Financial Report
Years Ended
June 30, 2013 and 2012

Peninsula Airport Commission

NEWPORT NEWS • WILLIAMSBURG
INTERNATIONAL AIRPORT

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Peninsula Airport Commission

Commission Members

Ladonna Finch	Chairman
Aubrey H. Fitzgerald	Vice-Chairman
Herbert H. Bateman, Jr.	Treasurer
Vice Mayor George Wallace	Assistant Treasurer
Edgar E. Maroney	Secretary
Stephen M. Mallon	Assistant Secretary

Peninsula Airport Commission

Contents

DIXON HUGHES GOODMAN LLP
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Independent Auditor's Report

Commissioners
Peninsula Airport Commission

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, 2013 and 2012, and the related notes to the financial statements, which collectively comprise 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.

Auditor's Responsibility

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

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

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

Opinions

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, 2013 and 2012, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 8 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 opinions on the financial statements that collectively comprise the ***Peninsula Airport Commission's*** basic financial statements. The accompanying information listed as supplementary information and compliance section in the accompanying table of contents, including the schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2013, on our consideration of the ***Peninsula Airport Commission's*** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the ***Peninsula Airport Commission's*** internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Newport News, Virginia
November 19, 2013

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, 2013. 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:

	2013	2012	2011
Enplanements	288,810	436,287	545,189
% Increase (decrease)	(33.80%)	(19.98%)	5.89%
Aircraft operations	116,149	115,990	119,677
% Increase (decrease)	0.01%	(3.08%)	(2.62%)
Landed weight	371,030,315	614,206,521	697,573,200
% Increase (decrease)	(39.59%)	(11.95%)	9.17%
Parking (vehicles)	143,635	218,600	271,164
% Increase (decrease)	(34.29%)	(19.38%)	1.78%
Parking (revenue)	$ 2,294,740	$ 3,359,403	$ 3,811,725
% Increase (decrease)	(31.69%)	(11.86%)	8.20%
Rental car commissions	$ 1,209,531	$ 1,660,046	$ 1,643,184
% Increase (decrease)	(27.14%)	1.02%	1.00%
Customer facility charge	$ 1,254,490	$ 1,137,865	$ 1,064,154
% Increase (decrease)	10.25%	6.92%	4.81%

In previous years the Newport News-Williamsburg International Airport had continued to reflect steady growth. Over the last two years the Airport's results have been affected by the departure of AirTran Airways and the absence of a major low-fare carrier offering replacement service. As a result, decreases in passenger enplanements, rental car commissions and parking revenues were recognized. Frontier Airlines and Allegiant Airlines continue to provide service for portion of the traffic lost in this market. Customer facility charges were not adversely affected due to the airport renegotiating its agreements with the rental car agencies in April of 2012.

As of June 30, 2013, the Airport was served by four passenger carriers: Allegiant Air, US Airways Express, Delta Air Lines/Delta Connection and Frontier Airlines. The Airport continues to pursue new airlines to replace lost service and is also exploring ways to increase non-aeronautical revenues using its property

Financial Operations Highlights

Net position decreased by $1.2 million in 2013 compared to a $1.5 million increase in 2012.

- Operating income decreased by 17.4% from $9.86 million to $8.14 million which is primarily due to the decrease in parking revenue earned during the year.
- Operating expenses decreased by 23.5% from $9 million to $7 million as a result of the decrease in costs for employee labor & benefits and advertising & marketing.
- Depreciation expense increased by 0.2% from $6 million to $6.1 million for runway projects, terminal and parking lot lighting, and snow removal equipment capitalized this year.
- The above factors resulted in a loss from operations of $300 thousand less than the 2012 results. This 5.7% decrease compared to the prior year's loss was due to controlling operating expenses as a result of decreased passenger traffic.
- Nonoperating income (expenses) decreased by approximately $200 thousand from 2012, with a net loss of $1.2 million in 2013 compared to a net loss of $1 million in 2012.
- Capital contributions received in the form of grants from the federal government and Commonwealth of Virginia decreased by 36.8% from $7.6 million in 2012 to $4.8 million in 2013 due to the timing of capital projects.
- Capital projects that were completed or started in FY 2013 include the Airfield Lighting Rehab-Design, Airfield Lighting Rehab-Construction, terminal and parking lot lighting, Baggage Claim Expansion-Planning, and a snow removal broom.

Summary of Operations and Changes in Net Position

	2013	2012	2011
Operating revenue	$ 8,143,650	$ 9,862,321	$ 10,052,378
Operating expenses	6,852,130	8,963,457	7,906,420
Income from operations before depreciation	1,291,520	898,864	2,145,958
Depreciation	6,066,168	5,963,170	5,716,863
Loss before other nonoperating income and expenses	(4,774,648)	(5,064,306)	(3,570,905)
Other nonoperating income and expenses - net	(1,210,630)	(1,053,321)	(1,556,072)
Loss before capital contributions	(5,985,278)	(6,117,627)	(5,126,977)
Capital contributions	4,802,019	7,596,352	7,038,062
Change in net position	$ (1,183,259)	$ 1,478,725	$ 1,911,085

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 $94.9 million at June 30, 2013, a $1.2 million decrease from June 30, 2012.

