FINANCIAL REPORT

YEARS ENDED JUNE 30, 2017 AND 2016

WINCHESTER REGIONAL AIRPORT AUTHORITY

FINANCIAL REPORT

YEARS ENDED JUNE 30, 2017 AND 2016

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WINCHESTER REGIONAL AIRPORT AUTHORITY

DIRECTORY OF PRINCIPAL OFFICIALS

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FINANCIAL SECTION

Independent Auditors' Report

To the Honorable Members of the Board of Directors
Winchester Regional Airport Authority
Winchester, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Winchester Regional Airport Authority, as of and for the years ended June 30, 2017 and 2016 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Winchester Regional Airport Authority, as of June 30, 2017 and 2016 and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules related to pension funding on pages 3-6 and 34-36 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Winchester Regional Airport Authority's basic financial statements. The other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The other supplementary information and the schedule of expenditures of federal awards 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 other supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2018, on our consideration of Winchester Regional Airport 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 Winchester Regional Airport Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
May 11, 2018

As management of the Winchester Regional Airport Authority we offer this narrative overview and analysis of the financial performance and overview of the Authority's financial activities for the fiscal years ended June 30, 2017 and 2016.

Overview of the Financial Statements:

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. Since the Authority is engaged only in business-type activities, its basic financial statements are comprised of only two components: 1) enterprise fund financial statements and 2) notes to the financial statements.

Enterprise fund financial statements. The enterprise fund financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The statement of net position presents information on the Authority's assets and deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between them 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 statement of revenues, expenses and changes in net position presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e. earned but unused vacation leave).

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Other information. In addition to basic financial statements and accompanying notes, this report also presents certain Required Supplementary Information concerning the Authority's progress in funding its obligation to provide pension benefits to its employees. The Required Supplementary Information can be found in Exhibits 4-6 on pages 34-36.

Other supplementary information. In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information concerning the Authority's budgetary basis revenues and expenditures and capital revenues and expenses which can be found on pages 37 and 38.

Financial Highlights FY2017:

The assets and deferred outflows of resources of the Winchester Regional Airport Authority exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $25,522,420.

Total direct operating expenses increased to $995,338 in FY2017 from $918,375 in FY2016.

Statement of Net Position:

The following table reflects the condensed Statements of Net Position:

Table 1
Summary of Statements of Net Position
As of June 30, 2017, 2016, and 2015

	June 30, 2017	June 30, 2016	June 30, 2015
Current assets	$ 354,075	$ 239,690	$ 680,697
Capital assets	26,132,775	25,691,124	24,592,991
Total assets	$ 26,486,850	$ 25,930,814	$ 25,273,688
Deferred outflows of resources	$ 97,044	$ 50,471	$ 59,645
Total assets, deferred outflows	$ 26,583,894	$ 25,981,285	$ 25,333,333
Current liabilities	$ 434,281	$ 174,484	$ 836,506
Long-term liabilities	618,034	576,386	621,376
Total liabilities	$ 1,052,315	$ 750,870	$ 1,457,882
Deferred inflows of resources	$ 9,159	$ 27,157	$ 83,520
Net position:			
Net investment in capital assets	$ 25,802,318	$ 25,309,300	$ 24,106,422
Unrestricted (deficit)	(279,898)	(106,042)	(314,491)
Total net position	$ 25,522,420	$ 25,203,258	$ 23,791,931
Total liabilities, deferred inflows of resources and net position	$ 26,583,894	$ 25,981,285	$ 25,333,333

The Authority's combined net position for 2017 and 2016 (which is the Authority's bottom line) increased $319,162 during the year. The Authority's combined net position for 2016 and 2015 increased $1,411,327 during the prior year.

