

NORFOLK AIRPORT AUTHORITY

BASIC FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION,
SUPPLEMENTAL SCHEDULES, AND AUDIT OF
FEDERAL AWARDS PERFORMED IN ACCORDANCE
WITH THE UNIFORM GUIDANCE

As of and for the Years Ended June 30, 2021 and 2020

And Report of Independent Auditor

NORFOLK AIRPORT AUTHORITY
TABLE OF CONTENTS

	<u>Page(s)</u>
INTRODUCTORY SECTION	
Board of Commissioners and Administrative Officials (unaudited).....	i
FINANCIAL SECTION	
Report of Independent Auditor.....	1-2
Required Supplementary Information – Management’s Discussion and Analysis (unaudited).....	3-11
Basic Financial Statements:	
Statements of Net Position	12-13
Statements of Revenues, Expenses, and Changes in Net Position.....	14
Statements of Cash Flows.....	15-16
Notes to the Basic Financial Statements	17-49
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Changes in Net Pension Liability and Related Ratios (unaudited).....	50
Schedule of Pension Contributions (unaudited)	51
Schedule of OPEB Contributions (unaudited)	52
Schedule of Authority’s Share of Net OPEB Liability (unaudited)	53
Notes to the Required Supplementary Information (unaudited)	54
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards.....	55
Notes to the Schedule of Expenditures of Federal Awards	56
COMPLIANCE SECTION	
Report of Independent Auditor on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	57-58
Report of Independent Auditor on Compliance for the Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance	59-60
Schedule of Findings and Questioned Costs.....	61
Report of Independent Auditor on Compliance for the Passenger Facility Charge Program and on Internal Control over Compliance Required by the Passenger Facility Charge Audit Guide for Public Agencies	62-63
Schedule of Passenger Facility Charge Revenues and Expenditures	64

NORFOLK AIRPORT AUTHORITY
BOARD OF COMMISSIONERS AND ADMINISTRATIVE OFFICIALS (UNAUDITED)

Board of Commissioners

Malcolm P. Branch, Chairman
Deborah H. Painter, Vice Chairman
Mekbib Gameda, Treasurer
Peter G. Decker, III
Paul D. Fraim

William L. Nusbaum
John R. Broderick
Bruce B. Smith
Michael B. Burnette
Harold J. Cobb (Emeritus Commissioner)

Administrative Officials

Robert S. Bowen
Steven C. Sterling
Anthony E. Rondeau
Jeffrey J. Bass
Jarred M. Roenker
Sheila M. Balli
Charles W. Braden
Shelia D. Ward

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

Independent Auditors' Report

To the Board of Commissioners
Norfolk Airport Authority
Norfolk, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Norfolk Airport Authority (the "Authority"), as of and for the years ended June 30, 2021 and 2020, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, 2021 and 2020, and the respective changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the pension and other postemployment benefits trend information, and the notes to the Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2021, 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.



Virginia Beach, Virginia
October 28, 2021

NORFOLK AIRPORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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, 2021 and 2020. The following should be read in conjunction with the basic financial statements and notes thereto.

Basic Financial Statements

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

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

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

The Statements of Revenues, Expenses, and Changes in Net Position report revenues and expenses, classified as operating and nonoperating, for the period. The resulting change in net position for the period is combined with the beginning of the year total net position balance in order to reconcile to the end of the year total net position.

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

The notes to the basic financial statements explain and provide additional information on the data presented in the basic financial statements as of and for the years ended June 30, 2021 and 2020.

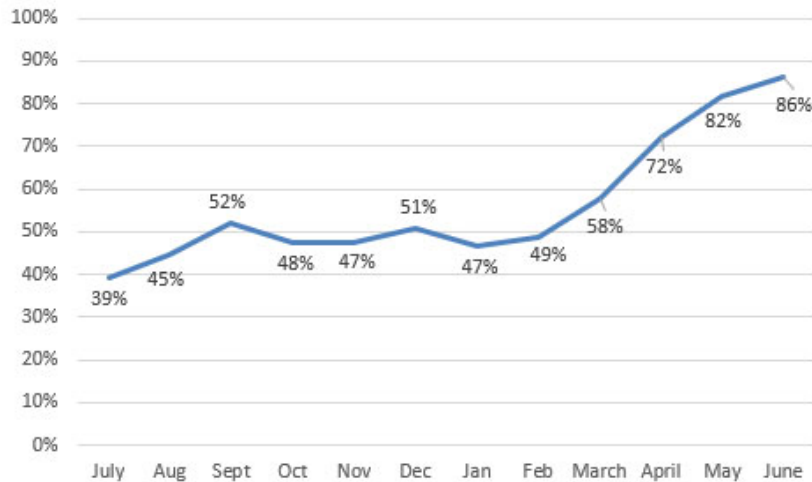
The Authority and Airport Activity Highlights

The Authority was formed in 1988 to account for the operations of the Norfolk International Airport (the "Airport"). The Airport is the primary origination and destination airport serving the Virginia Beach-Norfolk, VA-NC Combined Statistical Area. 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. The Authority is authorized to finance projects by issuing bonds or obtaining loans in its own name.

The Authority leases space to various airlines on a long-term basis and shares a percentage of net revenues or deficits with these airlines at the end of each year. Throughout this report, these airlines are referred to as signatory airlines. Other airlines operate on a per use basis at the Airport and are referred to as non-signatory airlines.

NORFOLK AIRPORT AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

Fiscal year 2021 began with the effects of COVID-19 severely distressing air travel and ended with a significant recovery in passenger numbers. In total, 2,202,210 passengers used the Airport during 2021, which was a decrease of 25.6% from 2020. However, passenger numbers had significantly improved by the end of 2021. In order to show the Airport’s recovery to pre-COVID passenger numbers, the following presents total passengers as a percentage of fiscal year 2019 for each month in fiscal year 2021.



This rebound in passengers has continued into fiscal year 2022. Through the first quarter of fiscal year 2022, total passengers were 96% of the passengers for the first quarter of fiscal year 2020, which was the busiest first quarter in the Airport’s history. In addition to the six other air carriers operating at the Airport, Breeze Airways launched services from the Airport in June 2021. Breeze has since opened an operating base at the Airport and is currently flying seven routes, five of which had been previously unserved. With the launch of Breeze Airways, the number of scheduled passenger airlines operating at the Airport increased to seven, along with the two cargo airlines operating at the Airport.

In response to COVID-19, the federal government passed several aid packages which provided funding to airports. These were the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), the Coronavirus Response and Relief Supplemental Appropriations Act (“CRRSA”), and the American Rescue Plan Act of 2021 (“ARPA”). Through these acts, the Authority was granted funding which can be used for any legal purpose of the Authority. The Authority is using these grants to pay all debt service, certain employee payroll costs, and to provide tenant rent relief over several fiscal years. The following presents the Authority’s estimated usage of these funds by fiscal year.

	2020	2021	2022	2023	Total
CARES	\$ 5,056,595	\$ 13,790,675	\$ 1,000,000	\$ -	\$ 19,847,270
CRRSA	-	426,391	5,768,825	-	6,195,216
ARPA	-	-	9,106,086	7,698,387	16,804,473
Total	5,056,595	14,217,066	15,874,911	7,698,387	42,846,959

NORFOLK AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

A summary of the market share by enplanements of each of the scheduled air carriers operating at the Airport for the years ended June 30, 2021, 2020, and 2019 is shown below:

2021		2020		2019	
American	35.5%	American	31.8%	American	31.5%
Delta	23.6%	Delta	29.9%	Delta	29.7%
United	16.1%	United	15.7%	United	17.3%
Southwest	17.5%	Southwest	15.6%	Southwest	15.8%
Allegiant	4.6%	Allegiant	3.8%	Frontier	3.1%
Frontier	2.5%	Frontier	3.2%	Allegiant	2.6%
Breeze	0.2%				
		Total	100%	Total	100%
Total	100%				

Revenues

A summary of the major revenues for the years ended June 30, 2021, 2020, and 2019 are shown below:

	2021	2020	2019
Operating revenues:			
Parking	\$ 9,020,468	\$ 13,591,153	\$ 16,927,094
Landing fees	5,339,578	5,754,222	6,175,569
Rent	6,184,571	6,775,095	6,377,792
Rental cars	5,228,562	5,565,567	7,246,770
Concessions	1,947,413	3,231,350	3,329,957
Other	544,854	895,889	1,163,852
Total Operating Revenues	28,265,446	35,813,276	41,221,034
Nonoperating revenues, net:			
Federal and state grants and interest	25,600,955	17,958,845	4,813,239
Passenger facility charges and interest	5,033,545	6,135,410	8,198,961
Customer facility charges	1,987,140	2,377,861	2,739,307
Interest income	220,353	2,021,389	873,150
Other income	261,875	239,859	281,822
Total Nonoperating Revenues	33,103,868	28,733,364	16,906,479
Total Revenues	\$ 61,369,314	\$ 64,546,640	\$ 58,127,513

NORFOLK AIRPORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

2021 versus 2020 Financial Highlights

Operating revenues during fiscal year 2021 decreased by \$7,547,830 to \$28,265,446, as the effects of the COVID-19 pandemic reduced air travel and as application of federal funding reduced fees charged to the airlines. Parking revenue decreased \$4,570,685 to \$9,020,468 due to lower passenger activity. Landing fees decreased by \$414,644 to \$5,339,578 due to application of federal funding to the signatory airlines rental rates. Under the terms of the signatory airlines lease agreements, federal funding serves as a reduction of the Authority's expenses. This in turn reduces airlines rates. Rent decreased by \$590,524 to \$6,184,571 due to application of federal funding to the signatory airlines rental rates. Rental car revenue decreased \$337,005 to \$5,228,562, concessions revenue decreased \$1,283,937 to \$1,947,413, and other operating revenue decreased \$351,035 to \$544,854. Rental car revenue, concessions revenue, and other operating revenue decreased primarily due to lower passenger activity. However, \$417,863 of this decrease was given as rent relief under federal CRRSA concessions relief grants.

Many of the lease agreements with rental car and other concession operators contain minimum annual guarantees ("MAGs") which establish a floor in revenue to be paid to the Authority each month. For most of these operators, these MAGs were abated for the entirety of fiscal year 2021. While MAGs were abated, payments are made to the Authority as a percentage of sales without a minimum value. These MAGs were reinstated at various points in fiscal year 2022 depending on the variety of operator. No changes to the airlines' rent have been made aside from allocation of federal funding as discussed above.

Nonoperating revenues during fiscal year 2021 increased by \$4,370,504 compared to the previous year to \$33,103,868, primarily driven by an increase in federal grants. Federal and state grants and interest increased by \$7,642,110 to \$25,600,955 as a result of CARES and CRRSA Act funding. Passenger facility charges ("PFCs") decreased by \$1,101,865 to \$5,033,545 and Customer Facility Charges ("CFCs") decreased by \$390,721 to \$1,987,140, due to lower passenger activity. Interest income decreased by \$1,801,036 to \$220,353 due to lower interest rates as well as spenddown of the Series 2019 bond project account for construction of Garage D. Other income increased by \$22,016 to \$261,875 due to proceeds from the sale of certain fixed assets.

2020 versus 2019 Financial Highlights

Operating revenues during fiscal year 2020 decreased by \$5,407,758 to \$35,813,276, as the effects of the COVID-19 pandemic severely depressed air travel in the last four months of the fiscal year. Parking revenue decreased \$3,335,941 to \$13,591,153 due to lower passenger activity. Landing fees decreased by \$421,347 to \$5,754,222 due to application of CARES Act funding to the signatory airlines rental rates. Under the terms of the signatory airlines lease agreements, CARES Act funding serves as a reduction of the Authority's expenses. This in turn reduces airlines rates. Rent increased by \$397,303 to \$6,775,095 due to more usage of common use facilities by non-signatory airlines. Rental car revenue decreased \$1,681,203 to \$5,565,567, concessions revenue decreased \$98,607 to \$3,231,350, and other operating revenue decreased \$267,963 to \$895,889. Rental car revenue, concessions revenue, and other operating revenue decreased due to lower passenger activity.

