



NORFOLK AIRPORT AUTHORITY

Basic Financial Statements,
Required Supplementary Information,
Supplemental Schedules and Audit of Federal Awards Performed
in Accordance with U.S. Office of Management Uniform Guidance

June 30, 2016 and 2015

(With Independent Auditors' Reports Thereon)

NORFOLK AIRPORT AUTHORITY

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Board of Commissioners

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Deputy Executive Director Administration & Operations
Deputy Executive Director Engineering & Facilities
Director of Operations
Director of Facilities
Director of Finance
Director of Market Development
Director of Human Resources



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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, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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, 2016 and 2015, and the changes in its financial position and cash flows thereof for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

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



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 3 – 10, and the Required Supplementary Information and related Notes to Required Supplementary Information on pages 34 through 35, 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 audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by the U.S. Office of Management and Budget Uniform Guidance and the Schedule of Passenger Facility Charge Revenues and Expenditures, as specified in the Passenger Facility Charge Audit Guide for Public Agencies, issued by the Federal Aviation Administration, and the Introductory Section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31 2016, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

Norfolk, Virginia
October 31, 2016

NORFOLK AIRPORT AUTHORITY

Required Supplementary Information – Management’s Discussion and Analysis

(Unaudited)

June 30, 2016 and 2015

The management of the Norfolk Airport Authority (the Authority) offers readers of its basic financial statements the following narrative overview and analysis of financial activities as of and for the years ended June 30, 2016 and 2015. The following should be read in conjunction with the basic financial statements and notes thereto.

Basic Financial Statements

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

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

The statements of net position present information on the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the Authority, with the resulting differences reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

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

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

The notes to the basic financial statements explain and provide additional information on the data presented in the basic financial statements as of and for the years ended June 30, 2016 and 2015.

Financial Highlights

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.

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Required Supplementary Information – Management’s Discussion and Analysis

(Unaudited)

June 30, 2016 and 2015

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 non-operating 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.

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

Total net position was \$172,482,801 as of June 30, 2015. Net position includes \$28,467,278 considered unrestricted and available to meet ongoing and future obligations of the Authority, including its share of capital projects.

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

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

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

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

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

Net Position

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

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(Unaudited)

June 30, 2016 and 2015

reduction in long-term debt. Unrestricted net position increased \$2,835,915 or 10.0% over the prior year and restricted net position decreased \$645,741 or 3.8%.

Revenue in excess of expenses, including the opening adjustment, was \$3,574,184, or 2.1% for the year ended June 30, 2015, and as a result increased total net position to \$172,482,801. Net investment in capital assets increased by \$7,121,713, or 5.9%, primarily attributable to fiscal year 2015, construction projects in process and the reduction in long-term debt. Unrestricted net position decreased \$4,099,014 from the prior year and restricted net position increased \$551,485, or 3.3%, primarily due to the increase in passenger facility charges.

A summary of the major components of the statements of net position as of June 30, 2016, 2015, and 2014 is as follows:

Condensed Statements of Net Position			
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current assets	\$ 40,970,738	33,854,895	34,752,138
Restricted assets	17,556,625	20,909,470	20,289,162
Capital assets, net	184,625,975	178,601,211	178,292,350
Other noncurrent assets	<u>1,062,088</u>	<u>1,107,998</u>	<u>1,140,952</u>
Total assets	<u>244,215,426</u>	<u>234,473,574</u>	<u>234,474,602</u>
Deferred outflows of resources	<u>1,821,607</u>	<u>1,573,102</u>	<u>263,809</u>
	<u>\$ 246,037,033</u>	<u>236,046,676</u>	<u>234,738,411</u>
Current liabilities	\$ 6,292,238	4,194,230	4,644,299
Amounts payable from restricted assets	3,290,059	5,974,398	7,958,865
Long-term liabilities	<u>49,836,161</u>	<u>51,192,247</u>	<u>53,226,630</u>
Total liabilities	<u>59,418,458</u>	<u>61,360,875</u>	<u>65,829,794</u>
Deferred inflows of resources	<u>960,142</u>	<u>2,203,000</u>	<u>—</u>
Net investment in capital assets	137,851,515	126,866,057	119,744,344
Restricted net position	16,503,725	17,149,466	16,597,981
Unrestricted net position	<u>31,303,193</u>	<u>28,467,278</u>	<u>32,566,292</u>
Total net position	<u>185,658,433</u>	<u>172,482,801</u>	<u>168,908,617</u>
	<u>\$ 246,037,033</u>	<u>236,046,676</u>	<u>234,738,411</u>

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 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 and interest due during fiscal year 2016. Included

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June 30, 2016 and 2015

in long-term liabilities are the principal amount of bonds payable that mature after June 30, 2017, net of unamortized premium, net pension liability, and an executive supplemental retirement plan liability. Deferred inflows of resources include the difference between projected and actual 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, 2016, 2015, and 2014 is provided as follows, followed by additional analysis.

