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NORFOLK AIRPORT AUTHORITY

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

June 30, 2014 and 2013

(With Independent Auditors' Reports Thereon)

NORFOLK AIRPORT AUTHORITY

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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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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 basic 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 basic 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 basic 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the Norfolk Airport Authority as of June 30, 2014 and 2013, 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 to the basic financial statements, in fiscal year 2014, the Authority retrospectively adopted new accounting guidance described in Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4 through 13 and the Schedule of Funding Progress on page 32, respectively, 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 Information

Our audits were conducted for the purpose of forming an opinion on the Authority's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Schedule of Passenger Facility Charge Revenues and Expenditures, as specified in the Passenger Facility Charge Audit Guide for Public Agencies, issued by the Federal Aviation Administration, and the Introductory Section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards and Schedule of Passenger Facility Charge Revenues and Expenditures are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2014 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

October 23, 2014

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, 2014 and 2013. 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 the same basis of accounting 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, 2014 and 2013.

Financial Highlights

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

Total net position was $168,908,617 as of June 30, 2014. Net position includes $32,566,292 considered unrestricted and available to meet ongoing and future obligations of the Authority, including its share of capital projects.

Total net position at June 30, 2014 increased $8,186,554 from total net position at June 30, 2013. Capital assets, before accumulated depreciation, increased $14,219,712 during fiscal year 2014 primarily due to the completion of the general aviation terminal improvements, additional jet bridges on Concourse A, air cargo and Gourmet Gang pump station replacement, purchase of garage sweepers, replacement of airfield drainage structure tops and several vehicles, and the ongoing renovations in the main. These additions were funded by State grant funds and from the Authority's unrestricted assets.

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

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

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

Federal and state grants, grant interest revenue, and other income increased $183,263 compared to the previous year primarily due to increased federal revenues for the expansion of checkpoint B.

The following major financial highlights are of note for the year ended June 30, 2013:

Total net position was $160,722,063 as of June 30, 2013. Net position includes $32,238,331 considered unrestricted and available to meet ongoing and future obligations of the Authority, including its share of capital projects.

Total net position at June 30, 2013 increased $5,275,122 from total net position at June 30, 2012. Capital assets, before accumulated depreciation, increased $10,503,791 during 2013 primarily due to the completion of the rehabilitation of taxiway F and Air Wisconsin taxiway, purchase of snow removal equipment, the upgrade of the radio system and design and approach of the parking garage project. These additions were funded by State grant funds and from the Authority's unrestricted net position balance.

Operating revenues during fiscal year 2013 increased by $304,408 compared to the previous year. Parking revenue increased $60,593 due to an increase in customer facility charges; passenger terminal revenue decreased $615,381 due to the decrease in rental car commissions resulting from a decrease in their minimum guarantee. Landing fees and field operations revenue increased $859,196.

Operating expenses during fiscal year 2013 increased $117,321 compared to the previous year, due primarily to increases in salaries and fringe benefits.

Net nonoperating revenues during fiscal year 2013 increased $1,773,631 compared to fiscal year 2012 due to the increase in federal grants.

Federal and state grants, grant interest revenue, and other income increased $2,162,344 compared to the previous year primarily due to federal and state grant funding for the purchase of snow removal equipment and the expansion of the security checkpoint on Concourse B.

Net Position

Total net position of $168,908,617 increased $8,186,554, or 5.1%, for the year ended June 30, 2014 compared to the prior year. The increase in net position is primarily due to an increase in net investment in capital assets of $11,532,341, or 10.7%, primarily attributable to 2014 construction projects in process and the reduction in

(Continued)

long-term debt. Unrestricted net position increased $327,961 over the prior year and restricted net position decreased $3,673,748, or 18.1%, primarily due to the use of state block grant funds for construction projects.

Total net position of $160,722,063 increased $5,725,122, or 3.7%, for the year ended June 30, 2013 compared to the prior year. The increase in net position is primarily due to an increase in net investment in capital assets of $7,121,227, or 6.7%, primarily attributable to 2013 construction projects in process and the reduction in long-term debt. Unrestricted net position decreased $806,405, or 2.6%, over the prior year and restricted net position decreased $1,499,743, or 6.9%, primarily due to the use of passenger facility charges to reduce long-term debt.

A summary of the major components of the statements of net position as of June 30, 2014, 2013, and 2012 is as follows:

Condensed Statements of Net Position

	2014	(Restated) 2013 (1)	(Restated) 2012 (1)
Current assets	$ 34,752,138	34,928,367	33,302,292
Restricted assets	20,289,162	23,994,271	25,856,185
Capital assets, net	178,292,350	173,398,114	172,607,676
Other noncurrent assets	1,140,952	1,175,826	1,212,300
Deferred outflows of resources	263,809	327,391	404,454
Total assets and deferred outflows of resources	$ 234,738,411	233,823,969	233,382,907
Current liabilities	$ 4,644,299	4,677,250	3,080,251
Amounts payable from restricted assets	7,958,865	7,896,333	7,996,518
Long-term liabilities	53,226,630	60,528,323	67,309,197
Total liabilities	65,829,794	73,101,906	78,385,966
Net investment in capital assets	119,744,344	108,212,003	101,793,543
Restricted net position	16,597,981	20,271,729	21,771,472
Unrestricted net position	32,566,292	32,238,331	31,431,926
Total net position	168,908,617	160,722,063	154,996,941
Total liabilities and net position	$ 234,738,411	233,823,969	233,382,907

(1) As restated for the adoption of GASB Statement No. 65 retrospectively in fiscal year 2014. See note 1 of the notes to the basic financial statements.

Current assets include unrestricted cash and investments, net accounts receivable, accrued interest receivable, grants receivable, and prepaid expenses. Restricted assets include passenger facility charges receivable, and cash and investments restricted for current debt service and debt service reserves as required by bond covenants. Other noncurrent assets primarily comprise the key executive life insurance policies purchased to assist in funding the Executive Supplemental Retirement Plan liability. Deferred outflows of resources include deferred amount on refunding on the Series 2011 bonds.

Current liabilities are accounts payable, accrued expenses, and the surplus revenues refundable to the airlines. Amounts payable from restricted assets include bond principal and interest due during fiscal year 2015. Included in long-term liabilities are the principal amount of bonds payable that mature after June 30, 2015, net of unamortized premium, and an executive supplemental retirement plan liability.

