Financial Report
Years Ended
June 30, 2014 and 2013

Peninsula Airport Commission

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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
James Bourey	Secretary
Stephen M. Mallon	Assistant Secretary

Peninsula Airport Commission

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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, 2014 and 2013, 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.

Auditors' 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 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 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, 2014 and 2013, 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.

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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 24, 2014, 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 24, 2014

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, 2014. 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 in3 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:

	2014	2013	2012
Enplanements	249,293	288,810	436,287
% Increase (decrease)	(13.68%)	(33.80%)	(19.98%)
Aircraft operations	86,074	116,149	115,990
% Increase (decrease)	(25.89%)	0.01%	(3.08%)
Landed weight	294,605,448	371,030,315	614,206,521
% Increase (decrease)	(20.60%)	(39.59%)	(11.95%)
Parking (vehicles)	123,847	143,635	218,600
% Increase (decrease)	(13.78%)	(34.29%)	(19.38%)
Parking (revenue)	$2,031,214	$2,294,740	$3,359,403
% Increase (decrease)	(11.48%)	(31.69%)	(11.86%)
Rental car commissions	$1,217,071	$1,209,531	$1,660,046
% Increase (decrease)	0.62%	(27.14%)	1.02%
Customer facility charge	$1,167,798	$1,254,490	$1,137,865
% Increase (decrease)	(6.91%)	10.25%	6.92%

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, aircraft operations and parking revenues were recognized. Frontier Airlines and Allegiant Airlines provided service for a portion of the traffic lost in this market.

At June 30, 2014, the Airport was served by five passenger carriers: Allegiant Air, US Airways Express, Delta Air Lines/Delta Connection, Frontier Airlines and start-up People Express Airlines. Subsequent to year end, Allegiant Airlines ceased operations at the airport in August 2014 and People Express suspended flights due to operational issues in September 2014. The Airport continues to pursue new airlines to replace lost service and is also exploring ways to increase nonaeronautical revenues using its property.

Financial Operations Highlights

Net position decreased by $1.6 million in 2014 compared to a $1.2 million decrease in 2013.

- Operating income decreased by 5.0% from $8.14 million to $7.73 million which is primarily due to the decrease in parking revenue earned during the year.
- Operating expenses increased by 5.9% from $6.9 million to $7.3 million as a result of the increase in costs for advertising & marketing.
- Depreciation expense increased by 7.9% from $6.1 million to $6.5 million for a runway lighting upgrade project, Phase 1 of Taxiway A, B, C rehabilitation project, terminal and covered escalator project, a Federal Inspection Station facility, a shuttle bus and other miscellaneous equipment capitalized this year.
- The above factors resulted in a loss from operations of $1.3 million more than the 2013 results. This 27.1% increase compared to the prior year's loss was due to a reduction in parking revenue, airline revenues and customer facility charges. Higher advertising & marketing expenses also contributed to this variance.
- Nonoperating income (expenses) increased by approximately $4.3 million from 2013, with a net loss of $5.6 million in 2014 compared to a net loss of $1.2 million in 2013. This increase in net loss from nonoperating activity was primarily the result of the Commission recognizing an approximate $4.5 million expense related to a nonexchange financial guarantee on debt of People Express Airlines.
- Capital contributions received in the form of grants from the federal government and Commonwealth of Virginia increased by 109.5% from $4.8 million in 2013 to $10.1 million in 2014 due to the timing of capital projects.
- Capital projects that were completed or started in FY 2014 include the Airfield Lighting Rehabilitation Construction, Phase 1 of Taxiway A, B, C Rehabilitation Construction, a Federal Inspection Station, Concourse B Renovation and Outdoor Covered Escalator, a Shuttle bus and various Airfield maintenance equipment.

Summary of Operations and Changes in Net Position

	2014	2013	2012
Operating revenue	$ 7,732,935	$ 8,143,650	$ 9,862,321
Operating expenses	7,253,712	6,852,130	8,963,457
Income from operations before depreciation	479,223	1,291,520	898,864
Depreciation	6,547,444	6,066,168	5,963,170
Loss before other nonoperating income and expenses	(6,068,221)	(4,774,648)	(5,064,306)
Other nonoperating income and expenses - net	(5,553,677)	(1,210,630)	(1,053,321)
Loss before capital contributions	(11,621,898)	(5,985,278)	(6,117,627)
Capital contributions	10,063,124	4,802,019	7,596,352
Change in net position	$ (1,558,774)	$ (1,183,259)	$ 1,478,725

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 $93.4 million at June 30, 2014, a $1.6 million decrease from June 30, 2013.

