Peninsula Airport Commission

Financial Statements and Supplementary Information

Years Ended June 30, 2018 and 2017

DIXON HUGHES GOODMAN LLP

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Peninsula Airport Commission

Commission Members

Sharon P. Scott	Chair
George Wallace	Vice-Chair
Rob Coleman	Treasurer
Vacant	Secretary
Jay Joseph	Assistant Treasurer
Vacant	Assistant Secretary

DIXON HUGHES GOODMAN LLP

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, 2018 and 2017, 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, 2018 and 2017, 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.

DHG
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Change in Accounting Principle

As discussed in Notes 2, 10 and 11 to the financial statements, during 2018 the Peninsula Airport Commission implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions,* which resulted in a cumulative effect adjustment to net position as of the beginning of the year. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 8; the schedules of changes in net pension liability and related ratios, schedule of changes in total healthcare OPEB liability and related ratios, schedule of changes in net GLI OPEB liability and related ratios, and schedules of employer contributions on pages 42 through 46, 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 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information on pages 47 and 48 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2018, 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
October 31, 2018

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, 2018. 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:

	2018	2017	2016
Enplanements	**203,777**	203,201	208,213
% Increase (decrease)	**.28%**	(2.41%)	(16.44%)
Aircraft operations	**90,039**	98,293	94,331
% Increase (decrease)	**(8.40%)**	4.20%	(3.37%)
Landed weight	**237,992,053**	241,522,753	257,246,000
% Increase (decrease)	**(1.46%)**	(6.11%)	2.57%
Parking (vehicles)	**94,104**	99,241	104,056
% Increase (decrease)	**(-5.18%)**	(4.63%)	(17.61%)
Parking (revenue)	**$1,884,994**	$1,880,395	$1,870,870
% Increase (decrease)	**.24%**	.51%	(14.33%)
Rental car commissions	**$1,240,546**	$1,267,913	$1,237,808
% Increase (decrease)	**(2.16%)**	(2.43%)	(6.97%)
Customer facility charge	**$1,089,513**	$1,167,246	$1,200,332
% Increase (decrease)	**(6.66%)**	(2.76%)	(5.39%)

Passenger traffic at the Newport News- Williamsburg International Airport (PHF) reflects the departure of AirTran Airways in 2012, however last year, the year-over-year decline leveled off. In March 2018, the PAC hired new Air Service Development Consultants who conducted a "leakage" study. Some key findings were: 1) PHF leaks 89% of the passenger traffic in its main "catchment zone" (the "PHF Primary" territory), or 2,246 passengers per day each way; 2) PHF has the lowest seats per capita in the region; 3) Norfolk (ORF) and Richmond (RIC) have 4 times as many seats per person in their areas; 4) however, when including traffic retained and traffic leaked, PHF generates 50% more trips per capita compared to ORF and 27% more trips per capita compared to RIC. The bottom line is the airlines aren't allocating enough capacity where the greatest propensity to travel exists, as PHF has the highest rate of travel per capita in the region while simultaneously being disadvantaged by the lowest capacity per capita. Staff, with the assistance from the air service development consultant, have re-engaged with the air carriers to point out these deficiencies. Additionally, an independent analysis from William Swelbar, a world-renowned research expert with MITs International Center for Air Transportation and Airline Consultant, has credited PHF's newly minted strategy of seeking connectivity versus a subsidized LCC/ULCC as making perfect sense for the PHF market. A market that has previously been distorted by subsidized low cost carrier service.

At June 30, 2018, the Airport was served by American Airways and Delta Air Lines/Delta Connection.

Financial Operations Highlights

Net position decreased by $3.3 million in 2018 compared to a $1.4 million increase in 2017.

- Operating income increased by 3.48% from $7.8 million to $8.1 million due to the full year of operating the Take PHFlight restaurant partially offset by the decrease in other income.
- Cost of sales from Take PHFlight restaurant increased by 492% from $72 thousand to $429 thousand. The airport took over restaurant operations in June 2017.
- Operating expenses decreased by 1.74% from $7.2 million to $7.1 million as a result of decreases in professional services related to air service development, and marketing for Elite Airways, however the increase in legal costs partially offset those decreases.
- Depreciation expense increased by 10.97% from $7.2 million to $8.0 million as a result of a full year's depreciation for the Consolidated Security Checkpoint Project.
- The above factors resulted in a loss from operations of $745 thousand higher than the 2017 results. This 11.25% increase compared to the prior year's loss was due to the increase in depreciation expense.
- Nonoperating income (expenses) increased by approximately $244 thousand from 2017, with a net nonoperating loss of $1.1 million in 2018 compared to a net loss of $876 thousand in 2017. This increase in net loss from nonoperating activity was primarily the result of the loss on the retirement of two assets.
- Capital contributions received in the form of grants from the federal government and Commonwealth of Virginia decreased by 41.90% from $8.9 million in 2017 to $5.2 million in 2018 due to the timing of capital projects.
- Capital projects that were completed or started in FY 2018 included an airfield perimeter road category exclusion & design - $73 thousand, a video wall - $118 thousand, other administrative projects - $303 thousand, ground transportation equipment - $23 thousand, restaurant televisions - $11 thousand, and construction of the consolidated security checkpoint - $282 thousand.

Summary of Operations and Changes in Net Position

	2018	2017	2016
Operating revenue	**$ 8,102,495**	$ 7,830,131	$ 7,771,694
Cost of sales	**428,573**	72,480	-
Operating expenses	**7,076,156**	7,201,072	6,407,644
Income from operations before depreciation	**597,766**	556,579	1,364,050
Depreciation	**7,964,440**	7,178,188	7,223,480
Loss before other nonoperating income and expenses	**(7,366,674)**	(6,621,609)	(5,859,430)
Other nonoperating income and expenses, net	**(1,120,438)**	(876,093)	(837,303)
Loss before capital contributions	**(8,487,112)**	(7,497,702)	(6,696,733)
Capital contributions	**5,182,855**	8,921,056	7,091,355
Change in net position	**$ (3,304,257)**	$ 1,423,354	$ 394,622

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 $88.5 million at June 30, 2018, a $5.3 million decrease from June 30, 2017.

	2018	2017	2016
Assets:			
Current and other assets and deferred outflows	**$ 9,200,301**	$ 5,050,675	$ 7,883,794
Capital assets	**95,669,970**	103,521,068	100,054,498
Total assets and deferred outflows of resources	**104,870,271**	108,571,743	107,938,292
Liabilities:			
Long-term liabilities	**14,144,163**	13,425,440	13,077,057
Current liabilities and deferred inflows	**2,233,964**	1,402,368	2,540,654
Total liabilities and deferred inflows of resources	**16,378,127**	14,827,808	15,617,711
Net position:			
Invested in capital assets, net of related debt	**87,666,467**	95,052,208	91,136,085
Restricted	**5,968,432**	2,104,485	1,362,413
Unrestricted	**(5,142,755)**	(3,412,758)	(177,917)
Total net position	**$ 88,492,144**	$ 93,743,935	$ 92,320,581

The largest portion of the Commission's net position each year (99.1% at June 30, 2018), 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 (6.74% at June 30, 2018), 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 as well as other approved used as stipulated in the Airport Program Manual. Passenger Facility Charge Funds are reserved for Federal Aviation Administration and Airline approved projects.