Revenues for the years ended June 30, 2016, 2015, and 2014 are summarized as follows:

	2016	2015	2014
Operating revenues:			
Passenger terminals	\$ 14,987,595	14,298,145	14,098,222
Landing fees and field operations	10,818,449	9,275,022	8,874,896
Parking revenue	16,375,374	15,826,273	14,694,073
Total operating revenues	42,181,418	39,399,440	37,667,191
Nonoperating revenues, net:			
Federal and state grants and interest	7,518,845	6,675,189	5,195,088
Passenger facility charges and interest	6,401,423	5,909,219	6,108,345
Investment gain	200,182	115,932	178,957
Other income	202,223	470,094	416,851
Total nonoperating revenues, net	14,322,673	13,170,434	11,899,241
Total revenues, net	\$ 56,504,091	52,569,874	49,566,432

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.

Operating revenues increased \$1,732,249, or 45.2%, in fiscal year 2015 when compared to the previous year. The increase in operating revenues is attributed primarily to the increase in parking revenue and landing fees and field operations during the year. Passenger facility charges and interest decreased \$199,126, or 3.3%, in fiscal year 2015 when compared to the previous year due primarily to fewer paying passengers as a result of the merger of American Airlines and US Airways and a decrease in Southwest Airlines flights. Federal and state grant revenues and state grant interest, increased \$1,480,101, or 28.5%, when compared to the prior year due to the funding from federal and state sources to start Phase I of the Environmental Impact Statement of the parallel

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runway and to the Concourse A Security Checkpoint Expansion. Investment income decreased \$63,025, or 3.5% from fiscal year 2014 primarily due to changes in investment strategies and interest rates.

Expenses for the years ended June 30, 2016, 2015, and 2014 are summarized as follows:

	2016	2015	2014
Operating expenses:			
Salaries and fringe benefits	\$ 14,973,786	13,812,488	14,137,795
City tax assessment	2,500,000	5,127,465	2,065,500
Maintenance and repairs	3,458,833	3,370,284	3,250,411
Depreciation and amortization	10,355,409	10,162,197	9,939,655
Other expenses	10,742,048	10,059,550	10,126,876
Total operating expenses	42,030,076	42,531,984	39,520,237
Nonoperating expenses:			
Interest expense	1,298,383	1,812,706	1,859,641
Total expenses	\$ 43,328,459	44,344,690	41,379,878

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 the decrease of salaries and fringe benefits in fiscal year 2015 by the first year categorization of deferred outflows of resources to the pension plan during the adoption of GASB Statement No. 68 and GASB Statement No. 71. Depreciation and amortization increased \$193,212, or 1.9%, primarily due to the amortization of bond premiums. Other expenses increased \$682,498 or 6.8%, primarily due to increases in professional services, insurance, security and other services.

Operating expenses increased \$3,011,747, or 7.6%, in fiscal year 2015 compared to fiscal year 2014. Salaries and fringe benefits decreased \$325,307, or 2.3%, primarily due to the reduction of retirement benefits expense as a result of the adoption of GASB Statement No. 68 and GASB Statement No. 71 in fiscal year 2015.

Depreciation and amortization increased \$222,542, or 2.2%, primarily due to the amortization of bond premiums. Other expenses decreased \$67,326, or 0.7%, primarily due to decreases in professional services, partially offset by increases in advertising and promotion, security and other services.

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

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June 30, 2016 and 2015

capital assets. A summary of capital assets by category and the associated accumulated depreciation as of June 30, 2016 and 2015, as well as a schedule of additions and retirements for the years ended June 30, 2016 and 2015, are included as follows:

	June 30		
	2016	2015	2014
Summary of capital assets:			
Land	\$ 14,722,494	14,722,494	14,931,702
Buildings, structures, and improvements	249,262,512	249,385,608	234,658,284
Roads and runways	61,399,095	61,399,095	61,399,095
Equipment	37,100,978	36,075,868	35,359,849
Construction in progress	28,127,753	12,762,901	17,447,011
	<u>390,612,832</u>	<u>374,345,966</u>	<u>363,795,941</u>
Accumulated depreciation	<u>(205,986,857)</u>	<u>(195,744,755)</u>	<u>(185,503,591)</u>
Total	<u>\$ 184,625,975</u>	<u>178,601,211</u>	<u>178,292,350</u>