Net position includes net investment in capital assets, restricted net position, and unrestricted net position.

Changes in Net Position

Condensed financial information from the statements of revenues, expenses, and changes in net position for the years ended June 30, 2014, 2013, and 2012 is provided as follows, followed by additional analysis.

Revenues for the years ended June 30, 2014, 2013, and 2012 are summarized as follows:

		2014	2013	2012
Operating revenues:				
Passenger terminals	$	14,098,222	12,962,555	13,577,936
Landing fees and field operations		8,874,896	8,061,817	7,202,621
Parking revenue		14,694,073	13,874,142	13,813,549
Total operating revenues		37,667,191	34,898,514	34,594,106
Nonoperating revenues, net:				
Federal and state grants and interest		5,195,088	5,033,929	2,935,788
Passenger facility charges and interest		6,108,345	6,527,217	6,554,379
Investment income (loss)		178,957	(83,325)	180,678
Other income		416,851	394,747	330,544
Total nonoperating revenues, net		11,899,241	11,872,568	10,001,389
Total revenues, net	$	49,566,432	46,771,082	44,595,495

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

(Continued)

Operating revenues increased $304,408, or 0.9%, in fiscal year 2013 when compared to the previous year. The increase in operating revenues is attributed primarily to the increase in landing fees and field operations during the year. Passenger facility charges and interest decreased $27,162, or 0.4%, in fiscal year 2013 when compared to the previous year due to fewer passengers paying as a result of the merger of Continental and United Airlines. Federal and state grant revenues, net of state grant interest losses, increased $2,098,141, or 71.5%, when compared to the prior year due to the funding from federal and state sources to purchase snow removal equipment and the expansion of the checkpoint on Concourse B. Investment income decreased $264,003 from fiscal year 2012 primarily due to changes in the market value of investments and marginal decreases in interest rates.

Expenses for the years ended June 30, 2014, 2013, and 2012 are summarized as follows:

		2014	**(Restated) 2013 (1)**	**(Restated) 2012 (1)**
Operating expenses:				
Salaries and fringe benefits	$	14,137,795	13,810,006	13,236,206
City tax assessment		2,065,500	2,025,000	1,962,195
Maintenance and repairs		3,250,411	2,857,789	3,035,341
Depreciation and amortization		9,939,655	9,769,495	10,144,124
Other expenses		10,126,876	9,905,146	9,872,249
Total operating expenses		39,520,237	38,367,436	38,250,115
Nonoperating expenses:				
Interest expense		1,859,641	2,678,524	2,580,976
Total expenses	$	41,379,878	41,045,960	40,831,091

(1) As restated for the adoption of FASB Statement No. 65 retrospectively in fiscal year 2014. See note 1 of the notes to the basic financial statements.

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

Operating expenses increased $117,321, or 0.3%, in fiscal year 2013 compared to fiscal year 2012. Salaries and fringe benefits increased $573,800, or 4.3%, primarily due to an increase in the liability for the state retirement plan. Depreciation and amortization decreased $374,629, or 3.7%, primarily due to the amortization of bond premiums. Other expenses increased $32,897, or 0.3%, primarily due to increases in professional services and sanitation, partially offset by decreases in advertising and promotion, security and other services, and maintenance and repairs.

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Capital Assets and Debt Administration

Capital Assets

Capital assets include land, construction in progress, buildings, structures, improvements, roads and runways, equipment, and capitalized interest during construction periods. Capital assets are net of related accumulated depreciation. Significant capital asset additions in the current period included the upgrade to the radio system, replacement of a cooling tower, improvements to taxiway F and Air Wisconsin taxiway, snow removal equipment, street sweeper, parking site development at garage D, ongoing departures terminal refurbishment and expansion of the TSA passenger screening checkpoint in concourse D, and upgrade to the general aviation complex. See note 4 of the notes to the basic financial statements for additional information related to the Authority's capital assets. A summary of capital assets by category and the associated accumulated depreciation as of June 30, 2014 and 2013, as well as a schedule of additions and retirements for the years ended June 30, 2014 and 2013, are included as follows:

		June 30	
	2014	**2013**	**2012**
Summary of capital assets:			
Land	$ 14,931,702	14,905,612	14,904,812
Buildings, structures, and improvements	234,658,284	228,944,543	8,654,203
Roads and runways	61,399,095	61,233,693	223,031,451
Equipment	35,359,849	33,919,470	60,974,560
Construction in progress	17,447,011	10,572,911	31,507,412
	363,795,941	349,576,229	339,072,438
Accumulated depreciation	(185,503,591)	(176,178,115)	(166,464,762)
Total	$ 178,292,350	173,398,114	172,607,676

Schedule of additions and retirements:

		June 30	
	2014	**2013**	**2012**
Capital assets, beginning of year	$ 173,398,114	172,607,676	179,250,349
Additions	23,856,681	19,808,707	5,470,582
Retirements	(8,809,462)	(9,003,838)	(2,243,126)
Depreciation	(10,152,983)	(10,014,431)	(9,870,129)
Capital assets, end of year	$ 178,292,350	173,398,114	172,607,676

Long-Term Debt (Bonds Payable)

At June 30, 2014, the Authority had total bonds payable outstanding of $58,920,729 net of unamortized premiums. Payments made during fiscal year 2014 totaled $6,424,783 and amounts payable during fiscal year 2015 are $6,632,165. Bond payments are scheduled to be paid through fiscal year 2032. A majority of the bonds outstanding were used to finance the Authority’s Arrival 2002 Project and are payable from general reserves and passenger facility charges revenue. The bond resolutions include reserve requirements, including the requirement that total revenues provide for 100% of operating expenses, and net revenues provide at least 125% of the debt service requirement for the following fiscal year. See note 6 of the notes to the basic financial statements for additional information regarding the outstanding long-term debt.

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, 2014, the rate covenant was met. The indenture further provides that the Authority (in the event that the coverage is not met for a single year) hire a consultant to study revenues, expenses, and debt coverage for the following year and to provide guidance on rates and charges and meeting the rate coverage calculation. A noncompliance with the covenant is not a default until it is not met for two consecutive years.