The sharp reductions in passengers triggered a clause within rental car contracts which abated MAGs beginning in March 2020. These MAGs will remain abated until passenger traffic is greater than 75% of a prior year's comparative month. While MAGs are abated, payments are made to the Authority as a percentage of sales without a minimum value. The Authority voluntarily offered MAG relief for several other concession operators, including retail, food, and advertising concessions for the period of April – June 2020. No changes to the airlines' rent have been made aside from allocation of CARES Act funding as discussed above.

Nonoperating revenues during fiscal year 2020 increased by \$11,826,885 to \$28,733,364, primarily driven by an increase in federal grants. Federal and state grants and interest increased by \$13,145,606 to \$17,958,845 as a result of CARES Act funding as well as an increase in grants reimbursing the Authority for capital projects. PFCs decreased by \$2,063,551 to \$6,135,410 and CFCs decreased by \$361,446 to \$2,377,861, due to lower passenger activity. Interest income increased by \$1,148,239 to \$2,021,389 due to investment of the Series 2019 bond proceeds. Other income decreased by \$41,963 to \$239,859 as no auction was held during FY20.

NORFOLK AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Expenses

A summary of the major expenses for the years ended June 30, 2021, 2020, and 2019 are shown below:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating Expenses:			
Salaries and fringe benefits	\$ 19,833,971	\$ 19,515,257	\$ 17,041,382
City tax assessment	2,650,000	2,500,000	2,500,000
Maintenance and repairs	2,900,045	2,976,372	2,993,527
Depreciation	13,726,629	12,509,605	12,673,096
Other expenses	9,100,672	10,182,108	10,949,898
Total Operating Expenses	<u>48,211,317</u>	<u>47,683,342</u>	<u>46,157,903</u>
Nonoperating Expenses:			
Bond issuance costs	423,483	-	591,587
Interest expense	3,479,700	3,645,398	1,668,332
Total Nonoperating Expenses	<u>3,903,183</u>	<u>3,645,398</u>	<u>2,259,919</u>
Total Expenses	<u>\$ 52,114,500</u>	<u>\$ 51,328,740</u>	<u>\$ 48,417,822</u>

2021 versus 2020 Financial Highlights

Operating expenses during fiscal year 2021 increased by \$527,975 from the previous year to \$48,211,317. Salaries and fringe benefits increased by \$318,714 to \$19,833,971 due to actuarially calculated pension and OPEB expenses and pay rate increases. The city tax assessment increased by \$150,000 to \$2,650,000 due to a scheduled rate increase. Maintenance and repairs decreased by \$76,327 to \$2,900,045. Depreciation increased by \$1,217,024 to \$13,726,629 due to several large capital assets being placed in service. Other expenses decreased by \$1,081,436 to \$9,100,672, primarily due to a reduction in contract security hours.

Nonoperating expenses during fiscal year 2021 increased by \$257,785 compared to the previous year to \$3,903,183, due to issuance costs of the Series 2021 bonds.

2020 versus 2019 Financial Highlights

Operating expenses during fiscal year 2020 increased by \$1,525,439 from the previous year to \$47,683,342. Salaries and fringe benefits increased by \$2,473,875 to \$19,515,257 due to actuarially calculated pension expenses and pay rate increases. Maintenance and repairs decreased by \$17,155 to \$2,976,372. Depreciation decreased by \$163,491 to \$12,509,605 due to several capital assets reaching the end of their depreciation schedules. Other expenses decreased by \$767,790 to \$10,182,108, primarily due to lower advertising expenses.

Nonoperating expenses during fiscal year 2021 increased by \$1,385,479 compared to the previous year to \$3,645,398, as fiscal year 2020 was the first full year of interest on the Series 2019 debt.

NORFOLK AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Net Position

A summary of the major components of the statements of net position as of June 30, 2021, 2020, and 2019 is as follows:

	2021	2020	2019
Current assets	\$ 54,841,042	\$ 50,190,666	\$ 46,763,512
Restricted assets	18,624,357	59,600,533	89,828,848
Capital assets, net	281,756,301	244,404,824	199,623,748
Other noncurrent assets	1,232,931	1,193,781	1,156,844
Total Assets	<u>356,454,631</u>	<u>355,389,804</u>	<u>337,372,952</u>
Deferred Outflows of Resources	<u>5,025,101</u>	<u>4,460,899</u>	<u>3,012,030</u>
Current liabilities	8,800,687	12,569,885	7,829,836
Amounts payable from restricted assets	3,052,471	5,659,661	3,464,789
Long-term liabilities	109,588,712	110,908,027	111,380,480
Total Liabilities	<u>121,441,870</u>	<u>129,137,573</u>	<u>122,675,105</u>
Deferred Inflows of Resources	<u>687,146</u>	<u>617,228</u>	<u>831,875</u>
Net investment in capital assets	184,528,012	177,177,505	154,275,070
Restricted net position	16,467,022	21,849,941	28,069,339
Unrestricted net position	38,355,682	31,068,456	34,533,593
Total Net Position	<u>\$ 239,350,716</u>	<u>\$ 230,095,902</u>	<u>\$ 216,878,002</u>

2021 Versus 2020 Results

Current assets as of June 30, 2021 were \$54,841,042, an increase of \$4,650,376, which was driven by an increase in operating capital. Restricted assets as of June 30, 2021 were \$18,624,357 a decrease of \$40,976,176 due to capital assets additions drawing funds out of restricted accounts.

Deferred outflows of resources as of June 30, 2021 were \$5,025,101, an increase of \$564,202. Deferred inflows of resources as of June 30, 2021 were \$687,146, an increase of \$69,918. The primary driver of these changes was actuarial adjustments related to the Authority's pension and other postemployment benefits ("OPEB") plans.

Current liabilities as of June 30, 2021 were \$8,800,687, a decrease of \$3,769,198. This decrease was primarily due to construction activity. Amounts payable from restricted assets as of June 30, 2021 were \$3,052,471, a decrease of \$2,607,190, due to the timing of debt service payments. Long-term liabilities as of June 30, 2021 of \$109,588,712 decreased by \$1,319,315 due to debt service payments and refunding of the Series 2011 Bonds with the Series 2021 Bonds, and is partially offset by increases in actuarially calculated pension and OPEB liabilities.

Net position as of June 30, 2021 was \$239,350,716, an increase of \$9,254,814. This increase was primarily driven by the grants, PFCs and CFCs received by the Authority during the year, partially offset by the year's operating loss.

NORFOLK AIRPORT AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

2020 Versus 2019 Results

Current assets as of June 30, 2020 were \$50,190,666, an increase of \$3,427,154, which was driven by an increase in operating capital due to operations. Restricted assets of \$59,600,533 decreased by \$30,228,315 due to capital assets additions drawing funds out of restricted accounts.

Deferred outflows of resources as of June 30, 2020 were \$4,460,899, an increase of \$1,448,869. Deferred inflows of resources as of June 30, 2020 were \$617,228, a decrease of \$214,647. The primary driver of these changes was actuarial adjustments related to the Authority’s pension and other postemployment benefits (“OPEB”) plans.

Current liabilities as of June 30, 2020 were \$12,569,885, an increase of \$4,740,049. This increase was primarily due to construction activity. Amounts payable from restricted assets as of June 30, 2020 were \$5,659,661, an increase of \$2,194,872, due to the timing of debt service payments. Long-term liabilities as of June 30, 2020 of \$110,908,027 decreased by \$472,453 due to debt service payments partially offset by increases in actuarially calculated pension and OPEB liabilities.

Net position as of June 30, 2020 was \$230,095,902, an increase of \$13,217,900. This increase was primarily driven by the grants, PFCs and CFCs received by the Authority during the year, partially offset by the year’s operating loss.

Capital Assets

Capital assets include land, construction in progress, buildings, structures, improvements, roads and runways, equipment, and capitalized interest during construction periods before adoption of GASB Statement 89 in Fiscal Year 2018. Capital assets are net of related accumulated depreciation. Significant capital asset additions in the current period include ongoing construction of Parking Garage D and continuing the replacement of all passenger loading bridges. A summary of capital assets by category and the associated accumulated depreciation as of June 30, 2021, 2020, and 2019, as well as a schedule of additions and retirements for the years ended June 30, 2021, 2020, and 2019, are included as follows:

	June 30		
	2021	2020	2019
Summary of Capital Assets:			
Land	\$ 15,771,497	\$ 14,722,494	\$ 14,722,494
Buildings, structures, and improvements	318,631,107	283,510,200	281,956,415
Roads and runways	85,936,328	82,205,192	82,205,192
Equipment	48,543,645	45,553,290	45,210,166
Construction in progress	76,248,723	68,119,602	13,900,580
	<u>545,131,300</u>	<u>494,110,778</u>	<u>437,994,847</u>
Accumulated depreciation	<u>(263,374,999)</u>	<u>(249,705,954)</u>	<u>(238,371,099)</u>
Total	<u>\$ 281,756,301</u>	<u>\$ 244,404,824</u>	<u>\$ 199,623,748</u>

NORFOLK AIRPORT AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

Schedule of additions and retirements:

	June 30		
	2021	2020	2019
Capital assets, beginning of year	\$ 244,404,824	\$ 199,623,748	\$ 185,716,491
Additions	51,153,695	57,377,708	26,580,353
Retirements	(75,589)	(87,027)	-
Depreciation	(13,726,629)	(12,509,605)	(12,673,096)
Capital assets, end of year	<u>\$ 281,756,301</u>	<u>\$ 244,404,824</u>	<u>\$ 199,623,748</u>

Major projects underway as of June 30, 2021 include construction of Garage D and the rehabilitation of Taxiway C. Garage D construction is being funded by proceeds from the Series 2019 debt issuance and cash that has been set aside for this project. Taxiway C rehabilitation is being funded via federal Airport Improvement Program and state grants. Approval was granted within the fiscal year 2022 budget for capital expenditures worth approximately \$13,000,000. Most of the funding for these projects will come from a mix of federal grants and state grants. See footnote four within the notes to basic financial statements section for further information.

Capital Financing and Debt Management

The Authority finances capital projects through a combination of revenues, federal and state grants, PFCs, CFCs, and revenue bonds.

The Authority’s Series 2021 and 2019 bonds are rated A3 (stable outlook) by Moody’s and A- (positive outlook) by Standard & Poor’s.

The Authority, through its Master Indenture of Trust, has agreed to maintain debt service coverage of not less than 1.25. Debt service coverage is calculated as defined in the Master Indenture of Trust. Historically, the Authority has maintained a coverage ratio significantly higher than its requirement. For 2021, 2020, and 2019, the Authority’s debt service coverage was 3.06, 2.94, and 3.30, respectively. See footnote six within the notes to basic financial statements section for further information.

Economic Factors

The Virginia Beach-Norfolk CSA contains a dynamic mix of economic activity. Included within its boundaries are the Port of Virginia, tourism destinations in Virginia Beach and the North Carolina Outer Banks, and a significant military presence anchored by Naval Station Norfolk – the largest naval base in the world. Additionally, the region is the headquarters for three Fortune 500 companies.

Air travel is particularly sensitive to regulatory changes and operating costs changes (especially fuel costs), which can cause significant fluctuations in passenger counts. Other economic risks to the Authority include federal government spending or tourism declines along with the unknown long-term effects of the COVID-19 pandemic.

