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# NORFOLK AIRPORT AUTHORITY

Basic Financial Statements,
Required Supplementary Information,
Supplemental Schedules and Audit of Federal Awards Performed
in Accordance with U.S. Office of Management and Budget Circular A-133

June 30, 2015 and 2014

(With Independent Auditors' Reports Thereon)

**NORFOLK AIRPORT AUTHORITY**

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**Board of Commissioners**

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Harold J. Cobb, Jr.
William L. Nusbaum
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| | |
|---|---|
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| Robert S. Bowen | Deputy Executive Director |
| Anthony E. Rondeau | Director of Facilities |
| Steven C. Sterling | Director of Operations |
| William A. Jones | Director of Finance |
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| Barbara J. Kunkel | Director of Human Resources |

KPMG LLP
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Norfolk, VA 23510

# Independent Auditors' Report

The Board of Commissioners
Norfolk Airport Authority:

## Report on the Financial Statements

We have audited the accompanying financial statements of the Norfolk Airport Authority (the Authority) as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Norfolk Airport Authority as of June 30, 2015 and 2014, and the changes in its financial position and cash flows thereof for the years then ended, in accordance with U.S. generally accepted accounting principles.

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### *Emphasis of Matter*

As discussed in note 1 to the basic financial statements, in fiscal year 2015, the Authority adopted new accounting guidance described in Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 and* Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68.* Our opinion is not modified with respect to this matter.

### *Other Matters*

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4 through 12, the Schedule of Funding Progress on page 35, and the Required Supplementary Information and related Notes to Required Supplementary Information on pages 39 through 41, 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 audits 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 opinions on financial statements that collectively comprise the Authority's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by the U.S. 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 audits 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 audits 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 30, 2015, 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 30, 2015

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 as of and for the years ended June 30, 2015 and 2014. 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 a similar basis of accounting as employed by most private-sector enterprises.

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

The statements of net position present information on the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the Authority, with the resulting differences 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 non-operating, 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, 2015 and 2014.

## Financial Highlights

The following major financial highlights are of note as of and for the year ended June 30, 2015:

Total net position was $172,482,801 as of June 30, 2015. Net position includes $28,467,278 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, 2015 increased $3,574,184 from total net position at June 30, 2014. Capital assets, before accumulated depreciation, increased $10,550,025 during fiscal year 2015 primarily due to the completion of the Lobby Skylights, Concourse B Security Checkpoint Expansion, replacement of the Public Safety Radio Console, the purchase of several vehicles, upgrades to the Energy Management System and the Flight Information Display System, replacement of a chiller and boiler, and the ongoing renovations to refurbish public areas. These additions were funded by federal and state grants and from the Authority's unrestricted assets.

Operating revenues during fiscal year 2015 increased by $1,732,249 compared to the previous year. Parking revenue increased $1,132,200 due to the increase in the long-term parking rate; passenger terminal revenue increased $199,923 due to the increase in airline space rental fees. Landing fees and field operations revenue increased $400,126 due to an increase in landing fee rate from $3.50 in fiscal year 2014 to $3.92 in fiscal year 2015.

Operating expenses during fiscal year 2015 increased $3,011,747 compared to the previous year, due primarily to the increase in the payment to the City of Norfolk for tax assessment, along with increases in advertising and promotions, insurance, maintenance and repairs, and depreciation and amortization. The increase was partially offset by a decrease in retirement benefits and professional services as a result of the adoption of GASB Statement No. 68 and GASB Statement No. 71 in fiscal year 2015.

Net non-operating revenues during fiscal year 2015 increased $1,318,128 compared to fiscal year 2014 due primarily to the increase in federal grants.

Federal and state grants, grant interest revenue, and other income increased $1,533,344 compared to the previous year primarily due to increased federal revenues for the Concourse A Security Checkpoint Expansion and terminal renovations.

The following major financial highlights are of note as of and for the year ended June 30, 2014:

Total net position was $168,908,617 as of June 30, 2014. Net position includes $32,566,282 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, 2014 increased $8,186,554 from total net position at June 30, 2013. Capital assets, before accumulated depreciation, increased $14,219,712 during fiscal year 2014 primarily due to the completion of the general aviation terminal improvements, additional jet bridges on Concourse A, Air Cargo and Gourmet Gang Pump Station Replacement, purchase of garage sweepers, replacement of airfield drainage structure tops and several vehicles, and the ongoing renovations in the main terminal. These additions were funded by State grant funds and from the Authority's unrestricted assets.

Operating revenues during fiscal year 2014 increased by $2,768,677 compared to the previous year. Parking revenue increased $819,931 due to the increase in the long-term parking rate; passenger terminal revenue increased $1,135,667 due to the increase in airline space rental fees. Landing fees and field operations revenue increased $813,079 due to an increase in landing fee rate from $2.69 in fiscal year 2013 to $3.50 in fiscal year 2014.

Operating expenses during fiscal year 2014 increased $1,152,801 compared to the previous year, due primarily to increases in wages and retirement benefits, advertising and promotions, maintenance and repairs, and depreciation and amortization. The increase was partially offset by decreases in professional services and utilities.

Net non-operating revenues during fiscal year 2014 increased $845,556 compared to fiscal year 2013 due primarily to the increase in federal grants and gains on investments.

Federal and state grants, grant interest revenue, and other income during fiscal year 2014 increased $183,263 compared to the previous year primarily due to increased federal revenues for the Concourse B Security Checkpoint Expansion and Phase I of the Environmental Impact Statement for the parallel runway.

**Net Position**

Total net position of $172,482,801 increased $3,574,184, or 2.1%, for the year ended June 30, 2015 compared to the prior year. The increase in net position is primarily due to an increase in net investment in capital assets of $7,121,713, or 5.9%, primarily attributable to 2015 construction projects in process and the reduction in long-term debt. Unrestricted net position decreased $4,099,014 over the prior year and restricted net position increased $551,485, or 3.3%, primarily due to the increase in passenger facility charges.

Total net position of $168,908,617 increased $8,186,554, or 5.1%, for the year ended June 30, 2014 compared to the prior year. The increase in net position is primarily due to an increase in net investment in capital assets of $11,532,341, or 10.7%, primarily attributable to 2014 construction projects in process and the reduction in long-term debt. Unrestricted net position increased $327,961 over the prior year and restricted net position decreased $3,673,748, or 18.1%, primarily due to the use of state block grant funds for construction projects.

A summary of the major components of the statements of net position as of June 30, 2015, 2014, and 2013 is as follows:

**Condensed Statements of Net Position**

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Current assets | $ 33,854,895 | 34,752,138 | 34,928,367 |
| Restricted assets | 20,909,470 | 20,289,162 | 23,994,271 |
| Capital assets, net | 178,601,211 | 178,292,350 | 173,398,114 |
| Other noncurrent assets | 1,107,998 | 1,140,952 | 1,175,826 |
| Total assets | 234,473,574 | 234,474,602 | 233,496,578 |
| Deferred outflows of resources | 1,573,102 | 263,809 | 327,391 |
| | $ 236,046,676 | 234,738,411 | 233,823,969 |
| Current liabilities | $ 4,194,230 | 4,644,299 | 4,677,250 |
| Amounts payable from restricted assets | 5,974,398 | 7,958,865 | 7,896,333 |
| Long-term liabilities | 51,192,247 | 53,226,630 | 60,528,323 |
| Total liabilities | 61,360,875 | 65,829,794 | 73,101,906 |
| Deferred inflows of resources | 2,203,000 | — | — |
| Net investment in capital assets | 126,866,057 | 119,744,344 | 108,212,003 |
| Restricted net position | 17,149,466 | 16,597,981 | 20,271,729 |
| Unrestricted net position | 28,467,278 | 32,566,292 | 32,238,331 |
| Total net position | 172,482,801 | 168,908,617 | 160,722,063 |
| | $ 236,046,676 | 234,738,411 | 233,823,969 |

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 key executive life insurance policies purchased to assist in funding the Executive Supplemental Retirement Plan liability. Deferred outflows of resources include deferred amount on refunding on the Series 2011 bonds and deferred pension contributions.



