KPMG

NORFOLK AIRPORT AUTHORITY

Basic Financial Statements,
Required Supplementary Information,
Supplemental Schedules and Audit of Federal Awards Performed
in Accordance with the Uniform Guidance

June 30, 2017 and 2016

(With Independent Auditors’ Report Thereon)

NORFOLK AIRPORT AUTHORITY

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Board of Commissioners and Administrative Officials

Board of Commissioners

Blythe Ann Scott, Chairman	Harold J. Cobb, Jr.
Malcolm P. Branch, Vice Chairman	Mekbib Gemeda
Deborah H. Painter, Treasurer	Chris G. Stephanitsis
William L. Nusbaum	Peter G. Decker, III
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Robert S. Bowen	Executive Director
Steve C. Sterling	Deputy Executive Director Administration & Operations
Anthony E. Rondeau	Deputy Executive Director Engineering & Facilities
Shelia D. Ward	Director of Operations
Jeffrey J. Bass	Director of Facilities
William A. Jones	Director of Finance
Charles W. Braden	Director of Market Development
Sheila M. Balli	Director of Human Resources

KPMG LLP
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Norfolk, VA 23510

Independent Auditors' Report

The Board of Commissioners
Norfolk Airport Authority:

We have audited the accompanying financial statements of the Norfolk Airport Authority (the Authority) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements for the years then ended 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Norfolk Airport Authority as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4 – 11, and the Schedule of Changes in Net Pension Liability and Related Ratios on page 37, the Schedule of Pension Contributions on page 38, and the notes to Required Supplementary Information on page 39, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Introductory Section, Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The Introductory Section has not been subjected to the auditing procedures applied in the 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 November 6, 2017, 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 solely 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 the effectiveness of the Authority's 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

Norfolk, Virginia
November 6, 2017

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, 2017 and 2016. 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 nonoperating, for the period. The resulting change in net position for the period is combined with the beginning of the year total net position balance in order to reconcile to the end of the year total net position.

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

The notes to the basic financial statements explain and provide additional information on the data presented in the basic financial statements as of and for the years ended June 30, 2017 and 2016.

Financial Highlights

The following major financial highlights are of note as of and for the year ended June 30, 2017:

Total net position was $193,267,715 as of June 30, 2017. Net position includes $33,314,809 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, 2017 increased $7,609,282 from total net position at June 30, 2016. Capital assets, before accumulated depreciation, increased $6,529,065 during fiscal year 2017 primarily due to the replacement of several vehicles, general aviation and employee lot rehabilitation, rehabilitation of the perimeter and access roads, airside pavement improvements, replacement of boilers and a generator in the departures terminal, purchase of runway emergency light carts and ongoing terminal improvements. These additions were funded by federal and state grants and from the Authority’s unrestricted assets.

Operating revenues during fiscal year 2017 increased by $571,440 compared to the previous year. Parking revenue decreased $117,463 due to the offset of validated parking for employees and contractors; passenger terminal revenue increased $355,193 due to the increase in airline space rental fees. Landing fees and field operations revenue increased $333,710 due to an increase in passenger traffic which increased 3.61% over fiscal year 2016.

Operating expenses during fiscal year 2017 increased $2,640,296 compared to the previous year, due primarily to the write-off of certain capitalized services for projects that were in the initial stages of planning. It was determined that the Authority would not proceed with these projects.

Net nonoperating revenues during fiscal year 2017 decreased $3,497,494 compared to fiscal year 2016 due primarily to the decrease in federal grants.

Federal grant revenues, state grant revenues, state grant revenues investment gain, and other income decreased $4,177,176 compared to the previous year primarily due to decreased federal revenues for the Concourses A and B Security Checkpoints Expansion and Terminal Renovations.

The following major financial highlights are of note as of and for the year ended June 30, 2016:

Total net position was $185,658,433 as of June 30, 2016. Net position includes $31,303,193 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, 2016 increased $13,175,632 from total net position at June 30, 2015. Capital assets, before accumulated depreciation, increased $16,266,866 during fiscal year 2016 primarily due to the ongoing refurbishing of the public areas, the purchase of several vehicles, general aviation and employee lot rehabilitation, replacement of wiring for airfield lighting controls, rehabilitation of the perimeter and access roads, airside pavement improvements, replacement of boilers and a generator in the departures terminal, and ongoing terminal improvements. These additions were funded by federal and state grants and from the Authority's unrestricted assets.

Operating revenues during fiscal year 2016 increased by $2,781,978 compared to the previous year. Parking revenue increased $549,101 due to the increase in passenger traffic; passenger terminal revenue increased $689,450 due to the increase in airline space rental fees. Landing fees and field operations revenue increased $1,543,427 due to an increase in landing fee rate from $3.92 in fiscal year 2015 to $4.71 in fiscal year 2016.

Operating expenses during fiscal year 2016 decreased $501,908 compared to the previous year, due primarily to the decrease in the payment to the City of Norfolk for tax assessment, offset by the increases in salaries and fringe benefits.

Net nonoperating revenues during fiscal year 2016 increased $1,666,562 compared to fiscal year 2015 due primarily to the increase in federal grants and passenger facility charges.

Federal grant revenues, state grant revenues, state grant revenues investment gain, and other income increased $575,785 compared to the previous year primarily due to increased federal revenues for the Concourse B Security Checkpoint Expansion and Terminal Renovations.

(Continued)

Net Position

Revenue in excess of expenses was $7,609,282 for the year ended June 30, 2017, and as a result increased total net position to $193,267,715. Net investment in capital assets decreased by $932,623, or 0.7%, primarily attributable to fiscal year 2017 fixed assets depreciation, net of capital asset acquisitions, and the reduction in long-term debt. Unrestricted net position increased $2,011,616 or 6.4% over the prior year and restricted net position increased $6,530,289 or 39.6%.