NORFOLK AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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: Jarred M. Roenker, Director of Finance, 2200 Norview Avenue, Norfolk, VA 23518-5807. 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, 2021 AND 2020

	2021	2020
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 36,752,993	\$ 32,649,894
Investments	14,178,726	12,669,990
Accounts receivable, net	2,531,180	1,747,451
Grants receivable	1,071,528	2,968,493
Prepaid expenses	306,615	154,838
Total Current Assets	<u>54,841,042</u>	<u>50,190,666</u>
Restricted Assets:		
Cash and cash equivalents	15,469,955	25,708,222
Investments	1,859,963	33,637,048
Passenger facility charges receivable	1,294,439	255,263
Total Restricted Assets	<u>18,624,357</u>	<u>59,600,533</u>
Capital Assets:		
Land	15,771,497	14,722,494
Buildings, structures, and improvements	318,631,107	283,510,200
Roads and runways	85,936,328	82,205,192
Equipment	48,543,645	45,553,290
Construction in progress	76,248,723	68,119,602
	<u>545,131,300</u>	<u>494,110,778</u>
Less accumulated depreciation	<u>(263,374,999)</u>	<u>(249,705,954)</u>
Total Capital Assets, Net	<u>281,756,301</u>	<u>244,404,824</u>
Bond insurance costs, net	8,823	16,101
Other assets	1,224,108	1,177,680
Total Assets	<u>\$ 356,454,631</u>	<u>\$ 355,389,804</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding	38,103	56,249
Deferred outflows related to pensions	4,188,177	3,877,916
Deferred outflows related to OPEB plans	798,821	526,734
Total Deferred Outflows of Resources	<u>\$ 5,025,101</u>	<u>\$ 4,460,899</u>

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

NORFOLK AIRPORT AUTHORITY
STATEMENTS OF NET POSITION (CONTINUED)

JUNE 30, 2021 AND 2020

	2021	2020
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 4,284,711	\$ 8,062,556
Accrued leave and wages	2,699,053	2,517,620
Other accrued expenses	271,573	480,095
Surplus payable to airlines	1,545,350	1,509,614
Total Current Liabilities	<u>8,800,687</u>	<u>12,569,885</u>
Amounts Payable from Restricted Assets:		
Accrued interest	1,381,520	2,210,068
Current portion of bonds payable	1,670,951	3,449,593
Total Amounts Payable from Restricted Assets	<u>3,052,471</u>	<u>5,659,661</u>
Long-Term Liabilities:		
Bonds payable, less current portion	95,838,676	100,147,804
Net pension liability	10,516,674	7,847,977
Net OPEB liability	2,339,578	2,164,293
Other long-term liabilities	893,784	747,953
Total Long-Term Liabilities	<u>109,588,712</u>	<u>110,908,027</u>
Total Liabilities	<u>\$ 121,441,870</u>	<u>\$ 129,137,573</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred amount on refunding	\$ 337,147	\$ -
Deferred inflows related to pensions	-	418,694
Deferred inflows related to OPEB plans	349,999	198,534
Total Deferred Inflows of Resources	<u>\$ 687,146</u>	<u>\$ 617,228</u>
NET POSITION		
Net investment in capital assets	\$ 184,732,267	\$ 177,177,505
Restricted for:		
Capital projects	9,252,621	13,937,073
Debt service	7,214,402	7,912,868
Unrestricted	<u>38,151,426</u>	<u>31,068,456</u>
Total Net Position	<u>\$ 239,350,716</u>	<u>\$ 230,095,902</u>

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

NORFOLK AIRPORT AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
Operating revenues:		
Parking	\$ 9,020,468	\$ 13,591,153
Landing fees	5,339,578	5,754,222
Rent	6,184,571	6,775,095
Rental cars	5,228,562	5,565,567
Concessions	1,947,413	3,231,350
Other	544,854	895,889
Total operating revenues	<u>28,265,446</u>	<u>35,813,276</u>
Operating expenses:		
Salaries and fringe benefits	19,833,971	19,515,257
Depreciation	13,726,629	12,509,605
Utilities	2,593,935	2,426,925
Maintenance and repairs	2,900,045	2,976,372
Administrative	457,129	696,070
Professional services	443,881	455,675
Advertising and promotion	783,120	329,042
Insurance	1,009,450	909,811
Security and other services	2,548,541	3,772,184
Sanitation	1,038,181	1,109,669
City tax assessment	2,650,000	2,500,000
Other	226,435	482,732
Total operating expenses	<u>48,211,317</u>	<u>47,683,342</u>
Operating loss	<u>(19,945,871)</u>	<u>(11,870,066)</u>
Nonoperating revenues (expenses):		
Federal grant revenues	23,234,294	15,814,021
State grant revenues	2,360,873	2,071,479
Passenger facility charges	5,026,719	5,926,222
Customer facility charges	1,987,140	2,377,861
State grant interest income	5,788	73,345
Passenger facility charges interest income	6,826	209,188
Interest income	220,353	2,021,389
Other income	261,875	239,859
Bond issuance costs	(423,483)	-
Interest expense	(3,479,700)	(3,645,398)
Net nonoperating revenues	<u>29,200,685</u>	<u>25,087,966</u>
Change in net position	9,254,814	13,217,900
Total net position, beginning of the year	<u>230,095,902</u>	<u>216,878,002</u>
Total net position, end of the year	<u>\$ 239,350,716</u>	<u>\$ 230,095,902</u>

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

NORFOLK AIRPORT AUTHORITY
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
Cash flows from operating activities:		
Collections from customers	\$ 27,481,717	\$ 36,859,475
Payments to employees for services	(17,866,655)	(18,001,183)
Payments for city tax assessment	(2,650,000)	(2,500,000)
Payments to suppliers	(11,454,999)	(11,896,725)
Net cash (used in) provided by operating activities	<u>(4,489,937)</u>	<u>4,461,567</u>
Cash flows from capital and related financing activities:		
Principal payments on bonds	(37,057,001)	(2,580,605)
Issuance of bonds	32,175,971	757,003
Acquisition of capital assets	(55,493,893)	(51,487,870)
Proceeds from the sale of capital assets	75,586	-
Interest paid on debt	(5,152,417)	(3,194,870)
Passenger facility charges	3,987,543	7,013,900
Customer facility charges	1,987,140	2,377,861
Federal and state grants received	27,492,132	14,971,621
Bond issuance costs	(423,483)	-
Net cash used in capital and related financing activities	<u>(32,408,422)</u>	<u>(32,142,960)</u>
Cash flows from investing activities:		
Investment income	494,842	2,543,781
Purchases of investments	(129,411,383)	(140,280,970)
Proceeds from maturities of investments	159,679,732	111,334,215
Net cash provided by (used in) investing activities	<u>30,763,191</u>	<u>(26,402,974)</u>
Net decrease in cash and restricted cash	(6,135,168)	(54,084,367)
Cash and restricted cash, beginning of year	58,358,116	112,442,483
Cash and restricted cash, end of year	<u>\$ 52,222,948</u>	<u>\$ 58,358,116</u>
Cash and cash equivalents are presented in the accompanying statements of net position as follows:		
Cash	\$ 36,752,993	\$ 32,649,894
Restricted cash	15,469,955	25,708,222
	<u>\$ 52,222,948</u>	<u>\$ 58,358,116</u>

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

NORFOLK AIRPORT AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of operating loss to net cash (used in) provided by operating activities:		
Operating loss	\$ (19,945,871)	\$ (11,870,066)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:		
Depreciation	13,726,629	12,509,605
Loss on disposal of capital assets	3	87,027
Decrease (increase) in operating assets:		
Accounts receivable	(783,729)	1,046,199
Prepaid expenses	(151,777)	2,443,551
Other assets	(46,428)	(46,591)
Increase (decrease) in operating liabilities:		
Accounts payable	562,353	(95,266)
Accrued leave and wages	181,433	361,345
Other accrued expenses	(208,522)	(138,415)
Surplus payable to airlines	35,736	(1,277,453)
Net pension liability	1,939,742	1,278,051
Net OPEB liability	54,663	13,093
Other liabilities	145,831	150,487
Net cash (used in) provided by operating activities	<u>\$ (4,489,937)</u>	<u>\$ 4,461,567</u>

Supplemental disclosure of noncash capital and related financing activities:

The Authority incurred noncash capital expenditures related to construction in progress in the amount of \$3,440,782 and \$7,780,980 that are included in accounts payable as of June 30, 2021 and 2020, respectively.

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

NORFOLK AIRPORT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(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"). The Authority is an independent subdivision of the Commonwealth of Virginia. 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. The Authority is authorized to finance projects by issuing bonds or obtaining loans in its own name.

(b) Basis of Accounting

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

(c) Revenue Recognition

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

(d) Cash and Cash Equivalents

The Authority considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

(e) Accounts Receivable

Accounts receivable are reported when earned, net of estimated uncollectible amounts. An allowance for doubtful accounts is established based on management estimates of uncollectible revenue billings, if any. As a customer's balance is deemed uncollectible, the receivable is offset against this allowance. Subsequent receipt of a receivable previously written off is applied to this allowance. There was no allowance for doubtful accounts as of June 30, 2021. The allowance for doubtful accounts as of June 30, 2020 was \$32,868.

NORFOLK AIRPORT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(f) Capital Assets

Capital assets with an initial individual cost of \$10,000 or more are capitalized at cost. The Authority provides for depreciation of all capital assets by the straight-line method over estimated useful lives as follows:

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

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

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

(g) Bond Premiums, Discounts and Issuance Costs

Bond premiums and discounts incurred to issue debt are capitalized and amortized as interest expense over the related bond issue period using the effective interest method. With the exception of prepaid bond insurance costs discussed in item (i) below, bond issuance costs are expensed in the period incurred.

(h) Deferred Outflows/Inflows of Resources

In addition to assets, the Statements of Net Position contains a separate section for deferred outflows of resources, which represent a consumption of net position that applies to a future period and will be recognized as an outflow of resources in a future period. The Authority recognizes deferred outflows for debt refundings, pension plans, and other postemployment benefits ("OPEB") plans.

In addition to liabilities, the Statements of Net Position contains a separate section for deferred inflows of resources, which represent an acquisition of net position that applies to a future period and will be recognized as an inflow of resources in a future period. The Authority recognizes deferred inflows for debt refunding, pension, and OPEB plans. Deferred outflows and deferred inflows of resources for debt refundings are amortized over the shorter maturity of the refunded or refunding debt. The pension and OPEB deferred inflows and outflows related to the difference between expected and actual experience, changes in assumptions, and changes in proportion are recognized using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions and OPEB through the plans. The pension and OPEB deferred inflows and outflows related to the difference between projected and actual earnings are recognized using a systematic and rational method over a closed five-year period. The pension and OPEB deferred outflows of resources related to contributions subsequent to the measurement date are recognized as a reduction of the net pension and OPEB liabilities in the subsequent fiscal year.

(i) Bond Insurance Costs

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

NORFOLK AIRPORT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(j) Operating Revenues and Expenses

Operating revenues and expenses consist of all revenue and expenses not related to capital and related financing or investing transactions.

(k) Use of Estimates

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

(l) Pensions

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

(m) OPEB Plans

(i) Group Life Insurance

The VRS Group Life Insurance (“GLI”) Program is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The GLI Program was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The GLI Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers.

(ii) Line of Duty Act Program

The VRS Line of Duty Act Program (“LODA”) is a multiple-employer, cost-sharing plan. The Line of Duty Act Program was established pursuant to §9.1-400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The LODA Program provides death and health insurance benefits to eligible state employees and local government employees, including volunteers, who die or become disabled as a result of the performance of their duties as a public safety officer. In addition, health insurance benefits are provided to eligible survivors and family members.

NORFOLK AIRPORT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(iii) *Political Subdivision Employee Virginia Local Disability Program*

The VRS Political Subdivision Employee Virginia Local Disability Program (“VLDP”) is a multiple-employer, cost-sharing plan. All full-time, salaried general employees; including local law enforcement officers, firefighters, or emergency medical technicians of political subdivisions who do not provide enhanced hazardous duty benefits; who are in the VRS Hybrid Retirement Plan benefit structure and whose employer has not elected to opt out of the VRS-sponsored program are automatically covered by the VLDP. This plan is administered by the VRS, along with pension and other OPEB plans, for eligible public employer groups in the Commonwealth of Virginia. Political subdivisions are required by Title 51.1 of the Code of Virginia, as amended to provide short-term and long-term disability benefits for their Hybrid employees either through a local plan or through the VLDP.