Economic Factors

The total passenger activity at Norfolk International Airport (Airport) during fiscal year (FY) 2014 was 3,089,480, a 4.15% decrease over FY 2013 of 3,223,333 passengers. This decline in passenger traffic was a result of a number of factors including a sluggish local economy, the budget sequestration, which has significantly impacted government and military travel, the further reduction in available seat capacity by the airline industry and a general increase in airline fares. Despite this decrease in passengers, the Airport experienced revenue generation which exceeded budget projections by $1,364,890 or 3.7%. This performance was due primarily to public parking receipts which exceeded budget projections by $696,226 or 5.3% as a result of a parking rate increase in the long-term lots that was implemented in February of 2014. While most of the increase was designated to flow into the “Parking Escrow Account,” which was established this fiscal year to fund future parking related capital projects, some portion of the increase is assigned to the Operating Fund to the benefit of the airlines. Rental car receipts also exceeded projections by $693,036 or roughly 12% due to commissions exceeding the Minimum Annual Guarantees (MAGs) contained in the rental car contracts. The Airport also experienced a favorable picture with respect to expenses. As a result of cost containment efforts, expenses for the year were kept under budget by $2,438,577 or 7.6%. The Airport finished the year with a net revenue of $3,893,492 based on the surplus revenue calculation in accordance with the Airport Use Agreement which considers various components of the Authority's activities during the fiscal year. In accordance with provisions contained in the Airline Use Agreement, $1,054,180 will be retained in the Parking Escrow Account to be used to, again, fund future parking related capital projects, $1,000,000 will be transferred to the Airport’s Capital Reserve Expenditure Fund, and the balance of $1,839,312 will be shared equally between the Airport and the airlines operating at Norfolk International.

The outlook for FY15 is uncertain. In the near term, the Airport expects to see a continuing negative impact on passenger activity primarily as a result of the slow continued economic recovery and, more importantly, significantly reduced government and military travel. With the Hampton Roads area being home to a number of large military facilities, the impact of the reduced government and military travel is likely to continue to have a negative effect on airline passenger activity. Faced with continued economic uncertainty, the Airport was prudent with respect to revenue projections contained in the FY15 budget and will continue to keep cost control measures in place during the new fiscal year.

In FY14, the Airport expended approximately $7.5 million towards completed Airport Capital Improvement Projects. These projects were funded using approximately $3.6 million in federal and state grants and $3.9 million from Airport generated revenue. Capital expenditures are expected to increase significantly in FY15. The Airport currently has several construction projects underway which will allow it to maximize the use of both federal and state entitlement funds.

The Norfolk Airport Authority (Authority), owner and operator of Norfolk International Airport, has been, for a number of years, pursuing the approval from the Federal Aviation Administration (FAA) to construct a parallel runway. The Airport's current Master Plan calls for a parallel runway (5R/23L), of approximately 6,500 feet in length, to be constructed approximately 850 feet east of runway 5/23, the Airport's primary instrument runway. If built, the new runway would provide a redundant capability to handle all of the commercial aircraft activity currently operating at Norfolk International. The Authority was awarded an Airport Improvement Program (AIP) grant from the FAA during FY14 to undertake Phase I (Purpose and Need) of an Environmental Impact Statement. This study is a required step in order to secure federal approval to design and construct the parallel runway. The study is currently underway and is anticipated to be completed in late summer of 2015. If approved, all construction associated with the new runway would take place on existing Airport property. There are no plans to acquire additional property to accommodate the proposed runway

In June of this year, the Authority completed construction on approximately $6.2 million of improvements to the Airport's General Aviation facilities. These facilities handle the needs of all corporate and private aircraft operating at Norfolk International. The improvements included a major renovation of the interior of the General Aviation Terminal building as well as an expansion of the facility's public parking area. The project also included updating the exterior of the terminal building to include cleaning and sealing of all exposed aggregate surfaces, painting of all exterior trim and the addition of an oversized canopy at the landside entrance to the building. New exterior lighting and landscaping were also included in the scope of work. State Aviation Entitlement funds were used to cover approximately one half of all improvements.

To ensure that the Airport's passenger terminal facilities remain attractive, comfortable and up to date, the Authority engaged the architectural firm of Gresham Smith and Partners in the fall of 2010 to develop a scope of work to refurbish both the interior and exterior treatments of the terminal facilities which is anticipate to be completed over a multi-year time frame. The Authority completed "Phase I" of the terminal complex renovation this summer which included a major upgrade of the departures terminal lobby and the replacement of flooring in the airline concourses. The work included the installation of three large skylights in the departures terminal lobby, the replacement of four escalators that operate between the second floor lobby area and the first floor airline ticketing facilities, the installation of new terrazzo flooring in the center of the lobby area and the replacement of carpet and wall coverings around the periphery of the lobby. New plantscaping and furniture for the lobby area were also included as part of the project. New terrazzo flooring was installed in the main pedestrian travel areas on both airline concourses and new carpeting provided in all airline gate areas. The total project cost was $8.2 million with approximately 90% of all costs covered by user-funded grants from both the FAA and the Virginia Department of Aviation.

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

The Authority also initiated a project this year to undertake some major upgrades to the controls of the passenger terminal's energy management system. These controls handle the HVAC and lighting systems in the departures terminal and on both airline concourses. The project includes the replacement of numerous lighting and climate control panels which are beyond their useful life and are now difficult to service and maintain. The project also includes upgrades to the system's "communications network" from existing copper wiring to fiber which will dramatically increase the communications speed between the system's main control panels and the various HVAC and lighting devices located throughout the departures terminal and on both airline concourses. These enhancements will aid in maintaining a more comfortable environment for passengers while also providing for greater energy conservation. The project is anticipated to be completed in the fall of 2014 at a cost of approximately $500,000.

The Authority awarded a construction contract to ET Gresham in September 2014 to undertake the "Phase II" improvements to the passenger terminal complex. The scope of work to be addressed in this phase include: 1) The construction of a new TSA passenger screening checkpoint on Concourse "A", similar in size and design to the expanded checkpoint recently completed on Concourse "B". The cost of this improvement is estimated at $6 million with 90% funded by an FAA AIP grant. 2) The construction of new and expanded public restrooms on both airline concourses. The cost of these facilities is estimated at $4 million with 90% funded, again, by an FAA AIP grant. 3) The completion of the interior refurbishment of both airline concourses to include new wall coverings and treatments, new ceiling treatments and lighting improvements. The scope of work will also include an upgrade of the fire suppression system on Concourse A and skylight installations on both concourses and the pedestrian bridge leading to Concourse A. Plans call for two skylights on each concourse and two on the bridge. The cost of these improvements is estimated at $6 million with 80% of funding provided by a user-funded grant from the Virginia Department of Aviation. Construction is estimated to take approximately 18 months.