A condensed summary of the Commission's net position is shown below:

	2013	2012	2011
Assets			
Current and other assets	$ 8,978,675	$ 17,853,794	$ 14,780,919
Capital assets	101,366,406	97,895,831	98,933,276
Total assets	110,345,081	115,749,625	113,714,195
Liabilities			
Long-term liabilities	13,210,899	16,900,791	17,080,266
Current liabilities	2,215,503	2,746,896	2,010,716
Total liabilities	15,426,402	19,647,687	19,090,982
Net position			
Invested in capital assets - net of related debt	91,236,067	83,219,574	83,598,276
Restricted	2,349,416	6,180,932	2,693,718
Unrestricted	1,333,196	6,701,432	8,331,219
Total net position	$ 94,918,679	$ 96,101,938	$ 94,623,213

The largest portion of the Commission's net position each year (96.0% at June 30, 2013), 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 (2.5% at June 30, 2013), represents federal and state grant funds that are subject to external restrictions. These restrictions stipulate how funds can be used. Annual entitlement funds from the Commonwealth of Virginia can be used for 100% of the nonfederal portion of projects that are funded under provisions of the Federal Airport Improvement Program. Passenger Facility Charge Funds are reserved for future Federal Aviation Administration approved projects. The remaining unrestricted net position (1.5% at June 30, 2013), may be used to meet any of the Commission's ongoing obligations.

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 $0.45 per 1,000 lbs. of landed weight at June 30, 2013. Terminal rental rates are $27 per square foot at June 30, 2013. 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. New airline permits were negotiated with the airlines last year and are on a month-to-month schedule. There were no changes in the rates and charges in FY 2013.

Revenue

A summary of revenue is as follows:

	2013 Amount	Percent of Total	2012 Amount	Percent of Total	2011 Amount	Percent of Total
Operating						
Airfield	$ 1,355,487	16.5%	$ 1,430,350	14.1%	$ 1,315,639	12.7%
Terminal and Landside	5,687,614	69.0%	7,375,145	72.7%	7,589,614	73.5%
Other rents	540,048	6.6%	534,643	5.3%	638,339	6.2%
Trailer park rents	453,708	5.5%	435,395	4.3%	414,828	4.0%
Administrative and miscellaneous	81,941	1.0%	83,100	0.8%	39,769	0.4%
Maintenance reimbursement	24,852	0.3%	3,688	0.04%	54,189	0.5%
Total operating	8,143,650	98.9%	9,862,321	97.2%	10,052,378	97.3%
Nonoperating						
Interest income	93,630	1.1%	280,962	2.8%	269,341	2.7%
Total nonoperating	93,630	1.1%	280,962	2.8%	269,341	2.7%
Total revenue	$ 8,237,280	100.0%	$ 10,143,283	100.0%	$ 10,321,719	100.0%

Expenses

A summary of expenses is as follows:

	2013 Amount	Percent of Total	2012 Amount	Percent of Total	2011 Amount	Percent of Total
Operating						
Airfield	$ 876,254	6.1%	$ 1,017,997	6.3%	$ 1,009,406	6.5%
Terminal and Landside	2,470,293	17.4%	2,919,267	18.0%	2,922,808	18.9%
Other rents	328,903	2.3%	388,524	2.3%	329,896	2.1%
Trailer park rents	398,890	2.8%	429,389	2.6%	461,291	3.0%
Administrative and miscellaneous	2,371,224	16.7%	3,742,078	23.0%	2,720,578	17.6%
Maintenance	406,566	2.9%	466,202	2.9%	462,441	3.0%
Total operating	6,852,130	48.2%	8,963,457	55.1%	7,906,420	51.1%
Depreciation	6,066,168	42.7%	5,963,170	36.7%	5,716,863	37.0%
Nonoperating						
Interest expense	559,688	3.9%	734,928	4.5%	766,745	5.0%
Amortization - bond costs	121,015	0.9%	12,318	0.1%	12,318	0.1%
Loss on retirement of assets	650	0.1%	-	0.0%	496,423	3.2%
Miscellaneous expense	-	0.0%	3,000	0.0%	3,000	0.0%
OPEB expense	622,907	4.2%	584,037	3.6%	546,927	3.5%
Total nonoperating	1,304,260	9.1%	1,334,283	8.2%	1,825,413	11.8%
Total expenses	$ 14,222,558	100.0%	$ 16,260,910	100.0%	$ 15,448,696	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.

	2013	2012	2011
Cash flow from operating activities	$ 386,296	$ 1,577,240	$ 1,756,217
Cash flow from capital and related financing activities	(9,650,205)	485,948	2,715,930
Cash flow from investing activities	8,209,526	(1,375,395)	(2,678,426)
Net change in cash and cash equivalents	(1,054,383)	687,793	1,793,721
Cash and cash equivalents - beginning of year	5,554,414	4,866,621	3,072,900
Cash and cash equivalents - end of year	$ 4,500,031	$ 5,554,414	$ 4,866,621

The Commission's available cash and cash equivalents decreased from $5.6 million at the end of 2012 to $4.5 million at the end of 2013 due to an increase in unrestricted cash being spent on local share for capital improvements as well as expenses incurred on the development of new air service when compared to 2012.