Schedule of additions and retirements:

	June 30		
	2016	2015	2014
Capital assets, beginning of year	\$ 178,601,211	178,292,350	173,398,114
Additions	17,707,636	26,096,505	23,856,681
Retirements	(1,171,393)	(15,444,769)	(8,809,462)
Depreciation	<u>(10,511,479)</u>	<u>(10,342,875)</u>	<u>(10,152,983)</u>
Capital assets, end of year	<u>\$ 184,625,975</u>	<u>178,601,211</u>	<u>178,292,350</u>

Long-Term Debt (Bonds Payable)

At June 30, 2016, the Authority had total bonds payable outstanding of \$47,016,708, net of unamortized premiums. Principal payments made during fiscal year 2016 totaled \$4,804,623 and principal amounts payable during fiscal year 2017 are \$2,237,159. Bond payments are scheduled to be paid through fiscal year 2033. A majority of the bonds outstanding were used to finance the Authority’s Arrival 2002 Project and are payable from general reserves and passenger facility charges revenue. 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, 2016, 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

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(Unaudited)

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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 (the Airport) during Fiscal Year (FY) 2016 was 3,150,139, an increase over FY 2015 of 2,908,805 passengers by 8.3%. 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 \$2,367,350 or 5.64%. This performance was due, in part, to Landing Fee revenues which performed over budget projections by \$802,146, or 8.86%, 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 2016. Additionally, commissions generated by the operations of the Airport’s rental car concessionaires also exceeded budget by \$1,053,776, or 16.90%.

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 \$2,262,512, or 6.61%. The Airport finished the year with a Net Revenue of \$7,274,376. In accordance with provisions contained in the Airline Use Agreement, \$2,548,800 will be retained in the Parking Escrow Account to be used to fund future parking related capital projects. A portion of the balance of \$4,495,469 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.

The outlook for the first half of FY 2017 is positive. Passenger traffic for the months of July and August were up by 4.36% and 2.65%, respectively, over the same months for last year. Additionally, for the first six months of FY 2016 airline seat capacity is up by 12.1% as compared to the same six months of last year. However, the outlook for the second half of FY 2017 indicates a growth rate of flat to a gain of 2.0%. The Airport will continue to keep cost control measures in place during this fiscal year.

The Norfolk Airport Authority, owner and operator of Norfolk International Airport, has been pursuing the approval from the Federal Aviation Administration (FAA) to construct a parallel runway for the past 15 years. The Airport’s current Master Plan calls for a parallel runway (5R/23L), of approximately 6,500 feet in length, to be constructed approximately 850 feet east of runway 5/23, the Airport’s primary instrument runway. If built, the new runway would provide a redundant capability to handle all of the commercial aircraft activity currently operating at Norfolk International. The Authority was awarded an Airport Improvement Program (AIP) grant from the FAA during FY 14 to undertake Phase I (Purpose and Need) of an Environmental Impact Statement (EIS). In September 2015, the FAA terminated the EIS after the Phase I items were completed while determining that “the fundamental purpose and need is not supported by the current and anticipated needs of the airport at this time.” The Authority continues it’s efforts to convince the FAA to resume and complete the EIS.

To ensure that the Airport’s passenger terminal facilities remain attractive, comfortable and up to date, the Authority engaged the architectural firm of Gresham Smith and Partners in the fall of 2010 to develop a scope of work to refurbish both the interior and exterior treatments of the terminal facilities which is anticipate to be completed over a multi-year time frame. The Authority completed “Phase I” of the terminal complex renovation during the summer of 2014, which included a major upgrade of the Departures Terminal main lobby and a major

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Required Supplementary Information – Management’s Discussion and Analysis

(Unaudited)

June 30, 2016 and 2015

expansion of the Transportation Security Administration’s (TSA) passenger screening checkpoint on Concourse B.

The Authority awarded a construction contract to ET Gresham in September of 2014 to undertake the “Phase II” improvements to the passenger terminal complex. The work includes: 1) The construction of a new TSA passenger screening checkpoint on Concourse “A”, similar in size and design to the expanded checkpoint completed on Concourse “B” as part of Phase 1; 2) The construction of new and expanded public restrooms on both airline concourses; and 3) The completion of the interior refurbishment of both airline concourses to include new wall coverings and treatments, new ceiling treatments and lighting improvements. The Phase 2 construction was substantially complete at the end of June 2016.