Revenue in excess of expenses was $13,175,632, or 7.6% for the year ended June 30, 2016, and as a result increased total net position to $185,658,433. Net investment in capital assets increased by $10,985,458, or 8.7%, primarily attributable to fiscal year 2016 fixed assets additions, construction projects in process and the reduction in long-term debt, as well as current year depreciation. Unrestricted net position increased $2,835,915 or 10.0% over the prior year and restricted net position increased $645,741 or 3.8%.

A summary of the major components of the statements of net position as of June 30, 2017, 2016, and 2015 is as follows:

Condensed statements of net position

	2017	2016	2015
Current assets	$ 42,528,042	40,970,738	33,854,895
Restricted assets	24,078,889	17,556,625	20,909,470
Capital assets, net	181,313,276	184,625,975	178,601,211
Other noncurrent assets	1,005,929	1,062,088	1,107,998
Total assets	248,926,136	244,215,426	234,473,574
Deferred outflows of resources	2,643,406	1,821,607	1,573,102
Current liabilities	5,525,054	6,292,238	4,194,230
Amounts payable from restricted assets	3,389,652	3,290,059	5,974,398
Long-term liabilities	49,387,121	49,836,161	51,192,247
Total liabilities	58,301,827	59,418,458	61,360,875
Deferred inflows of resources	—	960,142	2,203,000
Net investment in capital assets	136,918,892	137,851,515	126,866,057
Restricted net position	23,034,014	16,503,725	17,149,466
Unrestricted net position	33,314,809	31,303,193	28,467,278
Total net position	$ 193,267,715	185,658,433	172,482,801

(Continued)

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 2012 bonds, deferred differences between expected and actual pension experience, net difference between projected and actual earnings on pension investments, and deferred pension contributions.

Current liabilities are accounts payable, accrued expenses, and the surplus revenues refundable to the airlines. Amounts payable from restricted assets include bond principal due during fiscal year 2018 and interest on bonds accrued as of fiscal year end. Included in long-term liabilities are the principal amount of bonds payable that mature after June 30, 2018, net of unamortized premium, net pension liability, and an executive supplemental retirement plan liability. Deferred inflows of resources at June 30, 2016 include the difference between projected and actual earnings 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, 2017, 2016, and 2015 is provided as follows, followed by additional analysis.

Revenues for the years ended June 30, 2017, 2016, and 2015 are summarized as follows:

		2017	2016	2015
Operating revenues:				
Passenger terminals	$	15,342,788	14,987,595	14,298,145
Landing fees and field operations		11,152,159	10,818,449	9,275,022
Parking		16,257,911	16,375,374	15,826,273
Total operating revenues		42,752,858	42,181,418	39,399,440
Nonoperating revenues, net:				
Federal and state grants and interest		3,385,362	7,518,845	6,675,189
Passenger facility charges and interest		6,558,879	6,401,423	5,909,219
Investment gain		188,538	200,182	115,932
Other income		158,530	202,223	470,094
Total nonoperating revenues, net		10,291,309	14,322,673	13,170,434
Total revenues, net	$	53,044,167	56,504,091	52,569,874

Operating revenues increased $571,440, or 1.4%, in fiscal year 2017 when compared to the previous year. The increase in operating revenues is attributed primarily to the increase in concession fees and field operations during the year. Passenger facility charges and interest increased $157,456, or 2.5%, in fiscal year 2017 when compared to the previous year due primarily to more paying passengers as a result of the increase in flights and more seat capacity available by the airlines. Federal and state grant revenues and state grant interest, decreased $4,133,483 or 55.0%, when compared to the prior year due to the funding from federal and state sources for Concourse A Security Checkpoint Expansion. Investment income decreased $11,644, or 5.8% from fiscal year 2016 primarily due to investment strategies and interest rates.

Operating revenues increased $2,781,978, or 7.1%, in fiscal year 2016 when compared to the previous year. The increase in operating revenues is attributed primarily to the increase in landing fees and field operations during the year. Passenger facility charges and interest increased $492,204, or 8.3%, in fiscal year 2016 when compared to the previous year due primarily to more paying passengers as a result of the increase in flights and more seat capacity available by the airlines. Federal and state grant revenues and state grant interest, increased $875,518, or 13.1%, when compared to the prior year due to the funding from federal and state sources for Concourse A Security Checkpoint Expansion. Investment income increased $84,250, or 72.6% from fiscal year 2015 primarily due to changes in investment strategies and interest rates.

Expenses for the years ended June 30, 2017, 2016, and 2015 are summarized as follows:

		2017	2016	2015
Operating expenses:				
Salaries and fringe benefits	$	16,069,061	14,973,786	13,812,488
City tax assessment		2,500,000	2,500,000	5,127,465
Maintenance and repairs		3,505,388	3,458,833	3,370,284
Depreciation and amortization		10,029,660	10,355,409	10,162,197
Other expenses		12,566,263	10,742,048	10,059,550
Total operating expenses		44,670,372	42,030,076	42,531,984
Nonoperating expenses:				
Interest expense		764,513	1,298,383	1,812,706
Total expenses	$	45,434,885	43,328,459	44,344,690

Operating expenses increased $2,640,296, or 6.3%, in fiscal year 2017 compared to fiscal year 2016. Salaries and fringe benefits increased $1,095,275, or 7.3%, primarily due to an increase in salaries, wages, and state retirement. Depreciation and amortization decreased $325,749, or 3.1%, primarily due to the capitalized interest on construction projects. Other expenses increased $1,870,770, or 11.2%, the capital asset impairment expense.

