



NORFOLK AIRPORT AUTHORITY

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

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

NORFOLK AIRPORT AUTHORITY

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Board of Commissioners and Administrative Officials

Board of Commissioners

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

Mekbib Gemed
William L. Nusbaum
Bruce B. Smith
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Administrative Officials

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Jeffrey J. Bass
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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



KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report

The Board of Commissioners
Norfolk Airport Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Norfolk Airport Authority (the Authority) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements for the years then ended as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Norfolk Airport Authority as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in note 1(m)(ii) to the basic financial statements, in fiscal year 2018, the Authority adopted new accounting guidance described in Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4 – 10, and the Schedule of Changes in Net Pension Liability and Related Ratios on page 50, the Schedule of Pension Contributions on page 51, the Schedule of OPEB Contributions on page 52, the Schedule of Authority's Share of Net OPEB Liability on page 53, and the notes to Required Supplementary Information on page 54, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

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

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



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

Norfolk, Virginia
November 20, 2018

NORFOLK AIRPORT AUTHORITY

Required Supplementary Information – Management’s Discussion and Analysis

June 30, 2018 and 2017

(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, 2018 and 2017. 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, 2018 and 2017.

The Authority and Financial Highlights

The Norfolk Airport Authority (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 (O&D) airport serving the Virginia Beach-Norfolk, VA-NC Combined Statistical Area (CSA). 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 financial results in 2018 continue to demonstrate the success of the Authority’s passenger growth strategy. The total number of passengers served by the Airport, at 3,483,846 for 2018, is an increase of 6.7% over the prior year. This year has continued the Authority’s recent success, and represents an increase of 19.8% from 2015’s total passenger count. The Authority’s non-airline revenue has risen in 2018 and coupled with fiscal

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Required Supplementary Information – Management’s Discussion and Analysis

June 30, 2018 and 2017

(Unaudited)

discipline over expenses has allowed the Authority to reduce revenues charged to the airlines. These reduced costs on the airlines position the Airport for continued airline route and destination growth.

Revenues

A summary of the major revenues for the years ended June 30, 2018, 2017 and 2016 are shown below:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenues:			
Parking	\$ 15,465,667	15,135,831	14,611,343
Landing fees	7,699,906	8,991,845	8,813,538
Rent	7,010,567	7,580,914	7,695,510
Rental cars	6,792,428	6,602,430	6,269,171
Concessions	3,249,504	2,922,036	2,759,475
Other	646,989	488,010	268,352
Total operating revenues	<u>40,865,061</u>	<u>41,721,066</u>	<u>40,417,389</u>
Nonoperating revenues, net:			
Federal and state grants and interest	11,465,136	3,385,362	7,518,845
Passenger facility charges and interest	7,280,020	6,558,879	6,401,423
Customer facility charges	1,432,100	1,031,792	1,021,106
Interest income	441,259	188,538	200,182
Other income	337,694	158,530	202,223
Total nonoperating revenues, net	<u>20,956,209</u>	<u>11,323,101</u>	<u>15,343,779</u>
Total revenues, net	<u>\$ 61,821,270</u>	<u>53,044,167</u>	<u>55,761,168</u>

2018 versus 2017 Financial Highlights

Operating revenues during fiscal year 2018 decreased by \$856,005 compared to the previous year to \$40,865,061, as the Authority was able to reduce the rates charged to the airlines for landing fees and rent. Parking revenue increased \$329,836 to \$15,465,667 due to higher passenger activity. Landing fees decreased by \$1,291,939 to \$7,699,906 and rent decreased by \$570,347 to \$7,010,567 as the result of lower fees charged to the airlines. Rental car revenue increased \$189,998 to \$6,792,428. Concessions revenue increased \$327,468 to \$3,249,504 due to higher passenger activity and other income increased \$158,979 to \$646,989 primarily due to increased fees collected from transportation network companies.

Nonoperating revenues during fiscal year 2018 increased by \$9,633,108 compared to the previous year to \$20,956,209, due to an increase in federal and state grants. Federal and state grants and interest increased by \$8,079,774 as a result of an increase in grants reimbursing the Authority for capital projects. Passenger facility charges (PFCs) increased by \$721,141 to \$7,280,020 and Customer Facility Charges (CFCs) increased by \$400,308 to \$1,432,100. The increase in PFCs was due to higher passenger activity and the increase in CFCs was due to a CFC rate increase along with higher passenger activity. Interest income and other income increased by \$252,721 and \$179,164 to \$441,259 and \$337,694, respectively.

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June 30, 2018 and 2017

(Unaudited)

2017 versus 2016 Financial Highlights

Operating revenues during fiscal year 2017 increased by \$1,303,677 compared to the previous year to \$41,721,066. Parking revenue increased \$524,488 to \$15,135,831 due to higher passenger activity. Landing fees increased by \$178,307 to \$8,991,845 as a result of higher airline activity. Rent decreased by \$114,596 to \$7,580,914 as a result of lower rents charged to tenants. Rental car revenue increased \$333,259 to \$6,602,430 due to higher passenger activity. Concessions revenue increased \$162,561 to \$2,922,036 due to higher passenger activity and other income increased \$219,658 to \$488,010 primarily due to increased fees collected from transportation network companies.

Nonoperating revenues during fiscal year 2017 decreased by \$4,020,678 compared to the previous year to \$11,323,101, due to a decrease in federal and state grants. Federal and state grants and interest decreased by \$4,133,483 as a result of a decrease in grants reimbursing the Authority for capital projects. PFCs increased by \$157,456 to \$6,558,879 and CFCs increased by \$10,686 to \$1,021,106. The increase in PFCs and CFCs was due to higher passenger activity.

Expenses

A summary of the major expenses for the years ended June 30, 2018, 2017 and 2016 are shown below:

	2018	2017	2016
Operating expenses:			
Salaries and fringe benefits	\$ 16,119,948	16,069,061	14,973,786
City tax assessment	2,500,000	2,500,000	2,500,000
Maintenance and repairs	3,662,659	3,505,388	3,458,833
Depreciation	10,951,169	10,029,660	10,355,409
Other expenses	11,097,024	12,566,263	9,999,125
Total operating expenses	44,330,800	44,670,372	41,287,153
Nonoperating expenses:			
Interest expense	1,746,874	764,513	1,298,383
Total expenses	\$ 46,077,674	45,434,885	42,585,536

2018 versus 2017 Financial Highlights

Operating expenses during fiscal year 2018 decreased by \$339,572 compared to the previous year to \$44,330,800. Salaries and fringe benefits increased by \$50,887 due to normal pay rate increases. Maintenance and repairs increased by \$157,271 to \$3,662,659. Depreciation increased by \$921,509 to \$10,951,169 due to new capital asset acquisitions. Other expenses decreased by \$1,469,239, primarily as a result of a one-time impairment charge to capitalized assets in 2017, in the amount of \$1,424,535.

Nonoperating expenses during fiscal year 2018 increased by \$982,361 compared to the previous year to \$1,746,874, due to the adoption of Governmental Accounting Standards Board (GASB) Statement 89 - *Accounting for Interest Cost Incurred before the End of a Construction Period*, which resulted in the cessation of capitalizing interest into capital assets.

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Required Supplementary Information – Management’s Discussion and Analysis

June 30, 2018 and 2017

(Unaudited)

2017 versus 2016 Financial Highlights

Operating expenses during fiscal year 2017 increased by \$339,572 compared to the previous year to \$44,330,800. Salaries and fringe benefits increased by \$50,887 due to increases in salaries, wages and state retirement benefits. Maintenance and repairs increased by \$46,555 to \$3,505,388. Depreciation decreased by \$325,749 to \$10,355,409. Other expenses increased by \$2,567,138, primarily as a result of a one-time impairment charge to capitalized assets, in the amount of \$1,424,535.