Airport Rates and Charges

The Commission established an Airline Use and Lease Agreement (Agreement) effective November 1, 1992, which in part establishes the rates and charges for the use of the Airport. Landing fees and terminal rental rates have actually decreased since 1992. Landing fees are $1.10 per 1,000 lbs. of landed weight at June 30, 2018. Terminal rental rates are $27 per square foot at June 30, 2018. 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 2018 and went into effect on July 1, 2017.

Revenue

A summary of revenue is as follows:

	2018 Amount	Percent of Total	2017 Amount	Percent of Total	2016 Amount	Percent of Total
Operating:						
Airfield	**$ 1,518,833**	18.7%	$ 1,474,330	18.8%	$ 1,468,094	18.9%
Terminal and landside	**5,620,471**	69.2%	5,448,807	69.4%	5,293,950	68.0%
Other rents	**484,558**	6.0%	431,266	5.5%	432,241	5.5%
Trailer park rents	**457,930**	5.6%	449,123	5.7%	436,348	5.6%
Administrative and miscellaneous	**11,168**	0.1%	10,534	0.1%	67,121	0.9%
Maintenance reimbursement	**9,535**	0.1%	16,071	0.2%	73,940	1.0%
Total operating	**8,102,495**	99.7%	7,830,131	99.7%	8,136,967	99.9%
Nonoperating:						
Federal grants	**22,834**	0.3%	-	0.0%	-	0.0%
Interest income	**50**	0.0%	12,553	0.2%	7,063	0.1%
Gain on sale of assets	**-**	0.0%	4,866	0.1%	2,051	0.0%
Total nonoperating	**22,884**	0.3%	17,419	0.3%	9,114	0.1%
Total revenue	**$ 8,125,379**	100.0%	$ 7,847,550	100.0%	$ 7,780,808	100.0%

Expenses

A summary of expenses is as follows:

	2018 Amount	Percent of Total	2017 Amount	Percent of Total	2016 Amount	Percent of Total
Cost of sales	**$ 429,048**	**2.6%**	$ 72,480	0.4%	$ -	0.0%
Operating:						
Airfield	**905,243**	**5.5%**	966,529	6.3%	959,057	6.6%
Terminal and Landside	**2,301,196**	**13.8%**	2,312,083	15.1%	2,133,720	14.7%
Other rents	**350,603**	**2.1%**	321,816	2.1%	323,468	2.2%
Trailer park rents	**413,018**	**2.5%**	411,170	2.7%	407,192	2.8%
Administrative and miscellaneous	**2,737,321**	**16.5%**	2,822,775	18.4%	2,241,124	15.5%
Maintenance	**368,300**	**2.2%**	366,699	2.4%	343,083	2.4%
Total operating	**7,075,681**	**42.6%**	7,230,672	47.0%	6,407,644	44.2%
Depreciation	**7,964,440**	**47.9%**	7,178,188	46.8%	7,223,480	49.9%
Nonoperating:						
Interest expense	**350,111**	**2.1%**	389,934	2.5%	421,375	2.9%
Loss on sale of assets	**348,639**	**2.1%**	-	0.0%	-	0.0%
OPEB expense	**444,572**	**2.7%**	503,578	3.3%	425,042	3.0%
Total nonoperating	**1,143,322**	**6.9%**	893,512	5.8%	846,417	5.9%
Total expenses	**$16,612,491**	**100.0%**	$15,345,252	100.0%	$ 14,477,541	100.0%

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.

	2018	2017	2016
Cash flow from operating activities	**$ 488,979**	$ (331,765)	$ 2,266,582
Cash flow from noncapital activities	**(81,026)**	(94,290)	-
Cash flow from capital and related financing activities	**4,745,761**	(2,752,489)	(561,901)
Cash flow from investing activities	**(3,870,801)**	249,521	(2,015,261)
Net change in cash and cash equivalents	**1,282,913**	(2,929,023)	(310,580)
Cash and cash equivalents, beginning of period	**309,861**	3,238,884	3,549,464
Cash and cash equivalents, end of period	**$ 1,592,774**	$ 309,861	$ 3,238,884

The Commission's available cash and cash equivalents increased from $310 thousand at the end of 2017 to $1.6 million at the end of 2018 primarily due to a settlement between the Commission, Towne Bank, and Jones, Blechman, Woltz & Kelly and the reinstatement of State Entitlement Funds from the Virginia Department of Aviation subsequent to the state audit.

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 2018, the Commission expended $462 thousand on capital activities. This included costs incurred during 2018 for $282 thousand on the Consolidated Security Screening Checkpoint project, $91 thousand on airline passenger equipment, $23 thousand for ground transportation equipment, $30 thousand on airfield projects, and $36 thousand on other miscellaneous projects. During 2018, completed projects totaling $807 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, 2018 - $1,197,733; 2017 - $1,314,688; 2016 - $1,428,473

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, 2018 – $4,676,272; 2017 - $4,926,717; 2016 - $5,166,962

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

Balance outstanding June 30, 2018 - $2,129,498; 2017 - $2,227,445; 2016 - $2,322,978

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.

Peninsula Airport Commission
Statements of Net Position
June 30, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,592,774	$ 309,861
Accounts receivable, less allowance for doubtful accounts - $6,346 for both 2018 and 2017	528,104	539,315
Accounts receivable - Federal Aviation Administration	510,683	1,350,637
Inventories	55,948	63,407
Prepaid expenses	34,392	103,245
Total current assets	2,721,901	2,366,465
Capital assets:		
Land	6,604,658	6,604,658
Airfield	90,534,862	90,465,074
Terminal	89,549,984	89,264,845
Other	6,461,603	6,519,471
Trailer park and rental units	1,548,885	1,548,885
Construction-in-progress	221,424	566,656
	194,921,416	194,969,589
Accumulated depreciation	(99,251,446)	(91,448,521)
	95,669,970	103,521,068
Investments and other assets:		
Deferred project costs	161,477	154,573
Restricted cash	5,968,432	2,104,485
	6,129,909	2,259,058
Total assets	104,521,780	108,146,591
DEFERRED OUTFLOW OF RESOURCES		
Pension deferrals	232,819	425,152
Healthcare OPEB deferrals	103,860	-
GLI OPEB deferrals	11,812	-
Total deferred outflow of resources	348,491	425,152
	$ 104,870,271	$ 108,571,743

See accompanying notes.

	2018	2017
LIABILITIES AND NET POSITION		
Current liabilities:		
Current maturities of long-term debt	**$ 502,109**	$ 466,904
Accounts payable	**293,618**	425,249
Accrued liabilities	**393,028**	481,044
Security deposits	**29,573**	29,171
Total current liabilities	**1,218,328**	1,402,368
Long-term liabilities:		
Long-term debt, less current maturities	**7,501,394**	8,001,956
Net pension liability	**317,803**	617,099
Total healthcare OPEB liability	**6,137,966**	4,806,385
Net GLI OPEB liability	**187,000**	-
Total liabilities	**15,362,491**	14,827,808
DEFERRED INFLOW OF RESOURCES		
Pension deferrals	**142,112**	-
Healthcare OPEB deferrals	**840,524**	-
GLI OPEB deferrals	**33,000**	-
Total deferred inflow of resources	**1,015,636**	-
Net position:		
Invested in capital assets, net of related debt	**87,666,467**	95,052,208
Restricted	**5,968,432**	2,104,485
Unrestricted	**(5,142,755)**	(3,412,758)
Total net position	**88,492,144**	93,743,935
	$ 104,870,271	$ 108,571,743

Peninsula Airport Commission
Statements of Revenue, Expenses and Changes in Net Position
Years Ended June 30, 2018 and 2017