Finally, during this fiscal year, the Authority completed the installation of a new passenger loading bridge at gate #7 on Concourse A for use by Southwest or American Airlines. The cost of the bridge, including installation, was $1.4 million. The Authority also completed the upgrade of the Airport's Flight Information Display System (FIDS). This project included the replacement of the previous system's enclosed millwork cabinets with freestanding open frame units. Additionally, the system received technology upgrades that reduced the previous eight monitor/computer configuration to three monitors and computers per display location. This upgrade will significantly reduce energy consumption. The total project cost was approximately $360,000.

The Authority anticipates undertaking several additional miscellaneous projects before the end of this fiscal year which includes: 1) Pavement overlay and remarking of both the North and South short term parking lots. The terminal road system will also receive a sealcoat and remarking with shoulder repairs in selected areas. The cost of this work is estimated at $900,000. 2) Airfield pavement repairs to include Taxiways F, G, and V as well as repairs to the main terminal apron. The cost of these repairs is estimated at $1.5 million. 3) Replacement of chiller #2 in the departures terminal. This equipment is 21 years old, is not efficient by today's standards and is becoming increasingly costly to maintain. The specified replacement equipment will be a larger capacity (600 tons vs. 450 tons), more efficient and less costly to operate. This replacement equipment is estimated to cost $800,000.

The Authority did not issue any conduit loans in FY 2014.

Contacting the Authority's Financial Management

This financial report is designed to provide interested parties with a general overview of the Authority's finances. Should you have any questions about this report or need additional information, please contact the Norfolk Airport Authority, Attention: William A. Jones, Director of Finance, 2200 Norview Avenue, Norfolk, VA 23581-5807. Alternatively, information about the operation of the Authority can be obtained via the Internet at www.norfolkairport.com.

NORFOLK AIRPORT AUTHORITY

Statements of Net Position

June 30, 2014 and 2013

Assets and Deferred Outflows of Resources		2014	(Restated) 2013
Current assets:			
Cash (note 2)	$	4,821,508	734,943
Investments (notes 2 and 12)		25,358,742	29,599,001
Accounts receivable, net (note 12)		2,008,235	1,943,155
Accrued interest receivable		33,902	65,365
Grants receivable		360,845	490,286
Prepaid expenses (note 15)		2,168,906	2,095,617
Total current assets		34,752,138	34,928,367
Restricted assets (note 3):			
Cash (note 2)		37,706	31,442
Investments (notes 2 and 12)		19,541,261	22,843,307
Passenger facility charges receivable, including interest		710,195	1,119,522
Total restricted assets		20,289,162	23,994,271
Capital assets (note 4):			
Land		14,931,702	14,905,612
Buildings, structures, and improvements		234,658,284	228,944,543
Roads and runways		61,399,095	61,233,693
Equipment		35,359,849	33,919,470
Construction in progress		17,447,011	10,572,911
		363,795,941	349,576,229
Less accumulated depreciation		(185,503,591)	(176,178,115)
Total capital assets, net		178,292,350	173,398,114
Other assets (note 9)		1,032,030	1,037,902
Bond insurance costs, net (note 5)		108,922	137,924
Total assets		234,474,602	233,496,578
Deferred outflows of resources:			
Deferred amount on refunding, net		263,809	327,391
Total assets and deferred outflows of resources	$	234,738,411	233,823,969

See accompanying notes to basic financial statements.

Liabilities and Net Position		2014	(Restated) 2013
Current liabilities:			
Accounts payable	$	1,332,220	2,219,888
Accrued leave and wages		2,112,997	1,920,937
Other accrued expenses		279,425	234,390
Surplus payable to airlines (note 7)		919,657	302,035
Total current liabilities		4,644,299	4,677,250
Amounts payable from restricted assets:			
Accrued interest		1,326,700	1,471,550
Current portion of bonds payable (note 6)		6,632,165	6,424,783
Total amounts payable from restricted assets		7,958,865	7,896,333
Long-term liabilities:			
Bonds payable, less current portion (note 6)		52,288,564	59,226,642
Other liabilities (note 9)		938,066	1,301,681
Total long-term liabilities		53,226,630	60,528,323
Total liabilities		65,829,794	73,101,906
Commitments and contingencies (notes 8, 13, 14, and 15)			
Net position:			
Net investment in capital assets		119,744,344	108,212,003
Restricted for:			
Capital projects		5,761,186	9,443,127
Debt service		10,836,795	10,828,602
Unrestricted		32,566,292	32,238,331
Total net position		168,908,617	160,722,063
Total liabilities and net position	$	234,738,411	233,823,969

NORFOLK AIRPORT AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2014 and 2013

		2014	(Restated) 2013
Operating revenues:			
Passenger terminals (notes 7 and 11)	$	14,098,222	12,962,555
Landing fees and field operations (notes 7 and 11)		8,874,896	8,061,817
Parking		14,694,073	13,874,142
Total operating revenues		37,667,191	34,898,514
Operating expenses:			
Salaries and fringe benefits (notes 8, 9, and 10)		14,137,795	13,810,006
Depreciation and amortization (notes 4, 5, and 6)		9,939,655	9,769,495
Utilities		2,463,916	2,602,291
Maintenance and repairs		3,250,411	2,857,789
Administrative		730,490	619,528
Professional services		691,032	763,116
Parking		680,155	590,612
Advertising and promotion		878,475	722,734
Insurance		646,648	586,217
Security and other services		3,077,233	3,079,844
Sanitation		617,086	585,978
City tax assessment (note 15)		2,065,500	2,025,000
Other		341,841	354,826
Total operating expenses		39,520,237	38,367,436
Operating loss		(1,853,046)	(3,468,922)
Nonoperating revenues (expenses):			
Federal grant revenues		3,156,569	2,993,618
State grant revenues (note 3)		2,000,000	2,000,000
Passenger facility charges		6,126,168	6,476,423
State grant revenues investment gain		38,519	40,311
Passenger facility charges investment gain (loss)		(17,823)	50,794
Other income		416,851	394,747
Investment gain (loss)		178,957	(83,325)
Interest expense		(1,859,641)	(2,678,524)
Net nonoperating revenues		10,039,600	9,194,044
Change in net position		8,186,554	5,725,122
Total net position, beginning of the year, as restated		160,722,063	154,996,941
Total net position, end of the year	$	168,908,617	160,722,063

See accompanying notes to basic financial statements.

