

Peninsula Airport Commission

**Financial Statements and
Supplementary Information**

Years Ended June 30, 2016 and 2015

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Peninsula Airport Commission

Commission Members

George Wallace

Chairman

Aubrey H. Fitzgerald

Vice-Chairman

Sharon P. Scott

Treasurer

James Bourey

Secretary

Rob Coleman

Assistant Treasurer

Stephen M. Mallon

Assistant Secretary

Independent Auditors' Report

Commissioners
Peninsula Airport Commission
Newport News, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Peninsula Airport Commission, a component unit of the City of Newport News, Virginia, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise of the Peninsula Airport Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specification for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Peninsula Airport Commission, as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 8 and schedules of changes in net pension liability and related ratios and schedules of contributions on pages 38 through 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Peninsula Airport Commission's basic financial statements. The accompanying information listed as supplementary information and compliance section in the accompanying table of contents, including the schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2016, on our consideration of the Peninsula Airport Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Peninsula Airport Commission's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Newport News, Virginia
November 17, 2016

Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) of the Peninsula Airport Commission's (Commission) activities and financial performance provides the reader with an introduction and overview to the basic financial statements of the Commission for the fiscal year ended June 30, 2016. The Commission is directly responsible for the operation of the Newport News - Williamsburg International Airport's (Airport) activities. The information contained in MD&A should be considered in conjunction with the financial statements and various historic summaries of activities and financial performance included in this report.

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

Airport Activities and Highlights

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Enplanements	208,213	249,177	249,293
% Increase (decrease)	(16.4%)	0.00%	(13.68%)
Aircraft operations	94,331	97,622	86,074
% Increase (decrease)	(3.4%)	13.42%	(25.89%)
Landed weight	257,246,000	250,800,325	294,605,448
% Increase (decrease)	2.6%	(14.87%)	(20.60%)
Parking (vehicles)	104,056	126,294	123,847
% Increase (decrease)	(17.6%)	1.98%	(13.78%)
Parking (revenue)	\$1,870,870	\$2,183,688	\$2,031,214
% Increase (decrease)	(14.3%)	7.51%	(11.48%)
Rental car commissions	\$1,237,808	\$1,330,560	\$1,217,071
% Increase (decrease)	(7.0%)	9.32%	0.62%
Customer facility charge	\$1,200,332	\$1,268,659	\$1,167,798
% Increase (decrease)	(5.4%)	8.64%	(6.91%)

In previous years the Newport News-Williamsburg International Airport had continued to reflect steady growth. Over the last four years the Airport's results have been affected by the departure of AirTran Airways and the absence of a major low-fare carrier offering replacement service. Allegiant Air and People Express filled the low-fare carrier air service for a brief time. As a result, the trend of decreases in passenger enplanements, aircraft operations and parking revenues continued to decline.

At June 30, 2016, the Airport was served by American Airways and Delta Air Lines/Delta Connection. The Airport continues to pursue new airlines to replace lost service and is also exploring ways to increase non-aeronautical revenues using its property.

Financial Operations Highlights

The Commission implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* ("GASB No. 68") and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* - an amendment of GASB Statement No. 68 ("GASB No. 71") during fiscal year 2015. This standard was applied retroactively to fiscal year 2014 and our financial statements were restated to reflect this adoption.

Net position increased by \$395 thousand in 2016 compared to a \$1.1 million decrease in 2015.

- Operating income decreased by 4.5% from \$8.14 million to \$7.77 million which is primarily due to the decrease in car rental commissions and parking revenue earned during the year.
- Operating expenses decreased by 1.1% from \$6.48 million to \$6.41 million as a result of the decrease in costs for repairs & maintenance and utilities.
- Depreciation expense remained consistent at \$7.2 million. Miscellaneous equipment such as two airport vehicles, terminal equipment, parking lot equipment, and a skid steer were purchased and capitalized this year.
- The above factors resulted in a loss from operations of \$358 thousand higher than the 2015 results. This 6.5% increase compared to the prior year's loss was due to a decrease in parking revenue and car rental revenue.
- Nonoperating income (expenses) decreased by approximately \$1.2 million from 2015, with a net loss of \$837 thousand in 2016 compared to a net loss of \$2.0 million in 2015. This decrease in net loss from nonoperating activity was primarily the result of the Commission recognizing a \$1 million air service development expense in 2015.
- Capital contributions received in the form of grants from the federal government and Commonwealth of Virginia increased by 11.8% from \$6.3 million in 2015 to \$7.1 million in 2016 due to the timing of capital projects.
- Capital projects that were completed or started in FY 2016 included two airport vehicles, terminal equipment, parking lot equipment, construction of the consolidated security checkpoint, Taxiway A and other airfield projects, and a skid steer.

Summary of Operations and Changes in Net Position

	<u>2016</u>	<u>2015</u>	<u>2014 (As Restated)</u>
Operating revenue	\$ 7,771,694	\$ 8,136,967	\$ 7,732,935
Operating expenses	<u>6,407,644</u>	<u>6,476,724</u>	<u>7,033,537</u>
Income from operations before depreciation	1,364,050	1,660,243	699,398
Depreciation	<u>7,223,480</u>	<u>7,161,995</u>	<u>6,547,444</u>
Loss before other nonoperating income and expenses	(5,859,430)	(5,501,752)	(5,848,046)
Other nonoperating income and expenses, net	<u>(837,303)</u>	<u>(1,987,469)</u>	<u>(5,553,677)</u>
Loss before capital contributions	(6,696,733)	(7,489,221)	(11,401,723)
Capital contributions	<u>7,091,355</u>	<u>6,341,393</u>	<u>10,063,124</u>
Change in net position	<u>\$ 394,622</u>	<u>\$ (1,147,828)</u>	<u>\$ (1,338,599)</u>

Financial Position Summary

Net position may serve over time as a useful indicator of the Commission's financial position. The Commission's assets exceeded liabilities, by \$92.3 million at June 30, 2016, a \$395 thousand increase from June 30, 2015.