Since 2010, the Authority has expended or allocated approximately \$40 million in construction and renovation projects including the General Aviation Facility, and Phases 1 and 2 of the Departures and Arrivals Terminals; using Federal and state grants where applicable and Airport funds for the balance. No debt was incurred for these projects. Approximately \$20 million is budgeted for design, engineering and construction projects in FY 2017, again using Federal and state grants with Airport funds for the balance.

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, 2016 and 2015

Assets	2016	2015
Current assets:		
Cash (note 2)	\$ 687,616	378,163
Investments (notes 2 and 17)	34,419,114	28,380,108
Accounts receivable, net (note 12)	3,067,951	2,372,797
Accrued interest receivable	178,635	36,100
Grants receivable	84,600	151,500
Prepaid expenses (note 15)	2,532,822	2,536,227
Total current assets	<u>40,970,738</u>	<u>33,854,895</u>
Restricted assets (note 3):		
Cash (note 2)	85,575	71,691
Investments (notes 2 and 17)	16,722,782	20,136,987
Passenger facility charges receivable, including interest	748,268	700,792
Total restricted assets	<u>17,556,625</u>	<u>20,909,470</u>
Capital assets (note 4):		
Land	14,722,494	14,722,494
Buildings, structures, and improvements	249,262,512	249,385,608
Roads and runways	61,399,095	61,399,095
Equipment	37,100,978	36,075,868
Construction in progress, including capitalized interest	28,127,753	12,762,901
	390,612,832	374,345,966
Less accumulated depreciation	<u>(205,986,857)</u>	<u>(195,744,755)</u>
Total capital assets, net	184,625,975	178,601,211
Other assets	994,101	1,021,764
Bond insurance costs, net (note 5)	67,987	86,234
Total assets	<u>244,215,426</u>	<u>234,473,574</u>
Deferred Outflows of Resources		
Deferred amount on refunding, net	174,260	214,142
Deferred difference between expected and actual experience (note 8)	335,074	—
Deferred pension contributions (note 8)	1,312,273	1,358,960
Total deferred outflows of resources	<u>1,821,607</u>	<u>1,573,102</u>
	<u>\$ 246,037,033</u>	<u>236,046,676</u>

See accompanying notes to basic financial statements.

NORFOLK AIRPORT AUTHORITY

Statements of Net Position

June 30, 2016 and 2015

Liabilities	<u>2016</u>	<u>2015</u>
Current liabilities:		
Accounts payable	\$ 1,893,713	1,610,534
Accrued leave and wages	1,903,867	1,795,777
Other accrued expenses	191,916	264,244
Surplus payable to airlines (note 7)	<u>2,302,742</u>	<u>523,675</u>
Total current liabilities	<u>6,292,238</u>	<u>4,194,230</u>
Amounts payable from restricted assets:		
Accrued interest	1,052,900	1,169,775
Current portion of bonds payable (note 6)	<u>2,237,159</u>	<u>4,804,623</u>
Total amounts payable from restricted assets	<u>3,290,059</u>	<u>5,974,398</u>
Long-term liabilities:		
Bonds payable, less current portion (note 6)	44,779,549	47,230,908
Net pension liability (note 8)	4,168,393	3,043,000
Other liabilities	<u>888,219</u>	<u>918,339</u>
Total long-term liabilities	<u>49,836,161</u>	<u>51,192,247</u>
Total liabilities	<u>59,418,458</u>	<u>61,360,875</u>
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)	<u>960,142</u>	<u>2,203,000</u>
Net Position		
Net investment in capital assets	137,851,515	126,866,057
Restricted for:		
Capital projects	2,279,234	4,726,064
Debt service	14,224,491	12,423,402
Unrestricted	<u>31,303,193</u>	<u>28,467,278</u>
Total net position	<u>185,658,433</u>	<u>172,482,801</u>
	<u>\$ 246,037,033</u>	<u>236,046,676</u>

See accompanying notes to basic financial statements.

NORFOLK AIRPORT AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2016 and 2015