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 2013, the Commission expended $9.7 million on capital activities. This included $405 thousand on airfield lighting rehabilitation, $227 thousand on the Airport master plan, $2.7 million for federal inspection station, $1.2 million for Taxiway A rehabilitation design and construction, $4.2 million for concourse B renovations, $200 thousand for baggage claim expansion planning, $403 thousand in terminal and parking lot lighting renovations, and $408 thousand in miscellaneous projects. During 2013, completed projects totaling $2 million 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 2001, the Airport issued $6,500,000 of Airport Improvement Bonds, Refunding Series 2001, dated April 15, 2001, payment guaranteed by the City of Newport News, maturing at various dates through July 2021, with interest ranging from 5.05% to 5.50% payable on January 15 and July 15 of each year. As noted in Note 5 and 10 to the financial statements, the City of Newport News has guaranteed the payment of the debt, and the debt was offset on the Commission's financial statements by a note receivable due from the City of Newport News. In 2013, this debt was repaid in full with funds received from the City of Newport News.

Balance outstanding June 30: 2013 - $-0-; 2012 - $4,180,000; 2011 - $4,490,000.

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.

Balance outstanding June 30, 2013 - $1,724,791; 2012 - $1,812,360; 2011 - $1,896,699

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, 2013 - $5,827,732; 2012 - $6,030,233; 2011 - $6,223,492

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

Balance outstanding June 30, 2013 - $2,577,816; 2012 - $2,653,664; 2011 - $2,724,809

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, 2013 and 2012

(Next Page)

Peninsula Airport Commission

Statements of Net Position

June 30,	**2013**	**2012**
Assets		
Current assets		
Cash and cash equivalents	$ 4,500,031	$ 5,554,414
Accounts receivable - less allowance for doubtful accounts - $5,000 for 2013 and 2012	516,450	504,521
Accounts receivable - Federal Aviation Administration and others	887,086	1,078,420
Accrued interest receivable	-	104,380
Due from City of Newport News - current portion	-	325,000
Inventories	113,062	109,388
Prepaid expenses	612,630	20,724
Total current assets	6,629,259	7,696,847
Capital assets		
Land	6,604,658	6,604,658
Airfield	78,554,747	77,628,005
Terminal	62,489,115	62,011,024
Other	4,244,872	3,641,363
Trailer park and rental units	1,852,612	1,852,612
Construction-in-progress	12,727,171	5,226,772
	166,473,175	156,964,434
Less - accumulated depreciation	(65,106,769)	(59,068,603)
	101,366,406	97,895,831
Investments and other assets		
Restricted cash	2,349,416	6,180,932
Due from City of Newport News - less current portion	-	3,855,000
Deferred bond costs - less accumulated amortization: 2013 - $0; 2012 - $132,267	-	121,015
	2,349,416	10,156,947
	$110,345,081	$115,749,625

	2013	2012
Liabilities and Net Position		
Current liabilities		
Current maturities of long-term debt	$ 380,781	$ 688,506
Accounts payable:		
Trade	1,205,941	1,203,334
Accrued liabilities	444,802	541,892
Unearned revenue	155,424	284,050
Security deposits	28,555	29,114
Total current liabilities	2,215,503	2,746,896
Long-term liabilities		
Long-term debt - less current maturities	9,749,558	13,987,751
Other postretirement employee benefits (OPEB) liability	3,461,341	2,913,040
Total liabilities	15,426,402	19,647,687
Net position		
Invested in capital assets - net of related debt	91,236,067	83,219,574
Restricted	2,349,416	6,180,932
Unrestricted	1,333,196	6,701,432
Total net position	94,918,679	96,101,938
	$110,345,081	$115,749,625

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

Peninsula Airport Commission

Statements of Revenue, Expenses and Changes in Net Position

Years Ended June 30,	2013	2012
Operating income	$ 8,143,650	$ 9,862,321
Operating expenses	(6,852,130)	(8,963,457)
Depreciation	(6,066,168)	(5,963,170)
Loss from operations	(4,774,648)	(5,064,306)
Nonoperating income (expenses)		
Interest income	93,630	280,962
Interest expense	(559,688)	(734,928)
Amortization - bond costs	(121,015)	(12,318)
Miscellaneous expense	-	(3,000)
OPEB expense	(622,907)	(584,037)
Loss on retirement of assets	(650)	-
	(1,210,630)	(1,053,321)
Loss before capital contributions	(5,985,278)	(6,117,627)
Capital contributions	4,802,019	7,596,352
Change in net position	(1,183,259)	1,478,725
Net position - beginning of year	96,101,938	94,623,213
Net position - end of year	$ 94,918,679	$ 96,101,938

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

Peninsula Airport Commission

Statements of Cash Flows

Years Ended June 30,	2013	2012
Cash flows from operating activities		
Receipts from customers and users	$ 8,131,721	$ 9,926,660
Payments to suppliers for goods and services	(3,629,595)	(3,670,499)
Payments to employees	(4,115,830)	(4,678,921)
Net cash from operating activities	386,296	1,577,240
Cash flows from capital and related financing activities		
Purchase of property and equipment	(9,537,393)	(4,925,725)
Changes in security deposits	(559)	(1,164)
Principal payments on long-term debt	(4,545,918)	(658,743)
Interest payments on long-term debt	(559,688)	(734,928)
Capital contributions	4,993,353	6,806,508
Net cash from capital and related financing activities	(9,650,205)	485,948
Cash flows from investing activities		
Principal received on due from City of Newport News	4,180,000	310,000
Maturation of certificates of deposit	-	1,513,398
Interest received on cash and investments	198,010	288,421
Change in restricted cash and investments	3,831,516	(3,487,214)
Net cash from investing activities	8,209,526	(1,375,395)
Net change in cash and cash equivalents	(1,054,383)	687,793
Cash and cash equivalents - beginning of year	5,554,414	4,866,621
Cash and cash equivalents - end of year	$ 4,500,031	$ 5,554,414