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

	2014	2013	2012
Assets			
Current and other assets	$ 9,310,281	$ 8,978,675	$ 17,853,794
Capital assets	103,970,108	101,366,406	97,895,831
Total assets	113,280,389	110,345,081	115,749,625
Liabilities			
Long-term liabilities	13,100,678	13,210,899	16,900,791
Current liabilities	6,819,806	2,215,503	2,746,896
Total liabilities	19,920,484	15,426,402	19,647,687
Net position			
Invested in capital assets - net of related debt	94,222,870	91,236,067	83,219,574
Restricted	2,632,351	2,349,416	6,180,932
Unrestricted	(3,495,316)	1,333,196	6,701,432
Total net position	$ 93,359,905	$ 94,918,679	$ 96,101,938

The largest portion of the Commission's net position each year (100.9% at June 30, 2014), 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 (2.8% at June 30, 2014), represents federal and state grant funds that are subject to external restrictions. These restrictions stipulate how funds can be used. Annual entitlement funds from the Commonwealth of Virginia can be used for 100% of the nonfederal portion of projects that are funded under provisions of the Federal Airport Improvement Program. Passenger Facility Charge Funds are reserved for future Federal Aviation Administration approved projects.

Airport Rates and Charges

The Commission established an Airline Use and Lease Agreement (Agreement) effective November 1, 1992, which in part establishes the rates and charges for the use of the Airport. Landing fees and terminal rental rates have actually decreased since 1992. Landing fees are $0.45 per 1,000 lbs. of landed weight at June 30, 2014. Terminal rental rates are $27 per square foot at June 30, 2014. 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. There were no changes in the rates and charges in FY 2014.

Revenue

A summary of revenue is as follows:

	2014 Amount	Percent of Total	2013 Amount	Percent of Total	2012 Amount	Percent of Total
Operating						
Airfield	$ 1,285,101	16.6%	$ 1,355,487	16.5%	$ 1,430,350	14.1%
Terminal and Landside	5,299,877	68.4%	5,687,614	69.0%	7,375,145	72.7%
Other rents	559,870	7.2%	540,048	6.6%	534,643	5.3%
Trailer park rents	456,675	5.9%	453,708	5.5%	435,395	4.3%
Administrative and miscellaneous	48,004	0.6%	81,941	1.0%	83,100	0.8%
Maintenance reimbursement	83,408	1.1%	24,852	0.3%	3,688	0.04%
Total operating	7,732,935	99.8%	8,143,650	98.9%	9,862,321	97.2%
Nonoperating						
Interest income	12,345	0.2%	93,630	1.1%	280,962	2.8%
Total nonoperating	12,345	0.2%	93,630	1.1%	280,962	2.8%
Total revenue	$ 7,745,280	100.0%	$ 8,237,280	100.0%	$ 10,143,283	100.0%

Expenses

A summary of expenses is as follows:

	2014 Amount	Percent of Total	2013 Amount	Percent of Total	2012 Amount	Percent of Total
Operating						
Airfield	$ 979,889	5.0%	$ 876,254	6.1%	$ 1,017,997	6.3%
Terminal and Landside	2,327,754	12.0%	2,470,293	17.4%	2,919,267	18.0%
Other rents	329,194	1.6%	328,903	2.3%	388,524	2.3%
Trailer park rents	403,706	2.0%	398,890	2.8%	429,389	2.6%
Administrative and miscellaneous	2,796,341	14.7%	2,371,224	16.7%	3,742,078	23.0%
Maintenance	416,828	2.1%	406,566	2.9%	466,202	2.9%
Total operating	7,253,712	37.4%	6,852,130	48.2%	8,963,457	55.1%
Depreciation	6,547,444	33.9%	6,066,168	42.7%	5,963,170	36.7%
Nonoperating						
Amortization - bond costs	-	0.0%	121,015	0.9%	12,318	0.1%
Interest expense	472,159	2.4%	559,688	3.9%	734,928	4.5%
Loss on retirement of capital assets	51,805	0.2%	650	0.1%	-	0.0%
Nonexchange financial guarantee	4,454,518	23.2%	-	0.0%	-	0.0%
Nonoperating air service development expense	207,618	1.0%	-	0.0%	3,000	0.0%
OPEB expense	379,922	1.9%	622,907	4.2%	584,037	3.6%
Total nonoperating	5,566,022	28.7%	1,304,260	4.9%	1,334,283	4.6%
Total expenses	$ 19,367,178	100.0%	$ 14,222,558	100.0%	$ 16,260,910	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.