Nonoperating expenses during fiscal year 2017 decreased by \$533,870 compared to the previous year to \$764,513, due to the higher amount of interest capitalized into capital assets.

Net Position

A summary of the major components of the statements of net position as of June 30, 2018, 2017, and 2016 is as follows:

	2018	2017	2016
Current assets	\$ 45,482,174	42,528,042	40,970,738
Restricted assets	31,069,080	24,078,889	17,556,625
Capital assets, net	185,716,491	181,313,276	184,625,975
Other noncurrent assets	949,687	1,005,929	1,062,088
Total assets	263,217,432	248,926,136	244,215,426
Deferred outflows of resources	1,572,687	2,643,406	1,821,607
Current liabilities	7,290,216	5,525,054	6,292,238
Amounts payable from restricted assets	3,406,677	3,389,652	3,290,059
Long-term liabilities	45,658,185	49,387,121	49,836,161
Total liabilities	56,355,078	58,301,827	59,418,458
Deferred inflows of resources	1,266,730	—	960,142
Net investment in capital assets	142,841,719	136,918,892	137,851,515
Restricted net position	31,069,081	23,034,014	16,503,725
Unrestricted net position	33,257,511	33,314,809	31,303,193
Total net position	\$ 207,168,311	193,267,715	185,658,433

2018 Versus 2017 Results

Current assets as of June 30, 2018 were \$45,482,174, an increase of \$2,954,132, while restricted assets of \$31,069,080 had increased by \$6,990,191. These increases reflected an overall increase of cash and cash equivalents due to operations.

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Required Supplementary Information – Management's Discussion and Analysis

June 30, 2018 and 2017

(Unaudited)

Deferred outflows of resources as of June 30, 2018 were \$1,572,687, a decrease of \$1,070,719. Deferred inflows of resources as of June 30, 2018 were \$1,266,730, an increase of \$1,266,730. The primary driver of these changes was the Authority's participation in VRS, and the resulting pension balances. Additionally, the Authority adopted GASB 75 during the year which lead to additional balances within deferred outflows and inflows of resources.

Current liabilities as of June 30, 2018 were \$7,290,216, an increase of \$1,765,162. This increase was primarily due to the increase in the surplus payable due back to the airlines. Long-term liabilities as of June 30, 2018 of \$45,658,185 decreased by \$3,728,936 as a result of the decrease in the actuarially determined net pension liability as well as continued debt service payments, partially offset by the addition of new OPEB liabilities resulting from the adoption of GASB 75.

Net position as of June 30, 2018 was \$207,168,311, an increase of \$13,900,596. This increase was primarily driven by the capital grants, PFCs and CFCs received by the Authority during the year, partially offset by the year's operating loss.

2017 Versus 2016 Results

Current assets as of June 30, 2017 were \$42,528,042, an increase of \$1,557,304, while restricted assets of \$24,078,889 had increased by \$6,522,264. These increases reflected an overall increase of cash and investments due to operations.

Deferred outflows of resources as of June 30, 2017 were \$2,643,406, an increase of \$1,206,719. Deferred inflows of resources as of June 30, 2017 were \$0, a decrease of \$821,799. The changes in these balances are primarily driven by actuarial adjustments to the Authority's VRS pension liabilities.

Current liabilities as of June 30, 2017 were \$5,525,054, a decrease of \$767,184. This decrease was primarily due to the timing of payables. Long-term liabilities as of June 30, 2017 of \$49,387,121 decreased by \$449,040 as a result of continued debt service payments.

Net position as of June 30, 2017 was \$193,267,715, an increase of \$7,609,282. This increase was primarily driven by the capital grants, PFCs and CFCs received by the Authority during the year, partially offset by the year's operating loss.

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Required Supplementary Information – Management’s Discussion and Analysis

June 30, 2018 and 2017

(Unaudited)

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. Capital assets are net of related accumulated depreciation. Significant capital asset additions in the current period included the renovations of the departures ticket lobby, completion of the main terminal’s renovations, new snow removal equipment, and various road and runway projects. A summary of capital assets by category and the associated accumulated depreciation as of June 30, 2018, 2017, and 2016, as well as a schedule of additions and retirements for the years ended June 30, 2018, 2017, and 2016, are included as follows:

	June 30		
	2018	2017	2016
Summary of capital assets:			
Land	\$ 14,722,494	14,722,494	14,722,494
Buildings, structures, and improvements	275,431,417	249,325,175	249,262,512
Roads and runways	67,095,173	64,256,390	61,399,095
Equipment	45,175,179	39,655,210	37,100,978
Construction in progress	10,030,730	29,182,628	28,127,753
	412,454,993	397,141,897	390,612,832
Accumulated depreciation	(226,738,502)	(215,828,621)	(205,986,857)
Total	\$ <u>185,716,491</u>	<u>181,313,276</u>	<u>184,625,975</u>

Schedule of additions and retirements:

	June 30		
	2018	2017	2016
Capital assets, beginning of year	\$ 181,313,276	184,625,975	178,601,211
Additions	15,354,384	8,156,442	17,707,636
Retirements	—	(1,439,481)	(1,171,393)
Depreciation	(10,951,169)	(10,029,660)	(10,511,479)
Capital assets, end of year	\$ <u>185,716,491</u>	<u>181,313,276</u>	<u>184,625,975</u>

The Authority has begun a major rehabilitation effort on the primary runway, which is expected to last for several years and total approximately \$90 million. The funding for this project is expected to come from various sources, including federal grants, state grants, PFCs and approximately \$3 million in Authority funding. Additionally, during fiscal year 2019, approximately \$11 million in various other projects are planned, which will be funded by similar sources.

NORFOLK AIRPORT AUTHORITY

Required Supplementary Information – Management’s Discussion and Analysis

June 30, 2018 and 2017

(Unaudited)

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.

The region’s growth appears to be positive. The Port of Virginia – already the third largest port on the United States east coast – is currently undergoing a \$670 million expansion which will increase capacity approximately 60% by 2020. Additionally, the federal government’s current budget contains increased defense spending over the prior few years which will have an outsized impact on the region.

Air travel is particularly sensitive to 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.

The outlook for fiscal year 2019 is positive. Passenger traffic for the first quarter has seen substantial growth, with total passengers increasing by 9.24% over the same period in fiscal year 2018. The Airport saw a new airline (Frontier) begin service in August 2018. Frontier has announced five routes, including three new destinations to Las Vegas, Tampa and Phoenix. Three of Frontier’s routes have already begun, while Tampa and Phoenix will launch in November 2018. The addition of Frontier brings the number of passenger airlines serving the Airport up to six. The number of cargo airlines operating at the Airport has held steady from the prior year at three.