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

Peninsula Airport Commission

Statements of Cash Flows

Years Ended June 30,	**2013**	**2012**
Reconciliation of loss from operations to net cash from operating activities		
Loss from operations	$ (4,774,648)	$ (5,064,306)
Adjustments to reconcile to net cash from operating activities:		
Depreciation	6,066,168	5,963,170
Miscellaneous expense	-	(3,000)
OPEB expense paid	(74,606)	(73,290)
Change in:		
Accounts receivable	(11,929)	67,340
Inventories	(3,674)	(7,369)
Prepaid expenses	(591,906)	(11,169)
Accounts payable	2,607	788,671
Accrued liabilities	(97,090)	45,820
Unearned revenue	(128,626)	(128,627)
Net cash from operating activities	$ 386,296	$ 1,577,240
Supplemental schedule of noncash investing and financing activities		
Contributed capital funded by accounts receivable at June 30	$ 887,086	$ 1,078,420

The accompanying notes are an integral part of these 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.

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

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:

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

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. The Commission has determined that it does not have any material unrecognized tax benefits or obligations as of June 30, 2013 and 2012. Fiscal years ending on or after June 30, 2010, remain subject to examination by federal and state tax authorities.

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.

Intangible Assets

Deferred bond costs are being amortized by the effective interest method over the life of the bonds.

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 2013 and 2012, the Commission expensed $426,694 and $1,666,112, respectively, in advertising costs.

Adoption of New Accounting Standards

In 2013, the Commission adopted Statement of Governmental Accounting Standards (GASB Statement) No. 63*, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This update was effective for financial statement periods beginning after December 15, 2011, and required the use of new terminology to describe various aspects of the financial statements. Specifically to the Commission, this required the use of “net position” as opposed to “net assets” and “unearned revenue” as opposed to “deferred revenue”.

Subsequent Events

In preparing these financial statements, the Commission has evaluated events and transactions for potential recognition or disclosure through November 19, 2013, 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		2013 Carrying Value		2012 Carrying Value
Demand deposits	$	2,377,575	$	3,083,655
Cash on hand		10,215		17,118
Money market funds		4,461,657		8,634,573
Total deposits	$	6,849,447	$	11,735,346

Reconciliation to Statements of Net Position		**2013**		**2012**
Current:				
Cash and cash equivalents	$	4,500,031	$	5,554,414
Investments and other assets:				
Restricted cash		2,349,416		6,180,932
	$	6,849,447	$	11,735,346

Custodial Credit Risk and Concentration of Investments

Deposits in financial institutions, reported as components of cash and cash equivalents, had a bank balance of $6,904,564 and $12,231,449 at June 30, 2013 and 2012, respectively, which was fully insured by depository insurance or secured with collateral held by the Commission's agent in its name. At June 30, 2013 and 2012, amounts subject to custodial credit risk as they were uninsured by the Federal Deposit Insurance Corporation (FDIC), due to exceeding the $250,000 financial institution limit for 2013 and the financial institution limit for interest bearing accounts in 2012, were $6,643,940 and $10,269,274 respectively, and were fully collateralized by securities held by the pledging financial institution. Amounts covered by the FDIC were $260,624 and $1,962,175, respectively for the years ended June 30, 2013 and 2012. 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, 2013 and 2012, 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, 2013 and 2012.

Investment Credit Risk

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

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

4. Accounts Receivable - Federal Aviation Administration and Others

The City of Newport News, 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, 2013 and 2012, $887,086 and $1,078,420, respectively, was receivable by the Commission on cost reimbursable grants.

Subsequent to year end, the FAA awarded an airport development grant in the amount of $774,000 to the Commission to be used for the consolidated security checkpoint design project.

5. Due from City of Newport News

Due from City of Newport News, on the June 30, 2012, statement of net position, represented the amount due to the Commission for the purchase of land in 1990. The agreement between the City and the Commission stated that "The Commission will issue and sell not to exceed Seven Million Dollars ($7,000,000) principal amount of bonds to finance a portion of the costs of construction of the project. In consideration of the conveyance of the "Development Property", as defined in the agreement to the City, the City agreed to issue its general obligation guarantee of timely payment of the principal and interest on the bonds as and when the same become due." Principal and interest payments on this receivable were similar to the principal and interest payments required on the Airport Improvement Bonds Series 2001 as disclosed in Note 10. Upon refinance of the original bond in 2001, closing costs of approximately $440,000 were financed with the new bond issuance.

This resulted in a $440,000 difference between the amount due from the City of Newport News and the total amount outstanding on the bond. During 2012, the City of Newport News agreed to increase its general obligation guarantee, and thereby the amount due to the Commission by $440,000 to fully cover the debt balance of $4,180,000 as disclosed in Note 10. This additional $440,000 from the City of Newport News was recorded in capital contributions on the statements of revenue, expenses and changes in net position for 2012.