	2018	2017
Operating income	**$ 8,102,495**	$ 7,830,131
Cost of sales	**(429,048)**	(72,480)
Gross profit	**7,673,447**	7,757,651
Operating expenses	**(7,075,681)**	(7,201,072)
Depreciation	**(7,964,440)**	(7,178,188)
Loss from operations	**(7,366,674)**	(6,621,609)
Nonoperating income (expenses):		
Federal grants	**22,834**	-
Interest income	**50**	12,553
Interest expense	**(350,111)**	(389,934)
Gain (loss) on sale of capital assets	**(348,639)**	4,866
OPEB expense	**(444,572)**	(503,578)
Total nonoperating expenses	**(1,120,438)**	(876,093)
Loss before capital contributions	**(8,487,112)**	(7,497,702)
Capital contributions	**5,182,855**	8,921,056
Change in net position	**(3,304,257)**	1,423,354
Net position, beginning of year, as previously reported	**93,743,935**	92,320,581
Restatement (Note 2)	**(1,947,534)**	-
Net position, beginning of year, as restated	**91,796,401**	92,320,581
Net position, end of year	**$ 88,492,144**	$ 93,743,935

See accompanying notes.

Peninsula Airport Commission
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Receipts from customers and users	$ 8,113,706	$ 7,827,847
Payments to suppliers for goods and services	(3,490,681)	(4,164,646)
Payments to employees	(4,134,046)	(3,994,966)
Net cash provided (used) by operating activities	488,979	(331,765)
Cash flows from noncapital activities:		
Noncapital contributions from federal grants	22,834	-
OPEB expense paid	(103,860)	(94,290)
Net cash used by noncapital activities	(81,026)	(94,290)
Cash flows from capital and related financing activities:		
Purchase of property and equipment	(461,982)	(10,663,990)
Proceeds from sale of assets	-	24,099
Changes in security deposits	402	(24)
Principal payments on long-term debt	(465,357)	(449,553)
Interest payments on long-term debt	(350,111)	(389,934)
Capital contributions	6,022,809	8,726,913
Net cash provided (used) by capital and and related financing activities	4,745,761	(2,752,489)
Cash flows from investing activities:		
Investment in certificates of deposit	-	1,002,459
Investment in future projects	(6,904)	(23,419)
Interest received on cash and investments	50	12,553
Change in restricted cash and investments	(3,863,947)	(742,072)
Net cash provided (used) by investing activities	(3,870,801)	249,521
Net increase (decrease) in cash and cash equivalents	1,282,913	(2,929,023)
Cash and cash equivalents, beginning of year	309,861	3,238,884
Cash and cash equivalents, end of year	$ 1,592,774	$ 309,861

See accompanying notes.

	2018	2017
Reconciliation of loss from operations to net cash from operating activities:		
Loss from operations	**$ (7,366,674)**	$ (6,621,609)
Adjustments to reconcile loss from operations to net cash provided (used) by operating activities:		
Depreciation	**7,964,440**	7,178,188
Change in:		
Accounts receivable	**11,211**	(2,284)
Inventories	**7,459**	(266)
Prepaid expenses	**68,853**	29,003
Accounts payable	**(131,631)**	(973,456)
Accrued liabilities	**(88,016)**	(14,638)
Net pension liability and related deferred inflows/outflows of resources	**35,149**	73,297
Net GLI OPEB liability and related deferred inflows/outflows of resources	**(11,812)**	-
Net cash provided (used) by operating activities	**$ 488,979**	$ (331,765)
Supplemental schedule of noncash transactions:		
Contributed capital funded by accounts receivable at June 30	**$ 510,683**	$ 1,350,637

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.

Inventories

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

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

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, 2018 and 2017, $161,477 and $154,573, respectively, 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 statues 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 2018 and 2017, the Commission expensed $217,191 and $385,788, respectively, in advertising costs within operating expenses.

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.

Other postemployment benefits

Healthcare benefits
The Newport News / Williamsburg International Airport Postretirement Benefit Plan provides postemployment healthcare benefits through a single-employer plan on a pay-as-you-go cost basis. For purposes of measuring the total healthcare OPEB liability, deferred outflows of resources and deferred inflows of resources related to the healthcare OPEB, and the healthcare OPEB expense, information about the net position of the healthcare OPEB; and the additions to/deductions from the healthcare net position have been determined on the same basis as they were reported by the Newport News / Williamsburg International Airport Postretirement Benefit Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

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

Adoption of new accounting statement

Effective for the fiscal year ended June 30, 2018, the Commission implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Statement No. 75 replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* as amended, and Statement No. 57, *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans.*

The implementation of the statement required the Commission to record beginning total/net OPEB liability and the effects on net position of benefit payments paid by the Commission related to OPEB during the measurement period. As a result, net position decreased by $1,947,534. The balances and amounts as of June 30, 2017 and for the year then ended have not been restated due to the lack of information to accurately and completely restate such amounts.

Subsequent events

In preparing these financial statements, the Commission has evaluated events and transactions for potential recognition or disclosure through October 18, 2018, 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:

Type	2018 Carrying Value	2017 Carrying Value
Demand deposits	**$ 5,550,698**	$ 2,407,784
Cash on hand	**6,011**	6,361
Money market funds	**2,004,497**	201
Total deposits	**$ 7,561,206**	$ 2,414,346

	2018	2017
Reconciliation to Statements of Net Position		
Current:		
Cash and cash equivalents	**$ 1,592,774**	$ 309,861
Investments and other assets:		
Restricted cash	**5,968,432**	2,104,485
	$ 7,561,206	$ 2,414,346

Custodial credit risk and concentration of investments

Deposits in financial institutions, reported as components of cash and cash equivalents, had a bank balance of $7,681,739 and $2,645,422 at June 30, 2018 and 2017, respectively, which was fully insured by depository insurance or secured with collateral held by the Commission's agent in its name. At June 30, 2018 and 2017, amounts subject to custodial credit risk as they were uninsured by the Federal Deposit Insurance Corporation, due to exceeding the $250,000 financial institutions limit were $7,414,957 and $2,132,369, 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, 2018 and 2017, 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, 2018 and 2017.

Investment credit risk

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

1. Direct obligations of the U.S. government, its agencies, and instrumentalities to which the full faith and credit of the U.S. government is pledged, or obligations to the payment of which the full faith and credit of the Commonwealth of Virginia is pledged;
2. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out of state financial institutions;

3. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper, and repurchase agreements with certain limitations;
4. County, municipal, or school district tax supported debt obligations; bond or revenue anticipation notes; money judgments; or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality, or school district;
5. Notes or bonds secured by a mortgage or trust deed insured by the Federal Housing Administration and debentures issued by the Federal Housing Administrator, and obligations of the National Mortgage Association; and
6. Money market funds regulated by the Securities and Exchange Commission (SEC) in which investments consist of the investments mentioned in points 1., 2., 3., and 4.

4. Accounts Receivable - Federal Aviation Administration

The Virginia Department of Aviation and the Federal Aviation Administration (FAA) contribute grant funds to finance construction costs for Airport improvements and terminal expansion. At June 30, 2018 and 2017, $510,683 and $1,350,637, respectively, was receivable by the Commission on cost reimbursable grants.