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, 2018 and 2017

Assets	2018	2017
Current assets:		
Cash and cash equivalents	\$ 27,634,941	699,282
Investments	12,182,244	35,755,016
Accounts receivable, net	3,021,106	3,312,355
Accrued interest receivable	23,334	96,348
Grants receivable	78,940	104,307
Prepaid expenses	2,541,609	2,560,734
Total current assets	<u>45,482,174</u>	<u>42,528,042</u>
Restricted assets:		
Cash and cash equivalents	25,376,674	267,153
Investments	4,465,000	22,726,227
Passenger facility charges receivable	1,227,406	1,085,509
Total restricted assets	<u>31,069,080</u>	<u>24,078,889</u>
Capital assets:		
Land	14,722,494	14,722,494
Buildings, structures, and improvements	275,431,417	249,325,175
Roads and runways	67,095,173	64,256,390
Equipment	45,175,179	39,655,210
Construction in progress, including capitalized interest	10,030,730	29,182,628
	412,454,993	397,141,897
Less accumulated depreciation	<u>(226,738,502)</u>	<u>(215,828,621)</u>
Total capital assets, net	185,716,491	181,313,276
Other assets	912,001	954,133
Bond insurance costs, net	37,686	51,796
Total assets	<u>\$ 263,217,432</u>	<u>248,926,136</u>
Deferred outflows of resources		
Deferred amount on refunding	\$ 106,563	138,336
Net difference between projected and actual earnings on pension plan investments	—	347,630
Differences between expected and actual pension experience	122,276	1,000,788
Deferred pension contributions	1,207,848	1,156,652
Deferred outflows related to OPEB plans	136,000	—
Total deferred outflows of resources	<u>\$ 1,572,687</u>	<u>2,643,406</u>

NORFOLK AIRPORT AUTHORITY

Statements of Net Position

June 30, 2018 and 2017

Liabilities	2018	2017
Current liabilities:		
Accounts payable	\$ 1,953,142	1,380,858
Accrued leave and wages	2,063,101	1,958,530
Other accrued expenses	116,134	305,648
Surplus payable to airlines	<u>3,157,839</u>	<u>1,880,018</u>
Total current liabilities	<u>7,290,216</u>	<u>5,525,054</u>
Amounts payable from restricted assets:		
Accrued interest	954,200	1,044,875
Current portion of bonds payable	<u>2,452,477</u>	<u>2,344,777</u>
Total amounts payable from restricted assets	<u>3,406,677</u>	<u>3,389,652</u>
Long-term liabilities:		
Bonds payable, less current portion	39,612,344	42,239,741
Net pension liability	3,587,497	6,209,120
Net OPEB liability	1,765,000	—
Other liabilities	<u>693,344</u>	<u>938,260</u>
Total long-term liabilities	<u>45,658,185</u>	<u>49,387,121</u>
Total liabilities	<u>\$ 56,355,078</u>	<u>58,301,827</u>
Deferred inflows of resources		
Net difference between projected and actual earnings on pension plan investments	\$ 627,877	—
Changes of pension plan assumptions	149,510	—
Differences between expected and actual pension experience	288,343	—
Deferred inflows related to OPEB plans	<u>201,000</u>	<u>—</u>
Total deferred inflows of resources	<u>1,266,730</u>	<u>—</u>
Net position		
Net investment in capital assets	142,841,719	136,918,892
Restricted for:		
Capital projects	26,441,792	12,002,139
Debt service	4,627,289	11,031,875
Unrestricted	<u>33,257,511</u>	<u>33,314,809</u>
Total net position	<u>\$ 207,168,311</u>	<u>193,267,715</u>

See accompanying notes to basic financial statements

NORFOLK AIRPORT AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2018 and 2017

	2018	2017
Operating revenues:		
Parking	\$ 15,465,667	15,135,831
Landing fees	7,699,906	8,991,845
Rent	7,010,567	7,580,914
Rental cars	6,792,428	6,602,430
Concessions	3,249,504	2,922,036
Other	646,989	488,010
Total operating revenues	40,865,061	41,721,066
Operating expenses:		
Salaries and fringe benefits	16,119,948	16,069,061
Depreciation	10,951,169	10,029,660
Utilities	2,734,661	2,502,248
Maintenance and repairs	3,662,659	3,505,388
Administrative	810,716	847,556
Professional services	623,101	483,703
Advertising and promotion	987,631	895,189
Insurance	987,936	920,554
Security and other services	3,874,357	4,451,058
Sanitation	696,342	651,992
City tax assessment	2,500,000	2,500,000
Capital asset impairment	—	1,424,535
Other	382,280	389,428
Total operating expenses	44,330,800	44,670,372
Operating loss	(3,465,739)	(2,949,306)
Nonoperating revenues (expenses):		
Federal grant revenues	9,299,601	1,373,734
State grant revenues	2,001,500	2,000,000
Passenger facility charges	7,201,183	6,580,824
Customer facility charges	1,432,100	1,031,792
State grant interest income	164,035	11,628
Passenger facility charges interest income (expense)	78,837	(21,945)
Other income	337,694	158,530
Interest income	441,259	188,538
Interest expense	(1,746,874)	(764,513)
Net nonoperating revenues	19,209,335	10,558,588
Change in net position	15,743,596	7,609,282
Total net position, beginning of the year, as restated, see note 1(m)(ii)	191,424,715	185,658,433
Total net position, end of the year	\$ 207,168,311	193,267,715

See accompanying notes to basic financial statements.

NORFOLK AIRPORT AUTHORITY

Statements of Cash Flows

Years ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Collections from customers	\$ 41,156,310	41,476,662
Payments to employees for services	(16,598,838)	(15,677,804)
Payments for city tax assessment	(2,500,000)	(2,500,000)
Payments to suppliers	(13,094,477)	(15,510,780)
Net cash provided by operating activities	8,962,995	7,788,078
Cash flows from capital and related financing activities:		
Principal payments on bonds	(2,344,777)	(2,237,159)
Acquisition of capital assets	(15,374,394)	(6,900,012)
Proceeds from the sale of equipment	21,250	39,100
Interest paid on debt	(1,966,586)	(2,047,326)
Passenger facility charges	7,059,286	6,221,638
Customer facility charges	1,432,100	1,031,792
Federal and State grants received	11,326,468	3,365,655
Net cash provided by (used in) capital and related financing activities	153,347	(526,312)
Cash flows from investing activities:		
Investment income	1,094,839	270,825
Purchases of investments	(29,650,714)	(246,490,161)
Proceeds from maturities of investments	71,484,713	239,150,814
Net cash provided by (used in) investing activities	42,928,838	(7,068,522)
Net increase in cash and restricted cash	52,045,180	193,244
Cash and restricted cash, beginning of year	966,435	773,191
Cash and restricted cash, end of year	\$ 53,011,615	966,435
Cash and restricted cash are presented in the accompanying statements of net position as follows:		
Cash	\$ 27,634,941	699,282
Restricted cash	25,376,674	267,153
	\$ 53,011,615	966,435
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (3,465,739)	(2,949,306)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	10,951,169	10,029,660
Capital asset impairment	—	1,424,535
Gain on disposal of capital assets	(21,250)	(24,156)
Other	—	158,530
Decrease (increase) in operating assets:		
Accounts receivable	291,249	(244,404)
Prepaid expenses	19,125	(27,912)
Other assets	42,132	39,968
Increase (decrease) in operating liabilities:		
Accounts payable	592,294	(637,411)
Accrued leave and wages	104,571	54,663
Other accrued expenses	(189,514)	113,732
Surplus payable to airlines	1,277,821	(422,724)
Net pension liability	(380,947)	222,862
Net OPEB liability	(13,000)	—
Other liabilities	(244,916)	50,041
Net cash provided by operating activities	\$ 8,962,995	7,788,078

Supplemental disclosure of noncash capital and related financing activities:

The Authority incurred noncash capital expenditures related to construction in progress in the amount of \$1,000,054 and \$1,020,064 that are included in accounts payable as of June 30, 2018 and 2017, respectively.

See accompanying notes to basic financial statements.

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2018 and 2017

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

(c) Revenue Recognition

Rentals and concession fees are generated from airlines, parking structures and lots, food service, rental cars, fixed-base operators, and other commercial 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) 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

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2018 and 2017

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

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

(f) Bond 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 (g) below, bond issuance costs are expensed in the period incurred.