	2016	2015	2014 (As Restated)
Assets:			
Current and other assets and deferred outflows	\$ 7,883,794	\$ 5,087,110	\$ 9,530,456
Capital assets	<u>100,054,498</u>	<u>101,445,464</u>	<u>103,970,108</u>
Total assets and deferred outflows of resources	<u>107,938,292</u>	<u>106,532,574</u>	<u>113,500,564</u>
Liabilities:			
Long-term liabilities	13,077,057	12,975,701	13,606,971
Current liabilities and deferred inflows	<u>2,540,654</u>	<u>1,630,914</u>	<u>6,819,806</u>
Total liabilities and deferred inflows of resources	<u>15,617,711</u>	<u>14,606,615</u>	<u>20,426,777</u>
Net position:			
Invested in capital assets, net of related debt	91,136,085	92,099,538	94,222,870
Restricted	1,362,413	473,702	2,632,351
Unrestricted	<u>(177,917)</u>	<u>(647,281)</u>	<u>(3,781,434)</u>
Total net position	<u>\$ 92,320,581</u>	<u>\$ 91,925,959</u>	<u>\$ 93,073,787</u>

The largest portion of the Commission's net position each year (98.7% at June 30, 2016), represents its investment in capital assets (e.g., land, buildings, improvements, and equipment), less the related indebtedness outstanding used to acquire those capital assets. The Commission uses these capital assets to provide services to its passengers and visitors to the Airport; consequently these assets are not available for future spending. Although the Commission's investment in its capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be liquidated to pay liabilities.

An additional portion of the Commission's net position (1.5% at June 30, 2016), represents federal and state grant funds that are subject to external restrictions. 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. Passenger Facility Charge Funds are reserved for future Federal Aviation Administration 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 and terminal rental rates have actually decreased since 1992. Landing fees are \$1.10 per 1,000 lbs. of landed weight at June 30, 2016. Terminal rental rates are \$27 per square foot at June 30, 2016. The Commission also has the ability under the Agreement to adjust Airport rates and charges annually to ensure adherence to all financial covenants in its bond resolutions. It establishes new rates and charges for the use of its facilities and for services provided to its customers on an annual basis. Airline permits were negotiated with the airlines in 2012 and are on a month-to-month schedule. New Airport rates and charges were approved in FY 2016 and went into effect on July 1, 2015.

**Peninsula Airport Commission
Management's Discussion and Analysis**

Revenue

A summary of revenue is as follows:

	2016 Amount	Percent of Total	2015 Amount	Percent of Total	2014 Amount (As Restated)	Percent of Total
Operating:						
Airfield	\$ 1,468,094	18.9%	\$ 1,350,716	16.6%	\$ 1,285,101	16.6%
Terminal and landside	5,293,950	68.0%	5,710,760	70.1%	5,299,877	68.4%
Other rents	432,241	5.5%	430,562	5.2%	559,870	7.2%
Trailer park rents	436,348	5.6%	452,662	5.6%	456,675	5.9%
Administrative and miscellaneous	67,121	0.9%	98,882	1.2%	48,004	0.6%
Maintenance reimbursement	73,940	1.0%	93,385	1.2%	83,408	1.1%
Total operating	<u>7,771,694</u>	<u>99.9%</u>	<u>8,136,967</u>	<u>99.9%</u>	<u>7,732,935</u>	<u>99.8%</u>
Nonoperating:						
Interest income	7,063	0.1%	4,752	0.1%	12,345	0.2%
Gain on sale of assets	2,051	0.0%	-	0.0%	-	0.0%
Total nonoperating	<u>9,114</u>	<u>0.1%</u>	<u>4,752</u>	<u>0.1%</u>	<u>12,345</u>	<u>0.2%</u>
Total revenue	<u>\$ 7,780,808</u>	<u>100.0%</u>	<u>\$ 8,141,719</u>	<u>100.0%</u>	<u>\$ 7,745,280</u>	<u>100.0%</u>

Expenses

A summary of expenses is as follows:

	2016 Amount	Percent of Total	2015 Amount	Percent of Total	2014 Amount (As Restated)	Percent of Total
Operating:						
Airfield	\$ 958,457	6.5%	\$ 982,236	6.3%	\$ 936,395	4.9%
Terminal and Landside	2,133,720	14.8%	2,179,806	13.9%	2,255,693	11.8%
Other rents	323,468	2.2%	328,474	2.1%	316,907	1.7%
Trailer park rents	407,192	2.8%	390,493	2.5%	391,419	2.0%
Administrative and miscellaneous	2,241,724	15.5%	2,232,570	14.3%	2,726,777	14.2%
Maintenance	343,083	2.4%	363,145	2.3%	406,346	2.1%
Total operating	<u>6,407,644</u>	<u>44.2%</u>	<u>6,476,724</u>	<u>41.4%</u>	<u>7,033,537</u>	<u>36.7%</u>
Depreciation	<u>7,223,480</u>	<u>49.9%</u>	<u>7,161,995</u>	<u>45.8%</u>	<u>6,547,444</u>	<u>34.2%</u>
Nonoperating:						
Interest expense	421,375	2.9%	451,543	2.9%	472,159	2.5%
Loss on retirement of capital assets	-	0.0%	-	0.0%	51,805	0.3%
Nonexchange financial guarantee	-	0.0%	62,406	0.4%	4,454,518	23.3%
Nonoperating air service development expense	-	0.0%	1,076,311	6.9%	207,618	1.1%
OPEB expense	425,042	3.0%	401,961	2.6%	379,922	1.9%
Total nonoperating	<u>846,417</u>	<u>5.9%</u>	<u>1,992,221</u>	<u>12.8%</u>	<u>5,566,022</u>	<u>29.1%</u>
Total expenses	<u>\$14,477,541</u>	<u>100.0%</u>	<u>\$15,630,940</u>	<u>100.0%</u>	<u>\$ 19,147,003</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 three years. Cash equivalents are considered cash-on-hand, bank deposits and highly liquid investments with an original maturity of three months or less.

	<u>2016</u>	<u>2015</u>	<u>2014</u> <u>(As restated)</u>
Cash flow from operating activities	\$ 2,264,531	\$ 829,935	\$ 566,302
Cash flow from noncapital financing activities	-	(5,593,235)	(207,618)
Cash flow from capital and related financing activities	(559,850)	1,914,868	(353,630)
Cash flow from investing activities	<u>(2,015,261)</u>	<u>2,163,401</u>	<u>(270,590)</u>
Net change in cash and cash equivalents	(310,580)	(685,031)	(265,536)
Cash and cash equivalents, beginning of period	<u>3,549,464</u>	<u>4,234,495</u>	<u>4,500,031</u>
Cash and cash equivalents, end of period	<u>\$ 3,238,884</u>	<u>\$ 3,549,464</u>	<u>\$ 4,234,495</u>

The Commission's available cash and cash equivalents decreased from \$3.5 million at the end of 2015 to \$3.2 million at the end of 2016 partially due to and investment of excess cash into a long-term certificate of deposit.

Financial Statements

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

Capital Acquisitions and Construction Activities

During FY 2016, the Commission expended \$5.8 million on capital activities. This included \$5.5 million on the Consolidated Security Screening Checkpoint construction, \$60 thousand on a Bobcat Skid Steer, \$109 thousand for Taxiway A and other airfield projects, \$54 thousand for two airport vehicles, and \$138 thousand in miscellaneous projects. During 2016, completed projects totaling \$231 thousand were closed from construction-in-progress to their respective capital accounts.