For purposes of measuring the net GLI, LODA and VLDP Programs’ corresponding OPEB liability, each individual plan’s deferred outflows of resources and deferred inflows of resources related to the OPEB, and OPEB expense, information about the fiduciary net position of the OPEB and the additions to/deductions from the OPEB’s fiduciary net position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(n) **Fair Value**

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

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

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

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

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

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

NORFOLK AIRPORT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(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 restricted cash and cash equivalents 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 \$52,222,948 and \$58,358,116 and the bank balances were \$51,954,075 and \$58,686,923 at June 30, 2021 and 2020, respectively. The entire bank balance was covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act"). In accordance with the Act, the depository institution pledged collateral in the form of federal agency obligations with a market value equal to 110% of the Authority's deposits with a third-party trustee in the name of the Treasurer of the Commonwealth of Virginia. In the event that the banking institution fails, the Treasurer will take possession of the collateral, liquidate it and reimburse the Authority up to the value of its deposits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks.

(b) Investments

The Authority's investment policy (the "Policy") permits investments and investment practices that meet or exceed all statutes governing the investment of public funds in Virginia and any investment restrictions imposed by bond covenants. The Policy establishes limitations on the investment options to include U.S. government obligations, Commonwealth of Virginia Local Government Investment Pool ("LGIP"), prime quality commercial paper, and certain corporate notes, banker's, 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, 2021, the Standard & Poor's ratings on the Authority's rated securities included 64.5% of AAAM, 1.6% of AAA, 19.3% of AA+, 1.6% of AA, 3.2% of A-1+, and 9.8% of A-1.

NORFOLK AIRPORT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(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
LGIP	75% maximum
Registered investments (mutual funds)	75% maximum

As of June 30, 2021, the Authority's portfolio was invested as follows:

Issuer	Percentage of portfolio
U.S. Treasury	40.7 %
Commercial paper	33.7
Corporate notes	25.6
	100.0 %

(e) Interest Rate Risk

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

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

As of June 30, 2021 and 2020, the carrying values and weighted average maturity of the Authority's investments were as follows:

Investment type	2021		2020	
	Fair value	Weighted average maturity in years	Fair value	Weighted average maturity in years
U.S. Treasury securities	\$ 6,524,741	0.09	\$ 28,990,269	0.49
Commercial paper	5,399,559	0.73	10,552,106	0.17
Corporate notes	4,114,389	0.16	6,764,663	0.46
Total investments	\$ 16,038,689		\$ 46,307,038	

NORFOLK AIRPORT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(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, 2021, all 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, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Deposits	\$ 52,222,948	\$ 58,358,116
Investments	<u>16,038,689</u>	<u>46,307,038</u>
	<u>\$ 68,261,637</u>	<u>\$ 104,665,154</u>
Current Assets:		
Cash and cash equivalents	\$ 36,752,993	\$ 32,649,894
Investments	14,178,726	12,669,990
Restricted Assets:		
Cash and cash equivalents	15,469,955	25,708,222
Investments	<u>1,859,963</u>	<u>33,637,048</u>
	<u>\$ 68,261,637</u>	<u>\$ 104,665,154</u>

(h) Fair Value Measurements

The Authority has the following recurring fair value measurements as of June 30, 2021:

U.S. Treasury securities, commercial paper, and corporate notes of \$16,038,689 are valued using a matrix pricing model (Level 2 inputs).

(3) Restricted Assets

The Authority received \$2,000,000 during both fiscal years 2021 and 2020 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, 2021 AND 2020

The trust indenture securing the Series 2021, Series 2019, and Series 2011 Bonds Payable requires segregation of certain assets into restricted accounts. These restricted accounts include a construction account holding funds for the design and construction of capital improvements, a capitalized interest account, a debt service reserve account, and a cost of issuance account. The passenger facility charge cash and receivable accounts are also restricted assets as there are federal restrictions on how these funds may be disposed. All cash and investments are held by the following financial institutions: US Bank, SunTrust Bank, and the Virginia Department of the Treasury's LGIP. Restricted assets consist of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
State block grant account	\$ 3,784,521	\$ 4,968,729
Bond ordinance related	9,371,736	45,663,660
Passenger facility charges account	4,128,661	8,655,857
Passenger facility charges receivable	1,294,439	255,263
Other restricted assets	45,000	57,024
Restricted assets	<u>\$ 18,624,357</u>	<u>\$ 59,600,533</u>

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 \$150,029,994. As of June 30, 2021, the remaining collection authority was \$15,492,347 and expires January 2023. The net receipts from PFC are accounted for on the accrual basis of accounting and are restricted to use on FAA-approved projects. Unexpended PFC and related interest are included as restricted net position for projects that are approved by the FAA.

(4) Capital Assets

The following is a summary of the changes in capital assets for the years ended June 30, 2021 and 2020:

	<u>Balances,</u> <u>June 30, 2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances,</u> <u>June 30, 2021</u>
Capital assets not being depreciated:				
Land	\$ 14,722,494	\$ 1,124,589	\$ (75,586)	\$ 15,771,497
Construction in progress	68,119,602	49,746,680	(41,617,559)	76,248,723
	<u>82,842,096</u>	<u>50,871,269</u>	<u>(41,693,145)</u>	<u>92,020,220</u>
Capital assets being depreciated:				
Building, structures, and improvements	283,510,200	35,120,907	-	318,631,107
Roads and runways	82,205,192	3,731,136	-	85,936,328
Equipment	45,553,290	3,047,942	(57,587)	48,543,645
Less accumulated depreciation for:				
Building, structures, and improvements	(154,901,798)	(10,174,476)	-	(165,076,274)
Roads and runways	(61,256,848)	(1,620,791)	-	(62,877,639)
Equipment	(33,547,308)	(1,931,362)	57,584	(35,421,086)
	<u>161,562,728</u>	<u>28,173,356</u>	<u>(3)</u>	<u>189,736,081</u>
Capital assets, net	<u>\$244,404,824</u>	<u>\$ 79,044,625</u>	<u>\$ (41,693,148)</u>	<u>\$281,756,301</u>

NORFOLK AIRPORT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

	<u>Balances,</u> <u>June 30, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances,</u> <u>June 30, 2020</u>
Capital assets not being depreciated:				
Land	\$ 14,722,494	\$ -	\$ -	\$ 14,722,494
Construction in progress	13,900,580	57,198,160	(2,979,138)	68,119,602
	<u>28,623,074</u>	<u>57,198,160</u>	<u>(2,979,138)</u>	<u>82,842,096</u>
Capital assets being depreciated:				
Building, structures, and improvements	281,956,415	1,553,785	-	283,510,200
Roads and runways	82,205,192	-	-	82,205,192
Equipment	45,210,166	1,604,901	(1,261,777)	45,553,290
Less accumulated depreciation for:				
Building, structures, and improvements	(145,975,682)	(8,926,116)	-	(154,901,798)
Roads and runways	(59,567,408)	(1,689,440)	-	(61,256,848)
Equipment	(32,828,009)	(1,894,049)	1,174,750	(33,547,308)
	<u>171,000,674</u>	<u>(9,350,919)</u>	<u>(87,027)</u>	<u>161,562,728</u>
Capital assets, net	<u>\$199,623,748</u>	<u>\$ 47,847,241</u>	<u>\$ (3,066,165)</u>	<u>\$244,404,824</u>

Depreciation expense for the years ended June 30, 2021 and 2020 was \$13,726,629 and \$12,509,605, respectively.

(5) Bond Insurance Costs

At June 30, 2021, the gross carrying amount and accumulated amortization of bond insurance costs was \$678,110 and \$669,287, respectively. At June 30, 2020, the gross carrying amount and accumulated amortization of bond insurance costs was \$678,110 and \$662,009, respectively. Amortization expense for the years ended June 30, 2021 and 2020 was \$7,278 and \$9,654, respectively, and is included in interest expense on the Statement of Revenues, Expenses, and Changes in Net Position.

(6) Bonds Payable

Bonds payable comprise the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Series 2011 Bonds payable	\$ -	\$ 36,300,000
Series 2019 Bonds payable	54,435,000	54,435,000
Series 2021 Bonds payable	25,850,000	-
Line of Credit payable	964,714	757,003
	<u>81,249,714</u>	<u>91,492,003</u>
Unamortized premium	16,259,913	12,105,394
	<u>\$ 97,509,627</u>	<u>\$ 103,597,397</u>

NORFOLK AIRPORT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

In June 2021, the Authority completed the sale of \$20,890,000 Airport Revenue Bonds Series 2021A (Non-AMT), \$2,690,000 Airport Revenue Bonds Series 2021B (AMT), and \$2,270,000 Airport Revenue Bonds Series 2021C (Federally Taxable). Proceeds of the Series 2021 Bonds were used to defease and refund its previously outstanding Series 2011 Bonds. The Series 2021 Bonds are payable from general revenues of the Authority and certain funds and accounts established under the indenture. Principal payments on the Series 2021 Bonds begin on July 1, 2022 and are due on July 1 of each year thereafter through July 1, 2031. Interest is payable on the bonds on January 1 and July 1 of each year, with interest rates ranging from 0.3% to 5.0% 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. The refunding decreased the Authority's total debt service payments by approximately \$6,340,000 and resulted in an economic gain/loss of approximately \$5,990,000.

In June 2020, the Authority entered into a Subordinate Lien Revolving Line of Credit with STI Institutional & Government, Inc. (a subsidiary of Truist Financial Corporation). This Line of Credit has a maximum principal sum outstanding of \$30,000,000 and a term of five years. The proceeds from the Line of Credit are being used as short-term financing for capital projects. The Line of Credit is secured by a Lien on General Revenues on a subordinate basis from general revenues and CFC revenues of the Authority and certain funds and accounts established under the indenture. Under the terms of the Line of Credit, interest payments are due monthly and principal payments are due at the maturity date of June 2025. Interest is variable and is calculated each month as 79% of the sum of LIBOR plus 69 basis points. The interest rate is subject to a minimum rate of 1.14%.

In June 2019, the Authority completed the sale of \$54,435,000 Airport Revenue Bonds Series 2019 (Non-AMT). Proceeds of the Series 2019 Bonds are being used to construct the Authority's new parking garage D. The Series 2019 Bonds are payable from general revenues and CFC revenues of the Authority and certain funds and accounts established under the indenture. Principal payments on the Series 2019 Bonds are due on July 1 of each year beginning on July 1, 2022 through July 1, 2043. Interest is payable on the bonds on January 1 and July 1 of each year, beginning on January 1, 2020, with an interest rate of 5.00% 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 June 2011, the Authority completed the sale of \$18,300,000 Airport Revenue Bonds Series 2011A (Non-AMT) and \$25,025,000 Airport Revenue Bonds Series 2011B (AMT). In October 2011, the Authority completed the sale of \$25,960,000 Airport Revenue Bonds Series 2011C (Non-AMT). Proceeds of the Series 2011 Bonds were used to defease and refund its previously outstanding Series 2001 Bonds. Prior to their refunding, the Series 2011 Bonds were 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 were due on July 1 of each year through July 1, 2031. Interest was payable on the bonds on January 1 and July 1 of each year, 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.

NORFOLK AIRPORT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

Maturities of bond principal and interest to be provided for all bonds outstanding at June 30, 2021 were as follows:

Years ending June 30:	Principal	Interest
2022	\$ -	\$ 3,288,022
2023	3,935,000	3,763,387
2024	4,235,000	3,625,385
2025	5,319,714	3,442,575
2026	4,280,000	3,247,825
2027–2031	21,805,000	13,237,675
2032–2036	14,950,000	8,325,500
2037–2041	15,465,000	4,823,125
2042–2044	11,260,000	863,000
	\$ 81,249,714	\$ 44,616,494

Revenue bond activity for the years ended June 30, 2021 and 2020 is as follows:

	Balance, June 30, 2020	Issuance of bonds	Amortization of premium	Bond payments	Premium deferred on refunding	Balance, June 30, 2021	Current portion
Series 2021	\$ -	31,211,257	-	-	-	31,211,257	910,244
Series 2019	66,094,363	-	(760,707)	-	-	65,333,656	760,707
Series 2011	36,746,031	-	(108,886)	(36,299,998)	(337,147)	-	-
Line of Credit	757,003	964,714	-	(757,003)	-	964,714	-
	\$ 103,597,397	32,175,971	(869,593)	(37,057,001)	(337,147)	97,509,627	1,670,951
	Balance, June 30, 2019	Issuance of bonds	Amortization of premium	Bond payments		Balance, June 30, 2020	Current portion
Series 2019	\$ 66,855,070	\$ -	\$ (760,707)	\$ -		\$ 66,094,363	\$ 760,707
Series 2011	39,352,878	-	(131,847)	(2,475,000)		36,746,031	2,688,886
Line of Credit	-	757,003	-	-		757,003	-
VRA Bonds	105,605	-	-	(105,605)		-	-
	\$ 106,313,553	\$ 757,003	\$ (892,554)	\$ (2,580,605)		\$ 103,597,397	\$ 3,449,593

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, 2021 and 2020, 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.