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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 2015. Included in long-term liabilities are the principal amount of bonds payable that mature after June 30, 2015, net of unamortized premium, net pension liability, and an executive supplemental retirement plan liability. Deferred inflows of resources include the difference between projected and actual earning on pension plan investments.

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, 2015, 2014, and 2013 is provided as follows, followed by additional analysis.

Revenues for the years ended June 30, 2015, 2014, and 2013 are summarized as follows:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Operating revenues: | | | |
| Passenger terminals | $ 14,298,145 | 14,098,222 | 12,962,555 |
| Landing fees and field operations | 9,275,022 | 8,874,896 | 8,061,817 |
| Parking revenue | 15,826,273 | 14,694,073 | 13,874,142 |
| Total operating revenues | 39,399,440 | 37,667,191 | 34,898,514 |
| Nonoperating revenues, net: | | | |
| Federal and state grants and interest | 6,675,189 | 5,195,088 | 5,033,929 |
| Passenger facility charges and interest | 5,909,219 | 6,108,345 | 6,527,217 |
| Investment gain (loss) | 115,932 | 178,957 | (83,325) |
| Other income | 470,094 | 416,851 | 394,747 |
| Total nonoperating revenues, net | 13,170,434 | 11,899,241 | 11,872,568 |
| Total revenues, net | $ 52,569,874 | 49,566,432 | 46,771,082 |

Operating revenues increased $1,732,249, or 4.6%, in fiscal year 2015 when compared to the previous year. The increase in operating revenues is attributed primarily to the increase in parking revenue and landing fees and field operations during the year. Passenger facility charges and interest decreased $199,126, or 3.3%, in fiscal year 2015 when compared to the previous year due primarily to fewer paying passengers as a result of the merger of American Airlines and US Airways and a decrease in Southwest Airlines flights. Federal and state grant revenues and state grant interest, increased $1,480,101, or 28.5%, when compared to the prior year due to the funding from federal and state sources to start Phase I of the Environmental Impact Statement of the parallel runway and to the Concourse A Security Checkpoint Expansion. Investment income decreased $63,025 from fiscal year 2014 primarily due to changes in investment strategies and interest rates.

Operating revenues increased $2,768,677, or 7.9%, in fiscal year 2014 when compared to the previous year. The increase in operating revenues is attributed primarily to the increase in passenger terminal revenue, landing fees and field operations during the year. Passenger facility charges and interest decreased $418,872, or 6.4%, in fiscal year 2014 when compared to the previous year due primarily to fewer paying passengers as a result of the merger of American Airlines and US Airways and a decrease in Southwest Airlines flights. Federal and state grant revenues and state grant interest, increased $161,159, or 3.2%, when compared to the prior year due to the funding from federal and state sources to start Phase I of the Environmental Impact Statement of the parallel runway and to continue the Concourse B Security Checkpoint Expansion. Investment income increased $262,282 from fiscal year 2013 primarily due to changes in investment strategies and marginal increases in interest rates.

Expenses for the years ended June 30, 2015, 2014, and 2013 are summarized as follows:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Operating expenses: | | | |
| Salaries and fringe benefits | $ 13,812,488 | 14,137,795 | 13,810,006 |
| City tax assessment | 5,127,465 | 2,065,500 | 2,025,000 |
| Maintenance and repairs | 3,370,284 | 3,250,411 | 2,857,789 |
| Depreciation and amortization | 10,162,197 | 9,939,655 | 9,769,495 |
| Other expenses | 10,059,550 | 10,126,876 | 9,905,146 |
| Total operating expenses | 42,531,984 | 39,520,237 | 38,367,436 |
| Nonoperating expenses: | | | |
| Interest expense | 1,812,706 | 1,859,641 | 2,678,524 |
| Total expenses | $ 44,344,690 | 41,379,878 | 41,045,960 |

Operating expenses increased $3,011,747, or 7.6%, in fiscal year 2015 compared to fiscal year 2014. Salaries and fringe benefits decreased $325,307, or 2.3%, primarily due to the reduction of retirement benefits expense as a result of the adoption of GASB Statement No. 68 and GASB Statement No. 71 in fiscal year 2015. Depreciation and amortization increased $222,542, or 2.2%, primarily due to the amortization of bond premiums. Other expenses decreased $67,326, or 0.7%, primarily due to decreases in professional services, partially offset by increases in advertising and promotion, security and other services.

Operating expenses increased $1,152,801, or 3.0%, in fiscal year 2014 compared to fiscal year 2013. Salaries and fringe benefits increased $327,789, or 2.4%, primarily due to an increase in wages and retirement benefits. Depreciation and amortization increased $170,160, or 1.7%, primarily due to the amortization of bond premiums. Other expenses increased $221,730, or 2.2%, primarily due to increases in advertising and promotions, sanitation and maintenance and repairs, partially offset by decreases in professional services, security and other services.

## 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 replacement of a cooling tower, runway anti-icing equipment, replacement of Concourse A switchgear, perimeter and access road rehabilitation, replacement of the Public Safety Radio Console, ongoing Departures Terminal refurbishment and expansion of the TSA passenger screening checkpoint in Concourse A. 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, 2015 and 2014, as well as a schedule of additions and retirements for the years ended June 30, 2015 and 2014, are included as follows:

| | June 30 | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| Summary of capital assets: | | | |
| Land | $ 14,722,494 | 14,931,702 | 14,905,612 |
| Buildings, structures, and improvements | 249,385,608 | 234,658,284 | 228,944,543 |
| Roads and runways | 61,399,095 | 61,399,095 | 61,233,693 |
| Equipment | 36,075,868 | 35,359,849 | 33,919,470 |
| Construction in progress | 12,762,901 | 17,447,011 | 10,572,911 |
| | 374,345,966 | 363,795,941 | 349,576,229 |
| Accumulated depreciation | (195,744,755) | (185,503,591) | (176,178,115) |
| Total | $ 178,601,211 | 178,292,350 | 173,398,114 |

Schedule of additions and retirements:

| | June 30 | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| Capital assets, beginning of year | $ 178,292,350 | 173,398,114 | 172,607,676 |
| Additions | 26,096,505 | 23,856,681 | 19,808,707 |
| Retirements | (15,444,769) | (8,809,462) | (9,003,838) |
| Depreciation | (10,342,875) | (10,152,983) | (10,014,431) |
| Capital assets, end of year | $ 178,601,211 | 178,292,350 | 173,398,114 |

### *Long-Term Debt (Bonds Payable)*

At June 30, 2015, the Authority had total bonds payable outstanding of $52,035,531 net of unamortized premiums. Principal payments made during fiscal year 2015 totaled $6,632,165 and principal amounts payable during fiscal year 2016 are $4,804,623. Bond payments are scheduled to be paid through fiscal year 2033. 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.