(g) Bond Insurance Costs

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

(h) Operating Revenues and Expenses

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

(i) Use of Estimates

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

(j) Pensions

The Authority contributes to the VRS, an agent multiple-employer public employee retirement system with separate agent multiple pools for each locality, which acts as a common investment and administrative agent for political subdivisions in the Commonwealth of Virginia. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority's Retirement Plan and the additions to/deductions from the Authority's Retirement Plan's 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.

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2018 and 2017

(k) 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.

(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.

For purposes of measuring the net GLI, LODA and VLDP Programs' corresponding Other Post-Employment Benefit (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 net fiduciary 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.

(l) 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.

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2018 and 2017

- 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.

(m) New Accounting Pronouncements

(i) GASB Statement No. 89

The Authority adopted GASB Statement Number 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective July 1, 2017. The objective of GASB Statement 89 is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for certain interest costs. The Authority chose to early adopt the provisions of GASB Statement 89 and the results of this adoption were to cease the capitalization of interest into capital projects. The provisions of GASB Statement 89 have been applied prospectively.

(ii) GASB Statement No. 75

During the fiscal year ended June 30, 2018, the Authority adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of GASB Statement No. 75 is to improve accounting and financial reporting for postemployment benefits other than pensions. As a result of the adoption of GASB Statement No. 75, the Authority has recognized a liability equal to the net OPEB liability and related OPEB expense and deferred outflows of resources and deferred inflows of resources.

Total net position as of July 1, 2017 was adjusted as follows:

Total net position, as previously reported	\$ 193,267,715
Adoption of GASB Statement No. 75	<u>(1,843,000)</u>
Total net position, as restated	<u>\$ 191,424,715</u>

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2018 and 2017

(n) Reclassifications

Certain reclassifications of fiscal year 2017 amounts have been made to conform to the fiscal year 2018 presentation. These reclassifications resulted in a decrease of 2017 operating revenue of \$1,432,100 and a corresponding increase in nonoperating revenue.

(2) Deposits and Investments

The Authority maintains several restricted cash and investment funds in addition to its operating funds. These funds are disclosed on the accompanying statements of net position as cash and 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 \$53,011,615 and \$966,435 and the bank balances were \$55,866,282 and \$886,564 at June 30, 2018 and 2017, respectively. The entire bank balance was covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (the Act). In accordance with the Act, the depository institution pledged collateral in the form of federal agency obligations with a market value equal to 110% of the Authority's deposits with a third-party trustee in the name of the Treasurer of the Commonwealth of Virginia. In the event that the banking institution fails, the Treasurer will take possession of the collateral, liquidate it and reimburse the Authority up to the value of its deposits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks.

(b) Investments

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

(c) Credit Risk

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

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2018 and 2017

As of June 30, 2018, the Standard & Poor's ratings on the Authority's investments included 69.8% of "AAAm", 0.2% of "AAA", 18.9% of "AA+", 0.1% of "AA", 1.5% of "AA-", 6.8% of "A-1+", and 2.7% of "A-1".

(d) Concentration of Credit Risk

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

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

As of June 30, 2018, the Authority's portfolio was invested as follows:

Issuer	Percentage of portfolio
U.S. Treasury	79.4 %
Commercial paper	9.0
Corporate notes	8.5
Federal Home Loan Mortgage Corporation (Freddie Mac)	1.5
Federal National Mortgage Agency (Fannie Mae)	1.6
	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.

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2018 and 2017

As of June 30, 2018, the carrying values and weighted average maturity of the Authority's investments were as follows:

Investment type	Fair value	Weighted average maturity in years
U.S. Treasury securities	\$ 13,232,302	0.30
Commercial paper	1,494,638	0.17
Corporate notes	1,408,766	0.88
Freddie Mac	249,684	0.08
Fannie Mae	261,854	1.00
Total investments	\$ 16,647,244	

(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, 2018, all of the Authority's investments were held in a bank's trust department in the Authority's name.

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2018 and 2017

(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, 2018 and 2017 is as follows:

	2018	2017
Deposits	\$ 53,011,615	966,435
Investments	16,647,244	58,481,243
	\$ 69,658,859	59,447,678
Current assets:		
Cash and cash equivalents	\$ 27,634,941	699,282
Investments	12,182,244	35,755,016
Restricted assets:		
Cash and cash equivalents	25,376,674	267,153
Investments	4,465,000	22,726,227
	\$ 69,658,859	59,447,678

(h) Fair Value Measurements

The Authority has the following recurring fair value measurements as of June 30, 2018:

U.S. Treasury securities, federal agency notes, commercial paper, corporate notes and municipal bonds of \$16,647,244 are valued using a matrix pricing model (Level 2 inputs).

(3) Restricted Assets

The Authority received \$2,000,000 during both fiscal years 2018 and 2017 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, 2018 and 2017

The trust indenture securing the Series 2012 Bonds Payable, issued in the aggregate principal amount of \$69,285,000, requires segregation of certain assets into restricted accounts. The construction account includes funds available for the design and construction of capital improvements for the Airport and for the repayment of debt. The passenger facility charge cash and receivable accounts are also restricted assets. All cash and investments are held by the following financial institutions: US Bank, SunTrust Bank, SunTrust Financial Corporation, Branch Banking and Trust Company, and the Local Government Investment Pool of Virginia Department of the Treasury. Restricted assets consist of the following at June 30, 2018 and 2017:

	2018	2017
State block grant account	\$ 16,231,662	12,002,139
Debt service reserve accounts	4,627,289	4,662,320
Passenger facility charges account	8,966,616	6,061,768
Passenger facility charges receivable, including interest	1,227,406	1,085,509
Other restricted assets	16,107	267,153
Restricted assets	\$ 31,069,080	24,078,889

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 \$134,247,810 and expires on January 1, 2022. 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.

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2018 and 2017

(4) Capital Assets

The following is a summary of the changes in capital assets for the years ended June 30, 2018 and 2017:

	Balances, June 30, 2017	Increases	Decreases	Balances, June 30, 2018
Capital assets not being depreciated:				
Land	\$ 14,722,494	—	—	14,722,494
Construction in progress	29,182,628	15,552,834	(34,704,732)	10,030,730
	43,905,122	15,552,834	(34,704,732)	24,753,224
Other capital assets:				
Building, structures, and improvements	249,325,175	26,106,242	—	275,431,417
Roads and runways	64,256,390	2,838,783	—	67,095,173
Equipment	39,655,210	5,561,257	(41,288)	45,175,179
Less accumulated depreciation for:				
Building, structures, and improvements	(130,033,736)	(7,694,299)	—	(137,728,035)
Roads and runways	(56,264,822)	(1,455,819)	—	(57,720,641)
Equipment	(29,530,063)	(1,801,051)	41,288	(31,289,826)
	137,408,154	23,555,113	—	160,963,267
Capital assets, net	\$ 181,313,276	39,107,947	(34,704,732)	185,716,491

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

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2018 and 2017

Depreciation expense for the years ended June 30, 2018 and 2017 was \$10,951,169 and \$10,029,660, respectively.

(5) Bond Insurance Costs

At June 30, 2018, the gross carrying amount and accumulated amortization of bond insurance costs was \$678,110 and \$640,424, respectively. At June 30, 2017, the gross carrying amount and accumulated amortization of bond insurance costs was \$678,110 and \$626,314, respectively. Amortization expense for the years ended June 30, 2018 and 2017 was \$14,110 and \$16,191, respectively.