5. Capital Assets

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

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital assets not being depreciated:				
Land	$ 6,604,658	$ -	$ -	**$ 6,604,658**
Construction-in-progress	566,656	461,981	807,213	**221,424**
Total capital assets not being depreciated	7,171,314	461,981	807,213	**6,826,082**
Other capital assets:				
Airfield	90,465,074	69,788	-	**90,534,862**
Terminal	89,264,845	653,149	368,010	**89,549,984**
Other	6,519,471	84,276	142,144	**6,461,603**
Trailer park and rental units	1,548,885	-	-	**1,548,885**
Total other capital assets	187,798,275	807,213	510,154	**188,095,334**
Accumulated depreciation:				
Airfield	50,632,763	3,881,729	-	**54,514,492**
Terminal	36,172,439	3,708,512	102,471	**39,778,480**
Other	3,094,434	373,022	57,867	**3,409,589**
Trailer park and rental units	1,548,885	-	-	**1,548,885**
Total accumulated depreciation	91,448,521	7,963,263	160,338	**99,251,446**
Other capital assets, net	96,349,754	(7,156,050)	349,816	**88,843,888**
	$103,521,068	$ (6,694,069)	$ 1,157,029	**$ 95,669,970**

6. Restricted Cash

The Commission receives annual entitlement funds from the Commonwealth of Virginia (Commonwealth). The amount allocated to each airport is calculated on the basis of the previous calendar year's enplaned passengers at that airport as a percentage of the total enplaned passengers in the Commonwealth. Entitlement funds may be used for 100% of the nonfederal portion of projects that are funded under provisions of the Federal Airport Improvement Program and for various projects not funded by the Airport Improvement Program, including air service development projects. Restricted cash also includes the Passenger Facility Charge (PFC) disclosed in Note 14 as well as asset forfeiture funds. Asset forfeitures are funds received through federal agencies for assisting in a law enforcement effort resulting in a federal forfeiture. These funds may be used to supplement, not supplant, the law enforcement department's normal operating budget. At June 30, 2018 and 2017, the Commission's restricted cash from entitlement funds, asset forfeiture funds and from PFC were $5,968,432 and $2,104,485, respectively.

7. Compensated Absences and Sick Leave Accrual

All employees of the Commission are entitled to vacation in accordance with Commission policy. At termination or retirement, employees are paid for any unused leave up to 240 hours. The Commission has accrued $157,335 and $146,948 for compensated absences as of June 30, 2018 and 2017, 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 $51,393 and $121,633 for sick leave as of June 30, 2018 and 2017, respectively. These liabilities are recorded in accrued liabilities on the statements of net position.

8. Long-Term Debt

Following is a summary of debt transactions of the Commission:

	July 1, 2017	Additions	Reductions	June 30, 2018	Amounts Due Within One Year
Airport Improvement Bonds:					
Series 2002	$ 1,314,688	$ -	$ 116,955	**$ 1,197,733**	$ 120,212
Series 2005A	4,926,717	-	250,445	**4,676,272**	260,421
Series 2005B	2,227,455	-	97,957	**2,129,498**	121,476
	$ 8,468,860	$ -	$ 449,553	**$ 8,003,503**	$ 502,109

	July 1, 2016	Additions	Reductions	June 30, 2017	Amounts Due Within One Year
Airport Improvement Bonds:					
Series 2002	$ 1,428,473	$ -	$ 113,785	$ 1,314,688	$ 116,954
Series 2005A	5,166,962	-	240,245	4,926,717	249,480
Series 2005B	2,322,978	-	95,523	2,227,455	100,470
	$ 8,918,413	$ -	$ 449,553	$ 8,468,860	$ 466,904

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

	2018	2017
Airport Improvement Bonds Series 2002 - In July 2002, the Commission issued $2,500,000 of Virginia Resources Authority (VRA) Airport Improvement Revenue Bonds, Subordinate Series 2002, at 4.5% interest with monthly principal and interest payments of $13,971. During 2016, the Commission negotiated an interest rate reduction to 2.75% for the remainder of the term of the bond, which reduced the monthly principal and interest payment to $12,637 and accelerated the maturity date to May 2027. The bonds also contain a financial covenant with which management determined the Commission was not in compliance, but received an automatic waiver from the VRA after meeting the covenant notification requirements.	**$ 1,197,733**	$ 1,314,688
Airport Improvement Bonds Series 2005A - In December 2005, the Commission issued $7,000,000 of Unsecured Tax-Exempt Bonds, at 4.30% interest. Interest only payments are required until February 2007, at which time, monthly principal and interest payments of $38,118 are due. The bonds mature in January 2032.	**4,676,272**	4,926,717
Airport Improvement Bonds Series 2005B - In December 2005, the Commission issued $3,000,000 of Unsecured Taxable Bonds, at 5.81% interest with monthly principal and interest payments of $18,982. During 2018, the Commission negotiated an interest rate reduction to 3.95% for the remainder of the term of the bond, which reduced the monthly principal and interest payment to $16,982. The bonds mature in January 2032.	**2,129,498**	2,227,455
	8,003,503	8,468,860
Current maturities	**(502,109)**	(466,904)
	$ 7,501,394	$ 8,001,956

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

Year Ending June 30,	Principal	Interest
2019	502,109	310,741
2020	521,763	291,087
2021	542,207	270,642
2022	563,475	249,375
2023	585,599	227,251
2024-2028	3,125,834	774,129
2029-2032	2,162,516	172,896
	$ 8,003,503	$ 2,296,121

9. Defined Benefit 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.	**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.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. • 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.

<table>
<tr><th>PLAN 1</th><th>PLAN 2</th><th>HYBRID
RETIREMENT PLAN</th></tr>
<tr>
<td>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, and they have not taken a refund.

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.

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.</td>
<td>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.

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.</td>
<td>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

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.</td>
</tr>
<tr>
<td>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.</td>
<td>Retirement Contributions
Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.</td>
<td>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.</td>
</tr>
</table>

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
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.
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.

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
		Defined Contributions Component: 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.
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** **Defined Benefit Component:** See definition under Plan 1. **Defined Contribution Component:** 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.

PLAN 1	PLAN 2	HYBRID RETIREMENT 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.
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.
Earliest Unreduced Retirement Eligibility Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.	**Earliest Unreduced Retirement Eligibility** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.	**Earliest Unreduced Retirement Eligibility** **<u>Defined Benefit Component:</u>** 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.	**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.	**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.

<table>
<tr><th>PLAN 1</th><th>PLAN 2</th><th>HYBRID
RETIREMENT PLAN</th></tr>
<tr>
<td>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%.</td>
<td>Cost-of-Living Adjustment (COLA) in Retirement
The 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%.</td>
<td>Cost-of-Living Adjustment (COLA) in Retirement
<u>Defined Benefit Component:</u>
Same as Plan 2.

<u>Defined Contribution Component:</u>
Not applicable.</td>
</tr>
<tr>
<td><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.</td>
<td><u>Eligibility:</u>
Same as Plan 1</td>
<td><u>Eligibility:</u>
Same as Plan 1 and Plan 2.</td>
</tr>
<tr>
<td><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.
• 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.</td>
<td><u>Exceptions to COLA Effective Dates:</u>
Same as Plan 1.</td>
<td><u>Exceptions to COLA Effective Dates:</u>
Same as Plan 1 and Plan 2.</td>
</tr>
</table>

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
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 subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under 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** **Defined Benefit Component:** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. **Defined Contribution Component:** Not applicable.

Employees covered by benefit terms

As of the June 30, 2016, actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	39
Inactive members:	
Vested	6
Non-vested	13
Active elsewhere in VRS	19
Total inactive members	38
Active members	47
Total	124

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. 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, 2018 was 6.13% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Commission were $139,067 and $140,156 for the years ended June 30, 2018 and 2017, respectively.

