NORFOLK AIRPORT AUTHORITY

Basic Financial Statements and
Required Supplementary Information

June 30, 2013 and 2012

(With Independent Auditors' Reports Thereon)

NORFOLK AIRPORT AUTHORITY

Table of Contents

NORFOLK AIRPORT AUTHORITY

Board of Commissioners and Administrative Officials

June 30, 2013

Board of Commissioners

Dr. Harold J. Cobb, Jr., Chairman	Chris G. Stephanitsis
Gus J. James, II, Vice Chairman	Malcolm P. Branch
Blythe Ann Scott, Secretary/Treasurer	William L. Nusbaum
Robert T. Taylor	Dr. Samuel F. Coppage
Deborah H. Butler	

Administrative Officials

Wayne E. Shank	Executive Director
Robert S. Bowen	Deputy Executive Director
Anthony E. Rondeau	Director of Facilities
Steven C. Sterling	Director of Operations
William A. Jones	Director of Finance
Charles W. Braden	Director of Market Development
Barbara J. Kunkel	Director of Human Resources

KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report

The Board of Commissioners
Norfolk Airport Authority:

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Norfolk Airport Authority (the Authority) as of and for the years ended June 30, 2013 and 2012, and the related notes to the 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 basic financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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 basic financial statements.

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Norfolk Airport Authority as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4 through 13 and the Schedules of Funding Progress on page 31, respectively, 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the Authority's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and the Schedule of Passenger Facility Charge Revenues and Expenditures, as specified in the *Passenger Facility Charge Audit Guide for Public Agencies,* issued by the Federal Aviation Administration, and the Introductory Section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards and Schedule of Passenger Facility Charge Revenues and Expenditures 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 Schedule of Expenditures of Federal Awards and Schedule of Passenger Facility Charge Revenues and Expenditures are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introductory Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2013 on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.

KPMG LLP

October 24, 2013

The management of the Norfolk Airport Authority (the Authority) offers readers of its basic financial statements the following narrative overview and analysis of financial activities for the years ended June 30, 2013 and 2012. The following should be read in conjunction with the basic financial statements and notes thereto.

Basic Financial Statements

The Authority's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same basis of accounting employed by most private-sector enterprises.

The following components are included in the Authority's financial statements:

The statement's of net position present information on the assets and liabilities of the Authority, with the resulting difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statements of revenues, expenses, and changes in net position report revenues and expenses, classified as operating and nonoperating, for the period. The resulting change in net position for the period is combined with the beginning of the year total net position balance in order to reconcile to the end of the year total net position.

The statements of cash flows report the cash flows experienced by the Authority from operating activities, capital and related financing activities, and investing activities. The net result of the cash provided by or used in these activities for the period, added to the beginning of the year cash balance, is reconciled to the cash balance presented on the statements of net position.

The notes to the basic financial statements explain and provide additional information on the data presented in the basic financial statements as of and for the years ended June 30, 2013 and 2012.

Financial Highlights

The following major financial highlights are of note for the year ended June 30, 2013:

Total net position was $161,424,830 as of June 30, 2013. Net position includes $32,238,331 considered unrestricted and available to meet ongoing and future obligations of the Authority, including its share of capital projects.

Total net position at June 30, 2013 increased $5,638,505 from total net position at June 30, 2012. Capital assets, before accumulated depreciation, increased $10,503,791 during 2013 primarily due to the completion of the rehabilitation of taxiway F and Air Wisconsin taxiway, purchase of snow removal equipment, the upgrade of the radio system and design and approach of the parking garage project. These additions were funded by State grant funds and from the Authority's unrestricted net position balance.

Operating revenues during fiscal year 2013 increased by $304,408 compared to the previous year. Parking revenue increased $60,593 due to an increase in customer facility charges; passenger terminal revenue decreased $615,381 due to the decrease in rental car commissions resulting from a decrease in their minimum guarantee. Landing fees and field operations revenue increased $859,196.

Operating expenses during fiscal year 2013 decreased $58,535 compared to the previous year, due primarily to decreases in maintenance and repairs and depreciation and amortization. The decrease was partially offset by increases in salaries and fringe benefits.

Net nonoperating revenues during fiscal year 2013 increased $1,773,631 compared to fiscal year 2012 due to the increase in Federal grants.

Federal and State grants, grant interest revenue, and other income increased $2,162,344 compared to the previous year primarily due to Federal and State grant funding for the purchase of snow removal equipment and the expansion of the security checkpoint on Concourse B.

The following major financial highlights are of note for the year ended June 30, 2012:

Total net position was $155,786,325 as of June 30, 2012. Net position includes $32,221,310 considered unrestricted and available to meet ongoing and future obligations of the Authority, including its share of capital projects.

Total net position at June 30, 2012 increased $3,501,931 from total net position at June 30, 2011. Capital assets, before accumulated depreciation, increased $3,141,700 during 2012 primarily due to the completion of the Upgrade Lighting in Passenger Terminal Project, purchase of 3000 Gallon ARFF Truck, and the completion of the Robin Hood Road Overlay Project and replacement of Flight Information Display System Project. These additions were funded by State grant funds and from the Authority's unrestricted net position balance.

Operating revenues during fiscal year 2012 increased by $319,077 compared to the previous year. Parking revenue increased $146,900 due to an increase in customer facility charges; passenger terminal revenue increased $142,378 due to rental car commissions. Landing fees and field operations revenue increased $29,799.

Operating expenses during fiscal year 2012 increased $862,340 compared to the previous year, due primarily to increases in increases in utilities and salaries and fringe benefit, which were partially offset by decreases in professional services.

Net nonoperating revenues during fiscal year 2012 increased $5,666,370 compared to fiscal year 2011 due to the decrease in interest expense as a result of restructuring debt payments and collection of passenger facility charges for the entire year.

Federal and State grants, grant interest revenue, and other income increased $951,640 compared to the previous year primarily due to Federal and State grant funding for the purchase of a 3000-gallon ARFF truck and the acquisition of land.

Net Position

Total net position of $161,424,830 increased $5,638,505, or 3.6%, for the year ended June 30, 2013 compared to the prior year. The increase in net position is primarily due to an increase in net investment in capital assets of $7,121,227, or 6.7%, primarily attributable to 2013 construction projects in process and the reduction in long-term debt. Unrestricted net position decreased $17,021, or 0.01%, over the prior year and restricted net position decreased $1,499,743, or 6.9%, primarily due to the use of passenger facility charges to reduce long-term debt.

Total net position of $155,786,325 increased $3,501,931, or 2.3%, for the year ended June 30, 2012 compared to the prior year. The increase in net position is primarily due to an increase in restricted net position of $5,534,999, or 34.1%, primarily attributable to 2012 passenger facility charge revenue. Unrestricted net position increased $2,109,988, or 7.0%, over the prior year and net investment in capital assets, decreased $4,143,056, or 3.9%, primarily due to depreciation on existing capital assets.

A summary of the major components of the statement of net position as of June 30, 2013, 2012, and 2011 is as follows:

Condensed Statement's of Net Position

		2013	2012	2011
Current assets	$	34,928,367	33,302,292	31,095,145
Restricted assets		23,994,271	25,856,185	20,895,568
Capital assets, net		173,398,114	172,607,676	179,250,349
Other noncurrent assets		1,878,593	2,001,684	1,998,684
Total assets	$	234,199,345	233,767,837	233,239,746
Current liabilities	$	4,677,250	3,080,251	2,973,419
Amounts payable from restricted assets		7,896,333	7,996,518	11,220,310
Long-term liabilities		60,200,932	66,904,743	66,761,623
Total liabilities		72,774,515	77,981,512	80,955,352
Net investment in capital assets		108,914,770	101,793,543	105,936,599
Restricted net position		20,271,729	21,771,472	16,236,473
Unrestricted net position		32,238,331	32,221,310	30,111,322
Total net position		161,424,830	155,786,325	152,284,394
Total liabilities and net position	$	234,199,345	233,767,837	233,239,746

Current assets include unrestricted cash and investments, net accounts receivable, accrued interest receivable, grants receivable, and prepaid expenses. Restricted assets include passenger facility charges receivable, and cash and investments restricted for current debt service and debt service reserves as required by bond covenants. Other noncurrent assets primarily comprise the unamortized bond issuance costs associated with the bonds issued by the Authority.