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***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, 2015, 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 (FY) 2015 was 2,908,805, a 5.85% decrease over FY 2014 of 3,089,480 passengers. This decline in passenger traffic was a result of a number of factors including a sluggish local economy, the budget sequestration which 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. Because of this decrease in passengers, the Airport experienced revenue generation which fell below budget projections by ($328,809) or 0.8%. This performance was due primarily to Landing Fee revenues which performed under budget projections by ($627,091) or 7.7% as a result of the airlines operating fewer scheduled flights at the airport during the fiscal year than they forecasted during the budget preparation process for FY15. Additionally, revenue generated by the operation of the Airport's public parking lots also performed under budget by ($533,600) or 3.5% due to the reduction in passenger traffic during the fiscal year. The Airport experienced more favorable variances with respect to expenses. As a result of cost containment efforts, expenses for the year were kept under budget by $2,243,289 or 6.9%. The Airport finished the year with a net revenue of $3,707,155 based on the surplus revenue calculation in accordance with the Airline Use Agreement which considers various components of the Authority's activities during the fiscal year. In accordance with provisions contained in the Airline Use Agreement, $2,478,254 will be retained in the Parking Escrow Account to be used to fund future parking related capital projects, $181,552 will be transferred to the Airport's Capital Reserve Expenditure Fund, and the balance of $1,047,349 will be shared equally between the Airport and the airlines operating at Norfolk International.

The outlook for FY16 is more positive. Passenger traffic for the months of July and August were up by 6.3% and 7.25% respectively over the same months for last year which is an indication that passenger traffic is set to rebound during this fiscal year. Additionally, for the four months running from September through December for this fiscal year, airline seat capacity is up by 12.1% as compared to the same four months of last year. This is a further indication that passenger traffic is positioned to grow during the fiscal year. However, despite this initially strong passenger performance, the Airport will continue to keep cost control measures in place during this fiscal year.

In FY15, the Airport expended approximately $13.0 million towards completed Airport Capital Improvement Projects. These projects were funded using approximately $12.9 million in federal and state grants and $0.1 million from Airport generated revenue. Capital expenditures are expected to increase somewhat in FY16. The Airport currently has several construction projects underway which will allow it to maximize the use of both federal and state entitlement funds.

The Norfolk Airport Authority (Authority), owner and operator of Norfolk International Airport, has been, for a number of years, pursuing the approval from the Federal Aviation Administration (FAA) to construct a parallel runway. The Airport's current Master Plan calls for a parallel runway (5R/23L), of approximately 6,500 feet in length, to be constructed approximately 850 feet east of runway 5/23, the Airport's primary instrument runway. If built, the new runway would provide a redundant capability to handle all of the commercial aircraft activity currently operating at Norfolk International. The Authority was awarded an Airport Improvement Program (AIP) grant from the FAA during FY 14 to undertake Phase I (Purpose and Need) of an Environmental Impact Statement. This study is a required step in order to secure Federal approval to design and construct the parallel runway. The study is currently underway and is anticipated to be completed in early fall of 2015. If approved, all construction associated with the new runway would take place on existing Airport property. There are no plans to acquire additional property to accommodate the proposed runway.

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 2010 to develop a scope of work to refurbish both the interior and exterior treatments of the terminal facilities which is anticipated to be completed over a multi-year time frame. The Authority completed "Phase I" of the Terminal Complex Renovation during the summer of 2014 which included a major upgrade of the Departures Terminal Lobby and the replacement of flooring in the airline concourses. The work included the installation of three large skylights in the Departures Terminal Lobby, the replacement of four escalators that operate between the second floor lobby area and the first floor airline ticketing facilities, 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 were also included as part of the project. New terrazzo flooring was installed in the main pedestrian travel areas on both airline concourses and new carpeting provided in all airline gate areas. The total project cost was $8.2 million with approximately 90% of all costs covered by an FAA approved Airport Improvement Program (AIP) grant and the remaining 10% funded with entitlement funds provided through the Virginia Department of Aviation.

Phase I also included a major expansion of the Transportation Security Administration's (TSA) passenger screening checkpoint on Concourse B. The improvements nearly tripled the floor space allocated for this important passenger function and incorporated higher ceilings and large expanses of window glass which provide for a more comfortable passenger experience. The expanded checkpoint also features new low maintenance terrazzo flooring and improved interior lighting. The new facility has allowed the TSA to significantly expand its passenger screening operations and install the latest in passenger screening technology. The new checkpoint was completed at a cost of $5.7 million and, again, funded at 90% by an FAA AIP grant with the remaining 10% covered by funding provided by the Virginia Department of Aviation.

The Authority awarded a construction contract to ET Gresham in September of 2014 to undertake the "Phase II" improvements to the passenger terminal complex. The work is currently underway and includes: 1) The construction of a new TSA passenger screening checkpoint on Concourse A, similar in size and design to the expanded checkpoint completed on Concourse B as part of Phase I. The cost of this improvement is estimated at $6 million and will be funded by user-funded grants from both the FAA and the Virginia Department of Aviation. 2) The construction of new and expanded public restrooms on both airline concourses. The cost of these facilities is estimated at $4 million with 90% funded, again, by an FAA AIP grant and the remainder from State Aviation Entitlement Funds. 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 also includes an upgrade of the fire suppression system on Concourse A and skylight installations on both concourses and the pedestrian bridge leading to Concourse A. Two skylights are scheduled for installation on each concourse and two



(Continued)

on the pedestrian bridge. The cost of these improvements is estimated at $6 million with 80% of funding provided by State Aviation Entitlement Funds. Construction is scheduled for completion at the end of April 2016.

The Authority completed some major upgrades to the controls of the passenger terminal's Energy Management System in the summer of 2015. These controls handle the HVAC and lighting systems in the Departures Terminal and on both airline concourses. The project included the replacement of numerous lighting and climate control panels which were beyond their useful life and difficult to service and maintain. The project also included upgrades to the system's "communications network" from then existing copper wiring to fiber which dramatically increased the communications speed between the system's main control panels and the various HVAC and lighting devices located throughout the Departures Terminal and on both airline concourses. These enhancements now enable the Authority's technicians to maintain a more comfortable environment for passengers while also providing for greater energy conversation. The project was completed at a cost of approximately $500,000.

The Authority also completed an upgrade of the Airport's Flight Information Display System (FIDS). This project included the replacement of the previous system's enclosed millwork cabinets with freestanding open frame units. Additionally, the system received technology upgrades that reduced the previous eight monitor/computer configuration to three monitors and computers per display location. This upgrade will significantly improve dependability while also reducing energy consumption. The total project cost was approximately $365,000.

Finally, the Authority completed the installation of one new chiller and two new boilers in the Departures Terminal at a cost of approximately $1.6 million. These units will provide for both a more reliable and energy efficient operation.

The Authority anticipates undertaking several additional miscellaneous projects before the end of this fiscal year which includes: 1) the update of the parking revenue control system which serves the public parking lots at Norfolk International. These upgrades are expected to cost approximately $750,000. 2) Purchase new snow removal equipment, including snow brooms and snow blowers, to be used to keep all airfield pavements clear of frozen precipitation during flight operations. This equipment is expected to cost approximately $3.25 million.

The Authority issued one "conduit loan" in FY 2015 for Norfolk Collegiate School in the amount of $3.3 million.

**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, VA 23581-5807. Alternatively, information about the operation of the Authority can be obtained via the Internet at www.norfolkairport.com.