Net pension liability

The Commission's net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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, 2016, 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, 2017.

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

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

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

- Mortality Rates - Update to a more current mortality table – RP-2014 projected to 2020
- Retirement Rates - Lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal Rates - Adjusted rates to better fit experience at each year age and service through 9 years of service
- Disability Rates - Lowered rates
- Salary Scale - No change
- Line of Duty Disability - Increase rate from 14% to 20%

Long-term expected rate of return

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

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

*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

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, 2019, 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, 2019 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 liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2016	$ 7,223,135	$ 6,616,036	$ 617,099
Changes for the year:			
Service cost	245,825	-	245,825
Interest	492,440	-	492,440
Differences between expected and actual experience	68,645	-	68,645
Assumption changes	(56,025)	-	(56,025)
Contributions - employer	-	137,317	(137,317)
Contributions - employee	-	116,965	(116,965)
Net investment income	-	801,269	(801,269)
Benefit payments, including refunds of employee contributions	(376,548)	(376,548)	-
Administrative expense	-	(4,659)	4,659
Other changes	-	(711)	711
Net changes	374,337	673,633	(299,296)
Balances at June 30, 2017	$ 7,597,472	$ 7,279,669	$ 317,803

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

The following presents 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	$ 1,265,837	$ 317,803	$ (473,810)

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

At June 30, 2018 and 2017, the Commission recognized pension expense of $171,377 and $212,187, respectively. At June 30, 2018 and 2017, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2018	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Differences between expected and actual experience	**$ 93,752**	**$ -**
Change in assumptions	**-**	**38,351**
Net difference between projected and actual earnings on plan investments	**-**	**103,761**
Employer contributions made subsequent to measurement date	**139,067**	**-**
	$ 232,819	**$ 142,112**

	June 30, 2017	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ 111,770	$ -
Net difference between projected and actual earnings on plan investments	173,226	-
Employer contributions made subsequent to measurement date	140,156	-
	$ 425,152	$ -

Amounts reported as deferred outflows of resources at June 30, 2018 and 2017, of $139,067 and $140,156, 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 fiscal year ending June 30, 2019 and 2018, 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,	
2019	$ (26,640)
2020	45,920
2021	1,021
2022	(68,661)
	$ (48,360)

Pension plan data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

10. Other Postemployment Benefits, Healthcare

Plan description

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

Benefits provided

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

The 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.

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.

Employees covered by benefit terms

As of the June 30, 2016, actuarial valuation, the following employees were covered by the benefit terms of the health care OPEB plan:

	Number
Active members	49
Retirees and spouses:	
With medical coverage	
Not Medicare eligible	5
Medicare eligible	15
With dental coverage	27
Total retirees and spouses	47
Total	96

Actuarial 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.

The total OPEB liability was based on an actuarial valuation as of July 1, 2016, 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, 2017.

Discount rate, based on the Bond Buyer GO 20-Bond Municipal Bond Index	3.58%
Inflation	2.8%
Healthcare cost trend rate, including inflation	4.25% annually over 21 years
Salary increases, including inflation	3.0%

Mortality rates:

Non-retired members:

RP-2000 Male and Female Mortality Tables for Active Employees projected to 2020 by scale AA with males set forward 2 years and females set back 3 years.

Retired members:

RP-2000 Male and Female Mortality Tables for Healthy Annuitants projected to 2020 by scale AA with females set back 1 year.

Disabled mortality:

RP-2000 Disabled Life Mortality Table with males set back 3 years and no projection for future mortality improvement.

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2014 to June 30, 2016.

Changes in total healthcare OPEB liability

	Total Healthcare OPEB Liability
Balance at June 30, 2016	$ 6,628,208
Changes for the year:	
Service cost	387,298
Interest	198,590
Changes of assumptions	(980,611)
Benefit payments	(95,518)
Net changes	(490,241)
Balance at June 30, 2017	$ 6,137,967

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

The following presents the total OPEB liability calculated using the baseline healthcare cost trends, as well as what the total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

	1% Decrease 2.58%	Current Discount Rate 3.58%	1% Increase 4.58%
Total healthcare OPEB liability	$ 7,537,933	$ 6,137,967	$ 5,083,579

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

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

	Trend Minus 1%	Baseline	Trend Plus 1%
Total healthcare OPEB liability	$ 5,069,829	$ 6,137,967	$ 7,527,818

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

For the year ended June 30, 2018, the Commission recognized healthcare OPEB expense of $444,572. At June 30, 2018, the Commission reported deferred outflows of resources and deferred inflows of resources related to healthcare benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	$ -	$ 840,524
Employer contributions made subsequent to measurement date	103,860	-
	$ 103,860	$ 840,524

The $103,860 reported as deferred outflows of resources related to the healthcare OPEB resulting from the Commission's contributions subsequent to the measurement date will be recognized as a reduction of the total healthcare OPEB liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred inflows of resources related to the healthcare OPEB will be recognized in the healthcare OPEB expense in future reporting periods as follows:

Year Ending June 30,	
2019	$ (140,087)
2020	(140,087)
2021	(140,087)
2022	(140,087)
2023	(140,087)
Thereafter	(140,089)
	$ (840,524)

11. Group Life Insurance Program

Program description

All full-time, salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This plan is administered by the Virginia Retirement System (the System), along with pensions and other OBEB plans, for public employer groups in the Commonwealth of Virginia.

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

The specific information for Group Life Insurance Program OPEB, including eligibility, coverage and benefits is set out in the table below:

<table>
<tr><th>GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS</th></tr>
<tr><td>Eligible Employees
The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program.

Basic group life insurance coverage is automatic upon employment. Coverage end for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.</td></tr>
<tr><td>Benefit Amounts
The benefits payable under the Group Life Insurance Program have several components.
• Natural Death Benefit – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.
• Accidental Death Benefit – The accidental death benefit is double the natural death benefit.
• Other Benefit Provisions – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:
o Accidental dismemberment benefit
o Safety belt benefit
o Repatriation benefit
o Felonious assault benefit
o Accelerated death benefit option</td></tr>
<tr><td>Reduction in benefit Amounts
The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.</td></tr>
<tr><td>Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)
For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at $8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently $8,111.</td></tr>
</table>

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Program from the Commission were $11,812 and $11,889 for the years ended June 30, 2018 and June 30, 2017, respectively.

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB

At June 30, 2018, the Commission reported a liability of $187,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The Commission's proportion of the Net GLI OPEB Liability was based on the Commission's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the Commission's proportion was 0.0124% as compared to 0.0132% at June 30, 2016.

For the year ended June 30, 2018, the Commission recognized GLI OPEB expense of $-0-.

At June 30, 2018, the Commission reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	June 30, 2018	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ -	$ 4,000
Net difference between projected and actual earnings on plan investments	-	7,000
Change in assumptions	-	10,000
Changes in proportionate share	-	12,000
Employer contributions made subsequent to measurement date	11,812	-
	$ 11,812	$ 33,000

The $11,812 reported as deferred outflows of resources related to the GLI OPEB resulting from the Commission's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ending June 30,		
2019	$	(6,000)
2020		(6,000)
2021		(6,000)
2022		(6,000)
2023		(5,000)
Thereafter		(4,000)
	$	(33,000)

Actuarial assumptions - general employees

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, 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, 2017.

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 the OPEB liabilities.