	2014	2013	2012
Cash flow from operating activities	$ 566,302	$ 386,296	$ 1,577,240
Cash flow from noncapital financing activities	(207,618)	-	-
Cash flow from capital and related financing activities	(353,630)	(9,650,205)	485,948
Cash flow from investing activities	(270,590)	8,209,526	(1,375,395)
Net change in cash and cash equivalents	(265,536)	(1,054,383)	687,793
Cash and cash equivalents - beginning of year	4,500,031	5,554,414	4,866,621
Cash and cash equivalents - end of year	$ 4,234,495	$ 4,500,031	$ 5,554,414

The Commission's available cash and cash equivalents decreased from $4.5 million at the end of 2013 to $4.2 million at the end of 2014 due to a decrease in unrestricted cash compared to 2013.

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 2014, the Commission expended $9.2 million on capital activities. This included $6.2 million on Taxiway A, B, C rehabilitation construction, $1.7 million on the Federal Inspection Station, $598 thousand for a Consolidated Security Screening Checkpoint planning and designs, $249 thousand for concourse B renovations, $147 thousand for DPS radios and $305 thousand in miscellaneous projects. During 2014, completed projects totaling $18 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 and Loan Guarantees

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, 2014 - $1,632,869; 2013 - $1,724,791; 2012 - $1,812,360

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, 2014 - $5,616,711; 2013 - $5,827,732; 2012 - $6,030,233

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, 2014 - $2,497,658; 2013 - $2,577,816; 2012 - $2,653,664

Also, in June 2014, the Airport issued a financial guarantee on behalf of People Express Airlines, to guarantee the debt of this company with a local financial institution. The total amount of the debt guaranteed by the Airport was $5 million and the loan is due June 2015, with an interest rate at the bank's prime rate. At June 30, 2014, the Airport estimates it will be required to perform on this loan guarantee and therefore has recorded a liability and corresponding nonoperating expense for the entire amount of the outstanding obligation of $4,454,518.

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, 2014 and 2013

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Peninsula Airport Commission

Statements of Net Position

June 30,	**2014**	**2013**
Assets		
Current assets		
Cash and cash equivalents	$ 4,234,495	$ 4,500,031
Accounts receivable - less allowance for doubtful accounts - $5,000 for 2014 and 2013	445,828	516,450
Accounts receivable - Federal Aviation Administration and others	1,244,867	887,086
Inventories	79,627	113,062
Prepaid expenses	673,113	612,630
Total current assets	6,677,930	6,629,259
Capital assets		
Land	6,604,658	6,604,658
Airfield	85,681,494	78,554,747
Terminal	72,104,714	62,489,115
Other	4,245,827	4,244,872
Trailer park and rental units	1,852,612	1,852,612
Construction-in-progress	3,974,784	12,727,171
	174,464,089	166,473,175
Less - accumulated depreciation	(70,493,981)	(65,106,769)
	103,970,108	101,366,406
Investments and other assets		
Restricted cash	2,632,351	2,349,416
	$113,280,389	$110,345,081

	2014	2013
Liabilities and Net Position		
Current liabilities		
Current maturities of long-term debt	$ 398,891	$ 380,781
Accounts payable:		
Trade	1,466,641	1,205,941
Accrued liabilities	445,167	444,802
Unearned revenue	26,797	155,424
Security deposits	27,792	28,555
Nonexchange financial guarantee	4,454,518	-
Total current liabilities	6,819,806	2,215,503
Long-term liabilities		
Long-term debt - less current maturities	9,348,347	9,749,558
Other postretirement employee benefits (OPEB) liability	3,752,331	3,461,341
Total liabilities	19,920,484	15,426,402
Net position		
Invested in capital assets - net of related debt	94,222,870	91,236,067
Restricted	2,632,351	2,349,416
Unrestricted	(3,495,316)	1,333,196
Total net position	93,359,905	94,918,679
	$113,280,389	$110,345,081

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,	**2014**	**2013**
Operating income	$ 7,732,935	$ 8,143,650
Operating expenses	(7,253,712)	(6,852,130)
Depreciation	(6,547,444)	(6,066,168)
Loss from operations	(6,068,221)	(4,774,648)
Nonoperating income (expenses)		
Amortization - bond costs	-	(121,015)
Interest expense	(472,159)	(559,688)
Interest income	12,345	93,630
Loss on retirement of capital assets	(51,805)	(650)
Nonexchange financial guarantee	(4,454,518)	-
Nonoperating air service development expense	(207,618)	-
OPEB expense	(379,922)	(622,907)
	(5,553,677)	(1,210,630)
Loss before capital contributions	(11,621,898)	(5,985,278)
Capital contributions	10,063,124	4,802,019
Change in net position	(1,558,774)	(1,183,259)
Net position - beginning of year	94,918,679	96,101,938
Net position - end of year	$ 93,359,905	$ 94,918,679