NORFOLK AIRPORT AUTHORITY

Statements of Cash Flows

Years ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Collections from customers	$ 37,602,111	34,906,254
Payments to employees for services	(13,900,700)	(13,741,347)
Payments for city tax assessment	(2,065,500)	(2,025,000)
Payments to suppliers	(14,518,722)	(12,527,108)
Net cash provided by operating activities	7,117,189	6,612,799
Cash flows from capital and related financing activities:		
Principal payments on bonds	(6,424,783)	(6,172,473)
Acquisition of capital assets	(14,190,012)	(9,155,197)
Interest paid on debt	(2,004,490)	(3,031,021)
Passenger facility charges	6,517,672	6,327,688
Federal and State grants	5,324,529	4,658,979
Net cash used in capital and related financing activities	(10,777,084)	(7,372,024)
Cash flows from investing activities:		
Interest received from investments	210,420	(82,927)
Purchases of investments	(249,009,176)	(199,460,273)
Proceeds from maturities of investments	256,551,480	200,309,582
Net cash provided by investing activities	7,752,724	766,382
Net increase in cash	4,092,829	7,157
Cash, beginning of year	766,385	759,228
Cash, end of year	$ 4,859,214	766,385
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (1,853,046)	(3,468,922)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	9,939,655	9,769,495
Other nonoperating income, net	416,851	394,747
Decrease (increase) in operating assets:		
Accounts receivable	(65,080)	7,740
Prepaid expenses	(73,289)	(39,972)
Other assets	5,872	1,356
Increase (decrease) in operating liabilities:		
Accounts payable	(1,744,876)	(423,364)
Accrued leave and wages	192,060	76,073
Other accrued expenses	45,035	(7,414)
Surplus payable to airlines	617,622	302,035
Other liabilities	(363,615)	1,025
Net cash provided by operating activities	$ 7,117,189	6,612,799

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization and Purpose

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

(b) Basis of Accounting

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

(c) Investments

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

(d) Revenue Recognition

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

(e) Capital Assets

Capital assets with an initial individual cost of $10,000 or more are capitalized at cost. The costs include interest expense incurred from the date of issuance of the debt to finance construction until the completion of the capital project, net of related interest income from unspent bond proceeds. The

(Continued)

Authority provides for depreciation of all capital assets by the straight-line method over estimated useful lives as follows:

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

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

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

(f) Bond Insurance Costs

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

(g) Passenger Facility Charges

The current authorization from the Federal Aviation Administration (FAA) permits the Authority to collect Passenger Facility Charges (PFC) of $4.50 per eligible enplaned passenger up to an aggregate amount of $112,041,936 and expires on October 1, 2016. The net receipts from PFC are accounted for on the accrual basis of accounting and are restricted to use on FAA-approved projects. Unexpended PFC and related interest are included as restricted net position for projects that are approved by the FAA (note 3).

(h) Operating Revenues and Expenses

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

(i) Use of Estimates

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

(Continued)

(j) New Accounting Pronouncements

GASB Statement No. 65

During the fiscal year ended June 30, 2014, the Authority retrospectively adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of GASB Statement No. 65 is to (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources and to (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources or inflows of resources. As a result of the statement's implementation, the Authority's deferred loss on refunding related to the three outstanding bond issuances (note 6) has been reclassified from long-term liabilities to deferred outflow of resources. Prior fiscal years presented in the accompanying financial statements have been restated to reflect the change.

GASB Statement No. 65 also requires debt issuance costs, other than insurance costs, to be recognized as an expense in the period incurred. In prior years, the Authority deferred and amortized the bond issuance costs over the life of the bonds. As a result of implementing GASB Statement No. 65, during fiscal year 2014, the deferred bond issuance costs, other than insurance costs, are no longer reported as an asset on the statements of net position. Total net position for all prior fiscal years presented in the financial statements has been restated to reflect the change. Total net position as of June 30, 2013 and 2012 was restated as follows:

		June 30	
		2013	**2012**
Total net position, as reported	$	161,424,830	155,786,325
Adoption of GASB Statement No. 65		(702,767)	(789,384)
Total net position, as restated	$	160,722,063	154,996,941

GASB Statement No. 66

During the fiscal year ended June 30, 2014, the Authority adopted GASB Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*. Implementation of this statement had no material impact on the Authority's financial statements.

(2) Deposits and Investments

The Authority maintains several restricted cash and investment funds in addition to its operating funds. These funds are disclosed on the accompanying statements of net position as cash and investments.

The Code of Virginia authorizes the Authority to invest in certificates of deposit with national banks located within the Commonwealth of Virginia, obligations of the United States or its agencies, obligations of the Commonwealth of Virginia or its political subdivisions, and certain other investments.

(a) Deposits

The carrying values of the Authority's deposits with banks were $4,859,214 and $766,385 and the bank balances were $4,877,429 and $782,567 at June 30, 2014 and 2013, respectively. The entire bank balance was covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (the Act). In accordance with the Act, the depository institution pledged collateral in the form of federal agency obligations with a market value equal to 110% of the Authority's deposits with a third-party trustee in the name of the Treasurer of the Commonwealth of Virginia. In the event that the banking institution fails, the Treasurer will take possession of the collateral, liquidate it and reimburse the Authority up to the value of its deposits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks.

(b) Investments

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

(c) Credit Risk

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

As of June 30, 2014, 37.3% of the Authority's portfolio was invested in Standard & Poor's "AAA" rated obligations and 15.6% was invested in U.S. Treasury notes.

(d) Concentration of Credit Risk

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

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

As of June 30, 2014, the Authority's portfolio was invested as follows:

Issuer	Percentage of portfolio
Money market mutual funds	44.1%
U.S. Treasury	15.6%
Federal Home Loan Mortgage Corporation (Freddie Mac)	10.9%
Federal National Mortgage Agency (Fannie Mae)	8.6%
Commercial paper	7.6%
Corporate notes	6.2%
Federal Home Loan Bank	5.9%
Municipal bonds	1.1%
	100.0%

(e) Interest Rate Risk

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

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

As of June 30, 2014, the carrying values and weighted average maturity of the Authority's investments were as follows:

Investment type	Fair value	Weighted average maturity *
Money market funds	$ 19,822,246	
Federal agency notes	11,390,844	
U.S. Treasury	6,996,370	
Commercial paper	3,405,857	
Corporate notes	2,778,992	
Municipal bonds	505,694	
Total investments	$ 44,900,003	
Portfolio weighted average maturity		0.62

* Weighted average maturity in years

(f) Custodial Credit Risk

Custodial credit risk for deposits is defined as the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of the outside party. The custodial credit risk for investments is defined as the risk that, in the event of failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Policy requires that all investment securities purchased by the Authority or held as collateral on deposits or investments shall be held in third-party safekeeping at a qualified public depository that may not otherwise be a counterparty to the investment transaction.