**NORFOLK AIRPORT AUTHORITY**

Statements of Net Position

June 30, 2015 and 2014

| **Assets** | | **2015** | **2014** |
|---|---|---|---|
| Current assets: | | | |
| Cash (note 2) | $ | 378,163 | 4,821,508 |
| Investments (notes 2 and 12) | | 28,380,108 | 25,358,742 |
| Accounts receivable, net (note 12) | | 2,372,797 | 2,008,235 |
| Accrued interest receivable | | 36,100 | 33,902 |
| Grants receivable | | 151,500 | 360,845 |
| Prepaid expenses (note 15) | | 2,536,227 | 2,168,906 |
| Total current assets | | 33,854,895 | 34,752,138 |
| Restricted assets (note 3): | | | |
| Cash (note 2) | | 71,691 | 37,706 |
| Investments (notes 2 and 12) | | 20,136,987 | 19,541,261 |
| Passenger facility charges receivable, including interest | | 700,792 | 710,195 |
| Total restricted assets | | 20,909,470 | 20,289,162 |
| Capital assets (note 4): | | | |
| Land | | 14,722,494 | 14,931,702 |
| Buildings, structures, and improvements | | 249,385,608 | 234,658,284 |
| Roads and runways | | 61,399,095 | 61,399,095 |
| Equipment | | 36,075,868 | 35,359,849 |
| Construction in progress | | 12,762,901 | 17,447,011 |
| | | 374,345,966 | 363,795,941 |
| Less accumulated depreciation | | (195,744,755) | (185,503,591) |
| Total capital assets, net | | 178,601,211 | 178,292,350 |
| Other assets (note 9) | | 1,021,764 | 1,032,030 |
| Bond insurance costs, net (note 5) | | 86,234 | 108,922 |
| Total assets | | 234,473,574 | 234,474,602 |
| **Deferred Outflows of Resources** | | | |
| Deferred amount on refunding, net | | 214,142 | 263,809 |
| Deferred pension contributions (note 8) | | 1,358,960 | — |
| Total deferred outflows of resources | | 1,573,102 | 263,809 |
| | $ | 236,046,676 | 234,738,411 |

See accompanying notes to basic financial statements.

## NORFOLK AIRPORT AUTHORITY

Statements of Net Position

June 30, 2015 and 2014

| Liabilities | | 2015 | 2014 |
|---|---|---|---|
| Current liabilities: | | | |
| Accounts payable | $ | 1,610,534 | 1,332,220 |
| Accrued leave and wages | | 1,795,777 | 2,112,997 |
| Other accrued expenses | | 264,244 | 279,425 |
| Surplus payable to airlines (note 7) | | 523,675 | 919,657 |
| Total current liabilities | | 4,194,230 | 4,644,299 |
| Amounts payable from restricted assets: | | | |
| Accrued interest | | 1,169,775 | 1,326,700 |
| Current portion of bonds payable (note 6) | | 4,804,623 | 6,632,165 |
| Total amounts payable from restricted assets | | 5,974,398 | 7,958,865 |
| Long-term liabilities: | | | |
| Bonds payable, less current portion (note 6) | | 47,230,908 | 52,288,564 |
| Net pension liability (note 8) | | 3,043,000 | — |
| Other liabilities (note 9) | | 918,339 | 938,066 |
| Total long-term liabilities | | 51,192,247 | 53,226,630 |
| Total liabilities | | 61,360,875 | 65,829,794 |
| Commitments and contingencies (notes 8, 13, 14, and 15) | | | |
| **Deferred Inflows of Resources** | | | |
| Net difference between projected and actual earnings on pension plan investments (note 8) | | 2,203,000 | — |
| **Net Position** | | | |
| Net investment in capital assets | | 126,866,057 | 119,744,344 |
| Restricted for: | | | |
| Capital projects | | 4,726,064 | 5,761,186 |
| Debt service | | 12,423,402 | 10,836,795 |
| Unrestricted | | 28,467,278 | 32,566,292 |
| Total net position | | 172,482,801 | 168,908,617 |
| | $ | 236,046,676 | 234,738,411 |

See accompanying notes to basic financial statements.

## NORFOLK AIRPORT AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| Operating revenues: | | |
| Passenger terminals (notes 7 and 11) | $ 14,298,145 | 14,098,222 |
| Landing fees and field operations (notes 7 and 11) | 9,275,022 | 8,874,896 |
| Parking | 15,826,273 | 14,694,073 |
| Total operating revenues | 39,399,440 | 37,667,191 |
| Operating expenses: | | |
| Salaries and fringe benefits (notes 8, 9, and 10) | 13,812,488 | 14,137,795 |
| Depreciation and amortization (notes 4, 5, and 6) | 10,162,197 | 9,939,655 |
| Utilities | 2,467,172 | 2,463,916 |
| Maintenance and repairs | 3,370,284 | 3,250,411 |
| Administrative | 746,215 | 730,490 |
| Professional services | 405,291 | 691,032 |
| Parking | 756,594 | 680,155 |
| Advertising and promotion | 906,037 | 878,475 |
| Insurance | 671,925 | 646,648 |
| Security and other services | 3,126,832 | 3,077,233 |
| Sanitation | 628,605 | 617,086 |
| City tax assessment (note 15) | 5,127,465 | 2,065,500 |
| Other | 350,879 | 341,841 |
| Total operating expenses | 42,531,984 | 39,520,237 |
| Operating loss | (3,132,544) | (1,853,046) |
| Nonoperating revenues (expenses): | | |
| Federal grant revenues | 4,656,069 | 3,156,569 |
| State grant revenues (note 3) | 2,000,000 | 2,000,000 |
| Passenger facility charges | 5,900,809 | 6,126,168 |
| State grant revenues investment gain | 19,120 | 38,519 |
| Passenger facility charges investment gain (loss) | 8,410 | (17,823) |
| Other income | 470,094 | 416,851 |
| Investment gain | 115,932 | 178,957 |
| Interest expense | (1,812,706) | (1,859,641) |
| Net nonoperating revenues | 11,357,728 | 10,039,600 |
| Change in net position | 8,225,184 | 8,186,554 |
| Total net position, beginning of the year | 168,908,617 | 160,722,063 |
| Opening adjustment of net position (note 1) | (4,651,000) | — |
| Total net position, end of the year | $ 172,482,801 | 168,908,617 |

See accompanying notes to basic financial statements.

**NORFOLK AIRPORT AUTHORITY**

Statements of Cash Flows

Years ended June 30, 2015 and 2014

| | | 2015 | 2014 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Collections from customers | $ | 39,034,878 | 37,602,111 |
| Payments to employees for services | | (14,908,849) | (13,900,700) |
| Payments for city tax assessment | | (5,127,465) | (2,065,500) |
| Payments to suppliers | | (15,028,943) | (14,518,722) |
| Net cash provided by operating activities | | 3,969,621 | 7,117,189 |
| Cash flows from capital and related financing activities: | | | |
| Principal payments on bonds | | (6,632,165) | (6,424,783) |
| Acquisition of capital assets | | (9,101,337) | (14,190,012) |
| Proceeds from disposal of capital assets | | 24,355 | — |
| Interest paid on debt | | (1,969,632) | (2,004,490) |
| Passenger facility charges | | 5,918,622 | 6,517,672 |
| Federal and State grants received | | 6,884,534 | 5,324,529 |
| Net cash used in capital and related financing activities | | (4,875,623) | (10,777,084) |
| Cash flows from investing activities: | | | |
| Interest received from investments | | 113,734 | 210,420 |
| Purchases of investments | | (195,454,985) | (249,009,176) |
| Proceeds from maturities of investments | | 191,837,893 | 256,551,480 |
| Net cash provided by (used in) investing activities | | (3,503,358) | 7,752,724 |
| Net increase (decrease) in cash | | (4,409,360) | 4,092,829 |
| Cash, beginning of year | | 4,859,214 | 766,385 |
| Cash, end of year | $ | 449,854 | 4,859,214 |
| Reconciliation of operating loss to net cash provided by operating activities: | | | |
| Operating loss | $ | (3,132,544) | (1,853,046) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | | |
| Depreciation and amortization | | 10,162,197 | 9,939,655 |
| Other nonoperating income, net | | 470,094 | 416,851 |
| Decrease (increase) in operating assets: | | | |
| Accounts receivable | | (364,562) | (65,080) |
| Prepaid expenses | | (367,321) | (73,289) |
| Other assets | | 10,266 | 5,872 |
| Increase (decrease) in operating liabilities: | | | |
| Accounts payable | | (1,296,439) | (1,744,876) |
| Accrued leave and wages | | (395,982) | 192,060 |
| Other accrued expenses | | (15,181) | 45,035 |
| Surplus payable to airlines | | (317,220) | 617,622 |
| Net pension liability | | (763,960) | — |
| Other liabilities | | (19,727) | (363,615) |
| Net cash provided by operating activities | $ | 3,969,621 | 7,117,189 |

Supplemental disclosure of noncash capital and related financing activities:

The Authority incurred noncash capital expenditures related to construction in progress in the amount of $1,574,753 and $857,208 that are included in accounts payable as of June 30, 2015 and 2014, respectively.