(6) Bonds Payable

Bonds payable comprise the following at June 30, 2018 and 2017:

	2018	2017
Series 2011 Bonds payable	\$ 41,140,000	43,400,000
VRA Bonds payable	193,063	277,840
	41,333,063	43,677,840
Unamortized premium	731,758	906,678
	\$ 42,064,821	44,584,518

In June 2011, the Authority completed the sale of \$18,300,000 Airport Revenue Bonds Series 2011A (Non-AMT) and \$25,025,000 Airport Revenue Bonds Series 2011B (AMT). In October 2011, the Authority completed the sale of \$25,960,000 Airport Revenue Bonds Series 2011C (Non-AMT). Proceeds of the Series 2011 Bonds were used to defease and refund its previously outstanding Series 2001 Bonds. The Series 2011 Bonds are payable from general revenues and PFC revenues of the Authority and certain funds and accounts established under the indenture. Principal payments on the Series 2011 Bonds are due on July 1 of each year through July 1, 2031. Interest is 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.

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

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2018 and 2017

Maturities of bond principal and interest to be provided for all bonds outstanding at June 30, 2018 were as follows:

	Principal	Interest
Year(s) ending June 30:		
2019	\$ 2,452,477	1,858,535
2020	2,565,264	1,750,742
2021	2,595,322	1,635,685
2022	2,715,000	1,506,825
2023	2,850,000	1,378,300
2024–2028	15,305,000	4,617,319
2029–2033	12,850,000	1,184,013
	\$ 41,333,063	13,931,419

Revenue bond activity for the years ended June 30, 2018 and 2017 is as follows:

	Balance, June 30, 2017	Amortization of premium	Bond payments	Balance, June 30, 2018
Series 2011 Bonds payable	\$ 44,306,675	(174,920)	(2,260,000)	41,871,755
VRA Bonds payable	277,843	—	(84,777)	193,066
	\$ 44,584,518	(174,920)	(2,344,777)	42,064,821
	Balance, June 30, 2016	Amortization of premium	Bond payments	Balance, June 30, 2017
Series 2011 Bonds payable	\$ 46,656,706	(195,031)	(2,155,000)	44,306,675
VRA Bonds payable	360,002	—	(82,159)	277,843
	\$ 47,016,708	(195,031)	(2,237,159)	44,584,518

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, 2018, 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, 2018 and 2017

(7) Airport Use Agreement

Effective July 1, 2008, the Authority entered into an Airline Use and Lease Agreement (the Agreement) with the commercial airlines operating scheduled passenger service at the Airport, which was renewed effective July 1, 2013 and again on August 28, 2018. The current term of the Agreement for all signatory carriers is through June 30, 2021. 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, 2018 and 2017, there was a surplus of \$3,157,839 and \$1,880,018, 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, 2018 and 2017.

(8) Defined Benefit Pension Plan

(a) Plan Description

The Authority contributes to 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, creditable service, and average final compensation at retirement using a formula. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service and at age 50 with 30 years of service for participating employers. An optional reduced retirement benefit is available to members of VRS as early as age 50 with at least 10 years of service credit or age 55 with at least five years of service credit. Active members may purchase previous service as creditable service to their plan and, if eligible, may purchase periods of leave without pay.

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VRS Plan 2 is a defined benefit plan. Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 and are not vested as of January 1, 2013 are covered under Plan 2. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. An optional reduced retirement benefit is available to Plan 2 members as early as age 60 with at least five years of service credit. Active members may purchase previous service as creditable service to their plan and, if eligible, may purchase periods of leave without pay.

The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Members hired on or after January 1, 2014 are eligible for the Hybrid Plan. The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. The benefit payment payable from the defined contribution plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. Employees are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. An optional reduced retirement benefit is available as early as age 60 with at least five years of service credit. Under the defined benefit plan, active members may purchase previous service as creditable service to their plan and, if eligible, may purchase periods of leave without pay.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. The retirement multiplier for Authority's employees is 1.7% for Plan 1 members, 1.65% for Plan 2 members, and 1.0% for Hybrid Plan members. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2 and the Hybrid Plan, average final compensation is the average of the member's 60 consecutive months of highest compensation. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP), or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option, or those retiring with a reduced benefit.

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

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/pdf/publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

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(b) Employees Covered by Benefit Terms

As of the June 30, 2016 and 2015 actuarial valuations, the following employees were covered by the benefit terms of the pension plan:

	Number	
	2016	2015
Inactive members or their beneficiaries currently receiving benefits	\$ 130	125
Inactive members:		
Vested inactive members	25	25
Nonvested inactive members	58	58
Inactive members active elsewhere in VRS	38	39
Total inactive members	121	122
Active members	199	195
Total covered employees	\$ 450	442

(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, 2018 and 2017 was 10.43% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were \$1,207,848 and \$1,156,652 for the years ended June 30, 2018 and 2017, respectively.

(d) Net Pension Liability

The Authority's net pension liability as of June 30, 2018 and 2017 was measured as of June 30, 2017 and 2016, respectively. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016 and 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement dates of June 30, 2017 and 2016.

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(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, 2016 and 2015, 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, 2017 and 2016.

	<u>General employees</u>	<u>Public safety employees</u>
Inflation	2.50 %	2.50 %
Salary increases, including inflation	3.50%-5.35%	3.50%-4.75%
Investment rate of return, net of pension plan investment expense, including inflation*	7.00 %	7.00 %
Cost-of-living adjustment	2.25%-2.50%	2.25%-2.50%

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

	<u>Mortality assumptions</u>	
	<u>General employees</u>	<u>Public safety employees</u>
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

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	Mortality assumptions	
	General employees	Public safety employees
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, 2016 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:

Largest 10 – Non Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled Retirement Rates)	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
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 20%

All Others (Non 10 Largest) – Non LEOS:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled Retirement Rates)	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
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 15%

(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

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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	40.00%	4.54%	1.82%
Fixed income	15.00	0.69	0.10
Credit strategies	15.00	3.96	0.59
Real assets	15.00	5.76	0.86
Private equity	15.00	9.53	1.43
Total	<u>100.00%</u>		4.80
		Inflation	<u>2.50</u>
		*Expected arithmetic nominal return	<u>7.30%</u>

* The above allocation provides a one-year return of 7.30%. 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 6.83%, including expected inflation of 2.50%.

(g) Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the Authority Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 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.

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(h) Changes in Net Pension Liability

	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a) – (b)
	<u> </u>	<u> </u>	<u> </u>
Balances at June 30, 2016	\$ 44,750,762	38,541,642	6,209,120
Changes for the year:			
Service cost	1,373,319	—	1,373,319
Interest	3,053,266	—	3,053,266
Differences between expected and actual experience	(429,688)	—	(429,688)
Changes of assumptions	(222,799)	—	(222,799)
Contributions – employer	—	1,170,578	(1,170,578)
Contributions – employee	—	564,624	(564,624)
Net investment income	—	4,691,484	(4,691,484)
Benefit payments, including refunds of employee contributions	(2,264,730)	(2,264,730)	—
Administrative expenses	—	(27,108)	27,108
Other changes	—	(3,857)	3,857
	<u> </u>	<u> </u>	<u> </u>
Net changes	1,509,368	4,130,991	(2,621,623)
Balances at June 30, 2017	\$ <u>46,260,130</u>	<u>42,672,633</u>	<u>3,587,497</u>

