benefits | 42 |
| Entitled to but not yet receiving benefits | 11 |
| Total inactive members | 53 |
| Active members | 49 |
| Total covered employees | 102 |

Total OPEB Liability – The Commission’s total OPEB liability of \$4,061,448 was based on the total OPEB liability as of the valuation date, June 30, 2021.

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 | 2.5% |
| Salary increases, including inflation | 3.0% |
| Healthcare cost trend rates | 8.0% |
| Retirees’ share of benefit-related costs | 85% 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, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2017 through June 30, 2021.

| | |
|--|---------------------|
| | OPEB |
| | Liability |
| | \$ 3,918,094 |
| Balances at June 30, 2020 | |
| Changes for the year: | |
| Service cost | 226,766 |
| Interest | 90,681 |
| Contributions – employer | - |
| Contributions – employee | - |
| Change in assumptions | (90,318) |
| Benefit payments, including refunds of employee contributions | (83,755) |
| Net changes | 143,374 |
| Balances at June 30, 2021 | \$ 4,061,468 |

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

Note 10—Other postemployment benefits, healthcare (continued)

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 30, 2021 was 2.16%.

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

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 (1.16%) or one percentage point higher (3.16%) than the current discount rate:

| | 1% Decrease 1.16% | Current Discount Rate 2.16% | 1% Increase 3.16% |
|----------------|----------------------------------|--|----------------------------------|
| OPEB liability | \$ 4,754,492 | \$ 4,061,448 | \$ 3,506,585 |

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 | \$ 3,425,088 | \$ 4,061,448 | \$ 4,867,165 |

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2022, the Commission recognized OPEB expense of (\$383,958). At June 30, 2022, 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 | \$ 172,642 | \$ 1,589,743 |
| Differences between expected and actual experience | - | 1,087,714 |
| Employer contributions subsequent to the measurement date | 71,935 | - |
| Total as of June 30, 2022 | <u>\$ 244,577</u> | <u>\$ 2,677,457</u> |

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

Note 10—Other postemployment benefits, healthcare (concluded)

The \$71,935 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, 2023. 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> | |
|------------------------------|-----------------------|
| 2022 | \$ (658,435) |
| 2023 | (658,437) |
| 2024 | (518,349) |
| 2025 | (313,218) |
| 2026 | (356,376) |
| Therafter | - |
| | <u>\$ (2,504,815)</u> |

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

Plan Description – In addition to their participation in the pension plans offered through the VRS, the Commission also participates in the VRS GLI OPEB (“GLI”) 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 Section 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 fiduciary net 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>.

Contributions – The contribution requirements for the GLI program are governed by Sections 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 1.34% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.80% (1.34% x 60%) and the employer component was 0.54% (1.34% 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, 2022, was 0.54% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. 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 \$12,300 for the year ended June 30, 2022.

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

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

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, 2021 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, 2020, and rolled forward to the measurement date of June 30, 2021. 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, 2021, relative to the total of the actuarially determined employer contributions for all participating employers.

| | |
|---|-----------|
| June 30, 2022 proportionate share of liability | \$128,419 |
| June 30, 2021 proportion share of contributions | 0.01103% |
| June 30, 2020 proportion share of contributions | 0.01199% |
| June 30, 2022 revenue | \$(564) |

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 | \$ - | \$ 30,651 |
| Change of assumptions | 7,080 | 17,570 |
| Change in proportionate share | 4,584 | 23,335 |
| Differences between expected and actual experience | 14,647 | 978 |
| Employer contributions subsequent to the measurement date | 13,000 | - |
| Total as of June 30, 2022 | <u>\$ 39,311</u> | <u>\$ 72,534</u> |

The \$13,000 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, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending June 30,

| | |
|------------|--------------------|
| 2022 | \$ (12,151) |
| 2023 | (9,491) |
| 2024 | (7,610) |
| 2025 | (12,571) |
| 2026 | (4,400) |
| Thereafter | - |
| | <u>\$ (46,223)</u> |

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

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

Actuarial Assumptions and Other Inputs – The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2020, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2021:

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

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 the measurement date June 30, 2021, net OPEB liability amounts for the GLI VRS OPEB program are as follows (amounts expressed in thousands):

| | Group Life Insurance Program |
|---|---|
| Total OPEB liability | \$ 3,577,346 |
| Plan fiduciary net position | 2,413,074 |
| Employers’ net OPEB liability | <u>\$ 1,164,272</u> |
| Plan fiduciary net position as a percentage of total OPEB liability | 67.45% |

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.