Operating expenses decreased $501,908, or 1.2%, in fiscal year 2016 compared to fiscal year 2015. Salaries and fringe benefits increased $1,161,298, or 8.4%, primarily due to an increase in pension expense and standard increases in employees' salaries, wages, and state retirement. Other expenses increased $682,498 or 6.8%, primarily due to increases in professional services, insurance, 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 the departures terminal generator and chiller, runway anti-icing equipment, rehabilitation of general aviation apron and employee parking lot, perimeter and access road rehabilitation, ongoing departures terminal refurbishment, replacement of wiring for airfield lighting control and expansion of the TSA passenger screening checkpoint on 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, 2017, 2016, and 2015, as well as a schedule of additions and retirements for the years ended June 30, 2017, 2016, and 2015, are included as follows:

	June 30		
	2017	**2016**	**2015**
Summary of capital assets:			
Land	$ 14,722,494	14,722,494	14,722,494
Buildings, structures, and improvements	249,325,175	249,262,512	249,385,608
Roads and runways	64,256,390	61,399,095	61,399,095
Equipment	39,655,210	37,100,978	36,075,868
Construction in progress	29,182,628	28,127,753	12,762,901
	397,141,897	390,612,832	374,345,966
Accumulated depreciation	(215,828,621)	(205,986,857)	(195,744,755)
Total	$ 181,313,276	184,625,975	178,601,211

Schedule of additions and retirements:

	June 30		
	2017	**2016**	**2015**
Capital assets, beginning of year	$ 184,625,975	178,601,211	178,292,350
Additions	8,156,442	17,707,636	26,096,505
Retirements	(1,439,481)	(1,171,393)	(15,444,769)
Depreciation	(10,029,660)	(10,511,479)	(10,342,875)
Capital assets, end of year	$ 181,313,276	184,625,975	178,601,211

Long-Term Debt (Bonds Payable)

At June 30, 2017, the Authority had total bonds payable outstanding of $44,584,518, net of unamortized premiums. Principal payments made during fiscal year 2017 totaled $2,237,159 and principal amounts payable during fiscal year 2018 are $2,344,777. Bond payments are scheduled to be paid through fiscal year 2032. A majority of the bonds outstanding were used to finance the Authority's Arrival 2002 Project and are payable from general reserves and passenger facility charges revenue. See note 6 of the notes to the basic financial statements for additional information regarding the outstanding long-term debt.

Bond Covenant

The bond resolutions include reserve requirements, including that total revenues provide for 100% of operating expenses, and net revenues provide 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, 2017, 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) 2017 was 3,263,882, a 3.61% increase over FY 2016 activity of 3,150,139 passengers. This increase in passenger traffic was a result of a number of factors including a rebounding local economy, the temporary relaxing of federal budget sequestration which has reduced the impact to government and military travel, the increase in available seat capacity and total flights by the airline industry and generally flat airline fares.

Because of this increase in passengers, the Airport experienced revenue generation which exceeded budget projections by $2,268,948 or 5.28%. This performance was due, in part, to Landing Fee revenues which performed over budget projections by $682,592 or 7.38% as a result of the airlines operating more scheduled flights at Norfolk International during the fiscal year than they forecasted during the budget preparation process for FY 2017. Additionally, commissions generated by the operations of the Airport's rental car concessionaires also exceeded budget by $759,222 or 11.04%, and Parking Revenue exceeded budget by $504,999 or 3.31%.

The Airport also experienced a favorable picture with respect to expenses. As a result of cost containment efforts, expenses for the year were kept under budget by $2,705,825 or 7.53%. The Per the calculation in the Airline Use Agreement, the Airport finished the year with a Net Revenue of $6,782,798. In accordance with provisions contained in the Airline Use Agreement, $2,561,082 will be retained in the Parking Escrow Account to be used to fund future parking related capital projects. A portion of the balance of $3,760,035 will be distributed to the Airport's Capital Reserve Expenditure Fund with the remainder shared equally between the Authority and the airlines operating at Norfolk International Airport.

(Continued)

The outlook for the first half of FY 2018 is positive. Passenger traffic for the months of July and August were up by 5.43% and 6.58%, respectively, over the same months for last year. Additionally, for the first eight months of this calendar year, airline seat capacity is up by 7.34% as compared to the same period last year. Allegiant Air will commence service to three Florida destinations in October and November of 2017 and we are projecting a growth rate of 2% for FY 2018. The Airport will continue to keep cost control measures in place during this fiscal year.

To ensure that the Airport's passenger terminal facilities remain attractive, comfortable and up to date, the Authority engaged the architectural firm of Gresham Smith and Partners in the Fall of 2010 to develop a scope of work to refurbish both the interior and exterior treatments of the terminal facilities which is anticipated to be completed over a multi-year time frame. Phase 3 of the refurbishment commenced in December 2015 which includes a new ticketing facility for Delta Air Lines, the refurbishment of the public restrooms in the Departures Terminal, and the construction of Mother's Rooms in the Departures Terminal and on both airline concourses. Phase 3 is projected to be completed at the end of calendar year 2017.

Since 2010, the Authority has expended or allocated approximately $50 million in construction and renovation projects including the General Aviation Facility, and Phases 1, 2 and 3 of the Departures and Arrivals Terminals; using federal and state grants where applicable and Authority funds for the balance. No debt was incurred for these projects. Approximately $20 million was budgeted for design, engineering and construction projects in FY 2017, again using federal and state grants with Authority funds for the balance. The primary projects include the purchase of snow removal equipment for the airfield, a Master Plan Update, design for rehabilitation of both runways, and relocating the rental car return facility into public parking Garage A.

In FY 2018 we have approximately $100 million budgeted for major projects that will begin construction such as the rehabilitation of both runways, an expansion of airline Concourse A, new elevators in the Departures Terminal, airfield signage and lighting upgrades, renovation of the public restrooms in the Arrivals Terminals, construction of a U.S. Customs inspection facility at the General Aviation Terminal, ticket lobby and baggage screening improvements in the Departures Terminal, replacement of the Parking Revenue Control System, and the design and construction of public parking Garage D. Funding for these and other projects will come from federal and state grants, Authority funds and garage bonds.