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.

### *(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 50 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) Bond Insurance Costs***

Bond insurance 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, deferred outflows of resources, liabilities, and deferred inflows of resources, 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.



(Continued)

### *(j) New Accounting Pronouncements*

**GASB Statement No. 68 and GASB Statement No. 71**

During the fiscal year ended June 30, 2015, the Authority adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* - *an amendment of GASB Statement No. 68.* The objective of GASB Statement No. 68 is to (a) improve accounting and financial reporting by state and local governments for pensions and to (b) improve information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The objective of GASB Statement No. 71 is to address an issue regarding application of the transition provisions of Statement No. 68 relating to amounts associated with contributions made to a defined benefit pension plan after the measurement date of the beginning net pension liability. Due to limitations on the information available from the Virginia Retirement System (VRS) for the prior fiscal year, it was determined to be impractical for the Authority to restate the June 30, 2014 financial statements. As a result of the adoption of GASB Statement No. 68 and Statement No. 71, the Authority has recognized a liability equal to the net pension liability and related pension expense and deferred outflows of resources and deferred inflows of resources (note 8).

Total net position as of July 1, 2014 was adjusted as follows:

| | | July 1, 2014 |
|---|---|---|
| Total net position, as reported | $ | 168,908,617 |
| Adoption of GASB Statement No. 68 | | (4,651,000) |
| Total net position, as adjusted | $ | 164,257,617 |

The financial statements as of and for the year ended June 30, 2014 presented herein for comparative purposes reflect the requirements of GASB Statement No. 27 - *Accounting for Pensions by State and Local Governmental Employers* and GASB Statement No. 50 – *Pension Disclosures – an amendment of GASB Statements No 25 and No. 27.*

### *(k) Pensions*

The Authority contributes to the VRS, an agent multiple-employer public employee retirement system with separate cost-sharing pools for each locality, which acts as a common investment and administrative agent for political subdivisions in the Commonwealth of Virginia. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority's Retirement Plan and the additions to/deductions from the Authority's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## (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 $449,854 and $4,859,214 and the bank balances were $408,051 and $4,877,429 at June 30, 2015 and 2014, 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 investment options to include 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 Ratings, 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, 2015, 44.3% of the Authority's portfolio was invested in Moody's "AAA" rated obligations and 14.1% was invested in U.S. Treasury notes.

### *(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, 2015, the Authority's portfolio was invested as follows:

| Issuer | Percentage of portfolio |
|---|---|
| Money market mutual funds | 50.9% |
| U.S. Treasury | 14.1% |
| Federal Home Loan Mortgage Corporation (Freddie Mac) | 8.4% |
| Federal National Mortgage Agency (Fannie Mae) | 5.3% |
| Commercial paper | 8.1% |
| Corporate notes | 5.7% |
| Farm Credit Bank | 0.4% |
| Federal Home Loan Bank | 6.9% |
| Municipal bonds | 0.2% |
| | 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, 2015, 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 | $ | 24,653,004 | |
| Federal agency notes | | 10,216,803 | |
| U.S. Treasury | | 6,862,312 | |
| Commercial paper | | 3,907,372 | |
| Corporate notes | | 2,780,776 | |
| Municipal bonds | | 96,828 | |
| Total investments | $ | 48,517,095 | |
| Portfolio weighted average maturity | | | 0.33 |

* Weighted average maturity in years

### *(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, 2015, 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, 2015 and 2014 is as follows:

| | | 2015 | 2014 |
|---|---|---|---|
| Deposits | $ | 449,854 | 4,859,214 |
| Investments | | 48,517,095 | 44,900,003 |
| | $ | 48,966,949 | 49,759,217 |
| Current assets: | | | |
| Cash and cash equivalents | $ | 378,163 | 4,821,508 |
| Investments | | 28,380,108 | 25,358,742 |
| Restricted assets: | | | |
| Cash and cash equivalents | | 71,691 | 37,706 |
| Investments | | 20,136,987 | 19,541,261 |
| | $ | 48,966,949 | 49,759,217 |

## (3) Restricted Assets

The Authority received $2,000,000 during both fiscal years 2015 and 2014 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, Branch Banking and Trust Company, and Local Government Investment Pool of Virginia Department of the Treasury. Restricted assets consist of the following at June 30, 2015 and 2014:

| | | 2015 | 2014 |
|---|---|---|---|
| State block grant account | $ | 4,726,065 | 5,761,186 |
| Debt service reserve accounts | | 6,522,921 | 6,475,142 |
| Passenger facility charges account | | 6,380,660 | 5,016,687 |
| Passenger facility charges receivable, including interest | | 700,792 | 710,195 |
| City tax assessment payment | | 2,507,341 | 2,288,246 |
| Flexible spending account | | 42,610 | 31,012 |
| Customs and border protection forfeiture fund | | 29,081 | 6,694 |
| Restricted assets | $ | 20,909,470 | 20,289,162 |

## (4) Capital Assets

The following is a summary of the changes in capital assets for the years ended June 30, 2015 and 2014:

| | Balances, June 30, 2014 | Increases | Decreases | Balances, June 30, 2015 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $ 14,931,702 | — | (209,208) | 14,722,494 |
| Construction in progress | 17,447,011 | 10,551,451 | (15,235,561) | 12,762,901 |
| | 32,378,713 | 10,551,451 | (15,444,769) | 27,485,395 |
| Other capital assets: | | | | |
| Building, structures, and improvements | 234,658,284 | 14,727,324 | — | 249,385,608 |
| Roads and runways | 61,399,095 | — | — | 61,399,095 |
| Equipment | 35,359,849 | 817,730 | (101,711) | 36,075,868 |
| Less accumulated depreciation for: | | | | |
| Building, structures, and improvements | (109,813,756) | (6,726,723) | — | (116,540,479) |
| Roads and runways | (51,026,292) | (1,888,842) | — | (52,915,134) |
| Equipment | (24,663,543) | (1,727,310) | 101,711 | (26,289,142) |
| | 145,913,637 | 5,202,179 | — | 151,115,816 |
| Capital assets, net | $ 178,292,350 | 15,753,630 | (15,444,769) | 178,601,211 |

| | Balances, June 30, 2013 | Increases | Decreases | Balances, June 30, 2014 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $ 14,905,612 | 26,090 | — | 14,931,702 |
| Construction in progress | 10,572,911 | 15,630,838 | (8,756,738) | 17,447,011 |
| | 25,478,523 | 15,656,928 | (8,756,738) | 32,378,713 |
| Other capital assets: | | | | |
| Building, structures, and improvements | 228,944,543 | 5,713,741 | — | 234,658,284 |
| Roads and runways | 61,233,693 | 165,402 | — | 61,399,095 |
| Equipment | 33,919,470 | 2,320,610 | (880,231) | 35,359,849 |

| | Balances, June 30, 2013 | Increases | Decreases | Balances, June 30, 2014 |
|---|---|---|---|---|
| Less accumulated depreciation for: | | | | |
| Building, structures, and improvements | $ (103,561,936) | (6,251,820) | — | (109,813,756) |
| Roads and runways | (48,957,274) | (2,069,018) | — | (51,026,292) |
| Equipment | (23,658,905) | (1,832,145) | 827,507 | (24,663,543) |
| | 147,919,591 | (1,953,230) | (52,724) | 145,913,637 |
| Capital assets, net | $ 173,398,114 | 13,703,698 | (8,809,462) | 178,292,350 |

Depreciation expense for the years ended June 30, 2015 and 2014 was $10,342,875 and $10,152,983, respectively.