Current liabilities are accounts payable, accrued expenses, and the surplus revenues refundable to the airlines. Amounts payable from restricted assets include bond principal and interest due during fiscal year 2013. Included in long-term liabilities are the principal amount of bonds payable that mature after June 30, 2014, net of unamortized premium and deferred amount on refunding, and an executive supplemental retirement plan liability.

Net position includes net investment in capital assets, restricted net position, and unrestricted net position.

Changes in Net Position

Condensed financial information from the statements of revenues, expenses, and changes in net position for the years ended June 30, 2013, 2012, and 2011 is provided as follows, followed by additional analysis. Additional discussion on each component of the condensed summary of revenues, expenses, and changes in net position is provided in the following paragraphs.

Revenues for the years ended June 30, 2013, 2012, and 2011 are summarized as follows:

		2013	2012	2011
Operating revenues:				
Terminal revenue	$	12,962,555	13,577,936	13,435,558
Landing fees and field operations		8,061,817	7,202,621	7,172,822
Parking revenue		13,874,142	13,813,549	13,666,649
Total operating revenues		34,898,514	34,594,106	34,275,029
Nonoperating revenues, net:				
Federal and state grants and interest		5,033,929	2,935,788	2,155,640
Passenger facility charges and interest		6,527,217	6,554,379	6,164,425
Investment income (loss)		(83,325)	180,678	125,801
Other income		394,747	330,544	159,052
Total nonoperating revenues, net		11,872,568	10,001,389	8,604,918
Total revenues, net	$	46,771,082	44,595,495	42,879,947

Operating revenues increased $304,408, or 0.9%, in fiscal year 2013 when compared to the previous year. The increase in operating revenues is attributed to the increase in landing fees and field operations during the year. Passenger facility charges and interest decreased $27,162, or 0.4%, in fiscal year 2013 when compared to the previous year due to fewer passengers paying as a result of the merger of Continental and United Airlines. Federal and State grant revenues, net of State grant interest losses, increased $2,098,141, or 71.5%, when compared to the prior year due to the funding from federal and State sources to purchase snow removal equipment and the expansion of the checkpoint on Concourse B. Investment income decreased $264,003 from fiscal year 2012 primarily due to changes in the market value of investments and decrease in interest rates.

Operating revenues increased $319,077, or 0.9%, in fiscal year 2012 when compared to the previous year. The increase in operating revenues is attributed to the increase in parking activity during the year. Passenger facility charges and interest increased $389,954, or 6.3%, in fiscal year 2012 when compared to the previous year due to a full year of collections since the Federal Aviation Administration (FAA) reinstated the collection authorization. Federal and State grant revenues, net of State grant interest losses, increased $780,148, or 36.2%, when compared to the prior year due to the funding from Federal and State sources to purchase land and a 3000-gallon ARFF truck. Investment income increased $54,877 from fiscal year 2011 primarily due to interest rate fluctuations.

Expenses for the years ended June 30, 2013, 2012, and 2011 are summarized as follows:

		2013	2012	2011
Operating expenses:				
Salaries and fringe benefits	$	13,810,006	13,236,206	12,548,884
Payment to City of Norfolk		2,025,000	1,962,195	1,927,500
Maintenance and repairs		2,857,789	3,035,341	2,988,712
Depreciation and amortization		9,856,112	10,406,597	10,416,172
Other expenses		9,905,146	9,872,249	9,768,980
Total operating expenses		38,454,053	38,512,588	37,650,248
Nonoperating expenses:				
Interest expense		2,678,524	2,580,976	6,850,875
Total expenses	$	41,132,577	41,093,564	44,501,123

Operating expenses decreased $58,535, or 0.2%, in fiscal year 2013 compared to fiscal year 2012. Salaries and fringe benefits increased $573,800, or 4.3%, primarily due to the increase liability for the State Retirement Plan. Depreciation and amortization decreased $550,485, or 5.3%, due to the amortization of related bond premiums. Other expenses increased $32,897, or 0.3%, primarily due to increases in professional services and sanitation, partially offset by decreases in advertising and promotion, security and other services, and maintenance and repairs.

Operating expenses increased $862,340 in fiscal year 2012 compared to fiscal year 2011. Salaries and fringe benefits increased $687,322, or 5.5%, primarily due to the increased liability for the State retirement plan. Depreciation and amortization decreased $9,575, or 0.1%, due to higher amortization taken in the prior year related to the bond refunding. Other expenses increased $103,269, or 1.1%, primarily due to increases in utilities, security, and other services, partially offset by decreases in professional services.

(Continued)

Capital Assets and Debt Administration

Capital Assets

Capital assets include land, construction in progress, buildings, structures, improvements, roads and runways, equipment, and capitalized interest during construction periods. Capital assets are net of related accumulated depreciation. Significant capital asset additions in the current period included the upgrade to the radio system, replacement of a cooling tower, improvements to taxiway F and Air Wisconsin taxiway, snow removal equipment, street sweeper, parking site development at garage D, on-going departures terminal refurbishment and expansion of the TSA passenger screening checkpoint in concourse D, and upgrade to the general aviation complex. See note 4 of the notes to the basic financial statements for additional information related to the Authority's capital assets. A summary of capital assets by category and the associated accumulated depreciation as of June 30, 2013 and 2012, as well as a schedule of additions and retirements for the years ended June 30, 2013 and 2012, are included as follows:

	June 30	
	2013	**2012**
Summary of capital assets:		
Land	$ 14,905,612	14,904,812
Construction in progress	10,572,911	8,654,203
Buildings, structures, and improvements	228,944,543	223,031,451
Roads and runways	61,233,693	60,974,560
Equipment	33,919,470	31,507,412
	349,576,229	339,072,438
Accumulated depreciation	(176,178,115)	(166,464,762)
Total	$ 173,398,114	172,607,676

Schedule of additions and retirements:

	June 30	
	2013	**2012**
Capital assets, beginning of year	$ 172,607,676	179,250,349
Additions	10,804,869	3,227,456
Depreciation	(10,014,431)	(9,870,129)
Capital assets, end of year	$ 173,398,114	172,607,676

Long-Term Debt (Bonds Payable)

At June 30, 2013, the Authority had total bonds payable outstanding of $65,324,034 net of unamortized premiums and deferred amount on refunding. Payments made during fiscal year 2013 totaled $6,172,473 and amounts payable during fiscal year 2014 are $6,424,783. Bond payments are scheduled to be paid through fiscal year 2032. A majority of the bonds outstanding were used to finance the Authority's Arrival 2002 Project and are payable from general reserves and passenger facility charges revenue. The bond resolutions include reserve requirements, including the requirement that total revenues provide for 100% of operating expenses, and net revenues provide at least 125% of the debt service requirement for the following fiscal year. See note 6 of the notes to the basic financial statements for additional information regarding the outstanding long-term debt.

Bond Covenant

The Bond Indenture states that the Authority will provide General Revenues at least 125% of the Debt Service Requirement on all related Bonds secured by General Revenues then Outstanding for the Sinking Fund Year ending on the next June 30. At June 30, 2013, the Rate Covenant was met. The Indenture further provides that the Authority (in the event that the coverage is not met for a single year) hire a consultant to study revenues, expenses, and debt coverage for the following year and to provide guidance on rates and charges and meeting the rate coverage calculation. A noncompliance with the covenant is not a default until it is not met for two consecutive years.

Economic Factors

The total passenger activity at Norfolk International Airport (Airport) during fiscal year 2013 was 3,223,333, a 0.2% decrease over FY 2012 of 3,292,468 passengers. This stagnation in passenger traffic was a result of a number of factors including a continuing sluggish economy, the Federal budget sequestration that has significantly impacted government and military travel, the further reduction in available seat capacity by the airline industry and a general increase in airline fares. The Airport experienced revenue generation short of budget projections by ($585,000) or 2% primarily as a result of lower Minimum Annual Guarantees (MAGs), which were offered by the on-airport rental car companies in their proposals received in June of 2012. This was an unexpected development that resulted in rental car receipts performing under budget by ($662,000). Because the final budget for fiscal year 2013 was approved in May 2012 and the rental car proposals were not received until June of 2012, this reduction in anticipated rental car receipts was not reflected in the budget. The Airport experienced a more favorable picture with respect to expenses. As a result of cost containment efforts, expenses for the year were kept under budget by $2,357,719 or roughly 8%. The Airport finished the year with a net revenue of $1,124,190. Of this surplus, $520,120 will be placed in the Airport's Capital Reserve Expenditure Fund, leaving a balance of $604,070 to be shared with the airlines in accordance with the terms of the current Airline Use and Lease Agreement.