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

Peninsula Airport Commission

Statements of Cash Flows

Years Ended June 30,	**2014**	**2013**
Cash flows from operating activities		
Receipts from customers and users	$ 7,803,557	$ 8,131,721
Payments to suppliers for goods and services	(3,288,812)	(3,629,595)
Payments to employees	(3,948,443)	(4,115,830)
Net cash from operating activities	566,302	386,296
Cash flows from noncapital financing activities		
Nonoperating air service development expense	(207,618)	-
Cash flows from capital and related financing activities		
Purchase of property and equipment	(9,202,951)	(9,537,393)
Changes in security deposits	(763)	(559)
Principal payments on long-term debt	(383,101)	(4,545,918)
Interest payments on long-term debt	(472,159)	(559,688)
Capital contributions	9,705,344	4,993,353
Net cash from capital and related financing activities	(353,630)	(9,650,205)
Cash flows from investing activities		
Principal received on due from City of Newport News	-	4,180,000
Interest received on cash and investments	12,345	198,010
Change in restricted cash and investments	(282,935)	3,831,516
Net cash from investing activities	(270,590)	8,209,526
Net change in cash and cash equivalents	(265,536)	(1,054,383)
Cash and cash equivalents - beginning of year	4,500,031	5,554,414
Cash and cash equivalents - end of year	$ 4,234,495	$ 4,500,031

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

Peninsula Airport Commission

Statements of Cash Flows

Years Ended June 30,	**2014**	**2013**
Reconciliation of loss from operations to net cash from operating activities		
Loss from operations	$ (6,068,221)	$ (4,774,648)
Adjustments to reconcile to net cash from operating activities:		
Depreciation	6,547,444	6,066,168
OPEB expense paid	(88,932)	(74,606)
Change in:		
Accounts receivable	70,622	(11,929)
Inventories	33,435	(3,674)
Prepaid expenses	(60,483)	(591,906)
Accounts payable	260,699	2,607
Accrued liabilities	365	(97,090)
Unearned revenue	(128,627)	(128,626)
Net cash from operating activities	$ 566,302	$ 386,296
Supplemental schedule of noncash investing and financing activities		
Contributed capital funded by accounts receivable at June 30	$ 1,244,867	$ 887,086

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

June 30, 2014 and 2013

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, 2014 and 2013. Fiscal years ending on or after June 30, 2011, 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 were being amortized by the effective interest method over the life of the bonds. During 2013, due to the payoff of the related debt, remaining unamortized bond costs of $121,015 were written off to amortization expense.

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 2014 and 2013, the Commission expensed $808,116 and $426,694, respectively, in advertising costs.

Adoption of New Accounting Standards

In 2014, the Commission adopted Statement of Governmental Accounting Standards (GASB Statement) No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which applies to financial guarantees that are nonexchange transactions extended or received by a government ("nonexchange financial guarantees"). Nonexchange financial guarantees are guarantees of obligations of individuals or legally separate entities in which a guarantor agrees to indemnify a third-party obligation holder under specific conditions. This Statement requires the government to record a liability when the relevant factors indicate that it is more likely than not that it will be required to make a payment related to the nonexchange financial guarantee. The Commission was not a guarantor until 2014. Therefore, previously reported net position was not affected as a result of adopting GASB No. 70. See Note 9 for additional information.

Subsequent Events

In preparing these financial statements, the Commission has evaluated events and transactions for potential recognition or disclosure through November 24, 2014, 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	2014 Carrying Value	2013 Carrying Value
Demand deposits	$ 5,279,391	$ 2,377,575
Cash on hand	8,480	10,215
Money market funds	1,578,975	4,461,657
Total deposits	$ 6,866,846	$ 6,849,447

Reconciliation to Statements of Net Position	**2014**	**2013**
Current:		
Cash and cash equivalents	$ 4,234,495	$ 4,500,031
Investments and other assets:		
Restricted cash	2,632,351	2,349,416
	$ 6,866,846	$ 6,849,447

Custodial Credit Risk and Concentration of Investments

Deposits in financial institutions, reported as components of cash and cash equivalents, had a bank balance of $6,977,690 and $6,904,564 at June 30, 2014 and 2013, respectively, which was fully insured by depository insurance or secured with collateral held by the Commission's agent in its name. At June 30, 2014 and 2013, 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 were $6,718,801 and $6,643,940 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, 2014 and 2013, 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, 2014 and 2013.

Investment Credit Risk

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

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

4. Accounts Receivable - Federal Aviation Administration and Others

The Virginia Department of Aviation and the Federal Aviation Administration (FAA) contribute grant funds to finance construction costs for Airport improvements and terminal expansion. At June 30, 2014 and 2013, $1,244,867 and $887,086, respectively, was receivable by the Commission on cost reimbursable grants.