Contacting the Authority's Financial Management

This financial report is designed to provide interested parties with a general overview of the Authority 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, 2017 and 2016

Assets		2017	2016
Current assets:			
Cash (note 2)	$	699,282	687,616
Investments (notes 2 and 17)		35,755,016	34,419,114
Accounts receivable, net (note 12)		3,312,355	3,067,951
Accrued interest receivable		96,348	178,635
Grants receivable		104,307	84,600
Prepaid expenses (note 15)		2,560,734	2,532,822
Total current assets		42,528,042	40,970,738
Restricted assets (note 3):			
Cash (note 2)		267,153	85,575
Investments (notes 2 and 17)		22,726,227	16,722,782
Passenger facility charges receivable, including interest		1,085,509	748,268
Total restricted assets		24,078,889	17,556,625
Capital assets (note 4):			
Land		14,722,494	14,722,494
Buildings, structures, and improvements		249,325,175	249,262,512
Roads and runways		64,256,390	61,399,095
Equipment		39,655,210	37,100,978
Construction in progress, including capitalized interest		29,182,628	28,127,753
		397,141,897	390,612,832
Less accumulated depreciation		(215,828,621)	(205,986,857)
Total capital assets, net		181,313,276	184,625,975
Other assets		954,133	994,101
Bond insurance costs, net (note 5)		51,796	67,987
Total assets		248,926,136	244,215,426
Deferred outflows of resources			
Deferred amount on refunding (note 6)		138,336	174,260
Net difference between projected and actual earnings on pension plan investments (note 8)		347,630	—
Differences between expected and actual pension experience		1,000,788	335,074
Deferred pension contributions (note 8)		1,156,652	1,312,273
Total deferred outflows of resources	$	2,643,406	1,821,607

See accompanying notes to basic financial statements

NORFOLK AIRPORT AUTHORITY

Statements of Net Position

June 30, 2017 and 2016

Liabilities		2017	2016
Current liabilities:			
Accounts payable	$	1,380,858	1,893,713
Accrued leave and wages		1,958,530	1,903,867
Other accrued expenses		305,648	191,916
Surplus payable to airlines (note 7)		1,880,018	2,302,742
Total current liabilities		5,525,054	6,292,238
Amounts payable from restricted assets:			
Accrued interest		1,044,875	1,052,900
Current portion of bonds payable (note 6)		2,344,777	2,237,159
Total amounts payable from restricted assets		3,389,652	3,290,059
Long-term liabilities:			
Bonds payable, less current portion (note 6)		42,239,741	44,779,549
Net pension liability (note 8)		6,209,120	4,168,393
Other liabilities		938,260	888,219
Total long-term liabilities		49,387,121	49,836,161
Total liabilities		58,301,827	59,418,458
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)		—	960,142
Net position			
Net investment in capital assets		136,918,892	137,851,515
Restricted for:			
Capital projects		12,002,139	2,279,234
Debt service		11,031,875	14,224,491
Unrestricted		33,314,809	31,303,193
Total net position	$	193,267,715	185,658,433

See accompanying notes to basic financial statements

NORFOLK AIRPORT AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2017 and 2016

		2017	2016
Operating revenues:			
Passenger terminals (notes 7 and 11)	$	15,342,788	14,987,595
Landing fees and field operations (notes 7 and 11)		11,152,159	10,818,449
Parking		16,257,911	16,375,374
Total operating revenues		42,752,858	42,181,418
Operating expenses:			
Salaries and fringe benefits (notes 8, 9, and 10)		16,069,061	14,973,786
Depreciation and amortization (notes 4, 5, and 6)		10,029,660	10,355,409
Utilities		2,502,248	2,468,192
Maintenance and repairs		3,505,388	3,458,833
Administrative		847,556	825,280
Professional services		483,703	520,672
Parking		—	742,923
Advertising and promotion		895,189	912,909
Insurance		920,554	799,943
Security and other services		4,451,058	3,491,232
Sanitation		651,992	639,203
City tax assessment (note 15)		2,500,000	2,500,000
Capital asset impairment		1,424,535	—
Other		389,428	341,694
Total operating expenses		44,670,372	42,030,076
Operating income (loss)		(1,917,514)	151,342
Nonoperating revenues (expenses):			
Federal grant revenues		1,373,734	5,438,342
State grant revenues (note 3)		2,000,000	2,000,000
Passenger facility charges (note 3)		6,580,824	6,316,588
State grant revenues investment gain		11,628	80,503
Passenger facility charges investment gain (loss)		(21,945)	84,835
Other income		158,530	202,223
Investment gain		188,538	200,182
Interest expense		(764,513)	(1,298,383)
Net nonoperating revenues		9,526,796	13,024,290
Change in net position		7,609,282	13,175,632
Total net position, beginning of the year		185,658,433	172,482,801
Total net position, end of the year	$	193,267,715	185,658,433

See accompanying notes to basic financial statements.

NORFOLK AIRPORT AUTHORITY

Statements of Cash Flows

Years ended June 30, 2017 and 2016

		2017	2016
Cash flows from operating activities:			
Collections from customers	$	42,508,454	41,486,264
Payments to employees for services		(15,677,804)	(15,343,876)
Payments for city tax assessment		(2,500,000)	(2,500,000)
Payments to suppliers		(15,510,780)	(12,963,338)
Net cash provided by operating activities		8,819,870	10,679,050
Cash flows from capital and related financing activities:			
Principal payments on bonds		(2,237,159)	(4,804,620)
Acquisition of capital assets		(6,900,012)	(14,688,292)
Proceeds from the sale of equipment		39,100	—
Interest paid on debt		(2,047,326)	(2,235,340)
Passenger facility charges		6,221,638	6,353,948
Federal and State grants received		3,365,655	7,585,745
Net cash used in capital and related financing activities		(1,558,104)	(7,788,559)
Cash flows from investing activities:			
Interest received from investments		270,825	57,647
Purchases of investments		(246,490,161)	(236,517,476)
Proceeds from maturities of investments		239,150,814	233,892,675
Net cash used in investing activities		(7,068,522)	(2,567,154)
Net increase in cash		193,244	323,337
Cash, beginning of year		773,191	449,854
Cash, end of year		966,435	773,191
Cash and restricted cash are presented in the accompanying statements of net position as follows:			
Cash		699,282	687,616
Restricted cash		267,153	85,575
		966,435	773,191
Reconciliation of operating loss to net cash provided by operating activities:			
Operating income (loss)		(1,774,598)	151,342
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation		10,029,660	10,355,409
Amortization		(142,916)	—
Capital asset impairment		1,424,535	—
Gain on disposal of capital assets		(24,156)	—
Other nonoperating income		158,530	202,223
Decrease (increase) in operating assets:			
Accounts receivable		(244,404)	(695,154)
Prepaid expenses		(27,912)	3,405
Other assets		39,968	27,663
Increase (decrease) in operating liabilities:			
Accounts payable		(637,411)	(744,695)
Accrued leave and wages		54,663	108,090
Other accrued expenses		113,732	(72,328)
Surplus payable to airlines		(422,724)	1,779,067
Net pension liability		222,862	(405,852)
Other liabilities		50,041	(30,120)
Net cash provided by operating activities	$	8,819,870	10,679,050