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	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a) – (b)
	<u> </u>	<u> </u>	<u> </u>
Balances at June 30, 2015	\$ 42,013,309	37,844,916	4,168,393
Changes for the year:			
Service cost	1,346,523	—	1,346,523
Interest	2,880,450	—	2,880,450
Differences between expected and actual experience	237,910	—	237,910
Contributions – employer	—	1,223,465	(1,223,465)
Contributions – employee	—	553,205	(553,205)
Net investment income	—	671,007	(671,007)
Benefit payments, including refunds of employee contributions	(1,727,430)	(1,727,430)	—
Administrative expenses	—	(23,348)	23,348
Other changes	—	(173)	173
Net changes	<u>2,737,453</u>	<u>696,726</u>	<u>2,040,727</u>
Balances at June 30, 2016	<u>\$ 44,750,762</u>	<u>38,541,642</u>	<u>6,209,120</u>

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

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

	1% Decrease (6.00%)	Current discount rate (7.00%)	1% Increase (8.00%)
	<u> </u>	<u> </u>	<u> </u>
The Authority's Net Pension Liability:			
As of June 30, 2018	\$ 9,147,901	3,587,497	(1,092,512)
As of June 30, 2017	\$ 11,579,801	6,209,120	1,685,373

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

For the years ended June 30, 2018 and 2017, the Authority recognized pension expense of \$841,140 and \$1,290,815. At June 30, 2018 and 2017, 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	\$ —	627,877
Change of assumptions	—	149,510
Differences between expected and actual experience	122,276	288,343
Employer contributions subsequent to the measurement date	1,207,848	—
Total as of June 30, 2018	\$ 1,330,124	1,065,730

	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual earnings on pension plan investments	\$ 347,630	—
Differences between expected and actual experience	1,000,788	—
Employer contributions subsequent to the measurement date	1,156,652	—
Total as of June 30, 2017	\$ 2,505,070	—

Deferred outflows of resources related to pensions totaling \$1,207,848 resulting from the Authority's contributions subsequent to the measurement date of June 30, 2017 will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2019. 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:

Years ending June 30:	
2019	\$ (487,495)
2020	(37,903)
2021	(15,415)
2022	(402,641)
2023	—
Thereafter	—
	\$ (943,454)

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(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 plans, for public employer groups in the Commonwealth of Virginia.

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 creditable service, there is a minimum benefit payable under the GLI Program. The minimum benefit was set at \$8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently \$8,111.

(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.

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The eligible employees of the LODA are paid employees and volunteers in hazardous duty positions in Virginia localities and 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.

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 of

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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.

(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 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% 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, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. 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. Contribution to the GLI Program from the Authority were \$62,000 and \$58,000 for the years ended June 30, 2018 and June 30, 2017, 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, 2018 was \$567.37 per covered full-time-equivalent employee. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 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 \$35,000 for the years ended June 30, 2018 and 2017.

The contribution requirement 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, 2018 was 0.60% 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, 2015. 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.

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Contributions from the Authority to the VLDP were \$9,000 and \$3,000 for the years ended June 30, 2018 and June 30, 2017, respectively.

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

At June 30, 2018, the Authority reported a liability of \$933,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. 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 year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the Authority's proportion was 0.06204% as compared to 0.05997% at June 30, 2016.

For the year ended June 30, 2018, the Authority recognized GLI OPEB expense of \$16,000. 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, 2018, the Authority reported a liability of \$829,000 for its proportionate share of the Net LODA OPEB Liability. The Net LODA OPEB Liability was measured as of June 30, 2017 and the total LODA OPEB liability used to calculate the Net LODA OPEB Liability was determined by an actuarial valuation as of that date. 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, 2017 relative to the total of the actuarially determined pay-as-you-go employer contributions for all participating employers. At June 30, 2017, the Authority's proportion was 0.31564% as compared to 0.31907% at June 30, 2016.

For the year ended June 30, 2018, the Authority recognized LODA OPEB expense of \$72,000. 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, 2018, the Authority reported a liability of \$3,000 for its proportionate share of the VLDP Net OPEB Liability. The Net VLDP OPEB Liability was measured as of June 30, 2017 and the total VLDP OPEB liability used to calculate the Net VLDP OPEB Liability was determined by an actuarial valuation as of that date. 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, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the Authority's proportion of the VLDP was 0.53211% as compared to 0.45126% at June 30, 2016.

For the year ended June 30, 2018, the Authority recognized VLDP OPEB expense of \$5,000. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017 a portion of the VLDP Net OPEB expense was related to deferred amounts from changes in proportion.

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At June 30, 2018, 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
Net difference between projected and actual earnings on OPEB plan investments	\$ —	36,000
Change of assumptions	—	135,000
Differences between expected and actual experience	—	21,000
Changes in proportionate share	30,000	9,000
Employer contributions subsequent to the measurement date	106,000	—
Total as of June 30, 2018	\$ 136,000	201,000

Deferred outflows of resources related to OPEB plans totaling \$106,000 resulting from the Authority's contributions subsequent to the measurement date of June 30, 2017 will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2019. 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:

Year ending June 30:	
2019	\$ (28,000)
2020	(27,000)
2021	(27,000)
2022	(27,000)
2023	(19,000)
Thereafter	(43,000)
	\$ (171,000)

The total GLI, LODA and VLDP OPEB liabilities were based on actuarial valuations as of June 30, 2016, 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, 2017.

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2018 and 2017

(d) Actuarial assumptions

Inflation	2.5 percent
Salary increases, including inflation:	
General employees (GLI & VDLP)	3.5–5.35 percent
Hazardous duty employees (GLI & LODA)	3.5–4.75 percent
Medical cost trend rates assumption (LODA):	
Under age 65	7.75 percent decreasing to 5.00%
Ages 65 and older	5.75 percent decreasing to 5.00%
Investment rate of return (GLI & VLDP)	7.0 percent, net of investment expenses, including inflation*
Investment rate of return (LODA)	3.56 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 7.0% (GLI & VLDP) to simplify preparation of the OPEB liabilities.

** 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 3.56%. However, since the difference was minimal, a more conservative 3.56% investment return assumption has been used. Since LODA is funded on a current disbursement basis, the assumed annual rate of return of 3.56% was used since it approximates the risk-free rate of return.

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2018 and 2017

	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, 2016 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 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, and increasing line of duty disability. 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, and decreasing line of duty disability rates.

(e) Changes to the LODA Program Associated with HB 1345 (2016) and HB 2243 (2017)

The following changes were made to the LODA Program as a result of legislation in 2016 and 2017, but were specifically not considered in the June 30, 2016 actuarial valuation results which were rolled forward to the measurement date of June 30, 2017. There was no current actuarial experience on which to base the adjustments and the combined impact of the changes was not considered to be material to the final results. These changes will be factored into future actuarial valuations for the LODA Program.

- The discontinuance of spouse health care coverage, if a covered spouse divorces a disabled employee or a covered surviving spouse remarries.
- The potential for VRS's periodic review of the disability status of a disabled employee.

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2018 and 2017

- For those beneficiaries who become eligible for health care benefits as the result of a disability occurring after June 30, 2017, the suspension of health care benefits in years when VRS certifies current income exceeds salary at the time of the disability, indexed for inflation.
- The extension of health care benefits for dependent children to age 26.
- The expansion of the definition of presumption of death or disability to include infectious diseases.

(f) Net OPEB Liability

The net OPEB liability represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, net OPEB liability amounts are as follows (dollar amounts in thousands):

		GLI	LODA	VLDP
Total OPEB liability	\$	2,942,426	266,252	914
Plan fiduciary net position		1,437,586	3,461	351
Employers' net OPEB liability	\$	1,504,840	262,791	563
Plan fiduciary net position as a percentage of the total OPEB liability		48.86 %	1.30 %	38.40 %

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 GASB Statement No. 74 in the VRS' notes to the financial statements and required supplementary information.