	2016	2015
Operating revenues:		
Passenger terminals (notes 7 and 11)	\$ 14,987,595	14,298,145
Landing fees and field operations (notes 7 and 11)	10,818,449	9,275,022
Parking	16,375,374	15,826,273
Total operating revenues	42,181,418	39,399,440
Operating expenses:		
Salaries and fringe benefits (notes 8, 9, and 10)	14,973,786	13,812,488
Depreciation and amortization (notes 4, 5, and 6)	10,355,409	10,162,197
Utilities	2,468,192	2,467,172
Maintenance and repairs	3,458,833	3,370,284
Administrative	825,280	746,215
Professional services	520,672	405,291
Parking	742,923	756,594
Advertising and promotion	912,909	906,037
Insurance	799,943	671,925
Security and other services	3,491,232	3,126,832
Sanitation	639,203	628,605
City tax assessment (note 15)	2,500,000	5,127,465
Other	341,694	350,879
Total operating expenses	42,030,076	42,531,984
Operating income (loss)	151,342	(3,132,544)
Nonoperating revenues (expenses):		
Federal grant revenues	5,438,342	4,656,069
State grant revenues (note 3)	2,000,000	2,000,000
Passenger facility charges	6,316,588	5,900,809
State grant revenues investment gain	80,503	19,120
Passenger facility charges investment gain	84,835	8,410
Other income	202,223	470,094
Investment gain	200,182	115,932
Interest expense	(1,298,383)	(1,812,706)
Net nonoperating revenues	13,024,290	11,357,728
Change in net position	13,175,632	8,225,184
Total net position, beginning of the year	172,482,801	168,908,617
Opening adjustment of net position (note 1)	—	(4,651,000)
Total net position, end of the year	\$ 185,658,433	172,482,801

See accompanying notes to basic financial statements.

NORFOLK AIRPORT AUTHORITY

Statements of Cash Flows

Years ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Collections from customers	\$ 41,486,264	39,034,878
Payments to employees for services	(15,343,876)	(14,908,849)
Payments for city tax assessment	(2,500,000)	(5,127,465)
Payments to suppliers	(12,963,338)	(15,028,943)
Net cash provided by operating activities	10,679,050	3,969,621
Cash flows from capital and related financing activities:		
Principal payments on bonds	(4,804,620)	(6,632,165)
Acquisition of capital assets	(14,688,292)	(9,101,337)
Proceeds from disposal of capital assets	—	24,355
Interest paid on debt	(2,235,340)	(1,969,632)
Passenger facility charges	6,353,948	5,918,622
Federal and State grants received	7,585,745	6,884,534
Net cash used in capital and related financing activities	(7,788,559)	(4,875,623)
Cash flows from investing activities:		
Interest received from investments	57,647	113,734
Purchases of investments	(236,517,476)	(195,454,985)
Proceeds from maturities of investments	233,892,675	191,837,893
Net cash provided used in investing activities	(2,567,154)	(3,503,358)
Net increase (decrease) in cash	323,337	(4,409,360)
Cash, beginning of year	449,854	4,859,214
Cash, end of year	\$ 773,191	449,854
Cash and restricted cash are presented in the accompanying statements of net position as follows:		
Cash	\$ 687,616	378,163
Restricted cash	85,575	71,691
	\$ 773,191	449,854
Reconciliation of operating loss to net cash provided by operating activities:		
Operating income (loss)	\$ 151,342	(3,132,544)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	10,355,409	10,162,197
Other nonoperating income	202,223	470,094
Decrease (increase) in operating assets:		
Accounts receivable	(695,154)	(364,562)
Prepaid expenses	3,405	(367,321)
Other assets	27,663	10,266
Increase (decrease) in operating liabilities:		
Accounts payable	(744,695)	(1,296,439)
Accrued leave and wages	108,090	(395,982)
Other accrued expenses	(72,328)	(15,181)
Surplus payable to airlines	1,779,067	(317,220)
Net pension liability	(405,852)	(763,960)
Other liabilities	(30,120)	(19,727)
Net cash provided by operating activities	\$ 10,679,050	3,969,621

Supplemental disclosure of noncash capital and related financing activities:
The Authority incurred noncash capital expenditures related to construction in progress in the amount of \$1,027,873 and \$1,574,753 that are included in accounts payable as of June 30, 2016 and 2015, respectively.

See accompanying notes to basic financial statements.

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2016 and 2015

(1) Summary of Significant Accounting Policies

(a) Organization and Purpose

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

(b) Basis of Accounting

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

(c) Investments

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

(d) Revenue Recognition

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

(e) Capital Assets

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

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

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2016 and 2015

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

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

(f) Bond Insurance Costs

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

(g) Passenger Facility Charges

The current authorization from the Federal Aviation Administration (FAA) permits the Authority to collect Passenger Facility Charges (PFC) of \$4.50 per eligible enplaned passenger up to an aggregate amount of \$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 (note 3).

(h) Operating Revenues and Expenses

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

(i) Use of Estimates

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

(j) New Accounting Pronouncements

GASB Statement No. 68 and GASB Statement No. 71

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

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2016 and 2015

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

Total net position, as reported	\$ 168,908,617
Adoption of GASB Statement No. 68	<u>(4,651,000)</u>
Total net position, as adjusted	<u>\$ 164,257,617</u>

(k) Pensions

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

(l) Fair Value

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

(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 \$773,191 and \$449,854 and the bank balances were \$770,191 and \$408,051 at June 30, 2016 and 2015, 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.