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

Long-Term Debt

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

Balance outstanding June 30, 2016 - \$1,428,473; 2015 - \$1,536,725; 2014 - \$1,632,869

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, 2016 - \$5,166,962; 2015 - \$5,396,467; 2014 - \$5,616,711

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. The Airport used the proceeds to pay for the construction of a parking garage.

Balance outstanding June 30, 2016 - \$2,322,978; 2015 - \$2,412,734; 2014 - \$2,497,658

Request for Information

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

Statements of Net Position

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Peninsula Airport Commission
Statements of Net Position
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,238,884	\$ 3,549,464
Certificate of deposit	1,002,459	-
Accounts receivable, less allowance for doubtful accounts - \$5,000 for 2016 and 2015	537,031	542,866
Accounts receivable - Federal Aviation Administration and others	1,156,494	181,500
Inventories	63,141	72,319
Prepaid expenses	132,248	58,036
	<u>6,130,257</u>	<u>4,404,185</u>
Capital assets:		
Land	6,604,658	6,604,658
Airfield	90,343,447	90,343,447
Terminal	73,613,294	73,540,608
Other	6,541,527	6,420,826
Trailer park and rental units	1,548,885	1,852,612
Construction-in-progress	5,945,414	339,290
	184,597,225	179,101,441
Accumulated depreciation	<u>(84,542,727)</u>	<u>(77,655,977)</u>
	<u>100,054,498</u>	<u>101,445,464</u>
Investments and other assets:		
Deferred project costs	131,154	-
Net pension asset	-	50,305
Restricted cash	1,362,413	473,702
	<u>1,493,567</u>	<u>524,007</u>
Total assets	<u>107,678,322</u>	<u>106,373,656</u>
DEFERRED OUTFLOW OF RESOURCES		
Deferred pension contributions and difference between expected and actual experience	<u>259,970</u>	<u>158,918</u>
	<u><u>\$ 107,938,292</u></u>	<u><u>\$ 106,532,574</u></u>

See accompanying notes.

	<u>2016</u>	<u>2015</u>
LIABILITIES AND NET POSITION		
Current liabilities:		
Current maturities of long-term debt	\$ 447,596	\$ 426,460
Accounts payable	1,398,705	361,644
Accrued liabilities	495,682	425,886
Security deposits	29,195	28,106
Total current liabilities	<u>2,371,178</u>	<u>1,242,096</u>
Long-term liabilities:		
Long-term debt, less current maturities	8,470,817	8,919,466
Net pension liability	209,144	-
Other postretirement employee benefits (OPEB) liability	4,397,096	4,056,235
Total liabilities	<u>15,448,235</u>	<u>14,217,797</u>
DEFERRED INFLOW OF RESOURCES		
Deferred pension investment experience	<u>169,476</u>	<u>388,818</u>
Net position:		
Invested in capital assets, net of related debt	91,136,085	92,099,538
Restricted	1,362,413	473,702
Unrestricted	<u>(177,917)</u>	<u>(647,281)</u>
Total net position	<u>92,320,581</u>	<u>91,925,959</u>
	<u><u>\$ 107,938,292</u></u>	<u><u>\$ 106,532,574</u></u>

Peninsula Airport Commission
Statements of Revenue, Expenses and Changes in Net Position
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating income	\$ 7,771,694	\$ 8,136,967
Operating expenses	(6,407,644)	(6,476,724)
Depreciation	<u>(7,223,480)</u>	<u>(7,161,995)</u>
Loss from operations	<u>(5,859,430)</u>	<u>(5,501,752)</u>
Nonoperating income (expenses):		
Interest expense	(421,375)	(451,543)
Interest income	7,063	4,752
Gain on sale of capital assets	2,051	-
Nonexchange financial guarantee	-	(62,406)
Nonoperating air service development expense	-	(1,076,311)
OPEB expense	<u>(425,042)</u>	<u>(401,961)</u>
	<u>(837,303)</u>	<u>(1,987,469)</u>
Loss before capital contributions	(6,696,733)	(7,489,221)
Capital contributions	<u>7,091,355</u>	<u>6,341,393</u>
Change in net position	394,622	(1,147,828)
Net position, beginning of year	<u>91,925,959</u>	<u>93,073,787</u>
Net position, end of year	<u><u>\$ 92,320,581</u></u>	<u><u>\$ 91,925,959</u></u>

See accompanying notes.

Peninsula Airport Commission
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Receipts from customers and users	\$ 7,777,529	\$ 8,039,929
Payments to suppliers for goods and services	(1,660,688)	(3,443,373)
Payments to employees	(3,850,259)	(3,766,621)
Net cash provided by operating activities	<u>2,266,582</u>	<u>829,935</u>
Cash flows from noncapital financing activities:		
Nonoperating nonexchange financial guarantee payments	-	(4,516,924)
Nonoperating air service development expense	-	(1,076,311)
Net cash used by noncapital financing activities	<u>-</u>	<u>(5,593,235)</u>
Cash flows from capital and related financing activities:		
Purchase of property and equipment	(5,836,863)	(4,637,352)
Proceeds from sale of assets	6,400	-
Changes in security deposits	1,089	314
Principal payments on long-term debt	(427,513)	(401,312)
Interest payments on long-term debt	(421,375)	(451,543)
Capital contributions	6,116,361	7,404,761
Net cash provided (used) by capital and and related financing activities	<u>(561,901)</u>	<u>1,914,868</u>
Cash flows from investing activities:		
Investment in certificates of deposit	(1,002,459)	-
Investment in future projects	(131,154)	-
Interest received on cash and investments	7,063	4,752
Change in restricted cash and investments	(888,711)	2,158,649
Net cash provided (used) by investing activities	<u>(2,015,261)</u>	<u>2,163,401</u>
Net decrease in cash and cash equivalents	<u>(310,580)</u>	<u>(685,031)</u>
Cash and cash equivalents, beginning of year	<u>3,549,464</u>	<u>4,234,495</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,238,884</u></u>	<u><u>\$ 3,549,464</u></u>

See accompanying notes.