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Notes to Basic Financial Statements

June 30, 2018 and 2017

(g) 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:

<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	40.00%	4.54%	1.82%
Fixed income	15.00	0.69	0.10
Credit strategies	15.00	3.96	0.59
Real assets	15.00	5.76	0.86
Private equity	15.00	9.53	1.43
Total	<u>100.00%</u>		4.80
Inflation			<u>2.50</u>
* Expected arithmetic nominal return			<u>7.30%</u>

* The above allocation provides a one-year return of 7.30%. 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 6.83%, including expected inflation of 2.50%.

The long-term expected rate of return on LODA OPEB Program's investments was set at 3.56% for this valuation. Since LODA is funded on a current-disbursement basis, it is not able to use the VRS Pooled Investments 7.00% assumption. Instead, the assumed annual rate of return of 3.56% 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 published monthly by the Board of Governors of the Federal Reserve System as of the measurement date of June 30, 2017.

(h) Discount rate

The discount rate used to measure the total GLI and VLDP OPEB liabilities was 7.00%. 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

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2018 and 2017

VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, 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, 2019 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 3.56%. 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 ending June 30, 2019, 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.

(i) 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 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:

	<u>1% Decrease (6.00%)</u>	<u>Current discount rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
The Authority's proportionate share of the GLI Net OPEB Liability	\$ 1,207,000	933,000	711,000
The Authority's proportionate share of the VLDP Net OPEB Liability	\$ 3,000	3,000	2,000
	<u>1% Decrease (2.56%)</u>	<u>Current discount rate (3.56%)</u>	<u>1% Increase (4.56%)</u>
The Authority's proportionate share of the LODA Net OPEB Liability	\$ 940,000	829,000	736,000

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Notes to Basic Financial Statements

June 30, 2018 and 2017

(j) 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 using health care trend rate of 7.75% decreasing to 5.00%, 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 (6.75% decreasing to 4.00%) or one percentage point higher (8.75% decreasing to 6.00%) than the current rate:

	1.00% Decrease (6.75% decreasing to 4.00%)	Health Care Trend Rates (7.75% decreasing to 5.00%)	1.00% Increase (8.75% decreasing to 6.00%)
The Authority's proportionate share of the LODA Net OPEB Liability	\$ 704,000	829,000	985,000

(k) Group Life Insurance Program Fiduciary Net Position

Detailed information about the GLI, LODA, and VLDP Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-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, 2018, the plan benefit expenses was \$171,086, which is net of payments of \$73,829. During the year ended June 30, 2017, the plan benefit expenses was \$33,165, which is net of payments of \$86,382. 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 \$912,001 and \$954,133 at June 30, 2018 and 2017, respectively, and is included as other noncurrent assets in the accompanying statements of net position. The ESRP accrued expense totaling \$420,815 and \$665,730 as of June 30, 2018 and 2017, respectively, is included in other long term liabilities in the accompanying statements of net position.

(11) Employee Contribution Plan

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

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2018 and 2017

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. ICMA charges fees to employees if they are enrolled in a managed account. ICMA also has the authority to annually deduct a certain percentage of the daily average net asset balance to cover administrative and other various costs.

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

Year ending June 30:	
2019	\$ 14,601,000
2020	14,311,000
2021	14,352,000
2022	8,825,000
2023	8,832,000

The above amounts do not include contingent rentals and fees in excess of minimums, which amounted to \$2,312,780 and \$1,988,260 in fiscal years 2018 and 2017, respectively.

(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 note 2. A substantial portion of the Authority's accounts receivable is from U.S. commercial airlines that could be similarly affected by industry economic conditions. Historically, the Authority's uncollectible accounts receivable have been minimal, and the Authority does not require collateral for its receivables.

(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' liability coverage of \$1,000,000 per occurrence. The Comprehensive Annual Financial Report of the Commonwealth of Virginia contains disclosure of the Commonwealth's estimated claims payable and estimated losses for self-insurance plans at June 30, 2018 and 2017.

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2018 and 2017

Through commercial insurance carriers, the Authority has property insurance coverage of \$300,000,000 annually, general liability coverage of \$50,000,000 per occurrence, airport liability coverage of \$300,000,000 annually, business auto coverage of \$1,000,000 per occurrence, disability coverage of \$78,000 annually, cyber attach coverage of \$1,000,000, crime insurance coverage of \$1,000,000 per occurrence, 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 (the City) whereby the Authority had use of the Airport property free of charge. As of July 1, 1998, the City reacquired title to all property. On January 18, 2000, the City executed a deed conveying title to the Authority, reserving a right of reversion if the Airport property is no longer used as an airport. In consideration of the conveyance of the property, the Authority agreed to compensate the City for the loss of tax revenue on the Airport property. Beginning in fiscal year 2016, the adjusted annual payment was set by the City's tax assessor; in no event shall the payment exceed stated tax rates on the fair value of the Airport property. Advance payments are due annually on July 1. Payment in the amount of \$2,500,000 was required for both fiscal years 2018 and 2017. The Authority's fiscal year 2019 annual payment of \$2,500,000 was made in June 2018 and is reflected as a prepaid expense as of June 30, 2018. Beginning with the July 1, 2020 payment, the amount will increase to \$2,650,000 per year. This amount will be due each year thereafter through the July 1, 2024 payment.

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, 2018.

NORFOLK AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2018 and 2017

(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, 2018, there were nine series of revenue bonds outstanding with an aggregate principal amount of approximately \$29,800,000. As of June 30, 2017, there were ten series of revenue bonds outstanding with an aggregate principal amount of approximately \$39,971,000.

(18) Capitalized Interest

Before adoption of GASB 89, the Authority capitalized interest cost that related to the construction of Airport projects. Interest costs of projects acquired with tax exempt borrowings were reduced by interest earned on invested debt proceeds over the same construction period. Interest costs on Authority funded projects were calculated using the average interest rate on all borrowings over the same construction period. The capitalized interest cost was \$1,131,873 for fiscal year 2017.

REQUIRED SUPPLEMENTARY INFORMATION

NORFOLK AIRPORT AUTHORITY

Schedule of Changes in Net Pension Liability and Related Ratios (unaudited)

June 30, 2018

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Schedule of Changes in the Authority's Net Pension Liability and Related Ratios:				
Total pension liability:				
Service cost	\$ 1,373,319	1,346,523	1,300,433	1,278,926
Interest	3,053,266	2,880,450	2,688,486	2,530,135
Differences between expected and actual experience	(429,688)	237,910	484,660	—
Changes of assumptions	(222,799)	—	—	—
Benefit payments, including refunds of employee contributions	<u>(2,264,730)</u>	<u>(1,727,430)</u>	<u>(1,735,055)</u>	<u>(1,358,746)</u>
Net change in total pension liability	1,509,368	2,737,453	2,738,524	2,450,315
Total pension liability – beginning	<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)	46,260,130	44,750,762	42,013,309	39,274,785
Plan fiduciary net position:				
Contributions – employer	1,170,578	1,223,465	1,179,412	1,260,523
Contributions – employee	564,624	553,205	522,626	512,028
Net investment income	4,691,484	671,007	1,669,448	4,930,757
Benefit payments, including refunds of employee contributions	(2,264,730)	(1,727,430)	(1,735,055)	(1,358,746)
Administrative expense	(27,108)	(23,348)	(22,585)	(25,970)
Other	<u>(3,857)</u>	<u>(173)</u>	<u>(663)</u>	<u>260</u>
Net change in plan fiduciary net position	4,130,991	696,726	1,613,183	5,318,852
Plan fiduciary net position – beginning	<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>42,672,633</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><u>3,587,497</u></u>	<u><u>6,209,120</u></u>	<u><u>4,168,393</u></u>	<u><u>3,043,052</u></u>
Plan fiduciary net position as a percentage of the total pension liability (b) / (a)	92.24 %	86.13 %	90.08 %	92.25 %
Covered-employee payroll (c)	\$ 11,725,164	10,903,311	10,406,965	10,245,675
Authority's net pension liability as a percentage of covered-employee payroll [(a)-(b)] / (c)	30.60 %	56.95 %	40.05 %	29.70 %