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

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

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:

| Asset Class (Strategy) | Target Allocation | Arithmetic Long-term Expected Rate of Return | Weighted Average Long-term Expected Rate of Return |
|--------------------------------------|-------------------|--|--|
| Public equity | 34.00% | 5.00% | 1.70% |
| Fixed income | 15.00 | 0.57 | 0.09 |
| Credit strategies | 14.00 | 4.49 | 0.63 |
| Real assets | 14.00 | 4.76 | 0.67 |
| Private equity | 14.00 | 9.94 | 1.39 |
| MAPS - multi-asset public strategies | 6.00 | 3.29 | 0.20 |
| PIP - private investment partnership | 3.00 | 6.84 | 0.21 |
| | 100.00% | | 4.89 |
| | | Inflation | 2.50 |
| | | *Expected arithmetic nominal return | 7.39% |

* The above allocation provides for a one-year return of 7.39%. 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 6.94%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

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, 2021, 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, 2021 forward, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB’s fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability.

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

Note 11—Other postemployment benefits – VRS Group Life Insurance (GLI) Program (concluded)

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 | \$ 187,625 | \$ 128,419 | \$ 80,608 |

OPEB Plan Fiduciary Net Position – Information about the various VRS OPEB plan fiduciary net position is available in the separately issued VRS 2021 Annual Report. A copy of the 2021 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2021-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 12—Leasing arrangements as lessor

The Commission leases portions of the Airport property to tenants. The leases are discounted at 1.5%. As the lessor, the Commission recognizes lease revenue and interest revenue in a systematic and rational manner over the terms of the underlying leases. Lease receivables are measured based on payments using the interest method during the respective lease terms.

Future minimum lease receipts as of June 30, 2022 were as follows:

| <u>Years Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Minimum Lease Receivable</u> |
|------------------------------|-------------------|------------------|---|
| 2023 | \$ 83,249 | \$ 1,957 | \$ 85,206 |
| 2024 | 86,068 | 3,345 | 89,413 |
| 2025 | 87,726 | 4,786 | 92,512 |
| 2026 | 89,419 | 6,303 | 95,722 |
| 2027 | 91,146 | 7,898 | 99,044 |
| Thereafter | 170,728 | 19,178 | 189,906 |
| | <u>\$ 608,336</u> | <u>\$ 43,467</u> | <u>\$ 651,803</u> |

PENINSULA AIRPORT COMMISSION
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022

Note 13—Regulated leases

The Commission has entered into regulated leases as lessor for the use of space at the airport. As of June 30, 2022, the value of the expected future minimum receipts is \$5,721,822. These lessees are required to make monthly fixed payments in accordance with the terms of each lease. The Authority recognized lease revenues of \$1,205,474 from regulated leases during the fiscal year.

Future minimum lease receipts as of June 30, 2022 are as follows:

Years Ending June 30,

| | | |
|-----------|----|------------------|
| 2023 | \$ | 737,200 |
| 2024 | | 513,289 |
| 2025 | | 307,908 |
| 2026 | | 178,083 |
| 2027 | | 182,663 |
| 2028-2032 | | 939,252 |
| 2033-2037 | | 685,848 |
| 2038-2042 | | 387,742 |
| 2043-2047 | | 311,163 |
| | \$ | <u>4,243,148</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 17 planned projects. The total approved revenue to be collected under these multiple applications is \$15,313,209. During 2022, \$375,020 of PFC revenue was collected under these agreements and was recognized as capital contributions on the Statements of Revenue, Expenses, and Changes in Net Position.

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, 2022.