As of June 30, 2014, all of the Authority's investments were held in a bank's trust department in the Authority's name.

(g) Summary of Deposits and Investments

A reconciliation of the carrying value of deposits and investments reported above to amounts reported in the statements of net position at June 30, 2014 and 2013 is as follows:

		2014	2013
Deposits	$	4,859,214	766,385
Investments		44,900,003	52,442,308
	$	49,759,217	53,208,693
Current assets:			
Cash and cash equivalents	$	4,821,508	734,943
Investments		25,358,742	29,599,001
Restricted assets:			
Cash and cash equivalents		37,706	31,442
Investments		19,541,261	22,843,307
	$	49,759,217	53,208,693

(3) Restricted Assets

The Authority received $2,000,000 during both fiscal years 2014 and 2013 from the Commonwealth Airport Fund (State block grant) for the Authority's use in financing capital asset additions. These funds are provided in advance of actual expenditure or specific project approval based on the relative size of each of the Commonwealth's air carrier airports and are restricted for expenditures on qualifying projects.

The trust indenture securing the Series 2011 Bonds Payable, issued in the aggregate principal amount of $69,285,000, requires segregation of certain assets into restricted accounts. The construction account includes funds available for the design and construction of capital improvements for the Airport and for the repayment of debt. The passenger facility charge cash and receivable accounts are also restricted assets. All cash and investments are held by the following financial institutions: US Bank, SunTrust Bank, SunTrust

 (Continued)

Financial Corporation, Branch Banking and Trust Company, and Local Government Investment Pool of Virginia Department of the Treasury. Restricted assets consist of the following at June 30, 2014 and 2013:

		2014	2013
State block grant account	$	5,761,186	9,443,127
Debt service reserve accounts		6,475,142	6,343,754
Passenger facility charges account		5,016,687	4,832,785
Passenger facility charges receivable, including interest		710,195	1,119,522
City tax assessment payment		2,288,246	2,223,641
Flexible spending account		31,012	27,355
Customs and border protection forfeiture fund		6,694	4,087
Restricted assets	$	20,289,162	23,994,271

(4) Capital Assets

The following is a summary of the changes in capital assets for the years ended June 30, 2014 and 2013:

		Balances, June 30, 2013	Increases	Decreases	Balances, June 30, 2014
Capital assets not being depreciated:					
Land	$	14,905,612	26,090	—	14,931,702
Construction in progress		10,572,911	15,630,838	(8,756,738)	17,447,011
		25,478,523	15,656,928	(8,756,738)	32,378,713
Other capital assets:					
Building, structures, and improvements		228,944,543	5,713,741	—	234,658,284
Roads and runways		61,233,693	165,402	—	61,399,095
Equipment		33,919,470	2,320,610	(880,231)	35,359,849
Less accumulated depreciation for:					
Building, structures, and improvements		(103,561,936)	(6,251,820)	—	(109,813,756)
Roads and runways		(48,957,274)	(2,069,018)	—	(51,026,292)
Equipment		(23,658,905)	(1,832,145)	827,507	(24,663,543)
		147,919,591	(1,953,230)	(52,724)	145,913,637
Capital assets, net	$	173,398,114	13,703,698	(8,809,462)	178,292,350

	Balances, June 30, 2012	Increases	Decreases	Balances, June 30, 2013
Capital assets not being depreciated:				
Land	$ 14,904,812	800	—	14,905,612
Construction in progress	8,654,203	10,922,546	(9,003,838)	10,572,911
	23,559,015	10,923,346	(9,003,838)	25,478,523
Other capital assets:				
Building, structures, and improvements	223,031,451	5,913,092	—	228,944,543
Roads and runways	60,974,560	259,133	—	61,233,693
Equipment	31,507,412	2,713,136	(301,078)	33,919,470
Less accumulated depreciation for:				
Building, structures, and improvements	(97,261,298)	(6,300,638)	—	(103,561,936)
Roads and runways	(46,892,785)	(2,064,489)	—	(48,957,274)
Equipment	(22,310,679)	(1,649,304)	301,078	(23,658,905)
	149,048,661	(1,129,070)	—	147,919,591
Capital assets, net	$ 172,607,676	9,794,276	(9,003,838)	173,398,114

Depreciation expense for the years ended June 30, 2014 and 2013 was $10,152,983 and $10,014,431, respectively.

(5) Bond Insurance Costs

At June 30, 2014, the gross carrying amount and accumulated amortization of bond insurance costs was $678,110 and $569,188, respectively. At June 30, 2013, the gross carrying amount and accumulated amortization of debt insurance costs were $678,110 and $540,186, respectively. Amortization expense for the years ended June 30, 2014 and 2013 was $29,002 and $35,118, respectively.

(6) Bonds Payable

Bonds payable comprise the following at June 30, 2014 and 2013:

	2014	2013
Series 2011 Bonds payable	$ 56,835,000	63,185,000
VRA Bonds payable	516,787	591,570
	57,351,787	63,776,570
Unamortized premium	1,568,942	1,874,855
	$ 58,920,729	65,651,425

In June 2011, the Authority completed the sale of $18,300,000 Airport Revenue Bonds Series 2011A (Non-AMT) and $25,025,000 Airport Revenue Bonds Series 2011B (AMT). In October 2011, the Authority completed the sale of $25,960,000 Airport Revenue Bonds Series 2011C (Non-AMT). Proceeds of the Series 2011 Bonds were used to defease and refund its previously outstanding Series 2001 Bonds. The Series 2011 Bonds are payable from general revenues and PFC revenues of the Authority and certain funds and accounts established under the indenture. Principal payments on the Series 2011 Bonds are due on July 1 of each year from 2014 through 2032. Interest is payable on the bonds on January 1 and July 1 of each year, commencing January 1, 2012, with interest rates ranging from 3.00% to 5.25% during the term of the bonds. The bond resolutions include reserve requirements, including the requirement that total revenues provide for 100% of operating expenses and net revenues provide at least 125% of the debt service requirement for the following year.