Supplemental disclosure of noncash capital and related financing activities:

The Authority incurred noncash capital expenditures related to construction in progress in the amount of $1,020,064 and $1,027,873 that are included in accounts payable as of June 30, 2017 and 2016, 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 with customers including airlines, rental car companies, and on-site vendors (note 11), 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) 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.

(d) 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.

(e) Bond Insurance Costs

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

(f) 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.

(g) 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 valuation allowance for receivables; and assets and obligations related to employee benefits. Actual results could differ from those estimates.

(h) Pensions

The Authority contributes to the VRS, an agent multiple-employer public employee retirement system with separate agent multiple 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 paid in accordance with the benefit terms. Investments are reported at fair value.

(i) Fair Value

The Authority utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Authority determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market.

When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantively the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identified assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The level in the fair value hierarchy within which a fair value measurement, in its entirety falls in, is based on the lowest level input that is significant to the fair value measurement in its entirety.

Portfolio investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

(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 $966,435 and $773,191 and the bank balances were $886,564 and $770,191 at June 30, 2017 and 2016, 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, 2017, the Standard & Poor's ratings on the Authority's investments included 49.0% of "AAAm", 0.1% of "AAA", 30.1% of "AA+", 0.6% of "AA", 1.1% of "AA-", 14.7% of "A-1+", and 4.4% of "A-1".

(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, 2017, the Authority's portfolio was invested as follows:

Issuer	Percentage of portfolio
Money market mutual funds	52.1 %
U.S. Treasury	22.3
Federal Home Loan Bank	7.5
Commercial Paper	5.7
Federal Home Loan Mortgage Corporation (Freddie Mac)	4.1
Corporate notes	3.6
Federal National Mortgage Agency (Fannie Mae)	3.2
Farm Credit Bank	1.4
Municipal bonds	0.1
	100.0 %

(e) Interest Rate Risk

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority's policy limits the investment of funds as a means of limiting exposure to fair value losses arising from permitted investments with a stated maturity of no more than five years from the date of purchase. To control the volatility of investments, a duration target not to exceed three 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, 2017, the carrying values and weighted average maturity of the Authority's investments were as follows:

Investment type		Fair value	Weighted average maturity in years
Money market mutual funds	$	11,798,445	0.00
Federal agency notes		9,484,653	0.25
U.S. Treasury securities		13,066,230	0.60
Commercial paper		3,331,440	0.27
Corporate notes		2,081,624	0.56
Municipal bonds		50,169	0.84
Total investments held at fair value		39,812,561	
Investments held at amortized costs		18,668,682	—
Total investments	$	58,481,243	

(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, 2017, 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, 2017 and 2016 is as follows:

		2017	2016
Deposits	$	966,435	773,191
Investments		58,481,243	51,141,896
	$	59,447,678	51,915,087
Current assets:			
Cash and cash equivalents	$	699,282	687,616
Investments		35,755,016	34,419,114
Restricted assets:			
Cash and cash equivalents		267,153	85,575
Investments		22,726,227	16,722,782
	$	59,447,678	51,915,087

(h) Fair Value Measurements

The Authority has the following recurring fair value measurements as of June 30, 2017:

Money market mutual funds of $11,798,445 are considered level 1 investments. The mutual fund attempts to stabilize the net asset value (NAV) of its shares at $1 per share using the amortized cost method. The underlying investments for these money market mutual funds include U.S. Treasury and other government securities along with repurchase agreements collateralized by U.S. Treasury and other government securities. There are no restrictions on redemptions of the mutual fund.

U.S. Treasury securities, federal agency notes, corporate notes and municipal bonds of $28,014,116 are valued using a matrix pricing model (Level 2 inputs).

The Authority held $18,668,682 in LGIP funds at June 30, 2017 and therefore are not included in the fair value measurement. External investment pools include LGIP investments which are reported at amortized costs in accordance with Rule 2a-7, and qualify as external investment pools per GASB 79, Certain External Investment Pools and Pool Participants.

(3) Restricted Assets

The Authority received $2,000,000 during both fiscal years 2017 and 2016 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 2012 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, 2017 and 2016:

		2017	2016
State block grant account	$	12,002,139	2,279,235
Debt service reserve accounts		4,662,320	6,480,057
Passenger facility charges account		6,061,768	7,963,488
Passenger facility charges receivable, including interest		1,085,509	748,268
Other restricted assets		267,153	85,577
Restricted assets	$	24,078,889	17,556,625

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 $128,108,120 and expires on January 1, 2019. 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.