REQUIRED SUPPLEMENTARY INFORMATION

PENINSULA AIRPORT COMMISSION

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

JUNE 30, 2022

| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|----------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Schedule of Changes in the Commission's Net Pension Liability (Asset) and Related Ratios: | | | | | | | |
| Total Pension Liability: | | | | | | | |
| Service cost | \$ 186,141 | \$ 220,559 | \$ 218,774 | \$ 196,971 | \$ 245,825 | \$ 252,646 | \$ 247,082 |
| Interest | 547,396 | 523,017 | 502,928 | 517,397 | 492,440 | 463,530 | 431,301 |
| Differences between expected and actual experience | (416,205) | 86,622 | 12,947 | (523,768) | 68,645 | 74,866 | 145,651 |
| Changes of assumptions | 344,663 | - | 227,543 | - | (56,025) | - | - |
| Benefit payments, including refunds of employee contributions | (523,568) | (414,500) | (382,446) | (412,169) | (376,548) | (379,542) | (347,684) |
| Net Change in Total Pension Liability | 138,427 | 415,698 | 579,746 | (221,569) | 374,337 | 411,500 | 476,350 |
| Total pension liability – beginning | 8,371,347 | 7,955,649 | 7,375,903 | 7,597,472 | 7,223,135 | 6,811,635 | 6,335,285 |
| Total pension liability – ending (a) | 8,509,774 | 8,371,347 | 7,955,649 | 7,375,903 | 7,597,472 | 7,223,135 | 6,811,635 |
| Plan Fiduciary Net Position: | | | | | | | |
| Contributions – employer | 106,315 | 95,291 | 97,542 | 132,061 | 137,317 | 156,792 | 158,360 |
| Contributions – employee | 101,911 | 114,232 | 115,053 | 108,617 | 116,965 | 117,182 | 118,594 |
| Net investment income | 2,127,188 | 150,873 | 505,920 | 534,359 | 801,269 | 113,294 | 291,702 |
| Benefit payments, including refunds of employee contributions | (523,568) | (414,500) | (382,446) | (412,169) | (376,548) | (379,542) | (347,684) |
| Administrative expense | (5,463) | (5,232) | (5,070) | (4,660) | (4,659) | (4,133) | (4,010) |
| Other | 199 | (178) | (318) | (474) | (711) | (48) | (61) |
| Net Change in Plan Fiduciary Net Position | 1,806,582 | (59,514) | 330,681 | 357,734 | 673,633 | 3,545 | 216,901 |
| Plan fiduciary net position – beginning | 7,908,570 | 7,968,084 | 7,637,403 | 7,279,669 | 6,606,036 | 6,602,491 | 6,385,590 |
| Plan fiduciary net position – ending (b) | 9,715,152 | 7,908,570 | 7,968,084 | 7,637,403 | 7,279,669 | 6,606,036 | 6,602,491 |
| Commission's net pension liability(asset) – ending (a)-(b) | \$ (1,205,378) | \$ 462,777 | \$ (12,435) | \$ (261,500) | \$ 317,803 | \$ 617,099 | \$ 209,144 |
| Plan fiduciary net position as a percentage of the total pension liability (b) / (a) | 114.16 % | 94.47 % | 100.16 % | 103.55 % | 95.82 % | 91.46 % | 96.93 % |
| Covered payroll (c) | \$ 2,225,207 | \$ 2,462,544 | \$ 2,441,718 | \$ 2,268,631 | \$ 2,286,395 | \$ 2,369,678 | \$ 2,382,571 |
| Commission's net pension liability(asset) as a percentage of covered payroll [(a)-(b)] / (c) | (54.17)% | 18.79 % | (0.51)% | (11.53)% | 13.90 % | 26.04 % | 8.78 % |

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, 2022

| | <u>2021</u> | <u>2020</u> | <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 | \$ 226,766 | \$ 341,320 | \$ 305,601 | \$ 333,652 | \$ 387,298 |
| Interest | 90,681 | 214,771 | 208,945 | 229,887 | 198,590 |
| Differences between expected and actual experience | - | (1,045,450) | - | (795,584) | - |
| Changes of assumptions | (90,318) | (1,343,817) | 302,125 | (640,341) | (980,611) |
| Benefit payments, including refunds of employee contributions | (83,775) | (86,714) | (142,981) | (101,287) | (95,518) |
| Net Change in Total OPEB Liability | 143,354 | (1,919,890) | 673,690 | (973,673) | (490,241) |
| Total OPEB liability – beginning | <u>3,918,094</u> | <u>5,837,984</u> | <u>5,164,294</u> | <u>6,137,967</u> | <u>6,628,208</u> |
| Total OPEB liability – ending (a)-(b) | <u>\$ 4,061,448</u> | <u>\$ 3,918,094</u> | <u>\$ 5,837,984</u> | <u>\$ 5,164,294</u> | <u>\$ 6,137,967</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, 2022