The outlook for fiscal year 2014 is uncertain. In the near term, the Airport expects to see a continuing negative impact on passenger activity primarily as a result of the slow economic recovery and, more importantly, the Federal budget sequestration, which appears to have significantly reduced government and military travel. In the last 6 months of fiscal year 2013, during which the sequestration became effective, passenger traffic trended down, on average, by approximately 5% per month. With the Hampton Roads area being home to a number of large military facilities, the inability of the U.S. Congress to pass a budget is likely to continue to have a negative effect on airline passenger activity. Faced with continued economic uncertainty, the Airport was conservative with respect to revenue projections contained in the fiscal year 2014 budget and will continue to keep cost control measures in place during the new fiscal year.

In fiscal year 2013, the Airport expended approximately $8.6 million towards completed Airport Capital Improvement Projects. These projects were funded using approximately $5.7 million in Federal and State grants and $2.9 million from Airport generated revenue. We expect to see capital expenditures increase significantly in fiscal year 2014. The Airport currently has several construction projects underway, which will allow it to maximize the use of both federal and state entitlement funds.

The Authority, owner and operator of Norfolk International Airport, continues to pursue approval of a parallel runway through the Federal Aviation Administration (FAA). The Airport's current Master Plan calls for a parallel runway (5R/23L) of approximately 6,500 feet in length, which would provide a redundant capability to handle all of the commercial aircraft currently operating at Norfolk International Airport. The Authority completed a Technical Study, which provided an in-depth analysis of both the need and justification for a parallel runway in 2009 and an updated executive summary of the Study was presented to the FAA in the spring of this year. Following a meeting with the FAA's Associate Administrator for Airports last fall and subsequent discussions with various FAA officials this year, the FAA provided approval for the Airport to proceed with the consultant selection process to undertake Phase I (purpose and need) of an environmental impact statement this summer. This Study is a required step in order to secure Federal approval to design and construct the parallel runway. It is anticipated that the consultant selection process should be completed by the end of this fiscal year and the EIS actually underway in early fiscal year 2014. The FAA has also approved a Federal grant, under the Airport Improvement Program (AIP), in the amount of $2.2 million to undertake the study. If approved, current plans call for the runway to be located approximately 850 feet east of existing Runway 5/23 and all construction will take place on existing Airport property. There are no plans to acquire additional property to accommodate the proposed runway.

The Authority hired the architectural firm of Hanbury Evans Wright Vlattas in 2010 to design a major upgrade of the Airport's general aviation facilities. These facilities handle the needs of all corporate and private aircraft operating at Norfolk International. Bids were solicited in May of 2012 and a construction contract was awarded to the firm J.B. Denny in June. The improvements include a major renovation of the interior of the general aviation terminal building as well as an expansion of the facility's public parking area. The project also includes updating the exterior of the terminal building to include cleaning and sealing of all exposed aggregate surfaces, painting of all exterior trim, and the addition of an oversized canopy at the landside entrance to the building. New exterior lighting and landscaping are also included in the scope of work. Construction is scheduled to be completed in October of 2013 with improvements expected to total approximately $6.2 million. Approximately 70% of the project cost will be funded by State Aviation Entitlement funds.

To ensure that the Airport's passenger terminal facilities remain attractive, comfortable, and up to date, the Authority engaged the architectural firm of Gresham Smith and Partners in the fall of 2010 to develop a scope of work to refurbish both the interior and exterior treatments of the terminal facilities, which is anticipate to be completed over a multi-year time frame. The firm completed the design work in the spring of 2012 to accomplish what is referred to as "Phase I" of the renovation effort and includes a major upgrade of the departures terminal lobby. Construction bids were solicited in late July 2012 and a construction contract was awarded to the construction firm of Clancy & Theys in October 2012. Construction is currently underway and includes the installation of three large skylights in the departure's terminal lobby, the replacement of four escalators that operate between the lobby area, located on the terminal's second level, and the airline ticketing facilities located on the first level, the installation of new terrazzo flooring in the center of the lobby area and the replacement of carpet and wall coverings around the periphery of the lobby. New plantscaping and furniture for the lobby area are also included in the project. New terrazzo flooring is also being installed in the main pedestrian travel areas on both airline concourses and new carpeting provided in all airline gate areas. It is anticipated that construction will be completed by early 2014 at a cost of approximately $6.0 million with 80% of funding provided by State aviation entitlement funds.

The architectural firm of Gresham Smith & Partners also completed design work for a major expansion of the Transportation Security Administration's (TSA) passenger screening checkpoint on Concourse B. The construction firm of Clancy & Theys was also selected to undertake this work as part of the terminal refurbishment effort and the construction project is well underway. The improvements will nearly triple the floor space now allocated for this important passenger function and will incorporate higher ceilings and large expanses of window glass, which will provide for a more comfortable passenger experience. The expanded checkpoint will also feature new low maintenance terrazzo flooring and improved interior lighting. The new facility will allow the TSA to significantly expand its passenger screening operations and to also install the latest in passenger screening technology. The new checkpoint is scheduled to be completed by Thanksgiving of 2013 and is expected to cost approximately $5.0 million. An FAA AIP Grant will cover 90% of the project's costs.

The Authority will be undertaking some major upgrades to the controls of the passenger terminal's energy management system this fall. These controls handle the HVAC and lighting systems in the departure's terminal and on both airline concourses. The project will include the replacement of numerous lighting and climate control panels, which are beyond their useful life and are now difficult to service and maintain. The project will also include upgrading the system's "communication network" from existing copper wiring to fiber, which will dramatically increase the communications speed between the system's main control panels and the various HVAC and lighting devices located throughout the departures terminal and on the airline concourses. These enhancements will aid in maintaining a more comfortable environment for passengers while also providing for greater energy conversation. The project is anticipated to be completed by spring of 2014 at a cost of approximately $0.5 million.

The Authority also provided approval this summer for Gresham Smith & Partners to proceed with the design of "Phase II" improvements to the passenger terminal complex. Currently, the scope of improvements to be addressed in this phase include: 1) The construction of a new TSA passenger screening checkpoint on Concourse "A, " similar in size and design to the expanded checkpoint now under construction on Concourse "B." The cost of this improvement is estimated at $7 Million with 90% funded by an FAA AIP grant. 2) The construction of new public restrooms on both airline concourses. New restrooms on Concourse "A" would be located between gates 2 and 4. The new facilities on "B" would be located between gates 18 and 20. The cost of these facilities is estimated at $4.8 Million with 90% funded by an FAA AIP grant. 3) The completion of the interior refurbishment of both airline concourses to include new wall coverings and treatments, new ceiling treatments and lighting improvements. The scope of work would also include an upgrade of the fire suppression system on Concourse "A" and skylight installations on both concourses and the pedestrian bridge leading to Concourse "A." Plans currently call for two skylights on each concourse and two on the bridge. The cost of these improvements is estimated at $5.0 Million with 80% funded from State aviation entitlement funds. The design work associated with "Phase II" is estimated to be completed by late spring of 2014 at a cost of $1.8 million. State aviation entitlement funds will be used to cover 80% of the design costs.