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

NORFOLK AIRPORT AUTHORITY
 Required Supplementary Information (Unaudited)
 Schedule of Pension Contributions
 June 30, 2018

<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 employee payroll</u>	<u>Contributions as a% of covered employee payroll</u>
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	11.33

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

NORFOLK AIRPORT AUTHORITY
Schedule of OPEB Contributions (Unaudited)
For the Year ended June 30, 2018

<u>Year</u>	<u>Contractually required contribution</u>	<u>Contributions in relation to contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Employer's covered payroll</u>	<u>Contributions as a % of covered payroll</u>
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%

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

NORFOLK AIRPORT AUTHORITY

Schedule of Authority's Share of Net OPEB Liability (Unaudited)

For the Year ended June 30, 2018

	2018
GLI Plan:	
Authority's Proportion of the Net GLI OPEB Liability	0.06204%
Authority's Proportionate Share of Net GLI OPEB Liability	\$ 933,000
Employer's Covered Payroll	11,445,288
Employer's Proportionate Share of the Net GLI OPEB Liability as a Percentage of its Covered Payroll	8.15%
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	48.86%
LODA Plan:	
Authority's Proportion of the Net LODA OPEB Liability	0.31564%
Authority's Proportionate Share of Net LODA OPEB Liability	\$ 829,000
Employer's Covered Payroll	11,445,288
Employer's Proportionate Share of the Net LODA OPEB Liability as a Percentage of its Covered Payroll	7.24%
Plan Fiduciary Net Position as a Percentage of the Total LODA OPEB Liability	1.30%
VLDP Plan:	
Authority's Proportion of the Net VLDP OPEB Liability	0.53211%
Authority's Proportionate Share of Net VLDP OPEB Liability	\$ 3,000
Employer's Covered Payroll	977,098
Employer's Proportionate Share of the Net VLDP OPEB Liability as a Percentage of its Covered Payroll	0.31%
Plan Fiduciary Net Position as a Percentage of the Total VLDP OPEB Liability	38.40%

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

NORFOLK AIRPORT AUTHORITY

Notes to Required Supplementary Information (Unaudited)

Year ended June 30, 2018

(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 following changes in pension and OPEB actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

- Updated to a more current mortality table – RP-2014
- 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 and OPEB general employees.
Decreased line of duty disability from 60% to 45% for OPEB hazardous duty employees.

(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 four 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 year 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.

Unaudited – See accompanying independent auditors' report.

SUPPLEMENTARY INFORMATION

NORFOLK AIRPORT AUTHORITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2018

<u>Federal grantor/program title</u>	<u>CFDA number</u>	<u>Project number</u>	<u>Expenditures</u>
Department of Transportation:			
Federal Aviation Administration:			
Airport Improvement Program	20.106	3-51-0036-63	\$ 806,873
Airport Improvement Program	20.106	3-51-0036-64	4,357,191
Airport Improvement Program	20.106	3-51-0036-65	1,102,270
Airport Improvement Program	20.106	3-51-0036-66	1,510,306
Airport Improvement Program	20.106	3-51-0036-67	410,849
Airport Improvement Program	20.106	3-51-0036-68	<u>938,067</u>
Total Airport Improvement Program			9,125,556
Department of Homeland Security:			
Transportation Security Administration:			
Explosive Detection Canine Team Program	97.072		151,500
Department of the Treasury:			
Equitable Sharing Program	21.016		<u>10,955</u>
			<u>\$ 9,288,011</u>

See accompanying notes to schedule of expenditures of federal awards.

See accompanying independent auditors' report.

NORFOLK AIRPORT AUTHORITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

(1) General

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

(2) Basis of Accounting

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

(3) De Minimus Cost Rate

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



KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

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

The Board of Commissioners
Norfolk Airport Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Norfolk Airport Authority (the Authority), which comprise the statement of net position as of June 30, 2018, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 20, 2018 which included a paragraph emphasizing that in fiscal year 2018, the Authority adopted new accounting guidance described in Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

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

KPMG LLP

Norfolk, Virginia
November 20, 2018



KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

The Board of Commissioners
Norfolk Airport Authority:

Report on Compliance for Each Major Federal Program

We have audited the Norfolk Airport Authority's (the Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2018. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.



Report on Internal Control Over Compliance

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

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

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

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

KPMG LLP

Norfolk, Virginia
November 20, 2018

NORFOLK AIRPORT AUTHORITY

Schedule of Passenger Facility Charge Revenues and Expenditures

Year ended June 30, 2018 and
each quarter during the year ended June 30, 2018

	Cumulative total – June 1998 to June 30, 2017	Quarter ended				Year ended June 30, 2018	Cumulative total – June 1998 to June 30, 2018
		September 30, 2017	December 31, 2017	March 31, 2018	June 30, 2018		
Revenues:							
Passenger facility charge revenues received ¹	\$ 100,651,548	1,772,677	1,754,969	1,557,485	1,974,155	7,059,286	107,710,834
Interest earned ²	<u>7,328,947</u>	<u>33,321</u>	<u>19,240</u>	<u>22,428</u>	<u>37,913</u>	<u>112,902</u>	<u>7,441,849</u>
Total revenues	<u>107,980,495</u>	<u>1,805,998</u>	<u>1,774,209</u>	<u>1,579,913</u>	<u>2,012,068</u>	<u>7,172,188</u>	<u>115,152,683</u>
Expenditures:							
Bond financing and interest costs and capital expenditures	<u>101,904,840</u>	<u>2,189,672</u>	<u>2,044,011</u>	<u>—</u>	<u>—</u>	<u>4,233,683</u>	<u>106,138,523</u>
Collected and unexpended PFCs	<u>\$ 6,075,655</u>						<u>9,014,160</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 reported when the cash is received.

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

See accompanying independent auditors' report.

NORFOLK AIRPORT AUTHORITY
Schedule of Findings and Questioned Costs
Year ended June 30, 2018

(1) Summary of Auditor's Results

- (a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
 - Material weaknesses: **No**
 - Significant deficiencies: **None Reported**
- (c) Noncompliance material to the financial statements: **No**
- (d) Internal control deficiencies over major programs disclosed by the audit:
 - Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- (e) Type of report issued on compliance for major programs: **Unmodified**
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**
- (g) Major programs:
 - Airport Improvement Program – CFDA 20.106
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
- (i) Auditee qualified as a low-risk auditee: **Yes**

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

None Reported

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

None Reported



KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

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

The Board of Commissioners
Norfolk Airport Authority:

Report on Compliance for the Passenger Facility Charge Program

We have audited the Norfolk Airport Authority's (the Authority) compliance with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the Audit Guide), issued by the Federal Aviation Administration, applicable to the Authority's Passenger Facility Charge Program for the year ended June 30, 2018.

Management's Responsibility

Management of the Authority is responsible for compliance with requirements of laws, and regulations, applicable to the Passenger Facility Charge Program.

Auditors' Responsibility

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

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

Opinion

In our opinion, the Norfolk Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that are applicable to its Passenger Facility Charge Program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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



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

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

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

KPMG LLP

Norfolk, Virginia
November 20, 2018