## (5) Bond Insurance Costs

At June 30, 2015, the gross carrying amount and accumulated amortization of bond insurance costs was $678,110 and $591,876, respectively. At June 30, 2014, the gross carrying amount and accumulated amortization of bond insurance costs was $678,110 and $569,188, respectively. Amortization expense for the years ended June 30, 2015 and 2014 was $22,688 and $29,002, respectively.

## (6) Bonds Payable

Bonds payable comprise the following at June 30, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Series 2011 Bonds payable | $ 50,280,000 | 56,835,000 |
| VRA Bonds payable | 439,622 | 516,787 |
| | 50,719,622 | 57,351,787 |
| Unamortized premium | 1,315,909 | 1,568,942 |
| | $ 52,035,531 | 58,920,729 |

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 previously 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 2014 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, 2015 were as follows:

| | Principal | Interest |
|---|---|---|
| Year(s) ending June 30: | | |
| 2016 | $ 4,804,623 | 2,235,340 |
| 2017 | 2,237,159 | 2,067,903 |
| 2018 | 2,344,777 | 1,966,586 |
| 2019 | 2,452,477 | 1,858,535 |
| 2020 | 2,565,264 | 1,750,742 |
| 2021–2025 | 14,630,321 | 6,832,686 |
| 2026–2030 | 14,980,000 | 3,184,470 |
| 2031–2033 | 6,705,000 | 304,988 |
| | $ 50,719,621 | 20,201,250 |

Revenue bond activity for the years ended June 30, 2015 and 2014 is as follows:

| | Balance, June 30, 2014 | Amortization of premium | Bond payments | Balance, June 30, 2015 |
|---|---|---|---|---|
| Series 2011 Bonds payable | $ 58,403,942 | (253,033) | (6,555,000) | 51,595,909 |
| VRA Bonds payable | 516,787 | — | (77,165) | 439,622 |
| | $ 58,920,729 | (253,033) | (6,632,165) | 52,035,531 |

| | Balance, June 30, 2013 | Amortization of premium | Bond payments | Balance, June 30, 2014 |
|---|---|---|---|---|
| Series 2011 Bonds payable | $ 65,059,855 | (305,913) | (6,350,000) | 58,403,942 |
| VRA Bonds payable | 591,570 | — | (74,783) | 516,787 |
| | $ 65,651,425 | (305,913) | (6,424,783) | 58,920,729 |

***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, 2015, 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 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 (the 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, 2015, and 2014, there was a surplus of $523,675 and $919,657, respectively, payable to the Airlines, which is reflected as a reduction of operating revenues in the accompanying statements of revenues, expenses, and changes in net position for the years ended June 30, 2015 and 2014.

## (8) Defined Benefit Pension Plan

### *(a) Plan Description*

The Authority contributes to the VRS, an agent and cost sharing multiple-employer public employee retirement system, which acts as a common investment and administrative agent for political subdivisions in the Commonwealth of Virginia. All full-time, salaried permanent (professional) employees of the Authority are automatically covered by the VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System or VRS) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior public service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public services, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each plan has a different eligibility and benefit structure as set forth below:

VRS Plan 1 is a defined benefit plan. Members hired before July 1, 2010 and who were vested as of January 1, 2013 are eligible for Plan 1. The retirement benefit is based on a member’s age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service and at age 50 with 30 years of service for participating employers. An optional reduced retirement benefit is available to members of VRS as early as age 50 with at least 10 years of service credit or age 55 with at least five years of service credit. Active members may purchase previous service as creditable service to their plan and, if eligible, may purchase periods of leave without pay.

VRS Plan 2 is a defined benefit plan. Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 and are not vested as of January 1, 2013 are covered under Plan 2. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for 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. An optional reduced retirement benefit is available to Plan 2 members as early as age 60 with at least five years of service credit. Active members may purchase previous service as creditable service to their plan and, if eligible, may purchase periods of leave without pay.

The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Members hired on or after January 1, 2014 are eligible for the Hybrid Plan. The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. The benefit payment payable from the defined contribution plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. Employees 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. An optional reduced retirement benefit is available as early as age 60 with at least five years of service credit. Under the defined benefit plan, active members may purchase previous service as creditable service to their plan and, if eligible, may purchase periods of leave without pay.

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. The retirement multiplier for Authority's employees is 1.7% for Plan 1 members, 1.65% for Plan 2 members, and 1.0% for Hybrid Plan members. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2 and the Hybrid Plan, average final compensation is the average of the member's 60 consecutive months of highest compensation. 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 and the Hybrid Plan, 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 that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS website at http://www.varetire.org/pdf/publications/2014-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.



(Continued)

### *(b) Employees Covered by Benefit Terms*

As of the June 30, 2013 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

| | Number |
|---|---|
| Inactive members or their beneficiaries currently receiving benefits | 113 |
| Inactive members: | |
| Vested inactive members | 26 |
| Non-vested inactive members | 67 |
| Inactive members active elsewhere in VRS | 40 |
| Total inactive members | 246 |
| Active members | 198 |
| Total covered employees | 444 |

### *(c) Contributions*

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5.00% member contribution. In addition, existing employees were required to begin contributing a portion of their employee contribution beginning in fiscal year 2012; the Authority paid the remaining portion of employee contributions. During the year ended June 30, 2015, the Authority paid 1.00% of employee contributions. During the year ended June 30, 2014, the Authority paid 2.00% of employee contributions. All employees will pay the required 5.00% employee contribution commencing fiscal year 2016.

The Authority's actuarially required contribution rate for the year ended June 30, 2015 was 11.42% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were $1,358,960 (including $179,855 of employer paid employee contributions) and $1,534,690 (including $275,097 of employer paid employee contributions) for the years ended June 30, 2015 and 2014, respectively.

### *(d) Net Pension Liability*

The Authority's net pension liability as of June 30, 2015 was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

### *(e) Actuarial Assumptions*

The total pension liability for general employees and public safety employees in the Authority's Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

| | **General Employees** | **Public Safety Employees** |
|---|---|---|
| Inflation | 2.5% | 2.5% |
| Salary increases, including inflation | 3.5% - 5.35% | 3.5% - 4.75% |
| Investment rate of return, net of pension plan investment expense, including inflation* | 7.0% | 7.0% |
| Cost-of-living adjustment | 2.25% - 2.5% | 2.25% - 2.5% |

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

| | **Mortality assumptions** | |
|---|---|---|
| | **General Employees** | **Public Safety Employees** |
| Deaths assumed to be service related: | 14.0% | 60.0% |
| Pre-retirement: | RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years | RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years |
| Post-Retirement: | RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year. | RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year. |
| Post-Disablement: | RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement | RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement |

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

| General Employees | Public Safety Employees |
|---|---|
| Update mortality table | Update mortality table |
| Decrease in rates of service retirement | Adjustments to rates of service retirement for females |
| Decrease in rates of disability retirement | Increase in rates of withdawal |
| Reduce rates of salary increase by 0.25% per year | Decrease in male and female rates of disability |

### *(f) Long-Term Expected Rate of Return*

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

| Asset Class (Strategy) | Target Allocation | Arithmetic Long-Term Expected Rate of Return | Weighted Average Long-Term Expected Rate of Return |
|---|---|---|---|
| U.S. Equity | 19.50% | 6.46% | 1.26% |
| Developed Non U.S. Equity | 16.50% | 6.28% | 1.04% |
| Emerging Market Equity | 6.00% | 10.00% | 0.60% |
| Fixed Income | 15.00% | 9.00% | 0.01% |
| Emerging Debt | 3.00% | 3.51% | 0.11% |
| Rate Sensitive Credit | 4.50% | 3.51% | 0.16% |
| Non Rate Sensitive Credit | 4.50% | 5.00% | 0.23% |
| Convertibles | 3.00% | 4.81% | 0.14% |
| Public Real Estate | 2.25% | 6.12% | 0.14% |
| Private Real Estate | 12.75% | 7.10% | 0.91% |
| Private Equity | 12.00% | 10.41% | 1.25% |
| Cash | 1.00% | -1.50% | -0.02% |
| Total | 100.0% | | 5.83% |
| | | Inflation | 2.50% |
| | | *Expected arithmetic nominal return | 8.33% |

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is a high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.5%.