Finally, the Authority anticipates undertaking several additional miscellaneous projects before the end of the fiscal year 2014 that include: 1) Pavement overlay and remarking of both the North and South short-term parking lots. The terminal road system will also receive a sealcoat and remarking with shoulder repairs in selected areas. The cost of this work is estimated at $0.9 million. 2) Airfield pavement repairs to include Taxiways "F," "G," and "V" as well as repairs to the main terminal apron. The cost of these repairs is estimated at $1.5 Million. 3) Replacement of chiller #2 in the departures terminal. This equipment is 21 years old, is not efficient by today's standards and is becoming increasingly costly to maintain. The specified replacement equipment will be a larger capacity (600 tons vs. 450 tons), more efficient and less costly to operate. This replacement equipment is estimated to cost $0.8 million. 4) Install new passenger loading bridge at gate #7 on Concourse "A" for use by Southwest Airlines and US Airways. The cost of the bridge, including installation, is estimated at $1.4 million. 5) Upgrade the Airport's Flight Information Display System (FIDS). This project includes the replacement of the existing system's enclosed millwork cabinets with freestanding open frame units. Additionally, the system will receive technology upgrades that will reduce the existing eight monitor/computer configuration to three monitors and computers per display location. This upgrade will significantly reduce energy consumption. The total project cost is estimated at $500,000.

The Authority issued one conduit loan in fiscal year 2013 (Norfolk Collegiate School).

Contacting the Authority's Financial Management

This financial report is designed to provide interested parties with a general overview of the Authority's finances. Should you have any questions about this report or need additional information, please contact the Norfolk Airport Authority, Attention: William A. Jones, Director of Finance, 2200 Norview Avenue, Norfolk, Virginia 23581-5807. Alternatively, information about the operation of the Authority can be obtained via the Airport's Internet Web site at www.norfolkairport.com.

NORFOLK AIRPORT AUTHORITY

Statements of Net Position

June 30, 2013 and 2012

Assets		2013	2012
Current assets:			
Cash (note 2)	$	734,943	693,972
Investments (notes 2 and 12)		29,599,001	28,420,681
Accounts receivable, net (note 12)		1,943,155	1,950,895
Accrued interest receivable		65,365	65,763
Grants receivable		490,286	115,336
Prepaid expenses (note 15)		2,095,617	2,055,645
Total current assets		34,928,367	33,302,292
Restricted assets (note 3):			
Cash (note 2)		31,442	65,256
Investments (notes 2 and 12)		22,843,307	24,870,936
Passenger facility charges receivable, including interest		1,119,522	919,993
Total restricted assets		23,994,271	25,856,185
Capital assets (note 4):			
Land		14,905,612	14,904,812
Buildings, structures, and improvements		228,944,543	223,031,451
Roads and runways		61,233,693	60,974,560
Equipment		33,919,470	31,507,412
Construction in progress		10,572,911	8,654,203
		349,576,229	339,072,438
Less accumulated depreciation		(176,178,115)	(166,464,762)
Total capital assets, net		173,398,114	172,607,676
Other assets (note 9)		1,037,902	1,039,258
Debt issuance costs, net (note 5)		840,691	962,426
Total assets	$	234,199,345	233,767,837

See accompanying notes to basic financial statements.

Liabilities and Net Position		**2013**	**2012**
Current liabilities:			
Accounts payable	$	2,219,888	993,583
Accrued leave and wages		1,920,937	1,844,864
Other accrued expenses		234,390	241,804
Surplus payable to airlines (note 7)		302,035	—
Total current liabilities		4,677,250	3,080,251
Amounts payable from restricted assets:			
Accrued interest		1,471,550	1,824,044
Current portion of bonds payable (note 6)		6,424,783	6,172,474
Total amounts payable from restricted assets		7,896,333	7,996,518
Long-term liabilities:			
Bonds payable, less current portion (note 6)		58,899,251	65,604,087
Other liabilities (note 9)		1,301,681	1,300,656
Total long-term liabilities		60,200,932	66,904,743
Total liabilities		72,774,515	77,981,512
Commitments and contingencies (notes 8, 13, 14, and 15)			
Net position:			
Net investment in capital assets		108,914,770	101,793,543
Restricted for:			
Capital projects		9,443,127	6,409,192
Debt service		10,828,602	15,362,280
Unrestricted		32,238,331	32,221,310
Total net position		161,424,830	155,786,325
Total liabilities and net position	$	234,199,345	233,767,837

NORFOLK AIRPORT AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2013 and 2012

		2013	2012
Operating revenues:			
Passenger terminals (notes 7 and 11)	$	12,962,555	13,577,936
Landing fees and field operations (notes 7 and 11)		8,061,817	7,202,621
Parking		13,874,142	13,813,549
Total operating revenues		34,898,514	34,594,106
Operating expenses:			
Salaries and fringe benefits (notes 8, 9, and 10)		13,810,006	13,236,206
Depreciation and amortization (notes 4 and 5)		9,856,112	10,406,597
Utilities		2,602,291	2,683,073
Maintenance and repairs		2,857,789	3,035,341
Administrative		619,528	642,096
Professional services		763,116	513,490
Parking		590,612	582,290
Advertising and promotion		722,734	896,712
Insurance		586,217	536,680
Security and other services		3,079,844	3,169,388
Sanitation		585,978	525,385
Payment to City of Norfolk (note 15)		2,025,000	1,962,195
Other		354,826	323,135
Total operating expenses		38,454,053	38,512,588
Operating loss		(3,555,539)	(3,918,482)
Nonoperating revenues (expenses):			
Federal grant revenues		2,993,618	986,297
State grant revenues (note 3)		2,000,000	2,000,000
Passenger facility charges		6,476,423	6,527,056
State grant revenues investment gain (loss)		40,311	(50,509)
Passenger facility charges interest income		50,794	27,323
Other income		394,747	330,544
Investment gain (loss)		(83,325)	180,678
Interest expense		(2,678,524)	(2,580,976)
Net nonoperating revenues		9,194,044	7,420,413
Change in net position		5,638,505	3,501,931
Total net position, beginning of the year		155,786,325	152,284,394
Total net position, end of the year	$	161,424,830	155,786,325

See accompanying notes to basic financial statements.

NORFOLK AIRPORT AUTHORITY

Statements of Cash Flows

Years ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Collections from customers	$ 34,906,254	34,374,309
Payments to employees for services	(13,741,347)	(13,133,636)
Payments to the City of Norfolk	(2,025,000)	(1,962,195)
Payments to suppliers	(12,527,108)	(12,507,939)
Net cash provided by operating activities	6,612,799	6,770,539
Cash flows from capital and related financing activities:		
Principal payments on bonds	(6,172,473)	(28,956,153)
Proceeds from issuance of bonds	—	26,635,034
Costs of debt issuance	—	(571,533)
Acquisition of capital assets	(9,155,197)	(3,227,456)
Interest paid on debt	(3,031,021)	(3,306,594)
Passenger facility charges	6,327,688	6,626,100
Federal and State grants	4,658,979	2,970,952
Net cash provided by (used in) capital and related financing activities	(7,372,024)	170,350
Cash flows from investing activities:		
Purchases of investments	(199,543,200)	(135,973,859)
Proceeds from maturities of investments	200,309,582	129,226,713
Net cash provided by (used in) investing activities	766,382	(6,747,146)
Net increase in cash	7,157	193,743
Cash beginning of year	759,228	565,485
Cash end of year	$ 766,385	759,228
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (3,555,539)	(3,918,482)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	10,014,431	9,870,129
Amortization	(158,319)	536,468
Other nonoperating income, net	394,747	330,544
Decrease (increase) in operating assets:		
Accounts receivable	7,740	(219,797)
Prepaid expenses	(39,972)	66,715
Other assets	1,356	(2,076)
Increase (decrease) in operating liabilities:		
Accounts payable	(423,364)	230,132
Accrued leave and wages	76,073	182,592
Other accrued expenses	(7,414)	(80,022)
Surplus payable to/receivable from airlines	302,035	(225,870)
Other liabilities	1,025	206
Net cash provided by operating activities	$ 6,612,799	6,770,539

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization and Purpose

The Norfolk Airport Authority (the Authority) was formed on April 4, 1988 from the Norfolk Port and Industrial Authority to account for the operations of the Norfolk International Airport (the Airport). Revenues generated by Airport operations are used to meet all operating expenses and to provide for payment of all principal and interest on debt of the Authority related to the Airport. The Authority finances the individual projects by issuing bonds or obtaining loans in its own name and concurrently entering into leases, which provide for payment of all principal and interest payments on the related obligations as they become due. Revenues also include interest on investments.