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2016 and 2015

(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-1" 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, 2016, 72.0% of the Authority's portfolio was invested in Moody's "AAA" rated obligations, 18.2% in U.S. Treasury notes and 9.8% was invested in other obligations.

(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

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2016 and 2015

As of June 30, 2016, the Authority's portfolio was invested as follows:

Issuer	Percentage of portfolio
Money market mutual funds	64.7%
U.S. Treasury	18.2%
Federal Home Loan Mortgage Corporation (Freddie Mac)	5.9%
Federal National Mortgage Agency (Fannie Mae)	0.8%
Corporate notes	2.8%
Farm Credit Bank	0.7%
Federal Home Loan Bank	6.7%
Municipal bonds	0.2%
	100.0%

(e) Interest Rate Risk

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

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

As of June 30, 2016, the carrying values and weighted average maturity of the Authority's investments were as follows:

Investment type	Fair value	Weighted average maturity *
Money market mutual funds	\$ 33,093,852	
Federal agency notes	7,208,022	
U.S. Treasury	9,300,620	
Corporate notes	1,442,497	
Municipal bonds	96,905	
Total investments	\$ 51,141,896	
Portfolio weighted average maturity		0.18

* Weighted average maturity in years

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2016 and 2015

(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, 2016, 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, 2016 and 2015 is as follows:

	2016	2015
Deposits	\$ 773,191	449,854
Investments	51,141,896	48,517,095
	\$ 51,915,087	48,966,949
Current assets:		
Cash and cash equivalents	\$ 687,616	378,163
Investments	34,419,114	28,380,108
Restricted assets:		
Cash and cash equivalents	85,575	71,691
Investments	16,722,782	20,136,987
	\$ 51,915,087	48,966,949

(3) Restricted Assets

The Authority received \$2,000,000 during both fiscal years 2016 and 2015 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.

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2016 and 2015

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, 2016 and 2015:

	2016	2015
State block grant account	\$ 2,279,235	4,726,065
Debt service reserve accounts	6,480,057	6,522,921
Passenger facility charges account	7,963,488	6,380,660
Passenger facility charges receivable, including interest	748,268	700,792
City tax assessment payment	—	2,507,341
Other restricted assets	85,578	71,691
Restricted assets	\$ 17,556,626	20,909,470

(4) Capital Assets

The following is a summary of the changes in capital assets for the years ended June 30, 2016 and 2015:

	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

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2016 and 2015

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

Depreciation expense for the years ended June 30, 2016 and 2015 was \$10,511,479 and \$10,342,875, respectively.

(5) Bond Insurance Costs

At June 30, 2016, the gross carrying amount and accumulated amortization of bond insurance costs was \$678,110 and \$610,123, respectively. At June 30, 2015, the gross carrying amount and accumulated amortization of bond insurance costs was \$678,110 and \$591,876, respectively. Amortization expense for the years ended June 30, 2016 and 2015 was \$18,247 and \$22,688, respectively.

(6) Bonds Payable

Bonds payable comprise the following at June 30, 2016 and 2015:

	2016	2015
Series 2011 Bonds payable	\$ 45,555,000	50,280,000
VRA Bonds payable	359,999	439,622
	45,914,999	50,719,622
Unamortized premium	1,101,709	1,315,909
	\$ 47,016,708	52,035,531

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

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2016 and 2015

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, 2016 were as follows:

	Principal	Interest
Year(s) ending June 30:		
2017	\$ 2,237,159	2,067,903
2018	2,344,777	1,966,586
2019	2,452,477	1,858,535
2020	2,565,264	1,750,742
2021	2,595,322	1,635,685
2022–2026	15,240,000	6,108,450
2027–2031	15,055,000	2,500,944
2032	3,425,000	77,063
	\$ 45,914,999	17,965,908

Revenue bond activity for the years ended June 30, 2016 and 2015 is as follows:

	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

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Notes to Basic Financial Statements

June 30, 2016 and 2015

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

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, 2016, 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, 2016 and 2015, there was a surplus of \$2,302,742 and \$523,675, 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, 2016 and 2015.

(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.

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Notes to Basic Financial Statements

June 30, 2016 and 2015

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

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Notes to Basic Financial Statements

June 30, 2016 and 2015

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/2015-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, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	125
Inactive members:	
Vested inactive members	25
Non-vested inactive members	58
Inactive members active elsewhere in VRS	<u>39</u>
Total inactive members	247
Active members	<u>195</u>
Total covered employees	<u><u>442</u></u>

(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, 2016, the Authority paid 1% of employee contributions. During the year ended June 30, 2015, the Authority paid 2% of employee contributions. All employees will pay the full required 5% employee contribution commencing fiscal year 2017.