(4) Capital Assets

The following is a summary of the changes in capital assets for the years ended June 30, 2017 and 2016:

		Balances, June 30, 2016	Increases	Decreases	Balances, June 30, 2017
Capital assets not being depreciated:					
Land	$	14,722,494	—	—	14,722,494
Construction in progress		28,127,753	7,671,509	(6,616,634)	29,182,628
		42,850,247	7,671,509	(6,616,634)	43,905,122
Other capital assets:					
Building, structures, and improvements		249,262,512	87,213	(24,550)	249,325,175
Roads and runways		61,399,095	2,857,295	—	64,256,390
Equipment		37,100,978	2,732,523	(178,291)	39,655,210
Less accumulated depreciation for:					
Building, structures, and improvements		(123,173,672)	(6,884,614)	24,550	(130,033,736)
Roads and runways		(54,804,004)	(1,460,818)	—	(56,264,822)
Equipment		(28,009,181)	(1,684,228)	163,346	(29,530,063)
		141,775,728	(4,352,629)	(14,945)	137,408,154
Capital assets, net	$	184,625,975	3,318,880	(6,631,579)	181,313,276

		Balances, June 30, 2015	Increases	Decreases	Balances, June 30, 2016
Capital assets not being depreciated:					
Land	$	14,722,494	—	—	14,722,494
Construction in progress		12,762,901	16,536,245	(1,171,393)	28,127,753
		27,485,395	16,536,245	(1,171,393)	42,850,247
Other capital assets:					
Building, structures, and improvements		249,385,608	59,561	(182,657)	249,262,512
Roads and runways		61,399,095	—	—	61,399,095
Equipment		36,075,868	1,111,830	(86,720)	37,100,978
Less accumulated depreciation for:					
Building, structures, and improvements		(116,540,479)	(6,815,850)	182,657	(123,173,672)
Roads and runways		(52,915,134)	(1,888,870)	—	(54,804,004)
Equipment		(26,289,142)	(1,806,759)	86,720	(28,009,181)
		151,115,816	(9,340,088)	—	141,775,728
Capital assets, net	$	178,601,211	7,196,157	(1,171,393)	184,625,975

Depreciation expense for the years ended June 30, 2017 and 2016 was $10,029,660 and $10,511,479, respectively.

(5) Bond Insurance Costs

At June 30, 2017, the gross carrying amount and accumulated amortization of bond insurance costs was $678,110 and $626,314, respectively. At June 30, 2016, the gross carrying amount and accumulated amortization of bond insurance costs was $678,110 and $610,123, respectively. Amortization expense for the years ended June 30, 2017 and 2016 was $16,191 and $18,247, respectively.

(6) Bonds Payable

Bonds payable comprise the following at June 30, 2017 and 2016:

		2017	2016
Series 2011 Bonds payable	$	43,400,000	45,555,000
VRA Bonds payable		277,840	359,999
		43,677,840	45,914,999
Unamortized premium		906,678	1,101,709
	$	44,584,518	47,016,708

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, 2017 were as follows:

		Principal	Interest
Year(s) ending June 30:			
2018	$	2,344,777	1,966,586
2019		2,452,477	1,858,535
2020		2,565,264	1,750,742
2021		2,595,322	1,635,685
2022		2,715,000	1,506,825
2023–2027		15,270,000	5,363,589
2028–2032		15,735,000	1,816,045
	$	43,677,840	15,898,007

Revenue bond activity for the years ended June 30, 2017 and 2016 is as follows:

		Balance, June 30, 2016	Amortization of premium	Bond payments	Balance, June 30, 2017
Series 2011 Bonds payable	$	46,656,706	(195,031)	(2,155,000)	44,306,675
VRA Bonds payable		360,002	—	(82,159)	277,843
	$	47,016,708	(195,031)	(2,237,159)	44,584,518

		Balance, June 30, 2015	Amortization of premium	Bond payments	Balance, June 30, 2016
Series 2011 Bonds payable	$	51,595,909	(214,203)	(4,725,000)	46,656,706
VRA Bonds payable		439,622	—	(79,620)	360,002
	$	52,035,531	(214,203)	(4,804,620)	47,016,708

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, 2017, 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, 2017 and 2016, there was a surplus of $1,880,018 and $2,302,742, 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, 2017 and 2016.

(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/2016-annual-report.pdf, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

(b) Employees Covered by Benefit Terms

As of the June 30, 2015 and 2014 actuarial valuations, the following employees were covered by the benefit terms of the pension plan:

	Number	
	2015	**2014**
Inactive members or their beneficiaries currently receiving benefits	125	118
Inactive members:		
Vested inactive members	25	26
Nonvested inactive members	58	62
Inactive members active elsewhere in VRS	39	41
Total inactive members	122	129
Active members	195	200
Total covered employees	442	447

(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 2013; the Authority paid the remaining portion of employee contributions. During the year ended June 30, 2017, the Authority paid 0% of employee contributions. During the year ended June 30, 2016, the Authority paid 1% of employee contributions. All employees will pay the full required 5% employee contribution commencing fiscal year 2018.

The Authority's actuarially required contribution rate for the year ended June 30, 2017 and 2016 was 10.61% and 11.76% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were $1,156,652 for the year ended June 30, 2017 and $1,312,273 (including $88,808 of employer paid employee contributions) for the year ended June 30, 2016.

(d) Net Pension Liability

The Authority's net pension liability as of June 30, 2017 was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

(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 valuations as of June 30, 2015 and 2014, 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, 2016 and 2015.

	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.

(Continued)

	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 and females set back 2 years	RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and 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

(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	0.09	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

(Continued)

Asset class (strategy)	Target allocation	Arithmetic long-term expected rate of return	Weighted average long-term expected rate of return
Private equity	12.00%	10.41	1.25%
Cash	1.00	(1.50)	(0.02)
Total	100.00%		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, 2015	$	42,013,309	37,844,916	4,168,393
Changes for the year:				
Service cost		1,346,523	—	1,346,523
Interest		2,880,450	—	2,880,450
Differences between expected and actual experience		237,910	—	237,910
Contributions – employer		—	1,223,465	(1,223,465)
Contributions – employee		—	553,205	(553,205)
Net investment income		—	671,007	(671,007)
Benefit payments, including refunds of employee contributions		(1,727,430)	(1,727,430)	—
Administrative expenses		—	(23,348)	23,348
Other changes		—	(173)	173
Net changes		2,737,453	696,726	2,040,727
Balances at June 30, 2016	$	44,750,762	38,541,642	6,209,120

		Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a) – (b)
Balances at June 30, 2014	$	39,274,785	36,231,733	3,043,052
Changes for the year:				
Service cost		1,300,433	—	1,300,433
Interest		2,688,486	—	2,688,486
Differences between expected and actual experience		484,660	—	484,660
Contributions – employer		—	1,179,412	(1,179,412)
Contributions – employee		—	522,626	(522,626)
Net investment income		—	1,669,448	(1,669,448)
Benefit payments, including refunds of employee contributions		(1,735,055)	(1,735,055)	—
Administrative expenses		—	(22,585)	22,585
Other changes		—	(663)	663
Net changes		2,738,524	1,613,183	1,125,341
Balances at June 30, 2015	$	42,013,309	37,844,916	4,168,393

(Continued)

(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%)
The Authority's Net Pension Liability as of June 30, 2017	$	11,579,801	6,209,120	1,685,373
The Authority's Net Pension Liability as of June 30, 2016	$	9,324,414	4,168,393	(168,170)

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

For the years ended June 30, 2017 and 2016, the Authority recognized pension expense of $1,290,815 and $726,873. At June 30, 2017 and 2016, 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	$	347,630	—
Differences between expected and actual experience		1,000,788	—
Employer contributions subsequent to the measurement date		1,156,652	—
Total as of June 30, 2017	$	2,505,070	—

		Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual earnings on pension plan investments	$	—	960,142
Differences between expected and actual experience		335,074	—
Employer contributions subsequent to the measurement date		1,312,273	—
Total as of June 30, 2016	$	1,647,347	960,142

(Continued)

Deferred outflows of resources related to pensions totaling $1,156,652 and $1,312,273, resulting from the Authority's contributions subsequent to the measurement date of June 30, 2016 and 2015, will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2018 and 2017. Other amounts reported as deferred outflows of resources and deferred (inflows) of resources related to pensions will be recognized in pension expense as follows:

		2017	2016
Year ending June 30:			
2017	$	—	(228,114)
2018		243,461	(228,114)
2019		129,778	(341,797)
2020		579,370	172,957
2021		395,809	—

(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, 2017, the plan expense was $33,165, which is net of payments of $86,382. During the year ended June 30, 2016, the plan expense was $39,128, which is net of payments of $61,310. 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 $954,133 and $994,101 at June 30, 2017 and 2016, respectively, and is included as other noncurrent assets in the accompanying statements of net position. The ESRP accrued expense totaling $665,730 and $738,865 as of June 30, 2017 and 2016, 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 (ICMA). 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. ICMA charges each participating employee a policy fee of $18 deducted at the end of each participant's contract year. ICMA 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:		
2018	$	15,002,500
2019		15,455,100
2020		15,713,600
2021		15,995,300
2022		16,307,700

The above amounts do not include contingent rentals and fees in excess of minimums, which amounted to $1,988,260 and $1,696,588 in fiscal years 2017 and 2016, respectively. Total rental and concession income in fiscal years 2017 and 2016 was approximately $16,987,000 and $16,473,000, respectively.

(12) Concentration of Credit Risk

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

(13) Risk Management

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

The Authority participates in a risk management self-insurance plan through the Commonwealth of Virginia administered by the Division of Risk Management. Through this plan, the Authority obtains public officers' liability coverage of $1,000,000 per occurrence. The Comprehensive Annual Financial Report of the Commonwealth of Virginia contains disclosure of the Commonwealth's estimated claims payable and estimated losses for self-insurance plans at June 30, 2017 and 2016.

The Authority also participates in a self-insurance program for workers' compensation coverage through Zenith. 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 2016, 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. Payment in the amount of $2,500,000 was required for both fiscal years 2017 and 2016. The Authority's fiscal year 2018 annual payment of $2,500,000 was made in June 2017 and is reflected as a prepaid expense as of June 30, 2017.

Future payments in lieu of taxes are as follows:

Year ending June 30:		
2018	$	2,500,000
2019		2,500,000
2020		2,500,000
2021		2,650,000
2022		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, 2017.

(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, 2017, there were ten series of revenue bonds outstanding with an aggregate principal amount of approximately $39,971,000. As of June 30, 2016, there were ten series of revenue bonds outstanding with an aggregate principal amount of approximately $31,266,000.

(17) Capitalized Interest

The Authority capitalizes interest costs that relate to the construction of Airport projects. Interest costs of projects acquired with tax exempt borrowings are reduced by interest earned on invested debt proceeds over the same construction period. Interest costs on Authority funded projects are calculated using the average interest rate on all borrowings over the same construction period. The capitalized interest cost was $1,131,873 and $820,082 for fiscal year 2017 and 2016, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

NORFOLK AIRPORT AUTHORITY

Schedule of Changes in Net Pension Liability and Related Ratios

June 30, 2017

		2014	2015	2016
Schedule of Changes in the Authority's Net Pension Liability and Related Ratios:				
Total pension liability:				
Service cost	$	1,278,926	1,300,433	1,346,523
Interest		2,530,135	2,688,486	2,880,450
Differences between expected and actual experience		—	484,660	237,910
Benefit payments, including refunds of employee contributions		(1,358,746)	(1,735,055)	(1,727,430)
Net change in total pension liability		2,450,315	2,738,524	2,737,453
Total pension liability – beginning		36,824,470	39,274,785	42,013,309
Total pension liability – ending (a)		39,274,785	42,013,309	44,750,762
Plan fiduciary net position:				
Contributions – employer		1,260,523	1,179,412	1,223,465
Contributions – employee		512,028	522,626	553,205
Net investment income		4,930,757	1,669,448	671,007
Benefit payments, including refunds of employee contributions		(1,358,746)	(1,735,055)	(1,727,430)
Administrative expense		(25,970)	(22,585)	(23,348)
Other		260	(663)	(173)
Net change in plan fiduciary net position		5,318,852	1,613,183	696,726
Plan fiduciary net position – beginning		30,912,881	36,231,733	37,844,916
Plan fiduciary net position – ending (b)		36,231,733	37,844,916	38,541,642
Authority's net pension liability – ending (a)-(b)	$	3,043,052	4,168,393	6,209,120
Plan fiduciary net position as a percentage of the total pension liability (b) / (a)		92.25%	90.08%	86.13 %
Covered-employee payroll (c)	$	10,245,675	10,406,965	10,903,311
Authority's net pension liability as a percentage of covered-employee payroll [(a)-(b)] / (c)		29.70%	40.05%	56.94 %