Peninsula Airport Commission
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

(Continued)

	<u>2016</u>	<u>2015</u>
Reconciliation of loss from operations to net cash from operating activities:		
Loss from operations	\$ (5,859,430)	\$ (5,501,752)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation	7,223,480	7,161,995
OPEB expense paid	(84,181)	(98,057)
Change in:		
Accounts receivable	5,835	(97,038)
Inventories	9,178	7,308
Prepaid expenses	(74,212)	615,077
Accounts payable	1,037,061	(1,104,997)
Accrued liabilities	69,796	(19,281)
Unearned revenue	-	(26,797)
Decrease in net pension asset/liability and related deferred inflows/outflows of resources	<u>(60,945)</u>	<u>(106,523)</u>
Net cash from operating activities	<u>\$ 2,266,582</u>	<u>\$ 829,935</u>
Supplemental schedule of noncash transactions:		
Contributed capital funded by accounts receivable at June 30	<u>\$ 1,156,494</u>	<u>\$ 181,500</u>

Notes to Financial Statements

1. Organization and Nature of Business

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

The Commission is considered a component unit of the City for governmental accounting standards purposes. The criteria for including the Commission within the City's reporting entity, as set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, and amended by GASB Statement No. 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statement No. 14 and No. 34, is financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose the primary government's will or the possibility that the component unit will provide a financial benefit to, or impose a financial burden on, the primary government. The City appoints four of the Commission's six board members.

2. Summary of Significant Accounting Policies

Method of accounting

The Commission's financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The Commission reports as a business type activity, as defined by the Governmental Accounting Standards Board (GASB). Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. The Commission's activities are accounted for similar to those often found in the private sector using the flow of economic resources measurement focus and the accrual basis of accounting. The Commission is structured as a single enterprise fund with operating income recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. The Commission has elected to apply all GASB pronouncements as well as all Financial Accounting Standards Board (FASB) Accounting Standard Codifications, Accounting Principal Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Operating income

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

Cash and cash equivalents

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

Certificate of deposit

In February 2016, the Commission invested excess operating cash in a certificate of deposit with a local financial institution earning annual interest at 1%. The certificate of deposit matures in June 2017, early withdrawal penalties may apply.

Inventories

Inventories consisting of maintenance supplies are valued at the lower of cost or market on the first-in, first-out (FIFO) basis, and are not for resale.

Deferred project costs

The Commission defers cost incurred on professional fees connected with potential future sale of land and will be recognized in expense in the period the transaction occurs. At June 30, 2016, \$131,154 has been deferred and is shown on the statement of net position as deferred project costs.

Capital assets

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

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

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

Income taxes

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

Allowance for doubtful accounts

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affected the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Use of restricted/unrestricted net position

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

Advertising

Advertising costs are charged to operations when incurred. During 2016 and 2015, the Commission expensed \$287,656 and \$233,158, respectively, in advertising costs within operating expenses. Also, in 2015, the Commission incurred \$425,661 of advertising costs specifically for special air service development expenses on behalf of People Express Airlines, Inc. These costs were included in nonoperating air service development expenses on the statements of revenue, expenses and changes in net position.

Pensions

The Virginia Retirement System (VRS) Political Subdivision Retirement Plan is a multi-employer, agent plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Commission's retirement plan and the additions to/deductions from the Commission's retirement plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (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.

Subsequent events

In preparing these financial statements, the Commission has evaluated events and transactions for potential recognition or disclosure through November 17, 2016, the date the financial statements were available to be issued.

3. Cash and Cash Equivalents and Investments

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

<u>Type</u>	<u>2016 Carrying Value</u>	<u>2015 Carrying Value</u>
Demand deposits	\$ 3,534,137	\$ 2,856,594
Cash on hand	4,461	8,476
Money market funds	1,062,699	1,158,096
Certificate of deposit	<u>1,002,459</u>	<u>-</u>
Total deposits	<u>\$ 5,603,756</u>	<u>\$ 4,023,166</u>
Reconciliation to Statements of Net Position	<u>2016</u>	<u>2015</u>
Current:		
Cash and cash equivalents	\$ 3,238,884	\$ 3,549,464
Certificate of deposit	1,002,459	-
Investments and other assets:		
Restricted cash	<u>1,362,413</u>	<u>473,702</u>
	<u>\$ 5,603,756</u>	<u>\$ 4,023,166</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 \$5,901,633 and \$4,104,205 at June 30, 2016 and 2015, respectively, which was fully insured by depository insurance or secured with collateral held by the Commission's agent in its name. At June 30, 2016 and 2015, amounts subject to custodial credit risk as they were uninsured by the Federal Deposit Insurance Corporation, due to exceeding the \$250,000 financial institution limit were \$5,634,126 and \$3,845,320, respectively, and were fully collateralized by securities held by the pledging financial institution. All investments, if any, evidenced by individual securities, are registered in the name of the Commission.

The Commission places no limit on the amount it may invest in any one issuer. At June 30, 2016 and 2015, the Commission's concentration of credit risk from cash and investments is detailed above.

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, 2016 and 2015.

Investment credit risk

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

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

4. Accounts Receivable - Federal Aviation Administration and Others

The Virginia Department of Aviation and the Federal Aviation Administration (FAA) contribute grant funds to finance construction costs for Airport improvements and terminal expansion. At June 30, 2016 and 2015, \$1,156,494 and \$181,500, respectively, was receivable by the Commission on cost reimbursable grants.

Subsequent to year end, the FAA awarded an airport improvement program grant of approximately \$1,100,000 to the Commission to be used for the consolidated security checkpoint construction project.

5. Restricted Cash

The Commission receives annual entitlement funds from the Commonwealth of Virginia (Commonwealth). The amount allocated to each airport is calculated on the basis of the previous calendar year's enplaned passengers at that airport as a percentage of the total enplaned passengers in the Commonwealth. Entitlement funds may be used for 100% of the nonfederal portion of projects that are funded under provisions of the Federal Airport Improvement Program and for various projects not funded by the Airport Improvement Program, including air service development projects. Restricted cash also includes the Passenger Facility Charge (PFC) disclosed in Note 17. At June 30, 2016 and 2015, the Commission's restricted cash from entitlement funds and from PFC were \$1,362,413 and \$473,702, respectively.