Mortality rates:

Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:
RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates

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

- Update to a more current mortality table - RP-2014 projected to 2020
- Lowered retirement rates at older ages and changed final retirement from 70 to 75
- Adjusted withdrawal rates to better fit experience at each age and service year
- Lowered disability rates
- Increase line of duty disability rate from 14% to 20%

Net GLI OPEB liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program
Total GLI OPEB liability	$ 2,942,426
Plan fiduciary net position	1,437,586
Employers' net GLI OPEB Liability	$ 1,504,840
Plan fiduciary net position as a percentage of the total GLI OPEB Liability	48.86%

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

Long-term expected rate of return

The long-term expected rate of return on the System's 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 System's investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

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

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

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

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

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Plan's net GLI OPEB liability	$ 242,000	$ 187,000	$ 142,000

Group life insurance program fiduciary net position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

12. Leasing Arrangements as Lessor

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

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

Years Ending June 30,	
2019	$ 844,951
2020	821,976
2021	704,938
2022	666,319
2023	671,525
Thereafter	1,961,837
	$ 5,671,546

The City of Newport News Public Schools (NNPS) leases space in the old terminal under a non-cancelable operating lease through December 2017. Upon expiration of the lease, NNPS leased the space on a month to month basis through June 2018. During 2018 and 2017, $86,885 and $86,033, respectively of rental income was earned by the Commission. Subsequent to year end, NNPS signed a one year lease through June 2019.

In 2018, the City of Newport News entered into a lease for the fire station that was constructed in 2010 and was previously leased under a ten year lease with the last five years at $1 per year. The new lease is effective from July 2018 through June 2021 with an option to extend for two additional one year periods. The lease calls for lease payments of $20,700 per year.

13. Leased Equipment

The Commission leases equipment under a long-term non-cancelable operating lease. The initial lease term is five years and expired in February 2018. Upon expiration of the lease agreement, the Commission leased the equipment on a month to month basis until a new five year agreement was signed effective August 2018. Lease expense during both 2018 and 2017, was $14,292.

Future minimum annual rentals are as follows:

Years Ending June 30,		
2019	$	11,950
2020		14,340
2021		14,340
2022		14,340
2023		14,340
Thereafter		2,390
	$	71,700

14. Passenger Facility Charge

As of July 1, 2010, the Federal Aviation Administration (FAA) has given the Commission authority to impose a Passenger Facility Charge (PFC), under multiple PFC applications, of $4.50 per passenger for twenty-eight planned projects. The total approved revenue to be collected under these multiple applications is $26,821,415. During 2018 and 2017, $824,185 and $794,820, 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.

15. Concentration of Operating Income

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

16. Contingencies

Federally assisted grant programs

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

Lawsuits

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

17. Commitments

At June 30, 2018 and 2017, the Commission had commitments outstanding, in the form of contracts and purchase orders, of approximately $441,498 and $545,936, respectively, primarily for construction projects.

Required Supplementary Information

Peninsula Airport Commission
Schedules of Changes in Net Pension Liability and Related Ratios
Years Ended June 30, 2018, 2017, 2016 and 2015*

	2018	2017	2016	2015
Total pension liability				
Service cost	**$ 245,825**	$ 252,646	$ 247,082	$ 238,814
Interest	**492,440**	463,530	431,301	408,005
Differences between expected and actual experience	**68,645**	74,866	145,651	-
Changes in assumptions	**(56,025)**	-	-	-
Benefit payments	**(376,548)**	(379,542)	(347,684)	(280,352)
Net change in total pension liability	**374,337**	411,500	476,350	366,467
Total pension liability - beginning	**7,223,135**	6,811,635	6,335,285	5,968,818
Total pension liability - ending (a)	**$ 7,597,472**	$ 7,223,135	$ 6,811,635	$ 6,335,285
Plan fiduciary net position				
Contributions - employer	**$ 137,317**	$ 156,792	$ 158,360	$ 220,175
Contributions - employee	**116,965**	117,182	118,594	117,539
Net investment income	**801,269**	113,294	291,702	870,249
Benefit payments	**(376,548)**	(379,542)	(347,684)	(280,352)
Administrative expenses	**(4,659)**	(4,133)	(4,010)	(4,591)
Other changes	**(711)**	(48)	(61)	45
Net change in plan fiduciary net position	**673,633**	3,545	216,901	923,065
Plan fiduciary net position - beginning	**6,606,036**	6,602,491	6,385,590	5,462,525
Plan fiduciary net position - ending (b)	**$ 7,279,669**	$ 6,606,036	$ 6,602,491	$ 6,385,590
Commission's net pension liability (asset) - ending (a) - (b)	**$ 317,803**	$ 617,099	$ 209,144	$ (50,305)
Plan fiduciary net position as a percentage of the total pension liability	**95.8%**	91.5%	96.9%	100.8%
Covered-employee payroll	**$ 2,286,395**	$ 2,369,678	$ 2,382,571	$ 2,352,297
Net pension (asset) liability as a percentage of covered-employee payroll	**13.9%**	26.0%	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

Peninsula Airport Commission
Schedule of Changes in Total Healthcare OPEB Liability and Related Ratios
Year Ended June 30, 2018*

Total OPEB liability:		
Service cost	$	387,298
Interest		198,590
Changes of assumptions		(980,611)
Benefit payments		(95,518)
Net change in total OPEB liability		(490,241)
Total OPEB liability - beginning		6,628,208
Total OPEB liability - ending	$	6,137,967

* 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
Schedule of Employer's Share of Net Group Life Insurance OPEB Liability
Year Ended June 30, 2018*

Employer's proportion of the net OPEB liability		0.01240%
Employer's proportionate share of the net OPEB liability	$	187,000
Employer's covered payroll	$	2,286,395
Employer's proportionate share of the net OPEB liability as a percentage of its covered payroll		8.18%
Plan fiduciary net position as a percentage of the total OPEB liability**		48.86%

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

** This will be the same percentage for all participant employers in the GLI Program.

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 Employer Contributions
Last ten fiscal years

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
		Virginia Retirement System - Pension Plan			
2018	**139,067**	**139,067**	**-**	**2,268,631**	**6.13%**
2017	140,156	140,156	-	2,286,395	6.13%
2016	158,058	158,058	-	2,369,678	6.67%
2015	158,918	158,918	-	2,382,571	6.67%
2014	220,175	220,175	-	2,352,297	9.36%
2013	216,015	216,015	-	2,307,848	9.36%
2012	202,606	202,606	-	2,535,744	7.99%
2011	191,304	191,304	-	2,394,295	7.99%
2010	185,696	185,696	-	2,226,569	8.34%
2009	177,407	177,407	-	2,127,177	8.34%
		Virginia Retirement System - Group Life Insurance Program*			
2018	**11,812**	**11,812**	**-**	**2,268,631**	**0.52%**
2017	11,889	11,889	-	2,286,395	0.52%

***** This schedule is intended to present 10 years of information. GASB 75 was implemented in fiscal year 2018; additional years will be presented as the information becomes available.

Notes to Required Supplementary Information

1. Changes of benefit terms, pension

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 pension 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 pension liabilities as of the measurement date of June 30, 2017 are not material.