NORFOLK AIRPORT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(7) Airport Use Agreement

Effective July 1, 2013, the Authority entered into an Airline Use and Lease Agreement (the "Agreement") with the signatory airlines operating scheduled passenger service at the Airport, which was renewed effective August 28, 2018. The current term of the Agreement for all signatory carriers is through June 30, 2021. The Agreement automatically renews for two one-year periods thereafter, unless cancelled by either party. 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, 2021 and 2020, there was a surplus of \$1,545,350 and \$1,509,614, 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, 2021 and 2020.

(8) Defined Benefit Pension Plan

(a) Plan Description

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

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

VRS Plan 1 is a defined benefit plan. Members hired before July 1, 2010 and who were vested as of January 1, 2013 and they have not taken a refund, are eligible for Plan 1. The retirement benefit is based on a member's age, service credit, 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 service credit 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, service credit, 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 service credit to their plan and, if eligible, may purchase periods of leave without pay.

NORFOLK AIRPORT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

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, service credit 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 service credit 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 1.70% for Plan 1 members, 1.85% for hazardous duty Plan 1 members, 1.65% for Plan 2 members, and 1.0% for Hybrid Plan members. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2 and the Hybrid Plan, average final compensation is the average of the member's 60 consecutive months of highest compensation. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment ("PLOP"), or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option, or those retiring with a reduced benefit.

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

The System issues a publicly available Comprehensive Annual Financial Report ("ACFR") 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/2020-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

NORFOLK AIRPORT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(b) Employees Covered by Benefit Terms

As of the June 30, 2020 and 2019 actuarial valuations, the following employees were covered by the benefit terms of the pension plan:

	Number	
	2020	2019
Inactive members or their beneficiaries currently receiving benefits	169	159
Inactive members:		
Vested inactive members	26	22
Nonvested inactive members	52	55
Inactive members active elsewhere in VRS	37	41
Total inactive members	115	118
Active members	194	201
Total covered employees	478	478

(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.

The Authority's actuarially required contribution rate for the years ended June 30, 2021 and 2020 was 13.23% and 11.21% of covered employee compensation, respectively. These rates were based on an actuarially determined rate from actuarial valuations as of June 30, 2019 and 2017, respectively. These rates, when combined with employee contributions, were 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 \$1,568,710 and \$1,368,135 for the years ended June 30, 2021 and 2020, respectively.

(d) Net Pension Liability

The Authority's net pension liability as of June 30, 2021 and 2020 was measured as of June 30, 2020 and 2019, respectively. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2019 and 2018, and rolled forward to the measurement dates of June 30, 2020 and 2019.

NORFOLK AIRPORT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(e) Actuarial Assumptions

The total pension liability for general employees and public safety employees in the Authority's Retirement Plan was based on an actuarial valuations as of June 30, 2019 and 2018, 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 dates of June 30, 2020 and 2019.

- * 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of pension liabilities.

	Mortality assumptions	
	General employees	Public safety employees
Deaths assumed to be service related:	15.0 %	45.0 %
Pre-retirement:	RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of Rates; females 105% of rates	RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of Rates; females set forward 1 year
Post-retirement:	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1% increase compounded from ages 70 to 90	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1% increase compounded from ages 70 to 90; females set forward 3 years
Post-disablement:	RP-2014 Disabled Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates	RP-2014 Disabled Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male

NORFOLK AIRPORT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled Retirement Rates (General Employees)	Update to a more current mortality table – RP-2014 projected to 2020 Lowered rates at older ages and changed final retirement from 70 to 75
Retirement Rates (Public Safety Employees)	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates (General Employees)	Lowered rates
Disability Rates (Public Safety Employees)	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability (General Employees)	Increase rate from 14% to 15%
Line of Duty Disability (Public Safety Employees)	Decrease rate from 60% to 45%
Discount Rate	Decrease rate from 7.0% to 6.75%

(f) Long-Term Expected Rate of Return

The long-term expected rate of return on pension system investments was determined using a log-normal distribution analysis 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:

<u>Asset class (strategy)</u>	<u>Target allocation</u>	<u>Arithmetic long-term expected rate of return</u>	<u>Weighted average long-term expected rate of return</u>
Public equity	34.00%	4.65%	1.58%
Fixed income	15.00	0.46	0.07
Credit strategies	14.00	5.38	0.75
Real assets	14.00	5.01	0.70
Private equity	14.00	8.34	1.17
MAPS - Multi-Asset Public Strategies	6.00	3.04	0.18
PIP - Private Investment Partnership	3.00	6.49	0.19
Total	<u>100.00%</u>		4.64
		Inflation	<u>2.50</u>
		*Expected arithmetic nominal return	<u>7.14%</u>

* The above allocation provides a one-year return of 7.14%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic

NORFOLK AIRPORT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY 2020 actuarial valuations, provide a median return of 6.81%.

(g) Discount Rate

The discount rate used to measure the total pension liability was 6.75%. 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. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2020, the alternate rate was the employer contribution rate used in FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017, actuarial valuations, whichever was greater. From July 1, 2020 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

(h) Changes in Net Pension Liability

	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a) – (b)
Balances at June 30, 2019	\$ 55,206,919	\$ 47,358,942	\$ 7,847,977
Changes for the year:			
Service cost	1,528,644	-	1,528,644
Interest	3,631,931	-	3,631,931
Differences between expected and actual experience	353,978	-	353,978
Contributions – employer	-	1,366,885	(1,366,885)
Contributions – employee	-	611,117	(611,117)
Net investment income	-	899,668	(899,668)
Changes of Assumptions	-	-	-
Benefit payments	(2,682,147)	(2,682,147)	-
Administrative expenses	-	(30,745)	30,745
Refunds of Contributions	(118,923)	(118,923)	-
Other Changes	-	(1,069)	1,069
Net changes	2,713,483	44,786	2,668,697
Balances at June 30, 2020	\$ 57,920,402	\$ 47,403,728	\$ 10,516,674

NORFOLK AIRPORT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a) – (b)
Balances at June 30, 2018	\$ 50,167,705	\$ 45,100,980	\$ 5,066,725
Changes for the year:			
Service cost	1,420,679	-	1,420,679
Interest	3,419,644	-	3,419,644
Differences between expected and actual experience	1,367,730	-	1,367,730
Contributions – employer	-	1,335,367	(1,335,367)
Contributions – employee	-	593,189	(593,189)
Net investment income	-	2,992,190	(2,992,190)
Changes of Assumptions	1,462,450		1,462,450
Benefit payments, including refunds of employee contributions	(2,615,193)	(2,615,193)	-
Administrative expenses	-	(29,605)	29,605
Refunds of Contributions	(16,096)	(16,096)	-
Other Changes	-	(1,890)	1,890
Net changes	5,039,214	2,257,962	2,781,252
Balances at June 30, 2019	\$ 55,206,919	\$ 47,358,942	\$ 7,847,977

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

The following presents the net pension liability of the Authority as of June 30, 2020 and 2019 using the discount rate of 6.75%, 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 or one percentage point higher than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
The Authority's Net Pension Liability:			
As of June 30, 2021	\$ 17,049,586	\$ 10,516,674	\$ 5,018,402
As of June 30, 2020	\$ 14,094,618	\$ 7,847,977	\$ 2,831,784

NORFOLK AIRPORT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

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

For the years ended June 30, 2021 and 2020, the Authority recognized pension expense of \$3,507,202 and \$2,643,293, respectively. At June 30, 2021 and 2020, 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	\$ 1,420,779	\$ -
Change of assumptions	480,940	-
Differences between expected and actual experience	717,748	-
Employer contributions subsequent to the measurement date	1,568,710	-
Total as of June 30, 2021	<u>\$ 4,188,177</u>	<u>\$ -</u>
	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 410,109
Change of assumptions	971,695	2,932
Differences between expected and actual experience	1,538,086	5,653
Employer contributions subsequent to the measurement date	1,368,135	-
Total as of June 30, 2020	<u>\$ 3,877,916</u>	<u>\$ 418,694</u>

Deferred outflows of resources related to pensions totaling \$1,568,710 resulting from the Authority's contributions subsequent to the measurement date of June 30, 2020 will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred (inflows) of resources related to pensions will be recognized as decreases to pension expense as follows:

<u>Years ending June 30</u>	
2022	\$ 1,129,504
2023	554,843
2024	481,479
2025	453,641
Total	<u>\$ 2,619,467</u>

(9) OPEB Plans

(a) Plan Descriptions

(i) GLI plan

All full-time, salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions are automatically covered by the VRS GLI Program upon employment. This plan is administered by the VRS, along with pensions and other OPEB, for public employer groups in the Commonwealth of Virginia.

NORFOLK AIRPORT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

In addition to the Basic Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the GLI Program OPEB.

The GLI Program was established July 1, 1960, for state employees, teachers, and employees of political subdivisions that elect the program. Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.

The benefits payable under the GLI Program have several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include accidental dismemberment benefits, safety belt benefits, repatriation benefits, felonious assault benefits, and accelerated death benefit options. The benefit amounts provided to members covered under the GLI Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value. For covered members with at least 30 years of service credit, there is a minimum benefit payable under the GLI Program. The minimum benefit was set at \$8,000 by statute in 2015. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently \$8,616.

(ii) *LODA plan*

All paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the VRS, the State Police Officers' Retirement System ("SPORS"), or the Virginia Law Officers' Retirement System ("VaLORS") are automatically covered by the LODA Program. As required by statute, the VRS is responsible for managing the assets of the program. Participating employers made contributions to the program beginning in FY 2012. The employer contributions are determined by the VRS's actuary using anticipated program costs and the number of covered individuals associated with all participating employers.

The eligible employees of the LODA included paid employees and volunteers in hazardous duty positions in Virginia localities as well as hazardous duty employees who are covered under the VRS, the SPORS, or the VaLORS.

The LODA provides death and health insurance benefits for eligible individuals. The LODA program death benefit is a one-time payment made to the beneficiary or beneficiaries of a covered individual. Amounts vary as follows. \$100,000 when a death occurs as the direct or proximate result of performing duty as of January 1, 2006, or after. \$25,000 when the cause of death is attributed to one of the applicable presumptions and occurred earlier than five years after the retirement date. An additional \$20,000 benefit is payable when certain members of the National Guard and U.S. military reserves are killed in action in any armed conflict on or after October 7, 2001.

NORFOLK AIRPORT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

The LODA program also provides health insurance benefits. Prior to July 1, 2017, these benefits were managed through the various employer plans and maintained the benefits that existed prior to the employee's death or disability. These premiums were reimbursed to the employer by the LODA program. Beginning July 1, 2017, the health insurance benefits are managed through the Virginia Department of Human Resource Management ("DHRM"). The health benefits are modeled after the State Employee Health benefits Program plans and provide consistent, premium-free continued health plan coverage for LODA-eligible disabled individuals, survivors, and family members. Individuals receiving the health insurance benefits must continue to meet eligibility requirements as defined by the Line of Duty Act.

(iii) *VLDP plan*

All full-time, salaried general employees; including local law enforcement officers, firefighters, or emergency medical technicians of political subdivisions who do not provide enhanced hazardous duty benefits; who are in the VRS Hybrid Retirement Plan benefit structure and whose employer has not elected to opt out of the VRS-sponsored program are automatically covered by the VLDP. This plan is administered by the VRS, along with pension and other OPEB plans, for eligible public employer groups in the Commonwealth of Virginia. Political subdivisions are required by Title 51.1 of the Code of Virginia, as amended to provide short-term and long-term disability benefits for their Hybrid employees either through a local plan or through the VLDP.