6. Capital Assets

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

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital assets not being depreciated:				
Land	\$ 6,604,658	\$ -	\$ -	\$ 6,604,658
Construction-in-progress	339,290	5,836,863	230,739	5,945,414
Total capital assets not being depreciated	6,943,948	5,836,863	230,739	12,550,072
Other capital assets:				
Airfield	90,343,447	-	-	90,343,447
Terminal	73,540,608	87,909	15,223	73,613,294
Other	6,420,826	142,830	22,129	6,541,527
Trailer park and rental units	1,852,612	-	303,727	1,548,885
Total other capital assets	172,157,493	230,739	341,079	172,047,153
Accumulated depreciation:				
Airfield	42,817,195	3,924,768	-	46,741,963
Terminal	30,567,374	2,867,088	10,874	33,423,588
Other	2,418,796	431,624	22,129	2,828,291
Trailer park and rental units	1,852,612	-	303,727	1,548,885
Total accumulated depreciation	77,655,977	7,223,480	336,730	84,542,727
Other capital assets, net	94,501,516	(6,991,741)	4,349	87,504,426
	<u>\$101,445,464</u>	<u>\$ (1,155,878)</u>	<u>\$ 235,088</u>	<u>\$100,054,498</u>

7. Long-Term Debt

Following is a summary of debt transactions of the Commission:

	July 1, 2015	Additions	Reductions	June 30, 2016	Amounts Due Within One Year
Airport Improvement Bonds:					
Series 2002	\$ 1,536,725	\$ -	\$ 108,252	\$ 1,428,473	\$ 113,786
Series 2005A	5,396,467	-	229,505	5,166,962	238,998
Series 2005B	2,412,734	-	89,756	2,322,978	94,812
	<u>\$ 9,345,926</u>	<u>\$ -</u>	<u>\$ 427,513</u>	<u>\$ 8,918,413</u>	<u>\$ 447,596</u>
	July 1, 2014	Additions	Reductions	June 30, 2015	Amounts Due Within One Year
Airport Improvement Bonds:					
Series 2002	\$ 1,632,869	\$ -	\$ 96,144	\$ 1,536,725	\$ 108,030
Series 2005A	5,616,711	-	220,244	5,396,467	228,956
Series 2005B	2,497,658	-	84,924	2,412,734	89,474
	<u>\$ 9,747,238</u>	<u>\$ -</u>	<u>\$ 401,312</u>	<u>\$ 9,345,926</u>	<u>\$ 426,460</u>

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

	<u>2016</u>	<u>2015</u>
<i>Airport Improvement Bonds Series 2002</i> - In July 2002, the Commission issued \$2,500,000 of Virginia Resources Authority (VRA) Airport Improvement Revenue Bonds, Subordinate Series 2002, at 4.5% interest with monthly principal and interest payments of \$13,971. During 2016, the Commission negotiated an interest rate reduction to 2.75% for the remainder of the term of the bond, which reduced the monthly principal and interest payment to \$12,637 and accelerated the maturity date to May 2027. The bonds also contain a financial covenant with which management determined the Commission was not in compliance, but received an automatic waiver from the VRA after meeting the covenant notification requirements.	\$ 1,428,473	\$ 1,536,725
<i>Airport Improvement Bonds Series 2005A</i> - 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.	5,166,962	5,396,467
<i>Airport Improvement Bonds Series 2005B</i> - In December 2005, the Commission issued \$3,000,000 of Unsecured Taxable Bonds, at 5.81% interest. Interest only payments are required until February 2007, at which time, monthly principal and interest payments of \$18,982 are due. The bonds mature in January 2032.	<u>2,322,978</u>	<u>2,412,734</u>
	<u>8,918,413</u>	<u>9,345,926</u>
Current maturities	<u>(447,596)</u>	<u>(426,460)</u>
	<u><u>\$ 8,470,817</u></u>	<u><u>\$ 8,919,466</u></u>

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 447,596	\$ 389,252
2018	466,904	369,944
2019	487,098	349,750
2020	508,221	328,627
2021	530,316	306,532
2022-2026	3,020,519	1,163,721
2027-2031	3,094,511	470,501
2032	<u>363,248</u>	<u>6,320</u>
	<u><u>\$ 8,918,413</u></u>	<u><u>\$ 3,384,647</u></u>

8. Non-operating Air Service Development Expense

In 2015, the Commission incurred air service development expense in support of a startup airline in the amount of \$1,076,311. This was for advertising of \$425,661 and revenue guarantees of \$650,650. Management has included this in non-operating income (expense) on the statements of revenue, expenses and changes in net position. No such expense was incurred in 2016.

9. Other Postemployment Benefits

Plan description

In addition to providing the pension benefits described in Note 15, the Commission provides postemployment health care benefits (OPEB) for retired employees through a single-employer defined benefit plan. The benefits, benefit levels, employee contributions and employer contributions are governed by the Commission and can be amended by the Commission through its personnel manual and employment contracts. The OPEB plan does not issue a publicly available report.

Benefits provided

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

Participant data

The valuation of postretirement medical benefits was based on the following census data as of July 1, 2013: 13 retirees, 6 spouses, and 48 active employees.

Funding policy

The City of Newport News provides to the Commission the medical and dental premiums for the year; the retirees contribute 75% of the premium if they have at least 5 years of service, 50% with ten years of service, and 25% with 15 or more years of service. The postretirement medical insurance benefits are currently funded on a pay-as-you-go basis. The Commission currently funds on a cash basis as benefits are paid. No assets have been segregated and restricted to provide postretirement benefits.

Annual OPEB costs and net OPEB obligation

The Commission had an actuarial valuation performed for the plan as of July 1, 2013, to determine the funded status of the plan as of that date as well as the employer's annual required contribution (ARC) for the fiscal year ended June 30, 2016. The Commission's annual OPEB cost and liability are as follows:

	<u>2016</u>	<u>2015</u>
Annual required contribution	\$ 416,789	\$ 394,155
Interest on net OPEB obligation	8,253	7,806
Less, contributions made in the form of retiree insurance premiums paid	(84,181)	(98,057)
Net OPEB obligation, beginning of year	<u>4,056,235</u>	<u>3,752,331</u>
Net OPEB obligation, end of year	<u>\$ 4,397,096</u>	<u>\$ 4,056,235</u>

Since the Commission operates on an unfunded pay-as-you-go basis, the net OPEB obligation is equal to the ARC less current year retiree premium payments and the plan is unfunded.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARCs of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, as follows, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial methods and assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets consistent with the long-term perspective of the calculations.

In the July 1, 2013, actuarial valuation, the actuarial accrued liability was determined based on the projected unit credit actuarial cost method. The actuarial assumptions included a 4.0% discount rate assuming that the plan is not funded and an initial annual healthcare cost trend rate of 4.50% over 15 years. Both rates include a 2.8% inflation assumption. The plan has no assets. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls over 30 years, assuming payroll growth is 3.0%.