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| GLI Plan: | | | | | |
| Commission's proportion of the net GLI OPEB liability | 0.011030% | 0.011990% | 0.012490% | 0.01194% | 0.01240% |
| Commission's proportionate share of net GLI OPEB liability | \$ 128,419 | \$ 200,093 | \$ 203,246 | \$ 182,000 | \$ 187,000 |
| Employer's covered payroll | 2,225,207 | 2,462,544 | 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 | 5.77% | 8.13% | 8.32% | 8.02% | 8.18% |
| Plan fiduciary net position as a percentage of the total GLI OPEB liability | 67.45% | 52.64% | 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, 2022

| <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: | | | | | |
| 2022 | \$ 139,928 | \$ 139,928 | \$ - | \$ 2,498,721 | 5.60% |
| 2021 | 124,612 | 124,612 | - | 2,225,207 | 5.60% |
| 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% |
| GLI OPEB Plan: | | | | | |
| 2022 | \$ 13,526 | \$ 13,526 | \$ - | \$ 2,504,788 | 0.54% |
| 2021 | 12,300 | 12,300 | - | 2,225,207 | 0.55% |
| 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, 2022

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, 2020 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, 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 (Preretirement, postretirement, healthy, and disabled) – updated to a more current mortality table (Modified MP-2020 Improvement scale that is 75% of the MP-2020 rates)
- Retirement Rates – lowered rates at older ages and changed final retirement from 75 to 80
- Withdrawal Rates – adjusted rates to better fit experience at each year age and service through 10 years of service
- Disability Rates – remained the same at 15%
- Line of Duty Disability remained the same at 15%
- Discount Rate – decreased rate from 6.75% to 2.16%

Public Safety Employees:

- Mortality Rates (Preretirement, postretirement, healthy, and disabled) – updated to a more current mortality table (MP-2020 Improvement scale)
- 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 10 years of service
- Disability Rates – remained the same at 15%
- Line of Duty Disability – remained the same at 15%
- Discount Rate – decrease rate from 6.75% to 2.16%

SUPPLEMENTARY INFORMATION

PENINSULA AIRPORT COMMISSION
SCHEDULE OF OPERATING INCOME

YEAR ENDED JUNE 30, 2022

| | <u>Amount</u> | <u>Percent</u> |
|-----------------------------------|----------------------------|--------------------|
| AIRFIELD | | |
| Landing and tie-down fees | \$ 321,438 | |
| Fixed base operator commissions | 235,777 | |
| Fuel flowage fees | 103,949 | |
| Hangar rental and operations fees | <u>777,778</u> | |
| Total Airfield | <u>1,438,942</u> | <u>21.6%</u> |
| TERMINAL AND LANDSIDE | | |
| Rents: | | |
| Airline offices | 355,536 | |
| Car rental and other | 71,281 | |
| Commissions: | | |
| Car rental | 1,826,740 | |
| Communications and other | 358,609 | |
| Parking lot fees | 792,118 | |
| Other | <u>151,510</u> | |
| Total Terminal and Landside | <u>3,555,794</u> | <u>64.9%</u> |
| OTHER RENTS | <u>400,351</u> | <u>5.3%</u> |
| TRAILER PARK RENTS | <u>397,939</u> | <u>7.2%</u> |
| ADMINISTRATIVE AND MISCELLANEOUS | <u>57,467</u> | <u>1.0%</u> |
| MAINTENANCE REIMBURSEMENT | <u>-</u> | <u>0.0%</u> |
| Total Operating Income | <u><u>\$ 5,850,493</u></u> | <u><u>100%</u></u> |

See accompanying notes and Report of Independent Auditor.