Subsequent to year end, the FAA awarded an airport development grant of approximately $9,400,000 to the Commission to be used for the consolidated security checkpoint construction project.

5. Prepaid Expenses

During 2014 and 2013, the Commission paid a passenger carrier $650,650 and $565,000 respectively, for air service development purposes. During 2014, the original payment of $565,000 was refunded to the Commission and a subsequent payment of $650,650 was issued. These amounts are included in prepaid expenses on the statements of net position at June 30, 2014 and 2013, respectively, and will continue to be reported as such until the passenger carrier incurs operating costs that would qualify for reimbursement under revenue guarantees agreed to as part of the below grant. At which time, the Commission will report the $650,650 as a nonoperating air service development expense and will seek to be reimbursed by the U.S. Department of Transportation as part of a $950,000 grant that was awarded for air service development in early 2013.

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 18 and other donor restricted contributions such as contributions from the local Regional Air Service Enhancement Committee (RAISE). At June 30, 2014 and 2013, the Commission's restricted cash from entitlement funds, PFC, and contributions from RAISE were $2,632,351 and $2,349,416, respectively.

7. Capital Assets

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

	Balance July 1, 2013	Increases	Decreases	**Balance June 30, 2014**
Capital assets not being depreciated				
Land	$ 6,604,658	$ -	$ -	$ 6,604,658
Construction-in-progress	12,727,171	9,202,951	17,955,338	3,974,784
Total capital assets not being depreciated	19,331,829	9,202,951	17,955,338	10,579,442
Other capital assets				
Airfield	78,554,747	8,168,328	1,041,581	85,681,494
Terminal	62,489,115	9,717,483	101,884	72,104,714
Other	4,244,872	69,527	68,572	4,245,827
Trailer park and rental units	1,852,612	-	-	1,852,612
Total other capital assets	147,141,346	17,955,338	1,212,037	163,884,647
Less - accumulated depreciation				
Airfield	36,415,659	3,594,577	990,743	39,019,493
Terminal	25,122,263	2,641,405	101,885	27,661,783
Other	1,716,235	311,462	67,604	1,960,093
Trailer park and rental units	1,852,612	-	-	1,852,612
Total accumulated depreciation	65,106,769	6,547,444	1,160,232	70,493,981
Other capital assets - net	82,034,577	11,407,894	51,805	93,390,666
Total	$ 101,366,406	$ 20,610,845	$ 18,007,143	$ 103,970,108

8. Long-Term Debt

Following is a summary of debt transactions of the Commission:

	July 1, 2013	Additions	Reductions	**June 30, 2014**	Amounts Due Within One Year
Airport Improvement Bonds					
Series 2002	$ 1,724,791	$ -	$ 91,922	$ 1,632,869	$ 95,119
Series 2005A	5,827,732	-	211,021	5,616,711	219,337
Series 2005B	2,577,816	-	80,158	2,497,658	84,435
Total	$ 10,130,339	$ -	$ 383,101	$ 9,747,238	$ 398,891

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

		2014		2013
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.	$	1,632,869	$	1,724,791
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.		5,616,711		5,827,732
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.		2,497,658		2,577,816
		9,747,238		10,130,339
Less - current maturities		(398,891)		(380,781)
	$	9,348,347	$	9,749,558

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

Fiscal Year Ending June 30,		Principal		Interest
2015	$	398,891	$	453,966
2016		417,878		434,980
2017		437,784		415,073
2018		458,655		394,202
2019		480,539		372,318
2020-2024		2,770,042		1,494,243
2025-2029		3,152,042		774,918
2030-2032		1,631,407		108,411
	$	9,747,238	$	4,448,111

9. Guarantee of Debt

The 1946 Act of Assembly by the Virginia General Assembly, which created the Commission, allows the Commission to extend nonexchange financial guarantees. During June 2014, the Commission guaranteed certain debt of People Express Airlines, Inc. (PEX), a legally separate entity that is headquartered and operating out of the Newport News - Williamsburg International Airport.