Schedule of funding progress

<u>Actuarial Valuation Date July 1,</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (A-AL)</u>	<u>Funded Ratio</u>	<u>Unfunded Actuarial Accrued Liability (UAAL) (2)-(1)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
2013	\$ -	\$ 3,649,745	0.00%	\$ 3,649,745	\$ 2,989,000	117.19%
2010	\$ -	\$ 3,839,014	0.00%	\$ 3,839,014	\$ 3,114,372	123.27%
2007	\$ -	\$ 4,155,776	0.00%	\$ 4,155,776	\$ 2,112,183	196.75%

Schedule of employer contributions

<u>Year Ended June 30,</u>	<u>Employer Contributions in the Form of Retiree Insurance Premiums Paid</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage Contributed</u>
2016	\$ 84,181	\$ 425,042	19.81%
2015	\$ 98,057	\$ 401,961	24.39%
2014	\$ 88,932	\$ 379,922	23.40%

10. Leasing Arrangements as Lessor

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

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

<u>Years Ending June 30,</u>	
2017	\$ 974,615
2018	819,134
2019	823,618
2020	801,276
2021	684,238
Thereafter	<u>3,299,681</u>
	<u>\$ 7,402,562</u>

The City of Newport News Public Schools leases space in the old terminal under a non-cancelable operating lease through December 2016. During 2016 and 2015, \$84,346 and \$83,511, respectively of rental income was earned by the Commission under this lease.

11. Leased Equipment

The Commission leases equipment under a long-term noncancelable operating lease. The initial lease term is five years and expires in February 2018. The lease provides renewal options for additional periods. Lease expense during 2016 and 2015, was \$14,292 and \$14,652, respectfully.

Future minimum annual rentals for subsequent fiscal years and in the aggregate are:

<u>Year Ending June 30,</u>	
2017	\$ 12,288
2018	<u>8,192</u>
	<u>\$ 20,480</u>

12. 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 \$185,188 and \$177,468 for compensated absences as of June 30, 2016 and 2015, respectively.

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 \$142,098 and \$130,066 for sick leave as of June 30, 2016 and 2015, respectively. These liabilities are recorded in accrued liabilities on the statements of net position.

13. Contingencies

Federally assisted grant programs

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

Lawsuits

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

14. Commitments

At June 30, 2016 and 2015, the Commission had commitments outstanding, in the form of contracts and purchase orders, of approximately \$9,114,286 and \$14,486,000, respectively, primarily for construction projects.

15. Pension Plan

Plan description

Name of Plan: Virginia Retirement System (VRS)

Identification of Plan: Agent and Cost-Sharing Multiple-Employer Benefit Pension Plan

Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent employees of the Commission are automatically covered by VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer are paying contributions to VRS. Members are eligible to purchase prior public 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 duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

The System administers three different benefit structures for covered employees - Plan 1, Plan 2, and Hybrid. Each of these structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members") • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
		• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. Hybrid Opt-In Election Non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.	Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. Hybrid Opt-In Election Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.	Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 *Non-Eligible Members
The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Retirement Contributions Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	Retirement Contributions Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016.	Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	Creditable Service Same as Plan 1.	Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. <u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	Vesting Same as Plan 1.	Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.
		<u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	Calculating the Benefit See definition under Plan 1.	Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1. <u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%.	Service Retirement Multiplier Same as Plan1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.	Service Retirement Multiplier The retirement multiplier is 1.0%. For members that opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.
Sheriffs and Regional Jail Superintendents The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.	Sheriffs and Regional Jail Superintendents Same as Plan 1.	Sheriffs and Regional Jail Superintendents Not applicable.
Political Subdivision Hazardous Duty Employees The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.	Political Subdivision Hazardous Duty Employees Same as Plan 1.	Political Subdivision Hazardous Duty Employees Not applicable.

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Normal Retirement Age Age 65.	Normal Retirement Age Normal Social Security retirement age.	Normal Retirement Age <u>Defined Benefit Component:</u> Same as Plan 2. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Political Subdivision Hazardous Duty Employees Age 60	Political Subdivision Hazardous Duty Employees Same as Plan 1.	Political Subdivision Hazardous Duty Employees Not applicable.
Earliest Unreduced Retirement Eligibility Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	Earliest Unreduced Retirement Eligibility Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.	Earliest Reduced Retirement Eligibility Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.	Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. <u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.	Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. <u>Eligibility:</u> Same as Plan 1	Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as VRS Plan 2. <u>Defined Contribution Component:</u> Not applicable. <u>Eligibility:</u> Same as Plan 1 and Plan 2.
<u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.	<u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.	<u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
• The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.		
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	Disability Coverage Eligible political subdivision and school division (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members. State employees (including Plan 1 and Plan2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	Purchase of Prior Service Same as Plan 1.	Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. • The cost of purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximately normal cost./After that one-year period, the rate for most categories of service will change to actuarial costs. <u>Defined Contribution Component:</u> Not applicable.
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Employees covered by benefit terms

As of the June 30, 2014, actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>33</u>
Inactive members:	
Vested	6
Non-vested	19
Active elsewhere in VRS	<u>23</u>
Total inactive members	<u>48</u>
Active members	<u>51</u>
Total	<u>132</u>

Contributions

The contributions requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The political subdivision's contractually required contribution rate for the year ended June 30, 2016 was 6.67% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Commission were \$158,058 and \$158,918 for the years ended June 30, 2016 and 2015, respectively.

Net pension asset/liability

The Commission's net pension asset/liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension asset/liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Actuarial assumptions - general employees

The total pension liability for general employees in the Commission's retirement plan was based on an actuarial valuation as of June 30, 2014, 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, 2015.

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7.0%, net of pension plan investment expenses, Including inflation*

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

Mortality rates: 14% of deaths are assumed to be service related

Largest 10 - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

All Others (Non 10 Largest) - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Long-term expected rate of return

The long-term expected rate of return on pension 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 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
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	(1.50%)	(0.02%)
Total	100.00%		5.83%
	Inflation		2.50%
	*Expected arithmetic nominal return		8.33%

*Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons, the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

Discount rate

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

Changes in net pension asset/liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2014	\$ 6,335,285	\$ 6,385,590	\$ (50,305)
Changes for the year:			
Service cost	247,082	-	247,082
Interest	431,301	-	431,301
Differences between expected and actual experience	145,651	-	145,651
Contributions - employer	-	158,360	(158,360)
Contributions - employee	-	118,594	(118,594)
Net investment income	-	291,702	(291,702)
Benefit payments, including refunds of employee contributions	(347,684)	(347,684)	-
Administrative expense	-	(4,010)	4,010
Other changes	-	(61)	61
Net changes	<u>476,350</u>	<u>216,901</u>	<u>259,449</u>
Balances at June 30, 2015	<u>\$ 6,811,635</u>	<u>\$ 6,602,491</u>	<u>\$ 209,144</u>

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

The following represents the net pension liability calculated using the stated discount rate, as well as what the net position liability would be if it were calculated using a stated discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Plan's net pension liability	<u>\$ 1,068,141</u>	<u>\$ 209,144</u>	<u>\$ (507,739)</u>

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

At June 30, 2016 and 2015, the Commission recognized pension expense of \$96,555 and \$52,395, respectively. At June 30, 2016 and 2015, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 101,912	\$ -
Net difference between projected and actual earnings on plan investments	-	169,476
Employer contributions made subsequent to measurement date	<u>158,058</u>	<u>-</u>
	<u>\$ 259,970</u>	<u>\$ 169,476</u>
	June 30, 2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made subsequent to measurement date	\$ 158,918	\$ -
Net difference between projected and actual earnings on plan investments	<u>-</u>	<u>388,818</u>
	<u>\$ 158,918</u>	<u>\$ 388,818</u>

Amounts reported as deferred outflows of resources at June 30, 2016 and 2015, of \$158,058 and \$158,918, respectively, related to pensions resulting from the Commission's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year end June 30, 2017 and 2016, respectively.