PENINSULA AIRPORT COMMISSION

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

YEAR ENDED JUNE 30, 2022

| | <u>Airfield</u> | <u>Terminal and Landside</u> | <u>Other Rents</u> | <u>Trailer Park</u> | <u>Allocated Costs - Administrative and Miscellaneous</u> | <u>Allocated Costs - Maintenance</u> | <u>Total</u> |
|--|-------------------|----------------------------------|------------------------|-------------------------|---|--|-----------------------|
| Operating Income: | \$ 1,438,942 | \$ 3,555,794 | \$ 400,351 | \$ 397,939 | \$ 57,467 | \$ - | \$ 5,850,493 |
| Cost of sales | - | (351,950) | - | - | - | - | (351,950) |
| Net operating income | <u>1,438,942</u> | <u>3,203,844</u> | <u>400,351</u> | <u>397,939</u> | <u>57,467</u> | <u>-</u> | <u>5,498,543</u> |
| Operating Expenses: | | | | | | | |
| Advertising | - | 1,283 | - | - | 637,304 | - | 638,587 |
| Audit | - | - | - | - | 42,377 | - | 42,377 |
| Auto and equipment | - | - | - | - | - | - | - |
| Bad debt | - | - | - | - | - | - | - |
| Commission fee | - | - | - | - | 21,721 | - | 21,721 |
| Communications | - | 45,459 | - | - | 33,171 | 129 | 78,759 |
| Crash and rescue | 59,278 | - | - | - | - | - | 59,278 |
| Dues and subscriptions | - | - | - | 1,812 | 17,668 | - | 19,480 |
| General office | 17,057 | 4,615 | - | - | 65,023 | 589 | 87,284 |
| Insurance | - | - | - | - | 251,218 | - | 251,218 |
| Janitorial supplies | - | 34,270 | - | - | - | - | 34,270 |
| Labor | 592,515 | 1,307,530 | 206,072 | 138,353 | 803,144 | 130,567 | 3,178,181 |
| Management fees | - | - | - | 1,260 | - | - | 1,260 |
| Miscellaneous | - | - | - | 4,000 | 128 | - | 4,128 |
| Payroll taxes and benefits | 198,556 | 423,063 | 69,311 | 51,382 | 654,992 | (590,841) | 806,463 |
| Postage | - | - | - | - | 3,170 | - | 3,170 |
| Professional services | - | - | - | 25,860 | 483,153 | - | 509,013 |
| Repairs, maintenance, and supplies | 88,675 | 284,418 | 43,460 | 101,825 | 42,491 | 156,387 | 717,256 |
| Retiree healthcare OPEB | - | - | - | - | (383,958) | - | (383,958) |
| Shop and linen supplies | - | - | - | - | - | - | - |
| Small tools | - | - | - | - | - | - | - |
| Training | 6,031 | 803 | - | - | 2,730 | 716 | 10,280 |
| Trash removal | - | 31,285 | - | 26,296 | - | - | 57,581 |
| Travel and promotions | - | - | - | - | 43,892 | - | 43,892 |
| Uniforms | 10,513 | 7,489 | - | - | - | 16,937 | 34,939 |
| Utilities | 20,829 | 441,342 | 33,277 | 203,959 | - | 6,497 | 705,904 |
| Total Operating Expenses | <u>993,454</u> | <u>2,581,557</u> | <u>352,120</u> | <u>554,747</u> | <u>2,718,224</u> | <u>(279,019)</u> | <u>6,921,083</u> |
| Income (Loss) from Operations Before Depreciation | <u>\$ 445,488</u> | <u>\$ 622,287</u> | <u>\$ 48,231</u> | <u>\$ (156,808)</u> | <u>\$ (2,660,757)</u> | <u>\$ 279,019</u> | <u>\$ (1,422,540)</u> |

* For comparable purposes only. Certain amounts have been reclassified for consistency in presentation with year-end June 30, 2022, amounts.

See accompanying notes and Report of Independent Auditor.

PENINSULA AIRPORT COMMISSION
SCHEDULE OF PLEDGED REVENUE COVERAGE

YEAR ENDED JUNE 30, 2022

Airport Improvement Revenue Bonds, Series 2002

| Fiscal Year | Operating Revenues and Interest | Less Operating Expenses and Interest | Net Revenues Available for Debt Service | Debt Service | | Coverage |
|-------------|---------------------------------|--------------------------------------|---|--------------|------------|----------|
| | | | | Principal | Interest | |
| 2022 | \$ 10,153,401 | \$ 7,519,101 | \$ 2,634,300 | \$ 528,010 | \$ 246,068 | 3.40 |
| 2021 | 7,272,550 | 6,795,271 | 477,279 | 544,313 | 271,442 | 0.59 |
| 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.

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

To the 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, 2022, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated December 21, 2022.

Report on 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiency.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2022-01 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2022-02 to be a significant deficiency.

Report on 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 *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Peninsula Airport Commission's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Commission's responses to the findings identified in our audit and described in the accompanying schedule of findings and responses. The Commission's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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.

Cherry Bekaert LLP

Richmond, Virginia
December 21, 2022

PENINSULA AIRPORT COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

YEAR ENDED JUNE 30, 2022

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 – 002**
3. Material weaknesses in internal control disclosed by the audit of financial statements: **Yes, Finding 2022-01**
4. Noncompliance, which is material to the financial statements: **No**

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

2022-001 – Material Weaknesses – Financial Reporting and Close Process

Criteria: Yearly, the Commission's Finance Department must produce financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). A sound financial reporting and close process ensures proper recording of revenues and expenses in the proper fiscal year. It should also include proper oversight and review of annual adjustments, such those related to pension.