### *(g) Discount Rate*

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

### *(h) Changes in Net Pension Liability*

| | | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
|---|---|---|---|---|
| Balances at June 30, 2013 | $ | 36,825,000 | 30,913,000 | 5,912,000 |
| Changes for the year: | | | | |
| Service Cost | | 1,279,000 | — | 1,279,000 |
| Interest | | 2,530,000 | — | 2,530,000 |
| Differences between expected and actual experience | | — | — | — |
| Contributions - employer | | — | 1,535,000 | (1,535,000) |
| Contributions - employee | | — | 238,000 | (238,000) |
| Net investment income | | — | 4,931,000 | (4,931,000) |
| Benefit payments, including refunds of employee contributions | | (1,359,000) | (1,359,000) | — |
| Administrative expenses | | — | (26,000) | 26,000 |
| Other changes | | — | — | — |
| Net changes | | 2,450,000 | 5,319,000 | (2,869,000) |
| Balances at June 30, 2014 | $ | 39,275,000 | 36,232,000 | 3,043,000 |

### *(i) Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

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

| | | 1% Decrease (6.00%) | Current Discount Rate (7.00%) | 1% Increase (8.00%) |
|---|---|---|---|---|
| Norfolk Airport Authority's Net Pension Liability | $ | 7,900,000 | 3,043,000 | (1,038,000) |

### *(j) Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

For the year ended June 30, 2015, the Authority recognized pension expense of $595,000. At June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|---|
| Net difference between projected and actual earnings on pension plan investments | $ | — | 2,203,000 |
| Employer contributions subsequent to the measurement date | | 1,358,960 | — |
| Total | $ | 1,358,960 | 2,203,000 |

Deferred outflows of resources related to pensions totaling $1,358,960, resulting from the Authority's contributions subsequent to the measurement date, will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| | | |
|---|---|---|
| Year ending June 30: | | |
| 2016 | $ | 550,750 |
| 2017 | | 550,750 |
| 2018 | | 550,750 |
| 2019 | | 550,750 |

### *(k) Annual Pension Cost as related to the fiscal year ended June 30, 2014*

Prior to the adoption of GASB Statement No. 68, the Authority reported annual pension costs as determined by an actuarial valuation as of June 30, 2013. For the year ended June 30, 2014, the annual pension cost of $1,763,741 for VRS was equal to the required and actual contributions.

**Three-Year Trend Information for the Authority**

| Fiscal Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| 6/30/2014 | $ 1,763,741 | 100% | $ — |
| 6/30/2013 | 1,684,872 | 100% | — |
| 6/30/2012 | 1,217,433 | 100% | — |

The FY 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for local general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%.

The actuarial value of the Authority's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Authority's unfunded actuarial accrued liability was being amortized as level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013 for the Unfunded Actuarial Accrued liability (UAAL) was 30 years.

### *(l) Funding Status and Funding Progress as related to the fiscal year ended June 30, 2014*

As of June 30, 2013, the most recent actuarial valuation date related to the June 30, 2014 fiscal year end, the plan was 80% funded. The actuarial accrued liability for benefits was $36,824,157, and the actuarial value of assets was $29,391,091, resulting in an unfunded actuarial accrued liability (UAAL) of $7,433,066. The covered payroll (annual payroll of active employees covered by the plan) was $9,765,047, and the ratio of the UAAL to the covered payroll was 76%.

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

| | | Valuation date June 30 | | |
|---|---|---|---|---|
| | | **2013** | **2012** | **2011** |
| Actuarial value of assets | $ | 29,391,091 | 27,682,574 | 27,325,547 |
| Actuarial accrued liability | | 36,824,157 | 35,731,702 | 33,857,645 |
| Amount under funded | $ | (7,433,066) | (8,049,128) | (6,532,098) |
| Funded ratio | | 80% | 77% | 81% |
| Annual covered payroll | $ | 9,765,047 | 9,353,846 | 9,205,168 |
| Amount under funded as a percentage of covered payroll | | (76)% | (86)% | (71)% |

## (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. During the year ended June 30, 2015, the plan expense was $37,044, which is net of payments of $56,771. During the year ended June 30, 2014, the total plan benefit was $303,578, including payments of $55,839. 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 $1,021,764 and $1,032,030 at June 30, 2015 and 2014, respectively, and is included as other noncurrent assets in the accompanying statements of net position. The ESRP accrued expense totaling $761,047 and $780,774 as of June 30, 2015 and 2014, respectively, is included in other long-term liabilities in the basic financial statements.

## (10) Employee Contribution Plan

The Authority maintains 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: | | |
| 2016 | $ | 14,492,800 |
| 2017 | | 14,863,400 |
| 2018 | | 15,146,800 |
| 2019 | | 15,459,400 |
| 2020 | | 15,792,900 |

The above amounts do not include contingent rentals and fees in excess of minimums, which amounted to $1,258,382 and $1,174,056 in fiscal years 2015 and 2014, respectively. Total rental and concession income in fiscal years 2015 and 2014 was approximately $15,755,000 and $15,400,400, 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, 2015 and 2014.

The Authority also participates in a self-insurance program for workers' compensation coverage through AmTrust North America. 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. Beginning in fiscal year 2015, the adjusted annual payment was set by the City's tax assessor; in no event shall the payment exceed stated tax rates on the fair value of the Airport property. Advance payments are due annually on July 1. Payments for fiscal years 2015 and 2014 were $5,127,465 and $2,065,500, respectively. The Authority's normal fiscal year 2015 annual payment of $2,127,465 was made in June 2014 and is reflected as a prepaid expense as of June 30, 2014. Additionally, the Authority paid two one-time payments during fiscal year 2015 in the aggregate amount of $3,000,000. The Authority's fiscal year 2016 annual payment of $2,500,000 was made in June 2015 and is reflected as a prepaid expense as of June 30, 2015.

Future payments in lieu of taxes are as follows:

| | |
|---|---|
| Year ending June 30: | |
| 2017 | $ 2,500,000 |
| 2018 | 2,500,000 |
| 2019 | 2,500,000 |
| 2020 | 2,500,000 |
| 2021 | 2,650,000 |

From time to time, the Authority is a defendant in certain lawsuits which are 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, 2015.

## (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, 2015, there were ten series of revenue bonds outstanding with an aggregate principal amount of approximately $31,457,000. As of June 30, 2014, there were twenty one series of revenue bonds outstanding with an initial aggregate principal amount of approximately $98,546,000.