In June 2014, the Commission guaranteed PEX's $5 million line of credit with a local financial institution, maturing June 30, 2015, at which time all unpaid advances, accrued and unpaid interest and any other unpaid sums owed will be due and payable in full. The line of credit bears interest at a fluctuating rate per annum equal to the bank's monthly prime rate. At June 30, 2014, the outstanding balance of the guaranteed line of credit is $3,580,190. Subsequent to year end, PEX borrowed the remainder of the available line of credit up to the full limit of the line, $5 million. In the event PEX is unable to make a required payment on the line of credit, the Commission will be required to make that payment. PEX is required to repay the Commission for any payments the Commission makes pursuant to the guarantee, but there is no assurance PEX will be able to repay the Commission if this occurs. If the Commission is required to perform under this guarantee, it will utilize amounts held in escrow of $1 million as required by the guarantee agreement, consisting of unspent contributions received from the RAISE committee (see Note 6) of approximately $700,650 and funds available under the U.S. Department of Transportation's Small Community Air Service Development Program (see Note 5) of approximately $299,350. Also, the Commission is choosing to voluntarily hold in escrow the remainder of the liability with funds provided from the Virginia Department of Aviation of approximately $4,000,000 ($2 million received in 2014 and $2 million expected to be received in fiscal year 2015), to repay the financial institution.

During September 2014, PEX suspended all operations until further notice as a result of having no operable planes available. As of the report date, PEX flights have not commenced again. This suspension has resulted in a shortage of financial resources for PEX as well as a default in the operating agreement with the Commission, requiring a minimum of once-daily scheduled air service. As a result, it is more likely than not that the Commission will be required to pay the remaining portion of PEX's debt service payments based on the guarantee. A liability and expense have been recognized for an amount that is the Commission's best estimate of the discounted present value of the future outflows the Commission expects to incur as a result of the guarantee. The liability recognized for the nonexchange financial guarantee at June 30, 2014 is as follows:

July 1, 2013	$ -
Increases	4,454,518
Decreases	-
June 30, 2014	$ 4,454,518

10. Other Postemployment Benefits

a) Plan Description

In addition to providing the pension benefits described in Note 16, 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 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.

c) Participant Data

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

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, 2013, to determine the funded status of the plan as of that date as well as the employer's annual required contribution (ARC) for the fiscal year ended June 30, 2014. The Commission's annual OPEB cost and liability are as follows:

Annual required contribution	$	372,545
Interest on net OPEB obligation		7,377
Less - contributions made in the form of retiree insurance premiums paid		(88,932)
Net OPEB obligation - beginning of year		3,461,341
Net OPEB obligation - end of year	$	3,752,331

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

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
2013	$ -	$ 3,649,745	0.00%	$ 3,649,745	$ 2,989,000	117.19%
2010	$ -	$ 3,839,014	0.00%	$ 3,839,014	$ 3,114,372	123.27%
2007	$ -	$ 4,155,776	0.00%	$ 4,155,776	$ 2,112,183	196.75%

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
2014	$ 88,932	$ 379,922	23.40%
2013	$ 74,606	$ 622,907	11.98%
2012	$ 73,290	$ 584,037	12.55%

11. 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:

2015	$	846,854
2016		829,680
2017		833,656
2018		725,023
2019		711,431
Thereafter		3,706,323
	$	7,652,967

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, 2014 and 2013, $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 $26,797 and $155,424, respectively, is recognized in unearned revenue on the statements of net position.

Also, the City of Newport News Public Schools leases space in the old terminal on a month to month basis. During 2014, $65,708 of rental income was earned by the Commission under this lease.

12. 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 2014 and 2013, was $14,652 and $13,580, respectively.

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

2015	$	12,648
2016		12,648
2017		12,648
2018		8,432
	$	46,376

13. 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 $179,338 and $183,041 for compensated absences as of June 30, 2014 and 2013, 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 $124,581 and $116,928 for sick leave as of June 30, 2014 and 2013, respectively.

14. 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.

15. Commitments

At June 30, 2014 and 2013, the Commission had commitments outstanding, in the form of contracts and purchase orders, of approximately $5,357,000 and $13,945,000, respectively, primarily for construction projects.

16. Pension Plan

a) 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 participating employers are automatically covered by VRS upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to 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.

Within the VRS Plan, the System administers three different benefit plans for local government employees – Plan 1, Plan 2, and Hybrid. Each plan has different eligibility and benefit structures as set out in the table below:

<table>
<tr><th>VRS PLAN 1</th><th>VRS PLAN 2</th><th>HYBRID
RETIREMENT PLAN</th></tr>
<tr>
<td>About VRS Plan 1
VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</td>
<td>About VRS Plan 2
VRS Plan 2 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS 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.</td>
<td>About the Hybrid Retirement Plan
The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See “Eligible Members”)

• The defined benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula.

• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.

• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.</td>
</tr>
<tr>
<td>Eligible Members
Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

Hybrid Opt-In Election
VRS 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 VRS 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 VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.</td>
<td>Eligible Members
Employees are in VRS 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
VRS 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 VRS 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 VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS 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:
• State employees*
• School division employees
• Political subdivision employees*
• Judges appointed or elected to an original term on or after January 1, 2014
• Members in VRS Plan 1 or VRS 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:
• Members of the State Police Officers’ Retirement System (SPORS)
• Members of the Virginia Law Officers’ Retirement System (VaLORS)
• 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 VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.</td>
</tr>
</table>

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

		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 VRS Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** See definition under VRS 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 VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

Service Retirement Multiplier The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.	**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 VRS Plan 1 or VRS 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 VRS Plan 2. **<u>Defined Contribution Component:</u>** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**Earliest Unreduced Retirement Eligibility** Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**Earliest Unreduced Retirement Eligibility** **<u>Defined Benefit Component:</u>** Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **<u>Defined Contribution Component:</u>** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	**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.
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. **<u>Eligibility:</u>** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. **<u>Eligibility:</u>** Same as VRS Plan 1	**Cost-of-Living Adjustment (COLA) in Retirement** **<u>Defined Benefit Component:</u>** Same as VRS Plan 2. **<u>Defined Contribution Component:</u>** Not applicable. **<u>Eligibility:</u>** Same as VRS Plan 1 and VRS Plan 2.

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. **<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.	**<u>Exceptions to COLA Effective Dates:</u>** Same as VRS Plan 1	**<u>Exceptions to COLA Effective Dates:</u>** Same as VRS Plan 1 and VRS Plan 2.
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members. State employees (including VRS Plan 1 and VRS Plan2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as VRS Plan 1.	**Purchase of Prior Service** **<u>Defined Benefit Component:</u>** Same as VRS Plan 1. **<u>Defined Contribution Component:</u>** Not applicable.

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/2013-annual-report.pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

a) 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 both fiscal years ended June 30, 2014 and 2013 was 9.36% of annual covered payroll.

b) Annual Pension Cost

For the years ended June 30, 2014 and 2013, the Commission's annual pension cost of $220,176 and $216,015, 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, 2014	$220,176	100%	$0
June 30, 2013	$216,015	100%	$0
June 30, 2012	$202,606	100%	$0

The fiscal year 2014 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 closed basis. The remaining amortization period at June 30, 2013, for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

c) **Funded Status and Funding Progress**

As of June 30, 2013, the most recent actuarial valuation date, the plan was 87.01% funded. The actuarial accrued liability for benefits was $5,968,818, and the actuarial value of assets was $5,193,666, resulting in an unfunded actuarial accrued liability (UAAL) of $775,152. The covered payroll (annual payroll of active employees covered by the plan) was $2,277,542, and ratio of the UAAL to the covered payroll was 34.03%.

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.

d) **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, 2013	$ 5,193,666	$ 5,968,818	$ (775,152)	87.01%	$ 2,277,542	(34.03)%
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)%

17. 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 nonaeronautical revenue and maximizing aeronautical revenues by way of increasing rates and charges.

18. 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 $38,131,794. During 2014 and 2013, $1,096,837 and $1,145,986, 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, 2014 and 2013

Peninsula Airport Commission

Schedules of Operating Income

Years Ended June 30,	**2014**		**2013**	
	Amount	Percent	Amount	Percent
Airfield				
Landing and tie-down fees	$ 247,529		$ 312,416	
Fixed base operator commissions	169,486		162,086	
Fuel flowage fees	105,050		114,655	
Hangar rental and operations fees	763,036		766,330	
Total airfield	1,285,101	16.6 %	1,355,487	16.6 %
Terminal and Landside				
Rents:				
Airline offices	445,561		494,110	
Car rental and other	106,834		120,584	
Commissions:				
Car rental	2,384,869		2,464,021	
Communications and other	164,252		148,029	
Parking lot fees	2,067,589		2,330,040	
Other	130,772		130,830	
Total terminal and landside	5,299,877	68.5	5,687,614	69.8
Other rents	559,870	7.2	540,048	6.6
Trailer park rents	456,675	5.9	453,708	5.7
Administrative and miscellaneous	48,004	0.6	81,941	1.0
Maintenance reimbursement	83,408	1.2	24,852	0.3
Total operating income	$ 7,732,935	100.0 %	$ 8,143,650	100.0 %

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Peninsula Airport Commission