The VLDP was implemented January 1, 2014 to provide short-term and long-term disability benefits for non-work-related and work-related disabilities for employees with Hybrid retirement benefits.

Eligible employees are enrolled automatically upon employment, unless their employer has elected to provide comparable coverage. Eligibility includes full-time general employees; including local law enforcement officers, firefighters, or emergency medical technicians who do not have enhanced hazardous duty benefits; of public political subdivisions covered under VRS.

The VLDP provides a short-term disability benefit beginning after a seven-calendar-day waiting period from the first day of disability. Employees become eligible for non-work-related short-term disability coverage after one year of continuous participation in VLDP with their current employer. During the first five years of continuous participation in VLDP with their current employer, employees are eligible for 60% of their pre-disability income if they go out on non-work-related or work-related disability. Once the eligibility period is satisfied, employees are eligible for higher income replacement levels.

The VLDP program provides a long-term disability benefit beginning after 125 workdays of short-term disability. Members are eligible if they are unable to work at all or are working fewer than 20 hours per week. Members approved for long-term disability will receive 60% of their pre-disability income. If approved for work-related long-term disability, the VLDP benefit will be offset by the workers' compensation benefit. Members will not receive a VLDP benefit if their workers' compensation benefit is greater than the VLDP benefit.

Members approved for short-term or long-term disability at age 60 or older will be eligible for a benefit, provided they remain medically eligible. The VLDP Long-Term Care Plan is a self-funded program that assists with the cost of covered long-term care services.

NORFOLK AIRPORT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(b) Contributions

The contribution requirements for the GLI Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Program was 1.34% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.80% (1.34% X 60%) and the employer component was 0.54% (1.34% X 40%). Employers may elect to pay all or part of the employee contribution, however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2021 was 0.54% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the GLI Program from the Authority were \$64,117 and \$65,925 for the years ended June 30, 2021 and 2020, respectively.

The contribution requirements for the LODA Program are governed by §9.1-400.1 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer's contractually required employer contribution rate for the LODA Program for the year ended June 30, 2021 was \$717.31 per covered full-time-equivalent employee. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019 and represents the pay-as-you-go funding rate and not the full actuarial cost of the benefits under the program. The actuarially determined pay-as-you-go rate was expected to finance the costs and related expenses of benefits payable during the year. Contributions to the LODA Program from the Authority were \$41,604 and \$42,346 for the years ended June 30, 2021 and 2020, respectively.

The contribution requirement for the VLDP Program for active Hybrid employees is governed by §51.1-1178(C) of the Code of Virginia, as amended, but may be impacted as a result of funding provided to political subdivisions by the Virginia General Assembly. Each political subdivision's contractually required employer contribution rate for the year ended June 30, 2021 was 0.83% of covered employee compensation for employees in the VLDP. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate 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 from the Authority to the VLDP were \$17,554 and \$16,704 for the years ended June 30, 2021 and 2020, respectively.

(c) OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the OPEB

At June 30, 2021 and June 30, 2020, the Authority reported liabilities of \$1,028,337 and \$1,018,831, respectively, for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2020 and June 30, 2019 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2019, and rolled forward to the measurement date of June 30, 2020. The Authority's proportion of the Net GLI OPEB Liability was based on the Authority's actuarially determined employer contributions to the GLI Program for the years ended June 30, 2020 and June 30, 2019 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2020, the Authority's proportion was 0.06162% as compared to 0.06261% at June 30, 2019.

NORFOLK AIRPORT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

For the years ended June 30, 2021 and 2020, the Authority recognized GLI OPEB expenses of \$44,192 and \$29,908, respectively. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2021 and June 30, 2020, the Authority reported liabilities of \$1,305,029 and \$1,132,042, respectively, for its proportionate share of the Net LODA OPEB Liability. The Net LODA OPEB Liability was measured as of June 30, 2020 and June 30, 2019 and the total LODA OPEB liability used to calculate the Net LODA OPEB Liability was determined by an actuarial valuation as of June 30, 2019, and rolled forward to the measurement date of June 30, 2020. The Authority's proportion of the Net LODA OPEB Liability was based on the Authority's actuarially determined pay-as-you-go employer contributions to the LODA OPEB plan for the year ended June 30, 2020 and June 30, 2019 relative to the total of the actuarially determined pay-as-you-go employer contributions for all participating employers. At June 30, 2020, the Authority's proportion was 0.31160% as compared to 0.31552% at June 30, 2019.

For the years ended June 30, 2021 and June 30, 2020, the Authority recognized LODA OPEB expense of \$115,866 and \$92,249, respectively. Since there was a change in proportionate share between measurement dates, a portion of the LODA OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2021 and June 30, 2020, the Authority reported liabilities of \$6,212 and \$13,420, respectively, for its proportionate share of the VLDP Net OPEB Liability. The Net VLDP OPEB Liability was measured as of June 30, 2020 and June 30, 2019 and the total VLDP OPEB liability used to calculate the Net VLDP OPEB Liability determined by an actuarial valuation as of June 30, 2019, and rolled forward to the measurement date of June 30, 2020. The Authority's proportion of the Net VLDP OPEB Liability was based on the Authority's actuarially determined employer contributions to the VLDP OPEB plan for the year ended June 30, 2020 and June 30, 2019 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2020, the Authority's proportion of the VLDP was 0.62229% as compared to 0.66244% at June 30, 2019.

For the years ended June 30, 2021 and June 30, 2020, the Authority recognized VLDP OPEB expense of \$17,968 and \$15,892, respectively. Since there was a change in proportionate share between measurement dates a portion of the VLDP Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2021 and 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to the GLI, LODA, and VLDP OPEB plans from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
	<u> </u>	<u> </u>
Net difference between projected and actual earnings on OPEB plan investments	\$ 29,695	\$ -
Change of assumptions	401,083	103,210
Differences between expected and actual experience	209,522	194,448
Changes in proportionate share	35,246	52,341
Employer contributions subsequent to the measurement date	123,275	-
	<u> </u>	<u> </u>
Total as of June 30, 2021	<u>\$ 798,821</u>	<u>\$ 349,999</u>

NORFOLK AIRPORT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual earnings on OPEB plan investments	\$ -	\$ 23,123
Change of assumptions	117,824	129,371
Differences between expected and actual experience	239,030	13,625
Changes in proportionate share	44,905	32,415
Employer contributions subsequent to the measurement date	124,975	-
Total as of June 30, 2020	<u>\$ 526,734</u>	<u>\$ 198,534</u>

Deferred outflows of resources related to OPEB plans totaling \$123,275 resulting from the Authority's contributions subsequent to the measurement date of June 30, 2020 will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the OPEB plans will be recognized in the Authority's OPEB expense in future reporting periods as follows:

Years ending June 30	
2022	\$ 48,104
2023	57,156
2024	62,531
2025	60,500
2026	33,184
Thereafter	64,072
Total	<u>\$ 325,547</u>

NORFOLK AIRPORT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(d) Actuarial Assumptions

The total GLI, LODA and VLDP OPEB liabilities were based on actuarial valuations as of June 30, 2019, 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, 2020.

Inflation	2.50 percent
Salary increases, including inflation:	
General employees (GLI)	3.50 – 5.35 percent
General employees (VLDP)	3.50 – 5.95 percent
Hazardous duty employees (LODA)	3.50 – 4.75 percent
Medical cost trend rates assumption (LODA):	
Under age 65	7.00 – 4.75 percent
Ages 65 and older	5.35 – 4.75 percent
Investment rate of return (GLI & VLDP)	6.75 percent, net of investment expenses, including inflation*
Year of ultimate trend rate (LODA):	
Post-65	Fiscal year ended 2023
Pre-65	Fiscal year ended 2028
Investment rate of return (LODA)	2.21 percent, net of investment expenses, including inflation**

* 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 rate. However, since the difference was minimal, and a more conservative 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 6.75% (GLI & VLDP) to simplify preparation of the OPEB liabilities.

** Since LODA is funded on a current disbursement basis, the assumed annual rate of return of 2.21% was used since it approximates the risk-free rate of return.

NORFOLK AIRPORT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

	Mortality assumptions	
	General employees	Hazardous duty employees
Pre-retirement:	RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates	RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year
Post-retirement:	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1% increase compounded from ages 70 to 90	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1% increase compounded from ages 70 to 90; females set forward 3 years
Post-disablement:	RP-2014 Disabled Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates	RP-2014 Disabled Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study for general employees include updating to a more current mortality table, lowering retirement rates at older ages and extending final retirement ages, adjusting termination rates, lowering disability rates, increasing line of duty disability, and decreasing the discount rate. Changes to the actuarial assumptions as a result of the experience study for hazardous duty employees include updating to a more current mortality table, increasing age 50 retirement rates at older ages, adjusting termination rates, adjusting disability rates, decreasing line of duty disability rates, and decreasing the discount rate.

(e) Net OPEB Liability

The net OPEB liability represents the program's total OPEB liability determined in accordance with U.S. GAAP, less the associated fiduciary net position. As of the measurement date of June 30, 2020 and 2019, net OPEB liability amounts are as follows (dollar amounts in thousands):

	June 30, 2020		
	GLI	LODA	VLDP
Total OPEB liability	\$ 3,523,937	\$ 423,147	\$ 4,317
Plan fiduciary net position	1,855,102	4,333	3,317
Employers' net OPEB liability	<u>\$ 1,668,835</u>	<u>\$ 418,814</u>	<u>\$ 1,000</u>
Plan fiduciary net position as a percentage of the total OPEB liability	52.64 %	1.02 %	76.84 %

NORFOLK AIRPORT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

	June 30, 2019		
	GLI	LODA	VLDP
Total OPEB liability	\$ 3,390,238	\$ 361,626	\$ 3,989
Plan fiduciary net position	1,762,972	2,839	1,962
Employers' net OPEB liability	<u>\$ 1,627,266</u>	<u>\$ 358,787</u>	<u>\$ 2,027</u>
Plan fiduciary net position as a percentage of the total OPEB liability	52.00 %	0.79 %	49.49 %

The total OPEB liability is calculated by VRS' actuary, and each plan's fiduciary net position is reported in the VRS' financial statements. The net OPEB liability is disclosed in accordance with the requirements of U.S. GAAP in the VRS' notes to the financial statements and required supplementary information.

(f) Long-Term Expected Rate of Return

The long-term expected rate of return on VRS' investments for the GLI and VLDP plans was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of VRS' 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 weighting 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 summarized in the following table:

Asset class (strategy)	Target allocation	Arithmetic long-term expected rate of return	Weighted average long-term expected rate of return
Public equity	34.00%	4.65%	1.58%
Fixed income	15.00	0.46	0.07
Credit strategies	14.00	5.38	0.75
Real assets	14.00	5.01	0.70
Private equity	14.00	8.34	1.17
MAPS - Multi-Asset Public Strategies	6.00	3.04	0.18
PIP - Private Investment Partnership	3.00	6.49	0.19
Total	<u>100.00%</u>		4.64%
Inflation			<u>2.50</u>
* Expected arithmetic nominal return			<u>7.14%</u>

* The above allocation provides a one-year return of 7.14%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY 2020 actuarial valuations, provide a median return of 6.81%.

NORFOLK AIRPORT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

The long-term expected rate of return on LODA OPEB Program's investments was set at 2.21% for this valuation. Since LODA is funded on a current-disbursement basis, it is not able to use the VRS Pooled Investments 6.75% assumption. Instead, the assumed annual rate of return of 2.21% was used since it approximates the risk-free rate of return. This single equivalent interest rate is the applicable municipal bond index rate based on the Bond Buyer General Obligation 20-year Municipal Bond Index as of the measurement date of June 30, 2020.

(g) Discount Rate

The discount rate used to measure the total GLI and VLDP OPEB liabilities was 6.75%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance 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 ended June 30, 2020, the rate contributed by the Authority for the GLI and VLDP OPEBs will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2020 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI and VLDP OPEBs' fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI and VLDP OPEB liabilities.