During 2013, the City of Newport News settled its general obligation guarantee under this bond by paying off the entire amount of the outstanding debt on behalf of the Commission. This, in effect was a full repayment of the amount due from the City mentioned above and shown on the statement of net position.

6. Prepaid Expenses

During 2013, the Commission paid a potential new passenger carrier $565,000 for air service development purposes to entice the carrier to make the Newport News - Williamsburg International Airport their hub. This amount is included in prepaid expenses on the statement of net position at June 30, 2013, and will continue to be reported as such until the passenger carrier begins operations at the Airport. At which time, the Commission will be reimbursed by the FAA as part of a $950,000 grant that was awarded for air service development in early 2013. Included in the agreement with the passenger carrier is a clause requiring the passenger carrier to refund the money to the Commission if they do not make the Airport their hub or do not begin operations.

7. 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. Restricted cash also includes the Passenger Facility Charge (PFC) disclosed in Note 19. At June 30, 2013 and 2012, the Commission's restricted cash from entitlement funds and PFC were $2,349,416 and $6,180,932, respectively.

8. Capital Assets

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

	Balance July 1, 2012	Increases	Decreases	**Balance June 30, 2013**
Capital assets not being depreciated				
Land	$ 6,604,658	$ -	$ -	$ 6,604,658
Construction-in-progress	5,226,772	9,537,393	2,036,994	12,727,171
Total capital assets not being depreciated	11,831,430	9,537,393	2,036,994	19,331,829
Other capital assets				
Airfield	77,628,005	926,742	-	78,554,747
Terminal	62,011,024	478,091	-	62,489,115
Other	3,641,363	632,161	28,652	4,244,872
Trailer park and rental units	1,852,612	-	-	1,852,612
Total other capital assets	145,133,004	2,036,994	-	147,141,346
Less - accumulated depreciation				
Airfield	32,936,356	3,479,303	-	36,415,659
Terminal	22,790,262	2,332,001	-	25,122,263
Other	1,489,373	254,864	28,002	1,716,235
Trailer park and rental units	1,852,612	-	-	1,852,612
Total accumulated depreciation	59,068,603	6,066,168	-	65,106,769
Other capital assets - net	86,064,401	(4,029,174)	650	82,034,577
Total	$ 97,895,831	$ 5,508,219	$ 2,037,644	$ 101,366,406

9. Intangible Assets

Due to the payoff of the related debt as disclosed in Notes 5 and 10, the related bond costs totaling $253,282 and the accumulated amortization of $132,267 were written off during 2013, and the resulting amortization expense of $121,015 was recognized on the statements of revenue, expenses, and changes in net position for 2013. Amortization expense was $12,318 for 2012.

Intangible assets consist of the following as of June 30, 2012:

	Estimated Useful Life	Gross Asset	Accumulated Amortization	Net Asset
Deferred bond costs	20 - 26 years	$ 253,282	$ 132,267	$ 121,015

10. Long-Term Debt

Following is a summary of debt transactions of the Commission:

	July 1, 2012	Additions	Reductions	June 30, 2013	Amounts Due Within One Year
Airport Improvement Bonds					
Series 2001	$ 4,180,000	$ -	$ 4,180,000	$ -	$ -
Series 2002	1,812,360	-	87,569	1,724,791	90,980
Series 2005A	6,030,233	-	202,501	5,827,732	210,121
Series 2005B	2,653,664	-	75,848	2,577,816	79,680
Total	$ 14,676,257	$ -	$ 4,545,918	$ 10,130,339	$ 380,781

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

	2013	2012
Airport Improvement Bonds Series 2001 - 5.05% - 5.50% interest, issued April 2001 and maturing at various dates through July 2021, payment is guaranteed by the City of Newport News. During 2013, this debt was repaid in full with funds received from the City of Newport News.	$ -	$ 4,180,000
Airport Improvement Bonds Series 2002 - In July 2002, the Commission issued $2,500,000 of Virginia Resources Authority Airport Improvement Revenue Bonds, Subordinate Series 2002, at 4.5% interest with monthly principal and interest payments of $13,971. The bonds mature in July 2027.	1,724,791	1,812,360
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.	5,827,732	6,030,233
Airport Improvement Bonds Series 2005B - In December 2005, the Commission issued $3,000,000 of Unsecured Taxable Bonds, at 5.81% interest. Interest only payments are required until February 2007, at which time, monthly principal and interest payments of $18,982 are due. The bonds mature in January 2032.	2,577,816	2,653,664
	10,130,339	14,676,257
Less - current maturities	(380,781)	(688,506)
	$ 9,749,558	$ 13,987,751

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

Fiscal Year Ending June 30,	Principal	Interest
2014	$ 380,781	$ 472,076
2015	398,891	453,966
2016	417,878	434,980
2017	437,784	415,073
2018	458,655	394,202
2019-2023	2,643,589	1,620,695
2024-2028	3,168,931	925,685
2029-2032	2,223,830	203,509
	$ 10,130,339	$ 4,920,186

11. Other Postemployment Benefits

a) Plan Description

In addition to providing the pension benefits described in Note 17, the Commission provides postemployment health care benefits (OPEB) for retired employees through a single-employer defined benefit plan. The benefits, benefit levels, employee contributions and employer contributions are governed by the Commission and can be amended by the Commission through its personnel manual and employment contracts. The OPEB plan does not issue a publicly available report.

b) Benefits Provided

The Commission provides postemployment health care benefits to its retirees. Employees 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.