In January 2001, the Authority entered into a financing agreement with Virginia Resources Authority (VRA) in which VRA agreed to use a portion of the proceeds from the issuance of its Airport Revolving Fund Revenue Bonds, Series 2001B to acquire from the Authority the Airport Fixed-Base Operations Revenue Bond, Series 2001 (VRA Bonds) in the principal amount of $1,273,267. The VRA Bonds are payable from construction fund reserves established under the agreement. Principal payments plus interest at 3.14% are due monthly from 2002 to 2021.

Maturities of bond principal and interest to be provided for all bonds outstanding at June 30, 2014 were as follows:

		Principal	Interest
Year(s) ending June 30:			
2015	$	6,632,165	2,511,598
2016		4,804,623	2,235,340
2017		2,237,159	2,067,903
2018		2,344,777	1,966,586
2019		2,452,477	1,858,535
2020 – 2024		13,885,586	7,508,366
2025 – 2029		15,155,000	3,887,270
2030 – 2032		9,840,000	677,251
	$	57,351,787	22,712,849

Revenue bond activity for the years ended June 30, 2014 and 2013 is as follows:

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

		Balance, June 30, 2012	Amortization of premium	Bond payments	Balance, June 30, 2013
Series 2011 Bonds payable	$	71,516,973	(357,118)	(6,100,000)	65,059,855
VRA Bonds payable		664,043	—	(72,473)	591,570
	$	72,181,016	(357,118)	(6,172,473)	65,651,425

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, 2014, the rate covenant was met. The indenture further provides that the Authority (in the event that the coverage is not met for a single year) hire a consultant to study revenues, expenses, and debt coverage for the following year and to provide guidance on rates and charges and meeting the rate coverage calculation. A noncompliance with the covenant is not a default until it is not met for two consecutive years.

(7) Airport Use Agreement

Effective July 1, 2008, the Authority entered into an Airline Use and Lease Agreement (the Agreement) with the commercial airlines operating scheduled passenger service at the Airport, which was renewed effective July 1, 2013. The current term of the Agreement for all signatory carriers is five years. The Agreement provides for airlines to pay rates and charges calculated based on established cost centers. The Agreement provides for the Authority to share surplus revenues with the signatory airlines (the Airlines) after all operating and maintenance expenses, debt service (including coverage), and required deposits to various reserve funds have been made. Surplus revenues are accrued at the end of the year and refunded to the Airlines and a deficit in revenues may be billed to the Airlines. At June 30, 2014, and 2013, there was a surplus of $919,657 and $302,035, 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, 2014 and 2013.

(8) Defined Benefit Pension Plan

(a) Plan Description

All full-time, salaried permanent (professional) employees of the Authority are automatically covered by the Virginia Retirement System (VRS) upon employment. Members earn one month of service credit for each month they are employed and their employer is paying to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave, and previously refunded VRS service as credit in their plan.

Within the VRS Plan, the System administers three different benefits plans for Authority 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 have service credits before July 1, 2010 are covered under Plan 1. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service and at age 50 with 30 years of service for participating employers. An optional reduced retirement benefit is available to members of VRS as early as age 50 with at least 10 years of service credit or age 55 with at least five years of service credit. Active members may purchase previous service as creditable service to their plan and, if eligible, may purchase periods of leave without pay.

VRS Plan 2 is a defined benefit plan. Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 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. 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 6.00%. 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 (CAFR) 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/2013-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

(b) Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Authority is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Authority's contribution rates for the fiscal years ended June 30, 2014, 2013, and 2012 were 18%, 18%, and 13% of the annual covered payroll, respectively.

(c) Annual Pension Cost

For the year ended June 30, 2014, the annual pension cost of $1,763,741 for VRS was equal to the required and actual contributions.

	Three-Year Trend Information for the Authority		
	Annual pension cost APC)	**Percentage of APC contributed**	**Net pension obligation**
Fiscal year ending:			
June 30, 2014	$ 1,763,741	100%	$ —
June 30, 2013	1,684,872	100	—
June 30, 2012	1,217,433	100	—

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

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

(d) Funding Status and Funding Progress

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

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

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

(9) Executive Supplemental Retirement Plan

The Authority has an Executive Supplemental Retirement Plan (the ESRP), which was approved and established by the Board of Commissioners for certain key executives. Under the terms of the ESRP, upon retirement, the participants will receive annual payments equal to 75% of their final salary less any benefits received under the VRS. The receipt of full benefits is contingent on the participant's continued employment through the age of 65. Employees are eligible for reduced benefits beginning at the age of 60. The related expense is being accrued over the participants' estimated remaining length of service. During the year ended June 30, 2014, the plan benefit was $303,578, which is net of payments of $55,839. During the year ended June 30, 2013, the total plan expense was $55,852, including payments of $54,827. Whole life insurance policies have been purchased to assist in funding this liability. The Authority is owner and beneficiary of each of these policies. The cash surrender value of these policies was $1,032,030 and $1,037,902 at June 30, 2014 and 2013, respectively, and is included as other noncurrent assets in the accompanying statements of net position. The ESRP accrued expense is included in other long-term liabilities in the basic financial statements.

(10) Employee Contribution Plan

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

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

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

(11) Rental Income from Operating Leases

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

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

Year ending June 30:		
2015	$	13,738,700
2016		14,115,500
2017		14,507,100
2018		14,814,800
2019		15,154,400

The above amounts do not include contingent rentals and fees in excess of minimums, which amounted to $1,174,056 and $1,061,740 in fiscal years 2014 and 2013, respectively. Total rental and concession income in fiscal years 2014 and 2013 was approximately $15,400,400 and $14,321,000, respectively.

(12) Concentration of Credit Risk

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

(13) Risk Management

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

The Authority participates in a risk management self-insurance plan through the Commonwealth of Virginia administered by the Division of Risk Management. Through this plan, the Authority obtains public officers’ liability coverage of $1,000,000 per occurrence. The Comprehensive Annual Financial Report of the Commonwealth of Virginia contains disclosure of the Commonwealth’s estimated claims payable and estimated losses for self-insurance plans at June 30, 2014 and 2013.