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

NORFOLK AIRPORT AUTHORITY

Required Supplementary Information (Unaudited)

Schedule of Pension Contributions

June 30, 2017

(Unaudited)

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
2017	$ 1,156,652	1,156,652	—	10,903,311	10.61 %
2016	1,223,500	1,223,465	—	10,406,956	11.76 %
2015	1,180,959	1,179,412	—	10,245,675	11.51 %

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

NORFOLK AIRPORT AUTHORITY

Notes to Required Supplementary Information (Unaudited)

Year ended June 30, 2017

(1) Changes of Benefit Terms

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

(2) Changes of Assumptions

There have been no actuarially material changes to the assumptions since the prior actuarial valuation.

(3) Years Presented in Schedules

The Schedule of Changes in the Authority's Net Pension Liability and Related Ratios and the Schedule of Pension Contributions are required to be presented for the last ten fiscal years. However, the Authority has only presented the required supplementary information for the last three years as fiscal year 2015 was the first year of implementation of the requirement to provide such required supplementary information and such information is not available for the prior years.

Unaudited – See accompanying independent auditors' report.

SUPPLEMENTARY INFORMATION

NORFOLK AIRPORT AUTHORITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

Federal grantor/program title	CFDA number	Project number	Expenditures
Federal Aviation Administration:			
Airport Improvement Program:			
Environmental Impact Study Phase I Parallel Runway 5R/23L	20.106	3-51-0036-63	$ 16,813
Modify Terminal Building, Expand Security Checkpoint A	20.106	3-51-0036-64	501,011
Terminal Improvements/Pavement management Plan Update	20.106	3-51-0036-63	704,410
Transportation Security Administration:			
Explosive detection canine team program	97.072		151,500
			$ 1,373,734

See accompanying notes to schedule of expenditures of federal awards.

See accompanying independent auditors' report.

NORFOLK AIRPORT AUTHORITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

(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.

(3) De Minimus Cost Rate

The auditee has not elected to use the 10% de minimus indirect cost rate as discussed in Uniform Guidance Section 200.414

KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

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

The Board of Commissioners
Norfolk Airport Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Norfolk Airport Authority (the Authority), which comprise the statement of net position as of June 30, 2017, 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 financial statements, and have issued our report thereon dated November 6, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the 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 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

Norfolk, Virginia
November 6, 2017

KPMG LLP
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440 Monticello Avenue
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Independent Auditors' Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance

The Board of Commissioners
Norfolk Airport Authority:

Report on Compliance for Each Major Federal Program

We have audited the Norfolk Airport Authority's (the Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 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, 2017.

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 major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

KPMG LLP

Norfolk, Virginia
November 6, 2017

NORFOLK AIRPORT AUTHORITY

Schedule of Passenger Facility Charge Revenues and Expenditures

Year ended June 30, 2017 and
each quarter during the year ended June 30, 2017

	Date approved	Cumulative total – June 1998 to June 30, 2016	Quarter ended September 2016	Quarter ended December 31, 2016	Quarter ended March 31, 2017	Quarter ended June 30, 2017	Year ended June 30, 2017	Cumulative total – June 1998 to June 30, 2017
Revenues:								
Passenger facility charge revenues received[1]		$ 94,407,965	1,563,413	1,514,527	1,789,932	1,375,711	6,243,583	100,651,548
Interest earned[2]		7,290,745	1,025	—	30,864	6,313	38,202	7,328,947
Total revenues		$ 101,698,710	1,564,438	1,514,527	1,820,796	1,382,024	6,281,785	107,980,495
Expenditures:								
Bond financing and interest costs and capital expenditures	July 2007	$ 93,736,957	555,305	—	7,612,578	—	8,167,883	101,904,840

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).

1 PFC revenues are reported when the cash is received.

2 The FAA requires that the PFC revenue does not include net quarterly interest losses. As such, only the net quarterly gains are reflected above as interest earned.

See accompanying independent auditors' report.

NORFOLK AIRPORT AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

(1) Summary of Auditor’s Results

(a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: Unmodified

(b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:

- Material weaknesses: **No**
- Significant deficiencies: **None Reported**

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

(d) Internal control deficiencies over major programs disclosed by the audit:

- Material weaknesses: **No**
- Significant deficiencies: **None reported**

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

(f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**

(g) Major programs:

- Airport Improvement Program – CFDA 20.106

(h) Dollar threshold used to distinguish between Type A and Type B programs: **$750,000**

(i) Auditee qualified as a low-risk auditee: **No**

(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:

None Reported

KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report on Compliance with Requirements Applicable for the Passenger Facility Charge Program and on Internal Control over Compliance

The Board of Commissioners
Norfolk Airport Authority:

Report on Compliance for the Passenger Facility Charge Program

We have audited the Norfolk Airport Authority's (the Authority) compliance with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the Audit Guide), issued by the Federal Aviation Administration, applicable to the Authority's Passenger Facility Charge Program for the year ended June 30, 2017.

Management's Responsibility

Management of the Authority is responsible for compliance with requirements of laws, and regulations, applicable to the 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 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 audit requirements in the Audit Guide. Those standards and the Audit Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a 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 Authority's Passenger Facility Charge Program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion

In our opinion, the Norfolk Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that are applicable to its Passenger Facility Charge Program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance 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 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 compliance requirement 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 compliance requirement 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 Audit Guide. Accordingly, this report is not suitable for any other purpose.

KPMG LLP

Norfolk, Virginia
November 6, 2017