(b) Basis of Accounting

The Authority prepares its financial statements in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority uses the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Current assets include cash and amounts convertible to cash during the next normal operating cycle, or one year. Current liabilities include those obligations to be liquidated with current assets. The Authority generally uses restricted assets first for expenses incurred for which both restricted and unrestricted assets are available. The Authority may defer the use of restricted assets based on a review of the specific transaction.

(c) Investments

The Authority reports its investment securities at fair value. Fair value is determined as of the end of the fiscal year.

(d) Revenue Recognition

Rentals and concession fees are generated from airlines, parking structures and lots, food service, rental cars, fixed-base operators, and other commercial tenants and are included in the applicable operating revenue accounts. Leases are accounted for as operating leases and generally require rentals based on the volume of business, with specified minimum rentals. Rental revenue is recognized over the life of the respective leases, and concession revenue is recognized based on reported concessionaire revenue.

(Continued)

(e) Capital Assets

Capital assets with an initial individual cost of $10,000 or more are capitalized at cost. The costs include interest expense incurred from the date of issuance of the debt to finance construction until the completion of the capital project, net of related interest income from unspent bond proceeds. The Authority provides for depreciation of all capital assets by the straight-line method over estimated useful lives as follows:

Buildings and structures	20 to 50 years
Improvements	5 to 30 years
Roads and runways	10 to 40 years
Equipment	3 to 15 years

Major renewals and improvements that extend a capital asset's useful life are capitalized; maintenance and repairs are expensed when incurred.

When a capital asset is retired or otherwise disposed of, the related cost and accumulated depreciation are eliminated from the accounts and any resulting gain or loss is reflected in operating expenses.

(f) Debt Issuance Costs

Debt issuance costs are amortized on the effective-interest method over the life of the debt to which it relates.

(g) Passenger Facility Charges

The current authorization from the Federal Aviation Administration (FAA) permits the Authority to collect Passenger Facility Charges (PFC) of $4.50 per eligible enplaned passenger up to an aggregate amount of $112,041,936 and expires on October 1, 2016. The net receipts from PFC are accounted for on the accrual basis of accounting and are restricted to use on FAA-approved projects. Unexpended PFC and related interest are included as restricted net position for projects that are approved by the FAA (note 3).

(h) Operating Revenues and Expenses

Operating revenues consist of passenger terminal, landing fees and field operations, and parking revenue. Operating expenses include salaries and fringe benefit costs, costs of services, utilities and maintenance, other operating expenses, depreciation, and amortization. All other revenues and expenses are classified as nonoperating revenues and expenses.

(i) Use of Estimates

The preparation of the financial statements requires management to make a number of estimates and assumptions related to reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses and changes in net position during the reporting period. Significant items subject to such estimates include the carrying amount of capital assets; valuation allowance for receivables; and assets and obligations related to employee benefits. Actual results could differ from those estimates.

(j) New Accounting Pronouncement

In June 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB Statement No. 63). This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. The Authority retroactively implemented the provisions of GASB Statement No. 63 in fiscal year 2013 by replacing the previous term "net assets" with the new term "net position" in the accompanying financial statements.

(2) Deposits and Investments

The Authority maintains several restricted cash and investment funds in addition to its operating funds. These funds are disclosed on the accompanying statements of net position as cash and investments.

The Code of Virginia authorizes the Authority to invest in certificates of deposit with national banks located within the Commonwealth of Virginia, obligations of the United States or its agencies, obligations of the Commonwealth of Virginia or its political subdivisions, and certain other investments.

(a) Deposits

The carrying values of the Authority's deposits with banks were $766,385 and $759,228 and the bank balances were $782,567 and $803,371 at June 30, 2013 and 2012, respectively. The entire bank balance was covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (the Act). In accordance with the Act, the depository institution pledged collateral in the form of federal agency obligations with a market value equal to 110% of the Authority's deposits with a third-party trustee in the name of the Treasurer of the Commonwealth of Virginia. In the event that the banking institution fails, the Treasurer will take possession of the collateral, liquidate it and reimburse the Authority up to the value of its deposits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks.

(b) Investments

The Authority's investment policy (the Policy) permits investments and investment practices that meet or exceed all statutes governing the investment of public funds in Virginia and any investment restrictions imposed by bond covenants. The Policy establishes limitations on the holdings in U.S. government obligations, Commonwealth of Virginia Local Government Investment Pool (LGIP), prime quality commercial paper, and certain corporate notes, bankers, acceptances, repurchase agreements, negotiable certificates of deposit, bank deposit notes, and mutual funds that invest exclusively in securities specifically permitted by the Code of Virginia.

(c) Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As required by state statute, the Policy requires that commercial paper have a short-term debt rating of no less than “A-1” (or its equivalent) from at least two of the following: Moody’s Investors Service, Standard & Poor’s, Fitch Investors Service, and Duff & Phelps. Corporate notes, negotiable certificates of deposit, and bank deposit notes maturing in less than one year must have a short-term debt rating of at least “A-1” by Standard & Poor’s and “P-l” by Moody’s Investors Service. Notes having a maturity of greater than one year must be rated “AA” by Standard & Poor’s and “Aa” by Moody’s Investors Service.

As of June 30, 2013, 23.0% of the Authority’s portfolio was invested in “AAA” rated obligations and 40.7% was invested in U.S. Treasury notes. All credit ratings presented in this paragraph are Standard & Poor’s ratings.

(d) Concentration of Credit Risk

The Policy establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. No more than 5% of the Authority’s portfolio will be invested in the securities of any single issuer with the following exceptions:

U.S. Treasury	100% maximum
Each federal agency	35% maximum
Each repurchase agreement counterparty	25% maximum
Commonwealth of Virginia Local Government Investment Pool	75% maximum
Registered investments (mutual funds)	75% maximum

As of June 30, 2013, the Authority’s portfolio was invested as follows:

Issuer	Percentage of portfolio
Federal Home Loan Bank	8.2%
Freddie Mac	10.8
Fannie Mae	7.8
Corporate notes	2.0
U.S. Treasury	40.7
Commercial paper	4.4
Money market mutual funds	26.1
	100.0%

(e) Interest Rate Risk

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority’s Policy limits the investment of funds as a means of limiting exposure to fair value losses arising from permitted investments with a stated maturity of no more than five years from the date of purchase. To control the volatility of investments, a duration target not to exceed three (3) years is determined for the core portfolio.

Proceeds from the sale of bonds issued by the Authority shall be invested in compliance with the specific requirements of the bond covenants without further restriction as to the maximum term of securities purchased.

As of June 30, 2013, the carrying values and weighted average maturity of the Authority's investments were as follows:

Investment type		Fair value	Weighted average maturity *
Money market funds	$	17,011,007	
Corporate notes		804,918	
U.S. Treasury		16,083,098	
Federal agency notes		16,793,362	
Commercial Paper		1,749,923	
Total investments	$	52,442,308	
Portfolio weighted average maturity			
* Weighted average maturity in years			0.72

(f) Custodial Credit Risk

Custodial credit risk for deposits is defined as the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of the outside party. The custodial credit risk for investments is defined as the risk that, in the event of failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Policy requires that all investment securities purchased by the Authority or held as collateral on deposits or investments shall be held in third-party safekeeping at a qualified public depository that may not otherwise be a counterparty to the investment transaction.

As of June 30, 2013, all of the Authority's investments were held in a bank's trust department in the Authority's name.

(g) Summary of Deposits and Investments

A reconciliation of the carrying value of deposits and investments reported above to amounts reported in the statements of net position at June 30, 2013 and 2012 is as follows:

		2013	2012
Deposits	$	766,385	759,228
Investments		52,442,308	53,291,617
	$	53,208,693	54,050,845
Current assets:			
Cash and cash equivalents	$	734,943	693,972
Investments		29,599,001	28,420,681
Restricted assets:			
Cash and cash equivalents		31,442	65,256
Investments		22,843,307	24,870,936
	$	53,208,693	54,050,845

(3) Restricted Assets

The Authority received $2,000,000 during both fiscal years 2013 and 2012 from the Commonwealth Airport Fund (State block grant) for the Authority's use in financing capital asset additions. These funds are provided in advance of actual expenditure or specific project approval based on the relative size of each of the Commonwealth's air carrier airports and are restricted for expenditures on qualifying projects.