# REQUIRED SUPPLEMENTARY INFORMATION

**NORFOLK AIRPORT AUTHORITY**

Required Supplementary Information (Unaudited)

June 30, 2015

**Schedule of Changes in the Authority's Net Pension Liability and Related Ratios**

| | | 2014 |
|---|---|---|
| Total pension liability | | |
| Service cost | $ | 1,279,000 |
| Interest | | 2,530,000 |
| Changes of benefit terms | | - |
| Differences between expected and actual experience | | - |
| Changes in assumptions | | - |
| Benefit payments, including refunds of employee contributions | | (1,359,000) |
| Net change in total pension liability | | 2,450,000 |
| Total pension liability - beginning | | 36,825,000 |
| Total pension liability - ending (a) | $ | 39,275,000 |
| | | |
| Plan fiduciary net position | | |
| Contributions - employer | $ | 1,535,000 |
| Contributions - employee | | 238,000 |
| Net investment income | | 4,931,000 |
| Benefit payments, including refunds of employee contributions | | (1,359,000) |
| Administrative expense | | (26,000) |
| Other | | - |
| Net change in plan fiduciary net position | | 5,319,000 |
| Plan fiduciary net position - beginning | | 30,913,000 |
| Plan fiduciary net position - ending (b) | $ | 36,232,000 |
| | | |
| Authority's net pension liability - ending (a)-(b) | $ | 3,043,000 |
| | | |
| Plan fiduciary net position as a percentage of the total pension liability (b) / (a) | | 92.25% |
| | | |
| Covered-employee payroll (c) | $ | 10,245,675 |
| | | |
| Authority's net pension liability as a percentage of covered-employee payroll [(a)-(b)] / (c) | | 29.70% |

Unaudited – See accompanying independent auditors' report and notes to required supplementary information.

**NORFOLK AIRPORT AUTHORITY**

Required Supplementary Information (Unaudited)

June 30, 2015

## Schedule of Employer Contributions

| For the Year Ended June 30 | Actuarially Determined Contribution | Contributions in Relation to Actuarially Determined Contribution | Contribution Deficiency (Excess) | Employer's Covered Employee Payroll | Contributions as a % of Covered Employee Payroll |
|---|---|---|---|---|---|
| 2015 | $ 1,180,959 | $ 1,180,959 | $ - | $ 10,341,144 | 11.42% |

Unaudited – See accompanying independent auditors' report and notes to required supplementary information.

**(1) Changes in benefit terms**

There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013 and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

**(2) Changes in assumptions**

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

General Employees:

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

Public Safety Employees:

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

**(3) Actuarially determined contributions assumptions**

The following significant methods and assumptions were used in calculating the actuarially determined contributions for the year ended June 30, 2015:

| | |
|---|---|
| Valuation date: | June 30, 2013 |
| Actuarial cost method: | Entry age normal |
| Amortization method: | Level percent of pay, closed |
| Remaining amortization period: | 30 years, beginning June 30, 2013 |
| Asset valuation method: | 5-year smoothed market |
| Payroll growth rate: | 3.00% |
| Salary increases: | 3.50% - 5.35% |
| Investment rate of return: | 7.00%, net of pension plan investment expenses, including inflation |
| Cost-of-living adjustments: | 2.25% - 2.50% |

Unaudited – See accompanying independent auditors' report.

**NORFOLK AIRPORT AUTHORITY**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

| Federal grantor/program title | CFDA number | Project number | | Expenditures |
|---|---|---|---|---|
| Federal Aviation Administration: | | | | |
| Airport Improvement Program: | | | | |
| Expand Security Checkpoint B | 20.106 | 3-51-0036-62 | $ | 6,487 |
| Environmental Impact Study Phase I Parallel Runway 5R/23L | 20.106 | 3-51-0036-63 | | 656,124 |
| Modify Terminal Building, Expand Security Checkpoint A | 20.106 | 3-51-0036-64 | | 3,804,083 |
| Transportation Security Administration: | | | | |
| Explosive detection canine team program | 97.072 | | | 189,375 |
| | | | $ | 4,656,069 |

See accompanying notes to the 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, 2015

## (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, 2015 and
each quarter during the year ended June 30, 2015

| | Date approved | Cumulative total – June 30, 2014 | Quarter ended September 30, 2014 | Quarter ended December 31, 2014 | Quarter ended March 31, 2015 | Quarter ended June 30, 2015 | Year ended June 30, 2015 | Cumulative total – June 1998 to June 30, 2015 |
|---|---|---|---|---|---|---|---|---|
| Revenues: | | | | | | | | |
| Passenger facility charge revenues received | | $ 80,961,622 | 1,415,804 | 1,479,893 | 1,180,493 | 1,834,023 | 5,910,213 | 86,871,835 |
| Interest earned | | 6,790,016 | — | 5,492 | — | 3,533 | 9,025 | 6,799,041 |
| Total revenues | | $ 87,751,638 | 1,415,804 | 1,485,385 | 1,180,493 | 1,837,556 | 5,919,238 | 93,670,876 |
| Expenditures: | | | | | | | | |
| Bond financing and interest costs and capital expenditures | July 2007 | $ 84,485,280 | 4,374,065 | — | 174,248 | — | 4,548,313 | 89,033,593 |

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.

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**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, 2015, 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 30, 2015, which included a paragraph emphasizing that in fiscal year 2015, the Authority retrospectively, adopted new accounting guidance described in Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*.

**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 30, 2015

**KPMG LLP**
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# Independent Auditors' Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by OMG 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, 2015. 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 for 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, 2015.

**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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-001, that we consider to be a significant deficiency.

The Authority's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 30, 2015

**NORFOLK AIRPORT AUTHORITY**

Schedule of Findings and Questioned Costs

Year ended June 30, 2015

## (1) Summary of Auditors' Results

***Financial Statements***

(a) Type of auditors' report issued: **Unmodified opinion**

(b) Internal control over financial reporting:

(i) Material weaknesses identified: **No**

(ii) Significant deficiencies identified not considered to be material weaknesses: **None reported**

(c) Noncompliance that is material to the financial statements noted: **No**

***Federal Awards***

(d) Internal control over major programs:

(i) Material weaknesses identified: **No**

(ii) Significant deficiencies identified not considered to be material weaknesses: **None reported**

(e) Type of auditors' report issued on compliance for major programs: **Unmodified opinion**

(f) Any audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133: **Yes, finding 2015-001**

***Identification of Major Programs***

| Name of federal program or cluster | CFDA Number |
|---|---|
| Airport Improvement Program | 20.106 |

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

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

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

## (3) Findings and Questioned Costs Relating to Federal Awards

*Department of Transportation*

Finding 2015-001: Reporting

*Significant Deficiency in Internal Control*

*Criteria* – In accordance with OMB Circular A-102 Federal Financial Reporting requirements, the Federal Aviation Administration requires the Authority to submit an annual Federal Financial Report SF-425 for each open Airport Improvement Program Grant and a final Federal Financial Report SF-425 for each closed Airport Improvement Program Grant.

*Condition* – In our sample of two Federal Financial SF-425 reports, one report erroneously included non-Federal funding sources in the amount of $225,405. Federal Financial SF-425 reports are subject to review controls; these controls were not operating effectively.

*Perspective* – In our sample of two Federal Financial SF-425 reports, one report contained incorrect Federal funds information.

*Cause and effect* – The Authority's implementation of controls over reporting were inconsistent. The inconsistent implementation of reporting controls caused incorrect reporting of key information in one Federal Financial Report SF-425.

*Recommendation* – We recommend that the Authority enhance its internal control surrounding the review of reports required to be submitted under the program.

*Views of Management* – Management agrees with this finding.

The Director of Finance is responsible for verifying the correctness of Federal Financial Report form 425 prior to submission. As of September 1, 2015, internal controls are in place so that the Director of Facilities will review the form to verify the accuracy of the federal grant award amount and amount reimbursed to date.

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

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# 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, 2015.

### *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, 2015.

**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 30, 2015