2. Changes of benefit terms, GLI OPEB

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

3. Changes of benefit terms, healthcare OPEB

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

4. Changes of assumptions, pension and GLI OPEB

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

Non-Largest Ten Locality Employers – General Employees:

- Mortality Rates – Update to a more current mortality table – RP-2014 projected to 2020
- Retirement Rates – Lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal Rates – Adjusted rates to better fit experience at each year age and service through 9 years of service
- Disability Rates – Lowered rates
- Salary Scale – No change
- Line of Duty Disability – Increase rate from 14% to 15%

5. Changes of assumptions, healthcare OPEB

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

Discount Rate	
June 30, 2016	2.85%
June 29, 2017	3.58%

Supplementary Information

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Peninsula Airport Commission
Schedules of Operating Income
Years Ended June 30, 2018 and 2017

	2018		2017	
	Amount	**Percent**	Amount	Percent
Airfield:				
Landing and tie-down fees	**$ 404,728**		$ 400,146	
Fixed base operator commissions	**178,480**		170,582	
Fuel flowage fees	**149,478**		122,559	
Hangar rental and operations fees	**786,147**		781,043	
Total airfield	**1,518,833**	**18.7 %**	1,474,330	18.8 %
Terminal and Landside:				
Rents:				
Airline offices	**542,273**		540,609	
Car rental and other	**111,359**		96,940	
Commissions:				
Car rental	**2,330,059**		2,435,159	
Communications and other	**571,413**		114,453	
Parking lot fees	**1,918,939**		1,910,195	
Other	**146,428**		351,451	
Total terminal and landside	**5,620,471**	**69.4**	5,448,807	69.6
Other rents	**484,558**	**6.0**	431,266	5.5
Trailer park rents	**457,930**	**5.7**	449,123	5.7
Administrative and miscellaneous	**11,168**	**0.1**	10,534	0.1
Maintenance reimbursement	**9,535**	**0.1**	16,071	0.2
Total operating income	**$ 8,102,495**	**100.0 %**	$ 7,830,131	100.0 %

Peninsula Airport Commission
Schedules of Income (Loss) from Operations Before Depreciation Per Activity
Years Ended June 30, 2018 and 2017

	Airfield		Terminal and Landside	
	2018	**2017**	**2018**	**2017**
Operating income	**$ 1,518,833**	$ 1,474,330	**$ 5,620,471**	$ 5,448,807
Cost of sales	**-**	-	**429,048**	72,480
	1,518,833	1,474,330	**5,191,423**	5,376,327
Operating expenses:				
Advertising	**-**	-	**-**	-
Audit	**-**	-	**-**	-
Auto and equipment	**-**	-	**-**	-
Bad debt	**-**	-	**-**	-
Commission fees	**-**	-	**-**	-
Communications	**-**	-	**42,275**	9,900
Crash and rescue	**16,187**	29,326	**-**	-
Dues and subscriptions	**-**	-	**-**	-
General office	**-**	-	**-**	-
Insurance	**-**	-	**-**	-
Janitorial supplies	**-**	-	**69,153**	76,704
Labor	**585,579**	573,570	**1,123,225**	1,107,829
Management fees	**-**	-	**-**	-
Miscellaneous	**1,345**	1,027	**12,801**	20,523
Payroll taxes and benefits	**174,039**	190,137	**306,693**	327,903
Postage	**-**	-	**-**	-
Professional services	**-**	-	**-**	-
Repairs, maintenance and supplies	**68,688**	113,020	**224,318**	245,975
Shop and linen supplies	**-**	-	**-**	-
Small tools	**-**	-	**-**	-
Training	**8,895**	6,407	**-**	-
Trash removal	**-**	-	**28,685**	25,295
Travel and promotion	**334**	624	**140**	3,295
Uniforms	**6,625**	9,382	**18,624**	16,283
Utilities	**43,551**	43,036	**475,282**	478,376
	905,243	966,529	**2,301,196**	2,312,083
Income (loss) from operations before depreciation	**$ 613,590**	$ 507,801	**$ 2,890,227**	$ 3,064,244

See independent auditors' report.

	Other Rents		Trailer Park		Allocated Costs Administrative and Miscellaneous	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
	$ 484,558	$ 431,266	**$ 457,930**	$ 449,123	**$ 11,168**	$ 10,534
	-	-	**-**	-	**-**	-
	484,558	431,266	**457,930**	449,123	**11,168**	10,534
	-	-	**-**	-	**217,191**	385,788
	-	-	**-**	-	**44,312**	42,338
	-	-	**-**	-	**-**	-
	-	-	**-**	-	**-**	2,847
	-	-	**-**	-	**13,341**	15,131
	-	-	**-**	-	**20,342**	23,347
	-	-	**-**	-	**-**	-
	-	-	**-**	-	**16,868**	26,666
	-	-	**-**	-	**122,170**	105,103
	-	-	**-**	-	**261,016**	217,601
	-	-	**-**	-	**-**	-
	154,641	157,175	**154,641**	157,175	**824,384**	890,086
	-	-	**36,452**	35,925	**-**	-
	-	-	**-**	-	**838**	1,711
	53,237	52,074	**53,236**	52,074	**262,360**	242,062
	-	-	**-**	-	**2,925**	2,737
	-	-	**90**	92	**761,186**	638,606
	33,920	23,283	**24,584**	34,614	**61,247**	63,526
	-	-	**-**	-	**-**	-
	-	-	**-**	-	**-**	-
	-	-	**-**	-	**689**	1,364
	-	-	**-**	-	**-**	-
	-	-	**-**	-	**22,829**	61,218
	-	-	**-**	-	**-**	-
	108,805	89,284	**144,015**	131,290	**105,623**	102,644
	350,603	321,816	**413,018**	411,170	**2,737,321**	2,822,775
	$ 133,955	$ 109,450	**$ 44,912**	$ 37,953	**$ (2,726,153)**	$ (2,812,241)

Allocated Costs Maintenance 2018	Allocated Costs Maintenance 2017	Totals 2018	Totals 2017	Percentage of Revenue 2018	Percentage of Revenue 2017
$ 9,535	$ 16,071	$ 8,102,495	$ 7,830,131	100.00 %	100.00 %
-	-	429,048	72,480	5.30	0.93
9,535	16,071	7,673,447	7,757,651		
-	-	217,191	385,788	2.68	4.93
-	-	44,312	42,338	0.55	0.54
89,026	81,337	89,026	81,337	1.10	1.04
-	-	-	2,847	-	0.04
-	-	13,341	15,131	0.16	0.19
-	-	62,617	33,247	0.77	0.42
-	-	16,187	29,326	0.20	0.37
-	-	16,868	26,666	0.21	0.34
-	-	122,170	105,103	1.51	1.34
-	-	261,016	217,601	3.22	2.78
-	-	69,153	76,704	0.85	0.98
130,668	139,674	2,973,138	3,025,509	36.69	38.64
-	-	36,452	35,925	0.45	0.46
673	783	15,657	24,044	0.19	0.31
57,725	48,264	907,290	912,514	11.20	11.65
-	-	2,925	2,737	0.04	0.03
-	-	761,276	638,698	9.40	8.16
54,366	62,299	467,123	542,717	5.77	6.93
6,759	8,182	6,759	8,182	0.08	0.10
1,292	3,754	1,292	3,754	0.02	0.05
1,149	511	10,733	8,282	0.13	0.11
-	-	28,685	25,295	0.35	0.32
-	438	23,303	65,575	0.29	0.84
18,917	15,749	44,166	41,414	0.55	0.53
7,725	5,708	885,001	850,338	10.92	10.86
368,300	366,699	7,075,681	7,201,072	87.33	91.97
$ (358,765)	$ (350,628)	$ 597,766	$ 556,579	7.37 %	7.10 %

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, 2018, and the related notes to the financial statements, which collectively comprise the Peninsula Airport Commission's basic financial statements, and have issued our report thereon dated October 18, 2018.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses as item IC-2018-001.