Statements of Changes in Net Position:

The following table shows the revenues and expenses of the Authority for the past three fiscal years:

Table 2
Changes in Net Position
For the Fiscal Years Ended June 30, 2017, 2016, and 2015

	June 30, 2017	June 30, 2016	June 30, 2015
Operating revenues:			
Gross profit on sale of fuel, oil, and merchandise	$ 353,429	$ 383,741	$ 280,222
Rental accounts	419,318	430,839	425,212
Land leases	57,441	51,275	50,153
Contributions from participant localities	159,425	183,882	120,810
Other operating revenues	65,651	47,591	48,515
Total operating revenues	$ 1,055,264	$ 1,097,328	$ 924,912
Capital contributions	$ 1,142,038	$ 2,118,119	$ 2,201,226
Total revenues and contributions	$ 2,197,302	$ 3,215,447	$ 3,126,138
Direct operating expenses:			
Salaries and wages	$ 518,889	$ 471,069	$ 482,822
Fringe benefits	203,843	163,798	174,853
Professional services	29,113	33,284	22,918
Maintenance services	17,302	7,197	15,216
Contractual services	32,284	44,904	38,520
Utilities	72,184	76,330	85,267
Insurance	36,891	36,873	37,177
Materials and supplies	28,099	34,337	31,217
Other operating expenses	63,696	50,583	37,302
Total direct operating expenses	$ 1,002,301	$ 918,375	$ 925,292
Depreciation	859,702	864,090	841,066
Interest expense	16,137	21,655	26,364
Total expenses	$ 1,878,140	$ 1,804,120	$ 1,792,722
Increase in net position	$ 319,162	$ 1,411,327	$ 1,333,416
Net position, beginning of year	25,203,258	23,791,931	22,458,515
Net position, end of year	$ 25,522,420	$ 25,203,258	$ 23,791,931

Revenues:

For the fiscal year ended June 30, 2017, revenues and contributions decreased from $3,215,447 to $2,197,302. The most significant is the decrease in capital contributions of $976,081, due to a decrease in federal and state reimbursements for completion of the South Apron design and construction. The gross profit from sale of fuel, oil and other merchandise decreased $30,312.

Expenses:

For the fiscal year ended June 30, 2017 operating expenses increased $76,963 and total expenses increased $74,020. The largest increase in expense was salaries which increased $47,820. Depreciation in the amount of $859,702 represents 47% of total expenses. For the fiscal year ended June 30, 2016 operating expenses decreased $6,917 and total expense increased $11,398. The largest increase in expense was depreciation which increased $23,024. Depreciation in the amount of $864,090 for 2016 represented 48% of total expenses.

Capital Assets:

At the end of fiscal year 2017, the Authority has invested $26,132,775 in capital assets (net of accumulated depreciation). During the year the construction in progress decreased by $2,952,516, due primarily to the completion of the South Apron project. The following table shows the change in capital assets for the fiscal year ended June 30, 2017:

Table 3
Governmental Funds
Change in Capital Assets

	Balance June 30, 2016	Net Additions/ Deletions	Balance June 30, 2017
Capital Assets:			
Land	$ 5,241,546	$ -	$ 5,241,546
Buildings	6,021,735	-	6,021,735
Improvements other than buildings	21,968,983	4,253,869	26,222,852
Furniture, fixtures and equipment	593,616	-	593,616
Construction in progress	4,316,310	(2,952,516)	1,363,794
Totals	$ 38,142,190	$ 1,301,353	$ 39,443,543

Additional information on capital assets can be found in Note 5.

Long-term Obligations:

The Authority increased its long-term obligations by $33,309 during the year. Interest costs during the year totaled $16,137 compared to $21,655 in the prior year, a decrease of $5,518. The Authority had an increase in net pension liability of $73,696 compared to a $20,072 increase in the prior year.

Additional information on long-term debt can be found in Note 6.

Economic Factors and Future Projects:

During the current year the Authority saw sales of fuel, oil and other merchandise decrease from $773,676 to $765,503 a decrease of $8,173 or 1.06%. The Authority sales of Avgas and Jet-A gasoline increased from 167,106 gallons in FY2016 to 176,468 in FY2017, an increase of 9,362 gallons. Avgas sales increased 1,238 gallons while Jet-A fuel sales increased 8,124 gallons.