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's Keycare Preferred Provider Organization (PPO). Benefits include general inpatient and outpatient medical services, dental care and prescription drugs. For those retirees eligible for Medicare, the Commission provides the benefits reduced by any amounts payable by Medicare.

c) Participant Data

The valuation of postretirement medical benefits was based on the following census data as of July 1, 2010: 9 retirees, 4 spouses, and 57 active employees.

d) 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.

e) Annual OPEB Costs and Net OPEB Obligation

The Commission had an actuarial valuation performed for the plan as of July 1, 2010, to determine the funded status of the plan as of that date as well as the employer's annual required contribution (ARC) for the fiscal year ended June 30, 2013. The Commission's annual OPEB cost and liability are as follows:

Annual required contribution	$	610,811
Interest on net OPEB obligation		12,096
Less - contributions made in the form of retiree insurance premiums paid		(74,606)
Net OPEB obligation - beginning of year		2,913,040
Net OPEB obligation - end of year	$	3,461,341

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

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

f) Actuarial Methods and Assumptions

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

In the July 1, 2010, actuarial valuation, the actuarial accrued liability was determined based on the projected unit credit actuarial cost method. The actuarial assumptions included a 4.0% discount rate assuming that the plan is not funded and an initial annual healthcare cost trend rate of 9.7% graded down to 4.50% over 15 years. Both rates include a 2.8% inflation assumption. The plan has no assets. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls over 30 years, assuming payroll growth is 3.0%.

g) Schedule of Funding Progress

Actuarial Valuation Date July 1,	Actuarial Value of Assets	Actuarial Accrued Liability (A-AL)	Funded Ratio	Unfunded Actuarial Accrued Liability (UAAL) (2)-(1)	Covered Payroll	UAAL as a Percentage of Covered Payroll
2010	$ -	$ 3,839,014	0.00%	$ 3,839,014	$ 3,114,372	123.27%
2007	$ -	$ 4,155,776	0.00%	$ 4,115,776	$ 2,112,183	196.75%

h) Schedule of Employer Contributions

Year Ended June 30,	Employer Contributions in the Form of Retiree Insurance Premiums Paid	Annual Required Contribution (ARC)	Percentage Contributed
2013	$ 74,606	$ 622,907	11.98%
2012	$ 73,290	$ 584,037	12.55%
2011	$ 61,885	$ 546,927	11.31%

12. Leasing Arrangements as Lessor

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

Future minimum lease payments to be received from noncancelable operating leases for the next five years are as follows:

2014	$ 865,450
2015	922,447
2016	933,248
2017	942,397
2018	836,538
Thereafter	4,815,535
	$ 9,315,615

In 2010, the Commission completed construction of a firehouse on the airport ground that is to be leased by the City of Newport News for a period of ten years. The total lease payments of $643,133 were paid up front to reimburse the Commission for the construction costs of the firehouse. The lease calls for lease payments of $128,627 per year for five years and then $1 per year for the remaining five years. At the end of the lease, the firehouse will continue to be owned by the Commission, which can then renegotiate the lease without restriction. During the years ended June 30, 2013 and 2012, $128,627 of the total lease payment collected was recognized as rental income on the statements of revenue, expenses and changes in net position, and the remaining $155,424 and $284,050, respectively, is recognized in unearned revenue on the statements of net position.

13. Leased Equipment

The Commission leases equipment under a long-term noncancelable operating lease. The initial lease term is five years and expires in February 2018. The lease provides renewal options for additional periods. Lease expense during 2013 and 2012, was $13,580 and $13,038, respectively.

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

2014	$	12,648
2015		12,648
2016		12,648
2017		12,648
2018		8,432
	$	59,024

14. 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 $183,041 and $180,228 for compensated absences as of June 30, 2013 and 2012, 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 $116,928 and $126,737 for sick leave as of June 30, 2013 and 2012, respectively.

15. 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 OMB Circular A-133, 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.

16. Commitments

At June 30, 2013 and 2012, the Commission had commitments outstanding, in the form of contracts and purchase orders, of approximately $13,945,000 and $8,783,000, respectively, primarily for construction projects.

17. Defined Benefit Pension Plan

a) Plan Description

Name of Plan:	Virginia Retirement System (VRS)
Identification of Plan:	Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Administering Entity:	Virginia Retirement System (System)

All full-time, salaried permanent employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees - Plan 1 and Plan 2:

- Members hired before July 1, 2010, and who were vested as of January 1, 2013, are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least five years of service credit or age 50 with at least ten years of service credit.
- Members hired or rehired on or after July 1, 2010, and Plan 1 members who were not vested on January 1, 2013, are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70 %. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013 unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5%; under Plan 2, the COLA cannot exceed 3%. During years of no inflation or deflation, the COLA is 0.0%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.
The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by the VRS. A copy of the report may be obtained from the VRS Web site at: http://www.varetire.org/Pdf/Publications/2012-annual-report.pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

b) Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their compensation toward their retirement. All or part of the 5% member contribution may be assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period of up to five years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Commission is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Commission's contribution rate for the fiscal years ended June 30, 2013 and 2012 was 9.36% and 7.99%, respectively, of annual covered payroll.

c) Annual Pension Cost

For the years ended June 30, 2013 and 2012, the Commission's annual pension cost of $216,015 and $202,606, respectively, were equal to the Commission's required and actual contributions.