The Authority's actuarially required contribution rate for the year ended June 30, 2016 was 11.42% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were \$1,223,465 (including \$88,808 of employer paid employee contributions) and \$1,358,960 (including \$179,855 of employer paid employee contributions) for the years ended June 30, 2016 and 2015, respectively.

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Notes to Basic Financial Statements

June 30, 2016 and 2015

(d) Net Pension Liability

The Authority's net pension liability as of June 30, 2016 was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

(e) Actuarial Assumptions

The total pension liability for general employees and public safety employees in the Authority's Retirement Plan was based on an actuarial valuation as of June 30, 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, 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.

Mortality assumptions

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

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2016 and 2015

(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%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.0%		5.83%
		Inflation	2.50%
		*Expected arithmetic nominal return	8.33%

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

(g) Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Authority Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates.

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2016 and 2015

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, 2014	\$ 39,274,472	36,231,420	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	<u>2,738,524</u>	<u>1,613,183</u>	<u>1,125,341</u>
Balances at June 30, 2015	<u>\$ 42,012,996</u>	<u>37,844,603</u>	<u>4,168,393</u>

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

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

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Norfolk Airport Authority's Net Pension Liability	\$ 9,324,414	4,168,393	(168,170)

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2016 and 2015

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

For the year ended June 30, 2016, the Authority recognized pension expense of \$726,873. At June 30, 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	\$ —	960,142
Differences between expected and actual experience	335,074	—
Employer contributions subsequent to the measurement date	1,312,273	—
Total	\$ 1,647,347	960,142

Deferred outflows of resources related to pensions totaling \$1,312,273, resulting from the Authority's contributions subsequent to the measurement date, will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 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:

Year ending June 30:	
2017	\$ (228,114)
2018	(228,114)
2019	(341,797)
2020	172,957

(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, 2016, the plan expense was \$39,128, which is net of payments of \$61,310. During the year ended June 30, 2015, the plan expense was \$37,044, which is net of payments of \$56,771. 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 \$994,101 and \$1,021,764 at June 30, 2016 and 2015, respectively, and is included as other noncurrent assets in the accompanying statements of net

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2016 and 2015

position. The ESRP accrued expense totaling \$738,865 and \$761,047 as of June 30, 2016 and 2015, respectively, is included in other long-term liabilities in the basic financial statements.

(10) Employee Contribution Plan

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

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

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

(11) Rental Income from Operating Leases

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

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

Year ending June 30:	
2017	\$ 14,513,700
2018	14,786,600
2019	15,091,000
2020	15,413,000
2021	15,764,500

The above amounts do not include contingent rentals and fees in excess of minimums, which amounted to \$1,696,588 and \$1,258,382 in fiscal years 2016 and 2015, respectively. Total rental and concession income in fiscal years 2016 and 2015 was approximately \$16,473,000 and \$15,755,000, 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.

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Notes to Basic Financial Statements

June 30, 2016 and 2015

(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, 2016 and 2015.

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

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

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

(14) Government Grants in Aid of Construction

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

(15) Commitments and Contingencies

Prior to July 1, 1998, the Authority had an agreement with the City of Norfolk (the City) whereby the Authority had use of the Airport property free of charge. As of July 1, 1998, the City reacquired title to all property. On January 18, 2000, the City executed a deed conveying title to the Authority, reserving a right of reversion if the Airport property is no longer used as an airport. In consideration of the conveyance of the property, the Authority agreed to compensate the City for the loss of tax revenue on the Airport property. Beginning in fiscal year 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. Payments for fiscal years 2016 and 2015 were \$2,500,000 and \$5,127,465, respectively. The Authority's fiscal year 2017 annual payment of \$2,500,000 was made in June 2016 and is reflected as a prepaid expense as of June 30, 2016.

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2016 and 2015

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, 2016.

(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, 2016, there were ten series of revenue bonds outstanding with an aggregate principal amount of approximately \$31,266,000. As of June 30, 2015, there were ten series of revenue bonds outstanding with an aggregate principal amount of approximately \$31,457,000.