The discount rate used to measure the total LODA OPEB liability was 2.21%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ended June 30, 2020, the rate contributed by participating employers to the LODA OPEB Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly.

NORFOLK AIRPORT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(h) Sensitivity of the Authority's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net OPEB liability as of June 30, 2021 and 2020 using the current discount rates, as well as what the Authority's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (5.75%)	Current discount rate (6.75%)	1% Increase (7.75%)
As of June 30, 2021:			
The Authority's proportionate share of the GLI Net OPEB Liability	\$ 1,351,828	\$ 1,028,337	\$ 765,632
The Authority's proportionate share of the VLDP Net OPEB Liability	\$ 8,332	\$ 6,212	\$ 4,365
As of June 30, 2020:			
The Authority's proportionate share of the GLI Net OPEB Liability	\$ 1,338,462	\$ 1,018,831	\$ 759,619
The Authority's proportionate share of the VLDP Net OPEB Liability	\$ 15,433	\$ 13,420	\$ 11,660
As of June 30, 2021:			
The Authority's proportionate share of the LODA Net OPEB Liability	\$ 1,549,051	\$ 1,305,029	\$ 1,121,089
As of June 30, 2020:			
The Authority's proportionate share of the LODA Net OPEB Liability	\$ 1,313,249	\$ 1,132,042	\$ 988,718

(i) Sensitivity of the Authority's Proportionate Share of the Net LODA OPEB Liability to Changes in the Health Care Trend Rate

Because the LODA plan contains provisions for the payment of health insurance premiums, the liabilities are also impacted by the health care trend rates. The following presents the Authority's proportionate share of the net LODA OPEB liability as of June 30, 2021 using a health care trend rate of 7.00% decreasing to 4.75%, as well as what the Authority's proportionate share of the net LODA OPEB liability would be if it were calculated using a health care trend rate that is one percentage point lower or one percentage point higher than the current rate. Also shown is the proportionate share of the net LODA OPEB liability as of June 30, 2020 using a health care trend rate of 7.75% decreasing to 4.75%, as well as what the Authority's proportionate share of the net LODA OPEB liability would be if it were calculated using a health care trend rate that is one percentage point lower or one percentage point higher than the 2020 rate:

NORFOLK AIRPORT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

	1.00% Decrease (6.00% decreasing to 3.75%)	Health Care Trend Rates (7.00% decreasing to 4.75%)	1.00% Increase (8.00% decreasing to 5.75%)
As of June 30, 2021:			
The Authority's proportionate share of the LODA Net OPEB Liability	\$ 1,078,649	\$ 1,305,029	\$ 1,601,130
	1.00% Decrease (6.75% decreasing to 3.75%)	Health Care Trend Rates (7.75% decreasing to 4.75%)	1.00% Increase (8.75% decreasing to 5.75%)
As of June 30, 2020:			
The Authority's proportionate share of the LODA Net OPEB Liability	\$ 957,130	\$ 1,132,042	\$ 1,352,623

(j) VRS OPEB Programs Fiduciary Net Positions

Detailed information about the GLI, LODA, and VLDP Fiduciary Net Position is available in the separately issued VRS 2020 ACFR. A copy of the 2020 VRS ACFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2020-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

(10) 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 two former employees. Under the terms of the ESRP, the participants are receiving annual payments equal to 75% of their final salary less any benefits received under the VRS. During the year ended June 30, 2021, the plan expense was \$223,725, which is net of payments of \$77,894. During the year ended June 30, 2020, the plan expense was \$244,401, which is net of payments of \$76,841. Whole life insurance policies have been purchased to assist in funding this liability. The Authority is owner and beneficiary of each of these policies. The cash surrender value of these policies was \$1,224,108 and \$1,177,680 at June 30, 2021 and 2020, respectively, and is included as other noncurrent assets in the accompanying statements of net position. The ESRP accrued liability totaling \$639,078 and \$493,247 as of June 30, 2021 and 2020, respectively, is included in other long-term liabilities in the accompanying Statements of Net Position. The ESRP liability increased during the year due to updated actuarial assumptions, including reduced discount rate, and updated mortality expectations.

NORFOLK AIRPORT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(11) Employee Contribution Plan

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

All regular full-time employees of the Authority are eligible to participate with a minimum contribution of \$10 per pay period. Maximum contributions made by an employee are subject to IRC limitations.

The plan is entirely funded by the Authority's employees. Mission Square charges fees to employees if they are enrolled in a managed account. Mission Square also has the authority to annually deduct a certain percentage of the daily average net asset balance to cover administrative and other various costs.

(12) 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 expected to be received on operating leases for each of the succeeding five years are as follows:

<u>Years ending June 30</u>	
2022	\$ 5,845,416
2023	1,959,256
2024	1,631,018
2025	126,763
2026	60,901

The above amounts do not include contingent rentals and fees in excess of minimums, which amounted to \$1,614,342 and \$161,618 in fiscal years 2021 and 2020, respectively. The majority of minimums were waived in fiscal year 2021.

(13) 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 footnote two. A substantial portion of the Authority's accounts receivable is from U.S. commercial airlines and rental car companies that could be similarly affected by industry economic conditions, including the effects of COVID-19. Historically, the Authority's uncollectible accounts receivable have been minimal, and the Authority does not require collateral for its receivables.

NORFOLK AIRPORT AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

(14) 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, cyber-attacks, 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, law enforcement, and medical malpractice liability coverage of \$1,000,000 per occurrence. The ACFR of the Commonwealth of Virginia contains disclosure of the Commonwealth's estimated claims payable and estimated losses for self-insurance plans at June 30, 2021 and 2020.

Through commercial insurance carriers, the Authority has property insurance coverage of \$311,000,000 annually, personal and advertising liability coverage of \$50,000,000 per occurrence, airport liability coverage of \$300,000,000 annually, pollution coverage of \$10,000,000, terrorism coverage for 80% of the loss, business auto coverage of \$1,000,000 per occurrence, cyber-attack coverage of \$1,000,000, crime insurance coverage of \$1,000,000 per occurrence, watercraft coverage of \$1,000,000, and workers' compensation coverage for bodily injury 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.

(15) 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.

(16) Commitments and Contingencies

Prior to July 1, 1998, the Authority had an agreement with the City of Norfolk, Virginia (the "City") whereby the Authority had use of the Airport property free of charge. As of July 1, 1998, the City reacquired title to all property. On January 18, 2000, the City executed a deed conveying title to the Authority, reserving a right of reversion if the Airport property is no longer used as an airport. In consideration of the conveyance of the property, the Authority agreed to compensate the City for the loss of tax revenue on the Airport property. Beginning in fiscal year 2016, the adjusted annual payment was set by the City's tax assessor; in no event shall the payment exceed stated tax rates on the fair value of the Airport property. Advance payments are due annually on July 1. Payment in the amount of \$2,500,000 was required for fiscal year 2020. Beginning with the July 1, 2020 payment, the amount increased to \$2,650,000 per year. This amount is due each year through the July 1, 2024 payment.

As of June 30, 2021, the Authority had entered into contracts totaling \$119.8 million, of which \$26.5 million was outstanding.

NORFOLK AIRPORT AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

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, 2021 or June 30, 2020.

(17) 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, 2021, there were four series of revenue bonds outstanding with an aggregate principal amount of approximately \$17,900,000. As of June 30, 2020, there were four series of revenue bonds outstanding with an aggregate principal amount of approximately \$20,100,000.

REQUIRED SUPPLEMENTARY INFORMATION

NORFOLK AIRPORT AUTHORITY

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS (UNAUDITED)

JUNE 30, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Schedule of Changes in the Authority's Net Pension Liability and Related Ratios:							
Total pension liability:							
Service cost	\$ 1,528,644	\$ 1,420,679	\$ 1,414,966	\$ 1,373,319	\$ 1,346,523	\$ 1,300,433	\$ 1,278,926
Interest	3,631,931	3,419,644	3,151,550	3,053,266	2,880,450	2,688,486	2,530,135
Differences between expected and actual experience	353,978	1,367,730	1,816,734	(429,688)	237,910	484,660	-
Changes of assumptions	-	1,462,450	-	(222,799)	-	-	-
Benefit payments, including refunds of employee contributions	(2,682,147)	(2,615,193)	(2,475,362)	(2,264,730)	(1,727,430)	(1,735,055)	(1,358,746)
Refunds of Contributions	(118,923)	(16,096)	-	-	-	-	-
Other	-	-	-	(313)	-	-	-
Net change in total pension liability	<u>2,713,483</u>	<u>5,039,214</u>	<u>3,907,888</u>	<u>1,509,055</u>	<u>2,737,453</u>	<u>2,738,524</u>	<u>2,450,315</u>
Total pension liability – beginning	<u>55,206,919</u>	<u>50,167,705</u>	<u>46,259,817</u>	<u>44,750,762</u>	<u>42,013,309</u>	<u>39,274,785</u>	<u>36,824,470</u>
Total pension liability – ending (a)	<u>57,920,402</u>	<u>55,206,919</u>	<u>50,167,705</u>	<u>46,259,817</u>	<u>44,750,762</u>	<u>42,013,309</u>	<u>39,274,785</u>
Plan fiduciary net position:							
Contributions – employer	1,366,885	1,335,367	1,208,422	1,170,578	1,223,465	1,179,412	1,260,523
Contributions – employee	611,117	593,189	577,112	564,624	553,205	522,626	512,028
Net investment income	899,668	2,992,190	3,148,504	4,691,484	671,007	1,669,448	4,930,757
Benefit payments, including refunds of employee contributions	(2,682,147)	(2,615,193)	(2,475,362)	(2,264,730)	(1,727,430)	(1,735,055)	(1,358,746)
Administrative expense	(30,745)	(29,605)	(27,217)	(27,108)	(23,348)	(22,585)	(25,970)
Refunds of Contributions	(118,923)	(16,096)	-	-	-	-	-
Other	(1,069)	(1,890)	(2,799)	(4,170)	(173)	(663)	260
Net change in plan fiduciary net position	<u>44,786</u>	<u>2,257,962</u>	<u>2,428,660</u>	<u>4,130,678</u>	<u>696,726</u>	<u>1,613,183</u>	<u>5,318,852</u>
Plan fiduciary net position – beginning	<u>47,358,942</u>	<u>45,100,980</u>	<u>42,672,320</u>	<u>38,541,642</u>	<u>37,844,916</u>	<u>36,231,733</u>	<u>30,912,881</u>
Plan fiduciary net position – ending (b)	<u>47,403,728</u>	<u>47,358,942</u>	<u>45,100,980</u>	<u>42,672,320</u>	<u>38,541,642</u>	<u>37,844,916</u>	<u>36,231,733</u>
Authority's net pension liability – ending (a)-(b)	<u>\$ 10,516,674</u>	<u>\$ 7,847,977</u>	<u>\$ 5,066,725</u>	<u>\$ 3,587,497</u>	<u>\$ 6,209,120</u>	<u>\$ 4,168,393</u>	<u>\$ 3,043,052</u>
Plan fiduciary net position as a percentage of the total pension liability (b) / (a)	81.84 %	85.78 %	89.90 %	92.24 %	86.13 %	90.08 %	92.25 %
Covered payroll (c)	\$ 12,677,884	\$ 12,300,841	\$ 11,882,270	\$ 11,725,164	\$ 10,903,311	\$ 10,406,965	\$ 10,245,675
Authority's net pension liability as a percentage of covered payroll [(a)-(b)] / (c)	82.95 %	63.80 %	42.64 %	30.60 %	56.95 %	40.05 %	29.70 %

Note: Net pension liabilities are reported using the measurement date, which is one year prior to the reporting date

See accompanying report of independent auditor and notes to the required supplementary information.