The Authority also participates in a self-insurance program for workers’ compensation coverage through Companion Property and Casualty Group. Through this program, the Authority obtains coverage for bodily injury by accident or disease of $1,000,000 per occurrence.

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

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

(14) Government Grants in Aid of Construction

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

(15) Commitments and Contingencies

Prior to July 1, 1998, the Authority had an agreement with the City of Norfolk (the City) whereby the Authority had use of the Airport property free of charge. As of July 1, 1998, the City reacquired title to all property. On January 18, 2000, the City executed a deed conveying title to the Authority, reserving a right of reversion if the Airport property is no longer used as an airport. In consideration of the conveyance of the property, the Authority agreed to compensate the City for the loss of tax revenue on the Airport property. Beginning in fiscal year 2014, the adjusted annual payment was set by the City's tax assessor; in no event shall the payment exceed stated tax rates on the fair value of the Airport property. Advance payments are due annually on July 1. Payments for fiscal years 2014 and 2013 were $2,065,500 and $2,025,000, respectively. The Authority's fiscal year 2014 annual payment of $2,065,500 was made in June 2013 and is reflected as a prepaid expense as of June 30, 2013. The Authority's fiscal year 2015 annual payment of $2,127,465 was made in June 2014 and is reflected as a prepaid expense as of June 30, 2014.

(Continued)

The Authority is a defendant in certain lawsuits and is aware of other threatened claims generally 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, 2014.

(16) Conduit Debt

From time to time, the Authority has issued revenue bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying promissory notes. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the Commonwealth of Virginia nor any political subdivision thereof, including the Authority, is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying statements of net position. As of June 30, 2014 and 2013, there were 21 Series of revenue bonds outstanding with an initial aggregate principal amount of approximately $98,546,000.

NORFOLK AIRPORT AUTHORITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

Federal grantor/program title	CFDA number	Project number		Expenditures
Federal Aviation Administration:				
Airport Improvement Program:				
Expand Security Checkpoint B	20.106	3-51-0036-62	$	2,879,627
Environmental Impact Study Phase I Parallel Runway 5R/23L	20.106	3-51-0036-63		95,442
Transportation Security Administration:				
Explosive detection canine team program	97.072			181,500
			$	3,156,569

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

See accompanying independent auditors' report.

NORFOLK AIRPORT AUTHORITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

(1) General

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

(2) Basis of Accounting

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

NORFOLK AIRPORT AUTHORITY

Schedule of Passenger Facility Charge Revenues and Expenditures

Year ended June 30, 2014 and
each quarter during the year ended June 30, 2014

	Date approved	Cumulative total – June 30, 2013	Quarter ended September 30, 2013	Quarter ended December 31, 2013	Quarter ended March 31, 2014	Quarter ended June 30, 2014	Year ended June 30, 2014	Cumulative total – June 1998 to June 30, 2014
Revenues:								
Passenger facility charge revenues received		$ 74,426,127	2,140,075	1,393,407	1,262,735	1,739,278	6,535,495	80,961,622
Interest earned		6,780,019	—	4,011	5,986	—	9,997	6,790,016
Total revenues		$ 81,206,146	2,140,075	1,397,418	1,268,721	1,739,278	6,545,492	87,751,638
Expenditures:								
Bond financing and interest costs and capital expenditures	July 2007	$ 78,123,281	4,625,344	—	1,736,655	—	6,361,999	84,485,280

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

See accompanying independent auditors' report.

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 basic financial statements of the Norfolk Airport Authority (the Authority), which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated October 23, 2014, which included a paragraph emphasizing that in fiscal year 2014, the Authority retrospectively, adopted new accounting guidance described in Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

KPMG LLP

October 23, 2014

KPMG LLP
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Independent Auditors' Report on Compliance for the Major Program and Report on Internal Control Over Compliance Required by OMB Circular A–133, *Audits of States, Local Governments, and Non-Profit Organizations*

The Board of Commissioners
Norfolk Airport Authority:

Report on Compliance for the Major Federal Program

We have audited the Norfolk Airport Authority's (the Authority) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2014. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance of the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

In our opinion, the Norfolk Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-001, that we consider to be a significant deficiency.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

KPMG LLP

October 23, 2014

KPMG LLP
Suite 1900
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Independent Auditors' Report on Compliance for the Passenger Facility Charge Program and Report on Internal Control Over Compliance

The Board of Commissioners
Norfolk Airport Authority:

Report on Compliance for the Passenger Facility Charge Program

We have audited Norfolk Airport Authority's (the Authority) compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the Guide), issued by the Federal Aviation Administration, that could have a direct and material effect on its passenger facility charge program for the year ended June 30, 2014.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its passenger facility charge program.

Auditors' Responsibility

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

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

Opinion

In our opinion, Norfolk Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its passenger facility charge program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

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

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

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

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

KPMG LLP

October 23, 2014

NORFOLK AIRPORT AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

(1) Summary of Auditors' Results

(a) The type of report issued on the financial statements: **Unmodified opinion**

(b) Significant deficiencies in internal control over financial reporting: **None reported**
Material weaknesses: **None**

(c) Noncompliance that is material to the financial statements: **None**

(d) Significant deficiencies in internal control over major programs: **Yes, finding 2014-001**
Material weaknesses: **None**

(e) The type of report issued on compliance for major programs: **Unmodified opinion**

(f) Any audit findings that are required to be reported under Section 0.510(a) of OMB Circular A-l33: **Yes, finding 2014-001**

(g) Major program: **Airport Improvement Program; CFDA No. 20.106**

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

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

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

(3) Findings and Questioned Costs Relating to Federal Awards

Department of Transportation

Finding 2014-001: Cash Management

Significant Deficiency in Internal Control

Criteria – In accordance with 31 CFR part 205, the Authority is required to request reimbursements for costs after the date of payment.

Condition – In our sample of five payments, there were two payments in which the reimbursement request was submitted prior to the date the payment was made.

Perspective – Two out of five payments in our sample had improper reimbursement requests. However, for these two payments the requested reimbursements were received after the payments were made by the Authority.

Cause and Effect – The Authority did not have the adequate controls in place over the reimbursement request dates for payments.

Recommendation – We recommend that the Authority enhance its internal control surrounding the request of reimbursements.

Views of Management – Management agrees with this finding.

A control procedure will be put in place to ensure that the Director of Finance reviews all reimbursement requests to make sure that the reimbursement is not requested before the payment date.

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