(17) Fair Value Measurements

The Authority has the following recurring fair value measurements as of June 30, 2016:

Money market mutual funds of \$33,093,852 are valued at \$1 per share (Level 1)

U.S. Treasury securities, federal agency notes, corporate notes and municipal bonds of \$18,048,044 are valued using a matrix pricing model (Level 2 inputs)

REQUIRED SUPPLEMENTARY INFORMATION

NORFOLK AIRPORT AUTHORITY
 Required Supplementary Information (Unaudited)
 June 30, 2016

Schedule of Employer Contributions

For the Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2016	\$ 1,223,500	\$ 1,223,500	\$ -	\$ 10,407,000	11.76%
2015	\$ 1,180,959	\$ 1,180,959	-	10,341,144	11.42%

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, 2016

(1) Changes of benefit terms

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 are not material.

(2) Changes of assumptions

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

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of withdrawals for less than 10 years of service
- Decrease in rates of male disability retirement
- Reduce rates of salary increase by 0.25% per year

Unaudited – See accompanying independent auditors' report.

SUPPLEMENTARY INFORMATION

NORFOLK AIRPORT AUTHORITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2016

<u>Federal grantor/program title</u>	<u>CFDA number</u>	<u>Project number</u>	<u>Expenditures</u>
Federal Aviation Administration:			
Airport Improvement Program:			
Expand Security Checkpoint B	20.106	3-51-0036-62	\$ 1,098,000
Environmental Impact Study Phase I Parallel Runway 5R/23L	20.106	3-51-0036-63	214,136
Modify Terminal Building, Expand Security Checkpoint A	20.106	3-51-0036-64	3,974,706
Transportation Security Administration:			
Explosive detection canine team program	97.072		<u>151,500</u>
			<u>\$ 5,438,342</u>

See accompanying notes to the schedule of expenditures of federal awards.

See accompanying independent auditors' report.

NORFOLK AIRPORT AUTHORITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

(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

NORFOLK AIRPORT AUTHORITY

Schedule of Passenger Facility Charge Revenues and Expenditures

Year ended June 30, 2016 and
each quarter during the year ended June 30, 2016

	<u>Date approved</u>	<u>Cumulative total – June 30, 2015</u>	<u>September 30, 2015</u>	<u>December 31, 2015</u>	<u>Quarter ended March 31, 2016</u>	<u>June 30, 2016</u>	<u>Year ended June 30, 2016</u>	<u>Cumulative total – June 1998 to June 30, 2016</u>
Revenues:								
Passenger facility charge revenues received		\$ 86,871,835	1,502,198	1,458,442	1,443,328	1,865,141	6,269,109	93,140,944
Interest earned		6,799,041	4,666	6,673	(1,237)	33,732	43,834	6,842,875
Total revenues		<u>\$ 93,670,876</u>	<u>1,506,864</u>	<u>1,465,115</u>	<u>1,442,091</u>	<u>1,898,873</u>	<u>6,312,943</u>	<u>99,983,819</u>
Expenditures:								
Bond financing and interest costs and capital expenditures	July 2007	\$ 89,033,593	4,504,736	—	114,800	83,828	4,703,364	93,736,957

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

See accompanying independent auditors' report.



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

The Board of Commissioners
Norfolk Airport Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Norfolk Airport Authority (the Authority), which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated October 31, 2016.

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 opinions 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
October 31, 2016



KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report on Compliance with Requirements that could have a Direct and Material Effect on the Federal Program and on Internal Control Over Compliance in Accordance With the Program-Specific Audit Option Under Uniform Guidance

The Board of Commissioners
Norfolk Airport Authority:

Report on Compliance for the Airport Improvement Program (CFDA 20.106)

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 its Airport Improvement Program for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to the Airport Improvement Program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Authority's Airport Improvement 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 Airport Improvement 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 Airport Improvement 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 could have a direct and material effect on its Airport Improvement Program for the year ended June 30, 2016.

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 its Airport Improvement Program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the 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 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
October 31, 2016

NORFOLK AIRPORT AUTHORITY
Schedule of Findings and Questioned Costs
Year ended June 30, 2016

(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: **Yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*:

None Reported

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

None Reported

(4) Findings Required to be Reported under the Passenger Facility Charge Audit Guide for Public Agencies:

None Reported



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

The Board of Commissioners
Norfolk Airport Authority:

Report on Compliance for the Passenger Facility Charge Program

We have audited the Norfolk Airport Authority's (the Authority) compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the Guide), issued by the Federal Aviation Administration, that could have a direct and material effect on its passenger facility charge program for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its passenger facility charge program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Authority's passenger facility charge program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on 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 could have a direct and material effect on its passenger facility charge program for the year ended June 30, 2016.

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 its passenger facility charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over



compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

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

KPMG LLP

Norfolk, Virginia
October 31, 2016