Compliance Section

June 30, 2014

Peninsula Airport Commission

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

Years Ended June 30, 2014 and 2013

	Airfield		Terminal and Landside	
	2014	**2013**	**2014**	**2013**
Operating income	$ 1,285,101	$ 1,355,487	$ 5,299,877	$ 5,687,614
Operating expenses				
Advertising	-	-	-	-
Audit	-	-	-	-
Auto and equipment	-	-	-	-
Bad debt	-	-	-	-
Commission fees	-	-	-	-
Communications	-	-	12,045	8,234
Crash and rescue	20,646	18,992	-	-
Dues and subscriptions	-	-	-	-
General office	-	-	-	-
Insurance	-	-	-	-
Janitorial supplies	-	-	77,519	77,952
Labor	557,547	557,538	1,114,054	1,207,248
Management fees	-	-	-	-
Miscellaneous	3,629	5,223	545	545
Payroll taxes and benefits	193,239	186,342	320,168	336,589
Postage	-	-	-	-
Professional services	-	-	-	-
Repairs, maintenance and supplies	144,091	57,769	225,777	244,313
Shop and linen supplies	-	-	-	-
Small tools	-	-	-	-
Training	4,384	3,678	-	-
Trash removal	-	-	20,433	31,029
Travel and promotion	988	385	1,447	524
Uniforms	9,201	-	13,626	12,991
Utilities	46,164	46,327	542,140	550,868
	979,889	876,254	2,327,754	2,470,293
Income (loss) from operations before depreciation	$ 305,212	$ 479,233	$ 2,972,123	$ 3,217,321

Other Rents		Trailer Park		Allocated Costs Administrative and Miscellaneous	
2014	**2013**	**2014**	**2013**	**2014**	**2013**
$ 559,870	$ 540,048	$ 456,675	$ 453,708	$ 48,004	$ 81,941
-	-	-	-	808,116	426,694
-	-	-	-	29,600	28,750
-	-	-	-	-	-
-	-	-	-	3,223	-
-	-	-	-	13,878	13,925
-	-	-	-	26,828	29,217
-	-	-	-	-	-
-	-	-	-	22,582	18,695
-	-	-	-	91,567	104,789
-	-	-	-	227,801	229,743
-	-	-	-	-	-
151,443	155,401	151,443	155,401	865,444	857,024
-	-	36,290	36,292	-	-
-	-	-	-	2,448	6,485
54,593	54,744	54,593	54,744	309,073	286,013
-	-	-	-	3,216	2,583
-	-	339	-	208,239	182,616
23,727	11,243	16,240	22,959	40,696	49,975
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	875	425
-	-	-	-	-	-
-	-	-	-	62,938	63,141
-	-	-	-	-	-
99,431	107,515	144,801	129,494	79,817	71,149
329,194	328,903	403,706	398,890	2,796,341	2,371,224
$ 230,676	$ 211,145	$ 52,969	$ 54,818	$(2,748,337)	$(2,289,283)

Allocated Costs Maintenance 2014	Allocated Costs Maintenance 2013	Totals 2014	Totals 2013	Percentage of Revenue 2014	Percentage of Revenue 2013
$ 83,408	$ 24,852	$ 7,732,935	$ 8,143,650	100.00 %	100.00 %
-	-	808,116	426,694	10.45	5.24
-	-	29,600	28,750	0.38	0.35
154,533	131,200	154,533	131,200	2.00	1.61
-	-	3,223	-	0.04	-
-	-	13,878	13,925	0.18	0.17
-	-	38,873	37,451	0.50	0.46
-	-	20,646	18,992	0.27	0.23
-	-	22,582	18,695	0.29	0.23
-	-	91,567	104,789	1.18	1.29
-	-	227,801	229,743	2.95	2.82
-	-	77,519	77,952	1.00	0.96
125,791	127,114	2,965,722	3,059,726	38.35	37.57
-	-	36,290	36,292	0.47	0.45
1,246	1,032	7,868	13,285	0.10	0.16
46,572	50,249	978,238	968,681	12.65	11.89
-	-	3,216	2,583	0.04	0.03
-	-	208,578	182,616	2.70	2.24
62,209	76,754	512,740	463,013	6.63	5.69
1,237	502	1,237	502	0.02	-
3,682	1,960	3,682	1,960	0.05	0.02
87	410	5,346	4,513	0.07	0.06
-	-	20,433	31,029	0.26	0.38
2	48	65,375	64,098	0.85	0.79
13,403	12,273	36,230	25,264	0.48	0.32
8,066	5,024	920,419	910,377	11.90	11.18
416,828	406,566	7,253,712	6,852,130	93.81	84.14
$ (333,420)	$ (381,714)	$ 479,223	$ 1,291,520	6.19 %	15.86 %

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

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, 2014, 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 24, 2014.

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.

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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 24, 2014

Independent Auditors' 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, 2014. 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, 2014.

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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 24, 2014

Peninsula Airport Commission

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

Federal Grantor	Federal CFDA Number	Federal Amounts Expended
U.S. Department of Transportation:		
Federal Aviation Administration Airport Improvement Program	20.106	$ 6,144,558
Small Community Air Service Development Program	20.930	119,484
		$ 6,264,042

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, 2014. 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, 2014

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