Other amounts reported as deferred outflows of resources and deferred inflows of resources (other than employer contributions mentioned above) related to pensions will be recognized in pension expense in future reporting periods as follows:

Year Ending June 30,	
2017	\$ (22,932)
2018	(22,932)
2019	(52,235)
2020	<u>30,535</u>
	<u>\$ (67,564)</u>

16. 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.

17. Passenger Facility Charge

As of July 1, 2010, the Federal Aviation Administration (FAA) has given the Commission authority to impose a Passenger Facility Charge (PFC), under multiple PFC applications, of \$4.50 per passenger for thirty-one planned projects. The total approved revenue to be collected under these multiple applications is \$27,821,415. During 2016 and 2015, \$820,835 and \$935,604, respectively, of PFC was collected under these agreements and was recognized as capital contributions on the statements of revenue, expenses, and changes in net position.

Required Supplementary Information

Peninsula Airport Commission
Schedules of Changes in Net Pension Liability and Related Ratios
Years Ended June 30, 2016 and 2015*

	2016	2015
Total pension liability		
Service cost	\$ 247,082	\$ 238,814
Interest	431,301	408,005
Differences between expected and actual experience	145,651	-
Benefit payments	(347,684)	(280,352)
Net change in total pension liability	476,350	366,467
Total pension liability - beginning	6,335,285	5,968,818
Total pension liability - ending (a)	<u>\$ 6,811,635</u>	<u>\$ 6,335,285</u>
Plan fiduciary net position		
Contributions - employer	\$ 158,360	\$ 220,175
Contributions - employee	118,594	117,539
Net investment income	291,702	870,249
Benefit payments	(347,684)	(280,352)
Administrative expenses	(4,010)	(4,591)
Other changes	(61)	45
Net change in plan fiduciary net position	216,901	923,065
Plan fiduciary net position - beginning	6,385,590	5,462,525
Plan fiduciary net position - ending (b)	<u>\$ 6,602,491</u>	<u>\$ 6,385,590</u>
Commission's net pension liability (asset) - ending (a) - (b)	<u>\$ 209,144</u>	<u>\$ (50,305)</u>
Plan fiduciary net position as a percentage of the total pension liability	96.9%	100.8%
Covered-employee payroll	\$ 2,382,571	\$ 2,352,297
Net pension (asset) liability as a percentage of covered- employee payroll	8.8%	(2.1%)

* The amounts presented have a measurement date of the previous fiscal year end.

Note: Information in this schedule is presented for the year in which information is available. Information will be added each year until a full 10-year trend is presented.

Peninsula Airport Commission
Schedules of Contributions
Years Ended June 30, 2007 through 2016

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	*Employer's Covered Payroll	Contributions as a % of Covered Payroll
2016	\$ 158,058	\$ 158,058	\$ -	\$ 2,369,678	6.67%
2015	158,918	158,918	-	2,382,571	6.67%
2014	220,175	220,175	-	2,352,297	9.36%
2013	216,015	216,015	-	2,307,848	9.36%
2012	202,606	202,606	-	2,535,744	7.99%
2011	191,304	191,304	-	2,394,295	7.99%
2010	185,696	185,696	-	2,226,569	8.34%
2009	177,407	177,407	-	2,127,177	8.34%
2008	140,094	140,094	-	2,048,152	6.84%
2007	109,352	109,352	-	1,847,160	5.92%

* Note - covered payroll is defined as payroll on which contributions to a pension plan are based.

Notes to Required Supplementary Information

Changes of Benefit Terms

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 are not material.

Changes of Assumptions

The following changes in actuarial assumptions were made effective June 30, 2013, based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) - LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

Supplementary Information

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Peninsula Airport Commission
Schedules of Operating Income
Years Ended June 30, 2016 and 2015

	2016		2015	
	Amount	Percent	Amount	Percent
Airfield:				
Landing and tie-down fees	\$ 388,071		\$ 263,258	
Fixed base operator commissions	175,111		183,941	
Fuel flowage fees	128,522		131,741	
Hangar rental and operations fees	776,390		771,776	
Total airfield	1,468,094	18.9 %	1,350,716	16.6 %
Terminal and Landside:				
Rents:				
Airline offices	549,758		493,320	
Car rental and other	85,057		90,219	
Commissions:				
Car rental	2,438,140		2,599,219	
Communications and other	177,190		175,938	
Parking lot fees	1,901,446		2,217,678	
Other	142,359		134,386	
Total terminal and landside	5,293,950	68.1	5,710,760	70.2
Other rents	432,241	5.5	430,562	5.3
Trailer park rents	436,348	5.6	452,662	5.6
Administrative and miscellaneous	67,121	0.9	98,882	1.2
Maintenance reimbursement	73,940	1.0	93,385	1.1
Total operating income	\$ 7,771,694	100.0 %	\$ 8,136,967	100.0 %

Peninsula Airport Commission**Schedules of Income (Loss) from Operations Before Depreciation Per Activity****Years Ended June 30, 2016 and 2015**

	Airfield		Terminal and Landside	
	2016	2015	2016	2015
Operating income	<u>\$ 1,468,094</u>	<u>\$ 1,350,716</u>	<u>\$ 5,293,950</u>	<u>\$ 5,710,760</u>
Operating expenses:				
Advertising	-	-	-	-
Audit	-	-	-	-
Auto and equipment	-	-	-	-
Bad debt	-	-	-	-
Commission fees	-	-	-	-
Communications	-	-	6,730	11,453
Crash and rescue	18,800	20,205	-	-
Dues and subscriptions	-	-	-	-
General office	-	-	-	-
Insurance	-	-	-	-
Janitorial supplies	-	-	58,775	72,037
Labor	577,860	556,051	1,090,247	1,069,930
Management fees	-	-	-	-
Miscellaneous	4,472	3,210	358	954
Payroll taxes and benefits	182,087	177,718	275,791	252,176
Postage	-	-	-	-
Professional services	-	-	-	-
Repairs, maintenance and supplies	125,604	169,763	190,300	206,236
Shop and linen supplies	-	-	-	-
Small tools	-	-	-	-
Training	3,042	3,149	-	-
Trash removal	-	-	20,789	23,255
Travel and promotion	913	1,374	1,567	523
Uniforms	6,061	2,394	13,303	14,107
Utilities	39,618	48,372	475,860	529,135
	<u>958,457</u>	<u>982,236</u>	<u>2,133,720</u>	<u>2,179,806</u>
Income (loss) from operations before depreciation	<u>\$ 509,637</u>	<u>\$ 368,480</u>	<u>\$ 3,160,230</u>	<u>\$ 3,530,954</u>

See independent auditors' report.