Three-Year Trend Information for Employer Contributions

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2013	$216,015	100%	$0
June 30, 2012	$202,606	100%	$0
June 30, 2011	$191,304	100%	$0

The fiscal year 2013 required contributions were determined as part of the June 30, 2011, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011, included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the Commission's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011, for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

d) Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was 81.47% funded. The actuarial accrued liability for benefits was $6,041,896, and the actuarial value of assets was $4,922,093, resulting in an unfunded actuarial accrued liability (UAAL) of $1,119,803. The covered payroll (annual payroll of active employees covered by the plan) was $2,331,760, and ratio of the UAAL to the covered payroll was 48.02%.

The following schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

e) Schedule of Funding Progress - Required Supplementary Information

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2012	$4,922,093	$6,041,896	$(1,119,803)	81.47%	$2,331,760	(48.02)%.
June 30, 2011	$4,804,266	$5,775,718	$(971,452)	83.18%	$2,553,442	(38.04)%
June 30, 2010	$4,544,780	$5,396,540	$(851,760)	84.22%	$2,318,877	(36.73)%

18. 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 September 2010, Southwest Airlines announced their intention to buy AirTran Airways. On the heels of the announcement, Southwest Airlines decided to pull the AirTran service from the Airport in March 2012. AirTran accounted for 45% of the total traffic at the Airport serving four different cities (Boston, New York City, Atlanta and Orlando). The Airport had been served by AirTran for 16 years and has established a market over the many years.

While the loss of AirTran has left the Airport without a major low-fare carrier, Allegiant Airlines and Frontier Airlines continue to provide fill-in service for a portion of the passenger traffic lost. For 2013, the Airport's passenger traffic is down nearly 35%. As forecasted, some passengers were retained on other carriers, but there still is a large void to fill. 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.

The Commission is actively pursuing new airlines to replace lost service and is working with potential startup carrier, PeoplExpress, to begin airline operations at the Airport in 2014.

19. Passenger Facility Charge

As of July 1, 2010, the Federal Aviation Administration (FAA) has given the Commission authority to impose a Passenger Facility Charge (PFC), under multiple PFC applications, of $4.50 per passenger for thirty-one planned projects. The total approved revenue to be collected under these multiple applications is $27,957,353. During 2013 and 2012, $1,145,986 and $1,919,720, 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.

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Peninsula Airport Commission

Supplementary Information

June 30, 2013 and 2012

Peninsula Airport Commission

Schedules of Operating Income

Years Ended June 30,	**2013**		**2012**	
	Amount	Percent	Amount	Percent
Airfield				
Landing and tie-down fees	$ 312,416		$ 424,422	
Fixed base operator commissions	162,086		161,730	
Fuel flowage fees	114,655		112,917	
Hangar rental and operations fees	766,330		731,281	
Total airfield	1,355,487	16.6 %	1,430,350	14.5 %
Terminal and Landside				
Rents:				
Airline offices	494,110		720,001	
Car rental and other	120,584		129,232	
Commissions:				
Car rental	2,464,021		2,797,911	
Communications and other	148,029		198,135	
Parking lot fees	2,330,040		3,394,740	
Other	130,830		135,126	
Total terminal and landside	5,687,614	69.8	7,375,145	74.8
Other rents	540,048	6.6	534,643	5.4
Trailer park rents	453,708	5.7	435,395	4.4
Administrative and miscellaneous	81,941	1.0	83,100	0.8
Maintenance reimbursement	24,852	0.3	3,688	0.1
Total operating income	$ 8,143,650	100.0 %	$ 9,862,321	100.0 %

Peninsula Airport Commission

Schedules of Income (Loss) from Operations Before Depreciation Per Activity

Years Ended June 30, 2013 and 2012

	Airfield		Terminal and Landside	
	2013	**2012**	**2013**	**2012**
Operating income	$ 1,355,487	$ 1,430,350	$ 5,687,614	$ 7,375,145
Operating expenses				
Advertising	-	-	-	-
Audit	-	-	-	-
Auto and equipment	-	-	-	-
Commission fees	-	-	-	-
Communications	-	-	8,234	7,483
Crash and rescue	18,992	32,636	-	-
Dues and subscriptions	-	-	-	-
General office	-	-	-	-
Insurance	-	-	-	-
Janitorial supplies	-	-	77,952	104,313
Labor	557,538	604,946	1,207,248	1,463,209
Management fees	-	-	-	-
Miscellaneous	5,223	4,169	545	382
Payroll taxes and benefits	186,342	220,012	336,589	388,353
Postage	-	-	-	-
Professional services	-	-	-	-
Repairs, maintenance and supplies	57,769	119,243	244,313	319,616
Shop and linen supplies	-	-	-	-
Small tools	-	-	-	-
Training	3,678	345	-	-
Trash removal	-	-	31,029	26,431
Travel and promotion	385	-	524	-
Uniforms	-	9,531	12,991	19,266
Utilities	46,327	27,115	550,868	590,214
	876,254	1,017,997	2,470,293	2,919,267
Income (loss) from operations before depreciation	$ 479,233	$ 412,353	$ 3,217,321	$ 4,455,878