The trust indenture securing the Series 2011 Bonds Payable, issued in the aggregate principal amount of $69,285,000, requires segregation of certain assets into restricted accounts. The construction account includes funds available for the design and construction of capital improvements for the Airport and for the repayment of debt. The passenger facility charge cash and receivable accounts are also restricted assets. All cash and investments are held by the following financial institutions: US Bank, SunTrust Bank, SunTrust Financial Corporation, and Branch Banking and Trust Company. Restricted assets consist of the following at June 30, 2013 and 2012:

		2013	2012
State block grant account	$	9,443,127	6,409,192
Debt service reserve accounts		6,343,754	6,467,896
Passenger facility charges account		4,832,785	9,802,168
Passenger facility charges receivable, including interest		1,119,522	919,993
City payment		2,223,641	2,191,680
Flexible spending account		27,355	20,774
Customs and border protection forfeiture fund		4,087	44,482
Restricted assets	$	23,994,271	25,856,185

(4) Capital Assets

The following is a summary of the changes in capital assets for the years ended June 30, 2013 and 2012:

	Balances, June 30, 2012	Increases	Decreases	Balances, June 30, 2013
Capital assets not being depreciated:				
Land	$ 14,904,812	800	—	14,905,612
Construction in progress	8,654,203	10,922,546	(9,003,838)	10,572,911
	23,559,015	10,923,346	(9,003,838)	25,478,523
Other capital assets:				
Building, structures, and improvements	223,031,451	5,913,092	—	228,944,543
Roads and runways	60,974,560	259,133	—	61,233,693
Equipment	31,507,412	2,713,136	(301,078)	33,919,470
Less accumulated depreciation for:				
Building, structures, and improvements	(97,261,298)	(6,300,638)	—	(103,561,936)
Roads and runways	(46,892,785)	(2,064,489)	—	(48,957,274)
Equipment	(22,310,679)	(1,649,304)	301,078	(23,658,905)
	149,048,661	(1,129,070)	—	147,919,591
Capital assets, net	$ 172,607,676	9,794,276	(9,003,838)	173,398,114

(Continued)

	Balances, June 30, 2011	Increases	Decreases	Balances, June 30, 2012
Capital assets not being depreciated:				
Land	$ 14,905,710	—	(898)	14,904,812
Construction in progress	7,924,285	2,972,146	(2,242,228)	8,654,203
	22,829,995	2,972,146	(2,243,126)	23,559,015
Other capital assets:				
Building, structures, and improvements	222,197,274	834,177	—	223,031,451
Roads and runways	60,671,148	303,412	—	60,974,560
Equipment	30,232,321	1,360,847	(85,756)	31,507,412
Less accumulated depreciation for:				
Building, structures, and improvements	(91,131,654)	(6,129,644)	—	(97,261,298)
Roads and runways	(44,834,682)	(2,058,103)	—	(46,892,785)
Equipment	(20,714,053)	(1,682,382)	85,756	(22,310,679)
	156,420,354	(7,371,693)	—	149,048,661
Capital assets, net	$ 179,250,349	(4,399,547)	(2,243,126)	172,607,676

Depreciation expense for the years ended June 30, 2013 and 2012 was $10,014,431 and $9,870,129, respectively.

(5) Debt Issuance Costs

At June 30, 2013, the gross carrying amount and accumulated amortization of debt issuance costs were $3,001,216 and $2,160,525, respectively. At June 30, 2012, the gross carrying amount and accumulated amortization of debt issuance costs were $3,001,216 and $2,038,790, respectively. Amortization expense for the years ended June 30, 2013 and 2012 was $121,735 and $536,468, respectively.

(6) Bonds Payable

Bonds payable comprise the following at June 30, 2013 and 2012:

	2013	2012
Series 2011 Bonds payable	$ 63,185,000	69,285,000
VRA Bond payable	591,570	664,043
	63,776,570	69,949,043
Unamortized premium and (deferred amount on refunding), net	1,547,464	1,827,518
	$ 65,324,034	71,776,561

(Continued)

In April 2001, the Authority completed the sale of $55,190,000 Airport Revenue Bonds Series 2001A (Non-AMT) and $56,340,000 Airport Revenue Bonds Series 2001B (AMT) (collectively, the Series 2001 Bonds). Proceeds of the Series 2001 Bonds were used to (a) finance a portion of the costs of the Authority's Arrival 2002 Project, which included a new arrivals terminal, renovation of the existing terminal, a long-term parking garage and roadway improvements, (b) prepay the short-term financing issued to temporarily finance the Arrivals 2002 Project, (c) fund certain reserves and construction period interest, and (d) pay costs associated with the issuance of the Series 2001 Bonds. The Series 2001 Bonds were payable from general reserves and PFC revenue from the Authority and certain funds and accounts established under the bond agreement. Principal payments on the Series 2001 Bonds were due on July 1 of each year from 2004 through 2031 in amounts that increase over the term of the bonds. Interest was payable on the bonds on January 1 and July 1 of each year with interest rates ranging from 4.0% to 5.375% during the term of the bonds. The bond resolutions included reserve requirements, including the requirement that total revenues provide for 100% of operating expenses and net revenues provide at least 125% of the debt service requirement for the following fiscal year.

In June 2011, the Authority completed the sale of $18,300,000 Airport Revenue Bonds Series 2011A (Non-AMT) and $25,025,000 Airport Revenue Bonds Series 2011B (AMT). In October 2011, the Authority completed the sale of $25,960,000 Airport Revenue Bonds Series 2011C (Non-AMT). Proceeds of the Series 2011 Bonds were used to defease and refund its outstanding Series 2001 Bonds. The Series 2011 Bonds are payable from general revenues and PFC revenues of the Authority and certain funds and accounts established under the indenture. Principal payments on the Series 2011 Bonds are due on July 1 of each year from 2013 through 2032. Interest is payable on the bonds on January 1 and July 1 of each year, commencing January 1, 2012, with interest rates ranging from 3.00% to 5.25% during the term of the bonds. The bond resolutions include reserve requirements, including the requirement that total revenues provide for 100% of operating expenses and net revenues provide at least 125% of the debt service requirement for the following year.

In January 2001, the Authority entered into a financing agreement with Virginia Resources Authority (VRA) in which VRA agreed to use a portion of the proceeds from the issuance of its Airport Revolving Fund Revenue Bonds, Series 2001B to acquire from the Authority the Airport Fixed-Base Operations Revenue Bond, Series 2001 (VRA Bonds) in the principal amount of $1,273,267. The VRA Bonds are payable from construction fund reserves established under the agreement. Principal payments plus interest at 3.14% are due monthly from 2002 to 2021.

Maturities of bond principal and interest to be provided for all bonds outstanding at June 30, 2013 were as follows:

	Principal	Interest
Year(s) ending June 30:		
2014	$ 6,424,783	2,815,755
2015	6,632,165	2,511,598
2016	4,804,623	2,235,340
2017	2,237,159	2,067,903
2018	2,344,777	1,966,586
2019 – 2023	13,178,063	8,130,088
2024 – 2028	15,305,000	4,617,320
2029 – 2032	12,850,000	1,184,014
	$ 63,776,570	25,528,604

Revenue bond activity for the years ended June 30, 2013 and 2012 is as follows:

	Balance, June 30, 2012	Proceeds from issuance	Amortization of premium and deferred amount on refunding	Bond payments	Balance, June 30, 2013	Amount due within one year
Series 2011 Bonds payable	$ 71,112,518	—	(280,054)	(6,100,000)	64,732,464	6,350,000
VRA Bond payable	664,043	—	—	(72,473)	591,570	74,783
	$ 71,776,561	—	(280,054)	(6,172,473)	65,324,034	6,424,783

	Balance, June 30, 2011	Proceeds from issuance	Change in discount, premium, and deferred amount on refunding	Bond payments	Balance, June 30, 2012	Amount due within one year
Series 2001 Bonds payable	$ 28,659,976	—	175,024	(28,835,000)	—	—
Series 2011 Bonds payable	44,830,083	26,635,034	(352,599)	—	71,112,518	6,100,000
VRA Bond payable	785,196	—	—	(121,153)	664,043	72,474
	$ 74,275,255	26,635,034	(177,575)	(28,956,153)	71,776,561	6,172,474

Bond Covenant

The Bond Indenture states that the Authority will provide General Revenues at least 125% of the Debt Service Requirement on all related Bonds secured by General Revenues then Outstanding for the Sinking Fund Year ending on the next June 30. At June 30, 2013, the Rate Covenant was met. The Indenture further provides that the Authority (in the event that the coverage is not met for a single year) hire a consultant to study revenues, expenses, and debt coverage for the following year and to provide guidance on rates and charges and meeting the rate coverage calculation. A noncompliance with the covenant is not a default until it is not met for two consecutive years.