Other Rents		Trailer Park		Allocated Costs Administrative and Miscellaneous	
2016	2015	2016	2015	2016	2015
<u>\$ 432,241</u>	<u>\$ 430,562</u>	<u>\$ 436,348</u>	<u>\$ 452,662</u>	<u>\$ 67,121</u>	<u>\$ 98,882</u>
-	-	-	-	287,656	233,158
-	-	-	-	40,405	41,110
-	-	-	-	-	-
-	-	-	-	15	28,845
-	-	-	-	14,516	13,611
-	-	-	-	20,948	30,244
-	-	-	-	-	-
-	-	-	-	18,816	19,042
-	-	-	-	99,808	100,373
-	-	-	-	207,499	197,164
-	-	-	-	-	-
155,999	152,989	155,999	152,989	842,392	903,844
-	-	34,517	36,221	-	-
-	-	-	-	4,874	4,403
54,515	50,708	54,515	50,708	254,406	247,042
-	-	-	-	2,942	2,682
-	-	688	355	219,080	195,331
11,535	10,431	19,084	14,970	56,096	45,492
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	2,093	1,348
-	-	-	-	-	-
-	-	-	-	68,755	79,044
-	-	-	-	-	-
101,419	114,346	142,389	135,250	101,423	89,837
<u>323,468</u>	<u>328,474</u>	<u>407,192</u>	<u>390,493</u>	<u>2,241,724</u>	<u>2,232,570</u>
<u>\$ 108,773</u>	<u>\$ 102,088</u>	<u>\$ 29,156</u>	<u>\$ 62,169</u>	<u>\$(2,174,603)</u>	<u>\$(2,133,688)</u>

Allocated Costs Maintenance		Totals		Percentage of Revenue	
2016	2015	2016	2015	2016	2015
\$ 73,940	\$ 93,385	\$ 7,771,694	\$ 8,136,967	100.00 %	100.00 %
-	-	287,656	233,158	3.70	2.87
-	-	40,405	41,110	0.52	0.51
83,973	124,225	83,973	124,225	1.08	1.53
-	-	15	28,845	0.00	0.35
-	-	14,516	13,611	0.19	0.17
-	-	27,678	41,697	0.36	0.51
-	-	18,800	20,205	0.24	0.25
-	-	18,816	19,042	0.24	0.23
-	-	99,808	100,373	1.28	1.23
-	-	207,499	197,164	2.67	2.42
-	-	58,775	72,037	0.76	0.89
131,395	125,982	2,953,892	2,961,785	38.01	36.40
-	-	34,517	36,221	0.44	0.45
1,130	1,017	10,834	9,584	0.14	0.12
33,608	20,451	854,922	798,803	11.00	9.82
-	-	2,942	2,682	0.04	0.03
-	-	219,768	195,686	2.83	2.40
69,170	64,195	471,789	511,087	6.07	6.28
1,076	406	1,076	406	0.01	0.00
1,931	1,947	1,931	1,947	0.02	0.02
2,649	498	7,784	4,995	0.10	0.06
-	-	20,789	23,255	0.27	0.29
-	1,499	71,235	82,440	0.92	1.01
13,137	12,455	32,501	28,956	0.43	0.37
5,014	10,470	865,723	927,410	11.14	11.40
343,083	363,145	6,407,644	6,476,724	82.46	79.61
\$ (269,143)	\$ (269,760)	\$ 1,364,050	\$ 1,660,243	17.54 %	20.39 %

Compliance Section

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Commissioners
Peninsula Airport Commission
Newport News, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Peninsula Airport Commission, a component unit of the City of Newport News, Virginia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Peninsula Airport Commission's basic financial statements, and have issued our report thereon dated November 17, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Peninsula Airport Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Peninsula Airport Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Peninsula Airport Commission's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Peninsula Airport Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Newport News, Virginia
November 17, 2016

Independent Auditors' Report on Compliance for the Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

Commissioners
Peninsula Airport Commission
Newport News, Virginia

Report on Compliance for the Major Federal Program

We have audited the Peninsula Airport Commission's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Peninsula Airport Commission's major federal program for the year ended June 30, 2016. The Peninsula Airport Commission's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Peninsula Airport Commission's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Peninsula Airport Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Peninsula Airport Commission's compliance.

Opinion on the Major Federal Program

In our opinion, the Peninsula Airport Commission, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the Peninsula Airport Commission, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Peninsula Airport Commission's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Peninsula Airport Commission's internal control over compliance.

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

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

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

Dixon Hughes Goodman LLP

Newport News, Virginia
November 17, 2016

Peninsula Airport Commission
Schedule of Expenditures of Federal Awards

<u>Federal Grantor</u>	<u>Federal CFDA Number</u>	<u>Federal Amounts Expended</u>
U.S. Department of Transportation: Federal Aviation Administration Airport Improvement Program	20.106	\$ <u>4,270,520</u>

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards presents the federal grant activity of all federal award programs of the Peninsula Airport Commission for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule present only a selected portion of the operations of the Peninsula Airport Commission, it is not intended to and does not present the financial position, changes in net position or cash flows of the Peninsula Airport Commission.

2. Summary of Significant Accounting Policies

The accompanying schedule of expenditures of federal awards is presented using the accrual method of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

1. Summary of Auditors' Results

- a. An unmodified opinion was issued on the financial statements.
- b. There were no significant deficiencies or material weaknesses noted in internal control to disclose.
- c. The audit disclosed no items of noncompliance material to the financial statements.
- d. There were no significant deficiencies or material weaknesses noted in internal control over major federal programs to disclose.
- e. An unmodified opinion was issued on compliance for the major federal program.
- f. The audit did not disclose any audit findings required to be reported in accordance with Section 200.516(a) of the Uniform Guidance.
- g. The major program was the Federal Aviation Administration Airport Improvement Program (CFDA 20.106).
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- i. The auditee did not qualify as a low-risk auditee.

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

None

3. Findings and Questioned Costs for Federal Awards

None

4. Status of Prior Year's Findings

None