NORFOLK AIRPORT AUTHORITY
SCHEDULE OF PENSION CONTRIBUTIONS (UNAUDITED)

JUNE 30, 2021

<u>For the year ended June 30</u>	<u>Actuarially determined contribution</u>	<u>Contributions in relation to actuarially determined contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Employer's covered payroll</u>	<u>Contributions as a % of covered payroll</u>
2021	\$ 1,568,710	\$ 1,568,710	\$ -	\$ 12,330,340	12.72
2020	1,368,135	1,368,135	-	12,677,884	10.79
2019	1,338,260	1,338,260	-	12,300,841	10.88
2018	1,207,848	1,207,848	-	11,882,270	10.17
2017	1,156,652	1,156,652	-	11,725,164	9.86
2016	1,223,500	1,223,465	35	10,903,311	11.22
2015	1,180,959	1,179,412	1,547	10,406,956	11.00

See accompanying report of independent auditor and notes to the required supplementary information.

NORFOLK AIRPORT AUTHORITY
SCHEDULE OF OPEB CONTRIBUTIONS (UNAUDITED)

YEAR ENDED JUNE 30, 2021

Year	Contractually required contribution	Contributions in relation to contractually required contribution	Contribution deficiency (excess)	Employer's covered payroll	Contributions as a % of covered payroll
GLI Plan:					
2021	\$ 64,117	\$ 64,117	\$ -	\$ 12,330,340	0.52%
LODA Plan:					
2021	41,604	41,604	-	12,330,340	0.34%
VLDP Plan:					
2021	17,554	17,554	-	2,438,139	0.72%
GLI Plan:					
2020	65,925	65,925	-	12,677,885	0.52%
LODA Plan:					
2020	42,346	42,346	-	12,677,885	0.33%
VLDP Plan:					
2020	16,704	16,704	-	2,319,957	0.72%
GLI Plan:					
2019	64,000	64,000	-	12,273,178	0.52%
LODA Plan:					
2019	42,000	42,000	-	12,273,178	0.34%
VLDP Plan:					
2019	15,000	15,000	-	2,047,146	0.73%
GLI Plan:					
2018	62,000	62,000	-	11,445,288	0.54%
LODA Plan:					
2018	35,000	35,000	-	11,445,288	0.31%
VLDP Plan:					
2018	9,000	9,000	-	977,098	0.92%
GLI Plan:					
2017	58,000	58,000	-	11,841,567	0.49%
LODA Plan:					
2017	35,000	35,000	-	11,841,567	0.30%
VLDP Plan:					
2017	3,000	3,000	-	1,430,793	0.21%

See accompanying report of independent auditor and notes to the required supplementary information.

NORFOLK AIRPORT AUTHORITY

SCHEDULE OF AUTHORITY'S SHARE OF NET OPEB LIABILITY (UNAUDITED)

YEAR ENDED JUNE 30, 2021

	2021	2020	2019	2018
GLI Plan:				
Authority's Proportion of the Net GLI OPEB Liability	0.06162%	0.06261%	0.06224%	0.06204%
Authority's Proportionate Share of Net GLI OPEB Liability	\$ 1,028,337	\$ 1,018,831	\$ 945,000	\$ 933,000
Employer's Covered Payroll	\$ 12,677,885	\$ 12,273,178	\$ 11,445,288	\$ 11,841,567
Employer's Proportionate Share of the Net GLI OPEB Liability as a Percentage of its Covered Payroll	8.11%	8.30%	8.26%	7.88%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	52.64%	52.00%	51.22%	48.86%
LODA Plan:				
Authority's Proportion of the Net LODA OPEB Liability	0.31160%	0.31552%	0.32493%	0.31564%
Authority's Proportionate Share of Net LODA OPEB Liability	\$ 1,305,029	\$ 1,132,042	\$ 1,019,000	\$ 829,000
Employer's Covered Payroll	\$ 12,677,885	\$ 12,273,178	\$ 11,445,288	\$ 11,841,567
Employer's Proportionate Share of the Net LODA OPEB Liability as a Percentage of its Covered Payroll	10.29%	9.22%	8.90%	7.00%
Plan Fiduciary Net Position as a Percentage of the Total LODA OPEB Liability	1.02%	0.79%	0.60%	1.30%
VLDP Plan:				
Authority's Proportion of the Net VLDP OPEB Liability	0.62229%	0.66244%	0.58676%	0.53211%
Authority's Proportionate Share of Net VLDP OPEB Liability	\$ 6,212	\$ 13,420	\$ 4,000	\$ 3,000
Employer's Covered Payroll	\$ 2,319,957	\$ 2,047,146	\$ 977,098	\$ 1,430,793
Employer's Proportionate Share of the Net VLDP OPEB Liability as a Percentage of its Covered Payroll	0.27%	0.66%	0.41%	0.21%
Plan Fiduciary Net Position as a Percentage of the Total VLDP OPEB Liability	76.84%	49.19%	51.39%	38.40%

See accompanying report of independent auditor and notes to the required supplementary information.

NORFOLK AIRPORT AUTHORITY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

YEAR ENDED JUNE 30, 2021

(1) Changes of Benefit Terms

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

(2) Changes of Assumptions

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

- Updated to a more current mortality table – RP-2014 projected to 2020
- Lowered retirement rates at older ages and changed final retirement from 70 to 75
- Adjusted withdrawal rates to better fit experience at each year age and service through 9 years of service
- Lowered disability rates for pension and OPEB general employees. Adjusted disability rates for OPEB hazardous duty employees to better match experience.
- Increased line of duty disability from 14% to 15% for pension employees and to 25% for OPEB general employees. Decreased line of duty disability from 60% to 45% for OPEB hazardous duty employees.
- Decreased discount rate from 7.00% to 6.75%

(3) Years Presented in Schedules

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

The schedule of Authority's Share of Net OPEB liability and the Schedule of OPEB Contributions are required to be presented for the last ten fiscal years. However, the Authority has only presented the required supplementary information for the last three years as fiscal year 2018 was the first year of implementation of the requirement to provide such required supplementary information and such information is not available for the prior years.

NORFOLK AIRPORT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2021

Federal Grantor/Program Title	Federal Award Pass Through Entity	Assistance Listing Number	Project Number	Expenditures
Department of Transportation:				
Federal Aviation Administration:				
Airport Improvement Program		20.106	3-51-0036-67	\$ 45,014
Airport Improvement Program		20.106	3-51-0036-68	541,998
Airport Improvement Program		20.106	3-51-0036-69	209,043
Airport Improvement Program		20.106	3-51-0036-70	2,696
Airport Improvement Program		20.106	3-51-0036-71	311,261
Airport Improvement Program		20.106	3-51-0036-72	7,315,387
COVID-19 Airport Improvement Program		20.106	3-51-0036-73	13,790,675
Airport Improvement Program		20.106	3-51-0036-74	317,671
COVID-19 Airport Improvement Program		20.106	3-51-0036-76	426,391
Total Airport Improvement Program				22,960,136
Department of Homeland Security:	Virginia Department of			
Disaster Grants - Public Assistance	Emergency Management	97.036		25,480
				\$22,985,616

See accompanying notes to the schedule of expenditures of federal awards.
See accompanying report of independent auditor.

SUPPLEMENTARY INFORMATION

NORFOLK AIRPORT AUTHORITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2021

(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 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

**Report of Independent Auditor 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***

To the Board of Commissioners
Norfolk Airport Authority
Norfolk, Virginia

We have audited, in accordance with the 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 *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the Norfolk Airport Authority (the “Authority”), as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated October 28, 2021.

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”) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority’s internal control.

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

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

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* or under the *Specifications for Audits of Authorities, Boards, and Commissions*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Cherry Eckert LLP". The signature is written in a cursive, flowing style.

Virginia Beach, Virginia
October 28, 2021

Report of Independent Auditor on Compliance for the Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Commissioners
Norfolk Airport Authority
Norfolk, Virginia

Report on Compliance for the Major Federal Program

We have audited the Norfolk Airport Authority's (the "Authority") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2021. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2021.

Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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 a material weakness. 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.

A handwritten signature in cursive script that reads "Cherry Belmont LLP".

Virginia Beach, Virginia
October 28, 2021

NORFOLK AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2021

A. Summary of Auditor's Results

1. The type of report issued on the basic financial statements: **Unmodified opinion**
2. Significant deficiencies in internal control disclosed by the audit of the financial statements: **None reported**
3. Material weaknesses in internal control disclosed by the audit of financial statements: **No**
4. Noncompliance, which is material to the financial statements: **No**
5. Significant deficiencies in internal control over major programs: **None reported**
6. Material weaknesses in internal control over major programs: **No**
7. The type of report issued on compliance for major programs: **Unmodified opinion**
8. Any audit findings which are required to be reported under the Uniform Guidance: **No**
9. The program tested as major programs were:

<u>Assistance Listing Number</u>	<u>Name of Federal Program and Cluster</u>
20.106	Airport Improvement Program

10. Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
11. The Norfolk Airport Authority qualified as a low-risk auditee under Section 530 of Uniform Guidance

B. Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None reported

C. Findings and Questioned Costs Relating to Federal Awards

None reported

D. Findings and Questions Costs Related to Passenger Facility Charges

None reported

E. Findings and Questioned Costs Relating to Compliance with Commonwealth of Virginia Laws, Regulations, Contracts, and Grants

None reported

F. Status of Prior Year Findings

Finding 2020-001 was not repeated for the fiscal year ended June 30, 2021.

**Report of Independent Auditor on Compliance for the Passenger Facility Charge Program
and on Internal Control over Compliance Required by the Passenger Facility Charge
Audit Guide for Public Agencies**

To the Board of Commissioners
Norfolk Airport Authority
Norfolk, Virginia

Report on Compliance for the Passenger Facility Charge Program

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 the Authority's Passenger Facility Charge Program for the year ended June 30, 2021.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its Passenger Facility Charge Program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Authority's Passenger Facility Charge Program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Passenger Facility Charge Program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Passenger Facility Charge Program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on the Passenger Facility Charge

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its Passenger Facility Charge Program for the year ended June 30, 2021.

Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the Passenger Facility Charge Program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the Passenger Facility Charge Program and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the Passenger Facility Charge Program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the Passenger Facility Charge Program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the passenger facility charge 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 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.

A handwritten signature in cursive script that reads "Cherry Belmont LLP".

Virginia Beach, Virginia
October 28, 2021

NORFOLK AIRPORT AUTHORITY

SCHEDULE OF PASSENGER FACILITY CHARGE REVENUES AND EXPENDITURES

YEAR ENDED JUNE 30, 2021 AND EACH QUARTER DURING THE YEAR ENDED JUNE 30, 2021

	Quarter Ended				Year Ended June 30, 2021
	September 30, 2020	December 31, 2020	March 31, 2021	June 30, 2021	
Revenues:					
Receipts ¹	\$ 523,974	\$ 959,564	\$ 838,093	\$ 1,666,112	\$ 3,987,743
Interest	4,594	1,133	564	535	6,826
Total Revenues	<u>528,568</u>	<u>960,697</u>	<u>838,657</u>	<u>1,666,647</u>	<u>3,994,569</u>
Expenditures:					
Application #5					
Passenger loading bridges	3,595,640	1,920,609	97,835	79,373	5,693,457
Total Application #5	<u>3,595,640</u>	<u>1,920,609</u>	<u>97,835</u>	<u>79,373</u>	<u>5,693,457</u>
Application #6					
Alpha concourse extension	11,595	1,904	-	(2,970)	10,529
General aviation customs facility	7,150	-	-	-	7,150
Departures terminal elevators	6,417	1,026	-	998	8,441
Runway 14/32 pavement	2,000,000	802,187	-	-	2,802,187
Total Application #6	<u>2,025,162</u>	<u>805,117</u>	<u>-</u>	<u>(1,972)</u>	<u>2,828,307</u>
Total Expenditures	<u>5,620,802</u>	<u>2,725,726</u>	<u>97,835</u>	<u>77,401</u>	<u>8,521,764</u>
Net PFC Inflows (Outflows)	<u>\$ (5,092,234)</u>	<u>\$ (1,765,029)</u>	<u>\$ 740,822</u>	<u>\$ 1,589,246</u>	<u>\$ (4,527,195)</u>

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

¹ PFC revenues are shown on this schedule when the cash is received (cash basis).