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*.

We noted certain matters that were reported to the management of Peninsula Airport Commission in a separate letter dated October 18, 2018.

Peninsula Airport Commission's Response to Findings

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

Purpose of this Report

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

Dixon Hughes Goodman LLP

Newport News, Virginia
October 18, 2018

DIXON HUGHES GOODMAN LLP

Independent Auditors' Report on Compliance with Commonwealth of Virginia Laws, Regulations, Contracts and Grants

Commissioners
Peninsula Airport Commission
Newport News, Virginia

We have audited the financial statements of the Peninsula Airport Commission, as of and for the year ended June 30, 2018, and have issued our report thereon October 18, 2018.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and Towns*, 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 general-purpose financial statements are free of material misstatement.

Compliance with Commonwealth of Virginia laws, regulations, contracts and grants applicable to the, is the responsibility of the Peninsula Airport Commission's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Peninsula Airport Commission's compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Following is a summary of the Commonwealth of Virginia's laws, regulations, contracts and grants for which we performed tests of compliance:

Code of Virginia

- Cash and Investments
- Retirement Systems
- Procurement
- Unclaimed Property
- Reporting

The results of our tests noted no instances of noncompliance with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Peninsula Airport Commission had not complied, in all material respects, with those provisions.

This report is intended solely for the information and use of the Peninsula Airport Commission's Commissioners, management, and the Auditor of Public Accounts and all applicable state agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Dixon Hughes Goodman LLP

Newport News, Virginia
October 18, 2018

Schedule of Findings and Questioned Costs

1. Summary of Auditors' Results

a. An unmodified opinion was issued on the financial statements.

b. There was a material weakness and no significant deficiencies noted in internal control over financial reporting to disclose, as noted in Finding IC-2018-001.

c. The audit disclosed no items of noncompliance material to the financial statements.

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

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

Condition

During our audit of the 2018 financial statements, we noted numerous instances where contracts were entered into with a disregard for the procurement policies and procedures that were in place at the Peninsula Airport Commission.

We tested 5 different vendors and noted 4 exceptions. All of the exceptions were a result of the proper procurement procedures for obtaining bids, quotes, and supporting documentation for selection criteria not being obtained or performed, as appropriate for the respective threshold the contract fell under.

Criteria

Procurement policies are a critical component of an entity's overall internal control system. Management should enforce the established policies and controls over expenditures of public funds. Management's disregard for policies and controls over procurement set a very poor "tone from the top", which can lead to increased risk of fraudulent activity and improper payments.

Effect

Management override of controls can lead to fraudulent activity and improper payments.

Identification of a Repeat Finding

Related to prior year finding IC-2017-001.

Cause

Established controls and procedures were disregarded by upper management and proper oversight by the Commissioners did not detect the disregard of policies and procedures.

Recommendation

The Commission should ensure that the appropriate control environment is maintained by management and monitored by the Commissioners.

Corrective Action Plan

See the Commission's corrective action plan that follows.

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

None

4. Status of Prior Year Findings

Finding IC-2017-001 – Management Override of Procurement Policies and Procedures

See client's status of prior year's findings.

Finding IC-2017-002 – Management Override of Controls – Use of Personal Credit Card

See client's status of prior year's findings.

Finding FA-2017-001 - Ineffectively Operating Internal Controls over Allowable Costs and Activities

See client's status of prior year's findings.

Finding FA-2017-002 - Inadequate Controls over Compliance with Wage Rate Requirements

See client's status of prior year's findings.

Finding FA-2017-003 – Lack of Conflicts of Interest Policy

See client's status of prior year's findings.

Finding VA-2017-001 –Reporting

See client's status of prior year's findings.

Finding VA-2017-002 – Procurement

See client's status of prior year's findings.

NEWPORT NEWS WILLIAMSBURG
INTERNATIONAL AIRPORT

Dixon Hughes Goodman LLP
701 Town Center Drive, Suite 700
Newport News, VA 23606

As a result of our annual audit performed by your firm for fiscal year 2018 the following finding was noted and our corrective action plan follows:

Management Override of Procurement Policies and Procedures (Finding IC2018-001) - The Peninsula Airport Commission has reviewed the revised Procurement Policy that was effective August 24, 2017. In addition Department Heads will develop a spreadsheet to track all contracts. This spreadsheet will be reviewed quarterly by the Assistant Executive Director in order to give proper notice on termination of contracts and rebidding of contracts as they expire. In addition the Peninsula Airport Commission is in the process of hiring an Office Manager to provide oversight over the procurement process, and the Commission has created an audit committee made up of two Commissioners to provide oversight as well.

Status of Prior Year's Findings:

Management Override of Procurement Policies and Procedures (Finding IC2017-001) – The Commission has reviewed the Procurement Policy and approved a revised policy effective August 24, 2017. In addition Department Heads will develop a spreadsheet to track all contracts. This spreadsheet will be reviewed quarterly by the Assistant Executive Director in order to give proper notice on termination of contracts and rebidding of contracts as they expire. In addition the Peninsula Airport Commission is in the process of hiring an Office Manager to provide oversight over the procurement process, and the Commission has created an audit committee made up of two Commissioners to provide oversight as well.

Management Override of Controls – Use of Personal Credit Card Condition (Finding IC2017-002) - Action plan completed in April 2017. The Commission approved the Travel Policy. This policy is provided to all newly appointed Commissioners. The Commission has also created an audit committee made up of two Commissioners to provide oversight.

Ineffectively Operating Internal Controls over Allowable Costs and Activities (Finding FA2017-001) – The Executive Director and staff has reviewed the processes for grant management and have discussed additional procedures to verify, review and document the review to ensure internal controls are appropriate and are in compliance with the requirements to perform an effective review.

Inadequate Controls over Compliance with Wage Rate Requirements Condition (Finding FA2017-002) – The Executive Director and staff have reviewed the processes for grant management and have discussed additional procedures to verify, review certified payroll reports

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and document the review to ensure contractors and subcontractors are complying with the prevailing wage rates and properly preparing certified payroll reports. The designated employee will also monitor the independent engineering firm's review and determination of compliance with the Act.

Lack of Conflicts of Interest Policy (Finding FA2017-003) - The Commission has completed the Virginia Municipal League's training on the Freedom of Information Act and the Virginia Conflict of Interests Act. It was resolved and adopted that the guide the VML provides will be used as Standard of Conduct for the Commission and governs the performance of its employees and Commissioners engaged in the selection, award, and administration of contracts in accordance with 2 CFR section 200.318(c).

Commonwealth of Virginia Laws, Regulations, Contracts, and Grants (Finding VA2017-001) Reporting Condition – The commission provided a summary statement of financial condition for FY 2017 in the February 8, 2018 edition of the Daily Press in compliance with the Code of Virginia, Chapter 14 of Title 30 and will continue to do so.

Procurement Condition (Finding VA2017-002) - The Commission's staff has been more diligent in following the Virginia Public procurement Act Chapter 43 (Section 2.2-4300 et. Seq.) and competitively bidding for goods and services by requesting quotes and bid as well as issuing RFPs. We have also advertised our needs on the eVA website.

Signature: M.A. Giardino

Michael Giardino, C.M.

Executive Director

Signature: E. Renee Ford

E. Renee Ford, CPA

Director of Finance & Administration