(7) Airport Use Agreement

Effective July 1, 2008, the Authority entered into an Airline Use and Lease Agreement (the Agreement) with the commercial airlines operating scheduled passenger service at the Airport, which was renewed effective July 1, 2013. The current term of the Agreement for all signatory carriers is five (5) years. The Agreement provides for airlines to pay rates and charges calculated based on established cost centers. The Agreement provides for the Authority to share surplus revenues with the signatory airlines after all operating and maintenance expenses, debt service (including coverage), and required deposits to various reserve funds have been made. Surplus revenues are accrued at the end of the year and refunded to the airlines and a deficit in revenues may be billed to the Airlines. At June 30, 2013, there was a surplus of $302,035 payable to the Airlines, which is reflected as a reduction of operating revenues in the accompanying statement of revenues, expenses, and changes in net position for the year ended June 30, 2013. In fiscal year 2012, there was a deficit of $106,642, but the airport elected to forgo the collection of the deficit from the airlines, which is allowable under the Airline Use and Lease Agreement.

(8) Defined Benefit Pension Plan

(a) Plan Description

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

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

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Nonhazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Nonhazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs, and hazardous duty employees

of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for nonhazardous duty members is 1.70%. The retirement multiplier for eligible political subdivision hazardous duty employees is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP), or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP, or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 3.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the report may be obtained from the VRS Web site at http://www.varetire.org/Pdf/Publications/2011-annual-report.pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, Virginia, 23218-2500.

(b) Funding Status and Progress

Employees are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. This 5% member contribution has been assumed by the Authority. The Authority is required by state statute to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS board of trustees. The Authority's contributions for years ended June 30, 2013, 2012, and 2011 were $1,684,872, $1,217,433, and $1,167,384, respectively, which were equal to the required amounts for each year.

	2013	**2012**	**2011**
Total employer contributions	$ 1,684,872	1,217,433	1,167,385
Contributions as a percentage of covered payroll	18%	13%	13%

(c) Annual Pension Cost

For the year ended June 30, 2013, the annual pension cost of $1,684,872 for VRS was equal to the required and actual contributions.

		2013	2012	2011
Annual Pension Cost	$	1,684,872	1,217,433	1,167,385
Percentage of Annual Pension Cost Contributed		100%	100%	100%
Net Pension Obligation	$	—	—	—

Significant actuarial assumptions used in the most recent June 30, 2012 actuarial valuation include:

Actuarial cost method	Entry age normal
Amortization method	Level percent of pay, open
Payroll growth rate	3.00%
Remaining amortization period	29 years
Asset valuation method	Five-year smoothed market value
Actuarial assumptions:	
Investment rate of return *	7.00%
Projected salary increase *	3.75% to 5.60%
Cost-of-living adjustments:	
1) Plan 1 Members	2.50%
2) Plan 2 Members	2.25%

* Includes inflation at 2.50%

(d) Funding Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was 77% funded. The actuarial accrued liability for benefits was $35,731,702, and the actuarial value of assets was $27,682,574, resulting in an unfunded actuarial accrued liability (UAAL) of $8,049,128. The covered payroll (annual payroll of active employees covered by the plan) was $9,353,846, and the ratio of the UAAL to the covered payroll was 86%.

The schedule of funding progress (unaudited required supplementary information) for the three most recent years follows:

		Valuation date June 30		
		2012	**2011**	**2010**
Actuarial value of assets	$	27,682,574	27,325,547	26,414,059
Actuarial accrued liability		35,731,702	33,857,645	31,202,439
Amount under funded	$	(8,049,128)	(6,532,098)	(4,788,380)
Funded ratio		77%	81%	85%
Annual covered payroll	$	9,353,846	9,205,168	9,119,635
Amount under funded as a percentage of covered payroll		(86)%	(71)%	(53)%

(9) Executive Supplemental Retirement Plan

The Authority has an Executive Supplemental Retirement Plan (the ESRP), which was approved and established by the Board of Commissioners for certain key executives. Under the terms of the ESRP, upon retirement, the participants will receive annual payments equal to 75% of their final salary less any benefits received under the VRS. The receipt of full benefits is contingent on the participant's continued employment through the age of 65. Employees are eligible for reduced benefits beginning at the age of 60. The related expense is being accrued over the participants' estimated remaining length of service. Expense for the years ended June 30, 2013 and 2012 was $55,852 and $55,613, respectively. Whole life insurance policies have been purchased to assist in funding this liability. The Authority is owner and beneficiary of each of these policies. The cash surrender value of these policies was $1,037,902 and $1,039,258 at June 30, 2013 and 2012, respectively, and is included as other noncurrent assets in the accompanying statements of net position.

A summary of the activity in other long-term liabilities for the years ended June 30, 2013 and 2012 is as follows:

		Balances, June 30, 2012	**Increases**	**Decreases**	**Balances, June 30, 2013**
Executive Supplemental Retirement Plan	$	1,139,166	55,852	(54,827)	1,140,191
Deposits payable		161,490	—	—	161,490
	$	1,300,656	55,852	(54,827)	1,301,681

(Continued)

		Balances, June 30, 2011	Increases	Decreases	Balances, June 30, 2012
Executive Supplemental Retirement Plan	$	1,136,891	55,613	(53,338)	1,139,166
Deposits payable		163,559	11,098	(13,167)	161,490
	$	1,300,450	66,711	(66,505)	1,300,656

(10) Employee Contribution Plan

During fiscal year 1991, the Authority established a deferred compensation plan through ICMA Retirement Corporation (the Company). The plan was established under the guidelines of Section 457 of the Internal Revenue Code (IRC). The plan is a voluntary employee contribution plan in which employees elect a dollar amount to be withheld each pay period. Assets and liabilities related to this plan are not included in the accompanying statements of net position.

All regular full-time employees of the Authority are eligible to participate with a minimum contribution of $25 per pay period. Maximum contributions made by an employee are subject to IRC limitations.

The plan is entirely funded by the Authority's employees. The Company charges each participating employee a policy fee of $18 deducted at the end of each participant's contract year. The Company also has the authority to annually deduct a certain percentage of the daily average net asset balance to cover administrative and other various costs.

(11) Rental Income from Operating Leases

The Authority has entered into various operating leases with tenants for the use of space at Authority facilities. The lease terms include a minimum fixed fee, as well as contingent fees, based on the tenant's volume of business. Substantially, all the leases provide for a periodic review and redetermination of the rental amounts.

Minimum future rentals and concessions expected to be received on operating leases for each of the succeeding five years approximate:

Year ending June 30:		
2014	$	13,670,000
2015		14,022,000
2016		14,404,000
2017		14,818,000
2018		15,150,000

The above amounts do not include contingent rentals and fees in excess of minimums, which amounted to $1,061,740 and $1,062,665 in fiscal years 2013 and 2012, respectively. Total rental and concession income in fiscal years 2013 and 2012 was approximately $14,321,000 and $14,863,000, respectively.

(12) Concentration of Credit Risk

Financial instruments that potentially subject the Authority to concentration of credit risk consist of investments and accounts receivable. The Authority's investments are described in note 2. A substantial portion of the Authority's accounts receivable is from U.S. commercial airlines that could be similarly affected by industry economic conditions. Historically, the Authority's uncollectible accounts receivable have been minimal, and the Authority does not require collateral for its receivables.