Other Rents		Trailer Park		Allocated Costs Administrative and Miscellaneous	
2013	**2012**	**2013**	**2012**	**2013**	**2012**
$ 540,048	$ 534,643	$ 453,708	$ 435,395	$ 81,941	$ 83,100
-	-	-	-	426,694	1,666,112
-	-	-	-	28,750	27,900
-	-	-	-	-	-
-	-	-	-	13,925	13,750
-	-	-	-	29,217	30,766
-	-	-	-	-	-
-	-	-	-	18,695	20,453
-	-	-	-	104,789	138,334
-	-	-	-	229,743	226,396
-	-	-	-	-	-
155,401	177,757	155,401	177,757	857,024	914,948
-	-	36,292	34,668	-	-
-	-	-	-	6,485	5,780
54,744	68,053	54,744	68,200	286,013	291,090
-	-	-	-	2,583	4,330
-	-	-	277	182,616	222,866
11,243	26,674	22,959	24,642	49,975	41,499
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	425	4,888
-	-	-	-	-	-
-	-	-	-	63,141	78,273
-	-	-	-	-	-
107,515	116,040	129,494	123,845	71,149	54,693
328,903	388,524	398,890	429,389	2,371,224	3,742,078
$ 211,145	$ 146,119	$ 54,818	$ 6,006	$(2,289,283)	$(3,658,978)

Allocated Costs Maintenance 2013	Allocated Costs Maintenance 2012	Totals 2013	Totals 2012	Percentage of Revenue 2013	Percentage of Revenue 2012
$ 24,852	$ 3,688	$ 8,143,650	$ 9,862,321	100.00 %	100.00 %
-	-	426,694	1,666,112	5.24	16.89
-	-	28,750	27,900	0.35	0.28
131,200	182,311	131,200	182,311	1.61	1.85
-	-	13,925	13,750	0.17	0.14
-	-	37,451	38,249	0.46	0.39
-	-	18,992	32,636	0.23	0.33
-	-	18,695	20,453	0.23	0.21
-	-	104,789	138,334	1.29	1.40
-	-	229,743	226,396	2.82	2.30
-	-	77,952	104,313	0.96	1.06
127,114	127,416	3,059,726	3,466,033	37.57	35.14
-	-	36,292	34,668	0.45	0.34
1,032	862	13,285	11,193	0.16	0.11
50,249	51,293	968,681	1,087,001	11.89	11.02
-	-	2,583	4,330	0.03	0.04
-	-	182,616	223,143	2.24	2.26
76,754	85,309	463,013	616,983	5.69	6.26
502	82	502	82	-	-
1,960	2,668	1,960	2,668	0.02	0.03
410	1,161	4,513	6,394	0.06	0.06
-	-	31,029	26,431	0.38	0.27
48	-	64,098	78,273	0.79	0.79
12,273	11,254	25,264	40,051	0.32	0.41
5,024	3,846	910,377	915,753	11.18	9.29
406,566	466,202	6,852,130	8,963,457	84.14	90.88
$ (381,714)	$ (462,514)	$ 1,291,520	$ 898,864	15.86 %	9.12 %

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Peninsula Airport Commission

Compliance Section

June 30, 2013

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

Commissioners
Peninsula Airport Commission

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, 2013, and the related notes to the financial statements, which collectively comprise the ***Peninsula Airport Commission's*** basic financial statements, and have issued our report thereon dated November 19, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Dixon Hughes Goodman LLP

Newport News, Virginia
November 19, 2013

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

Commissioners
Peninsula Airport Commission

Report on Compliance for Each Major Federal Program

We have audited the ***Peninsula Airport Commission's*** compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the ***Peninsula Airport Commission's*** major federal programs for the year ended June 30, 2013. The ***Peninsula Airport Commission's*** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the ***Peninsula Airport Commission's*** major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the ***Peninsula Airport Commission's*** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the ***Peninsula Airport Commission***, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

__Report on Internal Control Over Compliance__

Management of the ***Peninsula Airport Commission***, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the ***Peninsula Airport Commission's*** internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the ***Peninsula Airport Commission's*** internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Newport News, Virginia
November 19, 2013

Peninsula Airport Commission

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

Federal Grantor	Federal CFDA Number	Federal Amounts Expended
U.S. Department of Transportation:		
Federal Aviation Administration Airport Improvement Program	20.106	$ 1,637,911

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards presents the federal grant activity of all federal award programs of the ***Peninsula Airport Commission*** for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations.* Because the schedule present only a selected portion of the operations of the ***Peninsula Airport Commission***, it is not intended to and does not present the financial position, changes in net position or cash flows of the ***Peninsula Airport Commission***.

2. Summary of Significant Accounting Policies

The accompanying schedule of expenditures of federal awards is presented using the accrual method of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Year Ended June 30, 2013

1. Summary of Auditors' Results

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

b. There were no deficiencies noted in internal control to disclose.

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

d. There were no deficiencies noted in internal control over major federal programs to disclose.

e. An unmodified opinion was issued on compliance for the major federal program.

f. The audit did not disclose any audit findings required to be reported in accordance with Section 510(a) of OMB Circular A-133.

g. The sole major program was the Federal Aviation Administration Airport Improvement Program (CFDA 20.106).

h. The dollar threshold used to distinguish between Type A and Type B programs was $300,000.

i. The auditee qualified as a low-risk auditee.

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

None

3. Findings and Questioned Costs for Federal Awards

None

4. Status of Prior Year's Findings

None