Condition: As of June 30, 2022, the Commission does not have adequate controls over the financial reporting and close process. Specifically, we noted the following journal entries required to report the Commission's financial statements in accordance with U.S. GAAP.

- Construction invoices totaling \$424,507 were not properly recorded in the fiscal year ended June 30, 2022. A \$424,507 adjusting entry to construction work in progress and accounts payable was necessary.
- Construction invoices totaling \$999,916 were not properly recorded in the fiscal year ended June 30, 2021. The increase in construction work in progress occurred during the current fiscal year.
- Federal grant revenue in the amount of \$200,727 was not properly recorded in the fiscal year ended June 30, 2022. A \$200,727 adjusting entry to accounts receivable – Federal Aviation Administration and federal grant revenues was necessary.
- The net pension asset of \$1,205,378 was recorded as a net pension liability in the amount of (\$1,205,378) in the fiscal year ended June 30, 2022. A \$2,410,756 adjusting entry to the net pension asset and a reduction of the pension expense was necessary.

Cause: Turnover in finance related positions without additional hiring and other Commission personnel cross trained to assist in the financial reporting and close process.

Effect: Lack of a sound financial reporting and close process increases the potential for inaccurate financial reporting.

Recommendation: The Commission should review the current financial reporting and close process and 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.

PENINSULA AIRPORT COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

YEAR ENDED JUNE 30, 2022

Views of Responsible Officials and Planned Corrective Actions: Related to construction invoice management and related Federal grant revenue the following remediation steps have been initiated and completed. Subsequent to the year-end date of June 30, 2022, a new staff member was retained. The duties of this new staff position include document management of all construction project invoices with responsibility for reconciliation of construction in progress general ledger account postings to cash disbursement records. The new responsibilities are considered a good control procedure for these transactions as the position assigned does not have any incompatible process assignments related to accounts payable approval or cash disbursement. This is a review only step and brings an independent set of eyes to the construction documentation process. With respect to Net Pension Asset recording, this is an annual account adjustment process only. As such it is not practical to assign and train multiple staff members to be involved in the process. As a remediation step, upper management of the commission has reached out to designated contacts at the Virginia Retirement System assigned to our organization to see what other resources are available to assist with yearend reconciliation of net pension deferred inflows and outflows as well as resulting liability. It has been determined that additional resources are available. These will be tested for use in account verification and reconciliation purposes in the future.

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

2022-002 – 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 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 U.S. GAAP. 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.

Condition: As of June 30, 2022, 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.

PENINSULA AIRPORT COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

YEAR ENDED JUNE 30, 2022

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: During the initial time period of COVID-19, Federal and State travel and other economic activity restrictions necessitated a severe reduction in staffing. Anticipation of air travel recovery is being constantly reviewed so staffing plans can be properly structured to achieve the numbers, task assignments and knowledge necessary to ensure compliance. The national health emergency was anticipated to be temporary. The accommodations and responses to it resulting in staffing deficiency were expected to be reversed in a pattern consistent with overall air travel recovery. The recovery has proven to be lopsided and on the lower end of the spectrum with respect to all smaller airports. A key driver in the smaller airport recovery is the industry wide recognized shortage in pilots. Especially hard hit is the category of regional commuter jet service designed to feed the central main line Airline hub terminals. The Peninsula Airport Commission is no exception and has been significantly impacted by this macro-economic slowdown condition. Airline allocation of their reduced available capacity now appears will be a main driver of continuing staffing decisions. Measures to match operating costs with passenger activity revenue will be required. The finance control environment required will be achieved through proper assignment to and cross training of existing management personnel. This will include assignments to staff individuals not otherwise involved in or trained in basic accounting functions. The process of training and allowance for the time necessary to gain the necessary experience is expected to be lengthy. In order to achieve segregation of accounting duties, system design will be handled by the Chief Finance Officer and assignment of duties will be managed by the Deputy Airport Director. All cross training and personnel assignments are expected to be in place by July 1, 2023. In addition to pandemic related staff reductions, the PAC Finance Director abruptly voluntarily resigned in April 2021 after nearly eight years. The search for a new Finance Director proved challenging during the pandemic. The position was gapped from April 9, 2021 until late October 27, 2021.

C. Status of Prior Year Findings

Finding 2021-001 was repeated as finding 2022-002.