(13) Risk Management

The Authority is exposed to a variety of risks or losses related to torts (i.e., injuries to employees, damage to property, destruction or theft of assets, and natural disasters). The Authority purchases insurance through the Commonwealth of Virginia and commercial insurance carriers for specific types of coverage.

The Authority participates in a risk management self-insurance plan through the Commonwealth of Virginia administered by the Division of Risk Management. Through this plan, the Authority obtains public officers' liability coverage of $1,000,000 per occurrence. The Comprehensive Annual Financial Report of the Commonwealth of Virginia contains disclosure of the Commonwealth's estimated claims payable and estimated losses for self-insurance plans at June 30, 2013 and 2012.

The Authority also participates in a self-insurance program for workers' compensation coverage through Liberty Mutual Group. Through this program, the Authority obtains coverage for bodily injury by accident or disease of $1,000,000 per occurrence.

Through commercial insurance carriers, the Authority has property insurance coverage of $300,000,000 annually, general liability coverage of $50,000,000 per occurrence, airport liability coverage of $300,000,000 annually, business auto coverage of $1,000,000 per occurrence, disability coverage of $72,000 annually, and crime insurance coverage of $1,000,000 per occurrence.

There were no reductions to insurance coverage from the prior year. Claim settlements and judgments not covered by insurance coverage are covered by operating resources. The amount of settlements did not exceed insurance coverage for any of the past three years. Claim expenditures and liabilities are reported when it is probable that a loss occurred and the amount of loss can be reasonably estimated.

(14) Government Grants in Aid of Construction

The Authority receives, on a reimbursement basis, grants from the Commonwealth of Virginia and the federal government for certain capital construction projects through the Airport Improvement Program. As a recipient of State and Federal financial assistance, the Authority is responsible for maintaining an internal control structure that ensures compliance with all laws and regulations related to this program. All grants are subject to financial and compliance audits by the grantors. In the opinion of management, audit adjustments, if any, would not have a significant impact on the financial position of the Authority.

(15) Commitments and Contingencies

Prior to July 1, 1998, the Authority had an agreement with the City of Norfolk (the City) whereby the Authority had use of the Airport property free of charge. As of July 1, 1998, the City reacquired title to all property. On January 18, 2000, the City executed a deed conveying title to the Authority, reserving a right of reversion if the Airport property is no longer used as an airport. In consideration of the conveyance of the property, the Authority agreed to compensate the City for the loss of tax revenue on the Airport property. The amount of payments for fiscal years 2013 and 2012 was $2,025,000 and $1,962,195, respectively. Annual base payments for fiscal years 2010 through 2013 are set at $1,500,000, increased annually by the consumer price index multiplier. Beginning in fiscal year 2014, the adjusted annual payment will be set by the City's tax assessor, but in no event shall exceed stated tax rates on the fair value of the Airport property. Payments are payable annually, in advance, on July 1.

The Authority is a defendant in certain lawsuits and is aware of other threatened claims generally incidental to its operations. Management is of the opinion that the accompanying financial statements will not be materially affected by the ultimate resolution of litigation pending or threatened as of June 30, 2013.

(16) Conduit Debt

From time to time, the Authority has issued revenue bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying promissory notes. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the Commonwealth of Virginia nor any political subdivision thereof, including the Authority, is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying statements of net position. As of June 30, 2013 and 2012, there were 21 and 20, respectively, series of revenue bonds outstanding with an initial aggregate principal amount of approximately $98,546,000 and $95,546,000, respectively.

NORFOLK AIRPORT AUTHORITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

Federal grantor/program title	CFDA number	Project number		Expenditures
Federal Aviation Administration:				
Airport Improvement Program:				
Acquire Snow Removal Equipment	20.106	3-51-0036-61	$	684,898
Expand Security Checkpoint B	20.106	3-51-0036-62		2,127,220
Transportation Security Administration:				
Explosive detection canine team program	97.072			181,500
			$	2,993,618

See accompanying notes to schedule of expenditures of federal awards.

See accompanying independent auditors’ report.

NORFOLK AIRPORT AUTHORITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

(1) General

The accompanying schedule of expenditures of federal awards (the Schedule) presents the activities of the federal financial assistance programs of the Norfolk Airport Authority.

(2) Basis of Accounting

The accompanying Schedule is presented using the accrual basis of accounting.

NORFOLK AIRPORT AUTHORITY

Schedule of Passenger Facility Charge Revenues and Expenditures

Year ended June 30, 2013 and each quarter
during the year ended June 30, 2013

	Date approved	Amount approved	Cumulative total – June 30, 2012	Quarter ended September 30, 2012	Quarter ended December 31, 2012	Quarter ended March 31, 2013	Quarter ended June 30, 2013	Year ended June 30, 2013	Cumulative total – June 1998 to June 30, 2013
Revenues:									
Passenger facility charge revenues received			$ 69,416,256	1,848,703	1,878,711	1,235,162	1,314,316	6,276,892	75,693,148
Interest earned			7,176,086	35,841	5,518	10,444	—	51,803	7,227,889
Total revenues			$ 76,592,342	1,884,544	1,884,229	1,245,606	1,314,316	6,328,695	82,921,037
Expenditures:									
Bond financing and interest costs	July 2007	$	66,876,942	7,876,048	—	3,370,291	—	11,246,339	78,123,281

Revenues received and expenditures spent on approved projects in the schedule above agree to the Passenger Facility Charge Quarterly Status Reports (PFC Reports) submitted by the Norfolk Airport Authority to the Federal Aviation Administration (FAA).

See accompanying independent auditors' report.

KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

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*

The Board of Commissioners
Norfolk Airport Authority:

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 basic financial statements of the Norfolk Airport Authority (the Authority), which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated October 24, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the Authority'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 basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

October 24, 2013

KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report on Compliance for the Major Program and Report on Internal Control Over Compliance Required by OMB Circular A–133, *Audits of States, Local Governments, and Non-Profit Organizations*

The Board of Commissioners
Norfolk Airport Authority:

Report on Compliance for the Major Federal Program

We have audited the Norfolk Airport Authority's (the Authority) 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 the Authority's major federal program for the year ended June 30, 2013. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance of the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

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

Report on Internal Control Over Compliance

Management of the Authority 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 Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with 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 Authority'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.

KPMG LLP

October 24, 2013

KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report on Compliance for the Passenger Facility Charge Program and Report on Internal Control Over Compliance

The Board of Commissioners
Norfolk Airport Authority:

Report on Compliance for the Passenger Facility Charge Program

We have audited Norfolk Airport Authority's (the Authority) compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the Guide), issued by the Federal Aviation Administration, that could have a direct and material effect on its passenger facility charge program for the year ended June 30, 2013.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its passenger facility charge program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Authority's passenger facility charge program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide 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 the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the passenger facility charge program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion

In our opinion, Norfolk Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its passenger facility charge program for the year ended June 30, 2013.

KPMG

Report on Internal Control Over Compliance

Management of the Authority 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 Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the passenger facility charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Guide, 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 Authority'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 the passenger facility charge 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 the passenger facility charge 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 the passenger facility charge program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

KPMG LLP

October 24, 2013

NORFOLK AIRPORT AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

(1) Summary of Auditors' Results

(a) The type of report issued on the financial statements: **Unmodified opinion**

(b) Significant deficiencies in internal control over financial reporting: **None reported**
Material weaknesses: **None**

(c) Noncompliance, that is material to the financial statements: **None**

(d) Significant deficiencies in internal control over major programs: **None reported**
Material weaknesses: **None**

(e) The type of report issued on compliance for major programs: **Unmodified opinion**

(f) Any audit findings that are required to be reported under Section 0.510(a) of OMB Circular A-l33: **None**

(g) Major program: **Airport Improvement Program; CFDA No. 20.106**

(h) Dollar threshold used to distinguish between Type A and Type B programs: **$300,000**

(i) Auditee qualified as a low-risk auditee: **Yes**

(2) Findings Relating to the Financial Statements Reported in accordance with *Government Auditing Standards*: None

(3) Findings Required to be Reported under Section 501(a) of OMB Circular A-133: None

(4) Findings Required to be Reported under the Passenger Facility Charge Audit Guide for Public Agencies: None