Contacting the Authority's Financial Management:

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in the report or requests for additional financial information should be directed to the Authority's Executive Director, 491 Airport Road, Winchester, Virginia 22602.

- Basic Financial Statements -

WINCHESTER REGIONAL AIRPORT AUTHORITY **Exhibit 1**

Statements of Net Position
As of June 30, 2017 and 2016

		2017		2016
ASSETS				
Current assets:				
Cash and cash equivalents	$	-	$	-
Accounts receivable	$	53,453	$	86,565
Due from other governments		228,096		104,054
Inventory		70,790		47,180
Prepaid items		1,736		1,891
Total current assets	$	354,075	$	239,690
Noncurrent assets:				
Capital Assets (net of depreciation):				
Land	$	5,241,546	$	5,241,546
Construction in progress		1,363,794		4,316,310
Buildings		3,203,108		3,356,335
Improvements other than buildings		16,285,624		12,731,937
Furniture, fixtures and equipment		38,703		44,996
Total capital assets	$	26,132,775	$	25,691,124
Total assets	$	26,486,850	$	25,930,814
DEFERRED OUTFLOWS OF RESOURCES				
Pension deferrals	$	97,044	$	50,471
Total deferred outflows of resources	$	97,044	$	50,471
Total assets and deferred outflows of resources	$	26,583,894	$	25,981,285
LIABILITIES				
Current liabilities:				
Reconciled overdraft	$	62,585	$	67,688
Accounts payable		321,780		48,541
Long-term obligations, current portion		49,916		58,255
Total current liabilities	$	434,281	$	174,484
Noncurrent liabilities:				
Long-term obligations, noncurrent portion	$	618,034	$	576,386
Total liabilities	$	1,052,315	$	750,870
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues	$	-	$	-
Pension deferrals		9,159		27,157
Total deferred inflows of resources	$	9,159	$	27,157
NET POSITION				
Net investment in capital assets	$	25,802,318	$	25,309,300
Unrestricted (deficit)		(279,898)		(106,042)
Total net position	$	25,522,420	$	25,203,258
Total liabilities, deferred inflows of resources and net position	$	26,583,894	$	25,981,285

The accompanying notes to financial statements are an integral part of this statement.

Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016

	2017	2016
Operating revenues:		
Sales--fuel, oil and other merchandise	$ 765,503	$ 773,676
Less cost of goods sold	(412,074)	(389,935)
Gross profit on sales	$ 353,429	$ 383,741
Other operating revenues:		
Rental accounts	$ 419,318	$ 430,839
Land leases	57,441	51,275
Other services, fees, commissions	32,421	34,324
Contributions from participant localities	159,425	183,882
Operating grants	11,811	6,493
Miscellaneous	21,419	6,774
Total other operating revenues	$ 701,835	$ 713,587
Total operating revenues	$ 1,055,264	$ 1,097,328
Operating expenses:		
Salaries	$ 518,889	$ 471,069
Fringe benefits	203,843	163,798
Professional services	29,113	33,284
Repair and maintenance	17,302	7,197
Other contractual services	32,284	44,904
Utilities	72,184	76,330
Insurance	36,891	36,873
Materials and supplies	28,099	34,337
Other direct operating expenses	63,696	50,583
Total operating expenses	$ 1,002,301	$ 918,375
Operating income (loss) before depreciation	$ 52,963	$ 178,953
Depreciation	$ 859,702	$ 864,090
Operating income (loss)	$ (806,739)	$ (685,137)
Nonoperating revenues (expenses):		
Interest expense	$ (16,137)	$ (21,655)
Total nonoperating revenues (expenses)	$ (16,137)	$ (21,655)
Net income (loss) before capital contributions	$ (822,876)	$ (706,792)
Capital contributions	1,142,038	2,118,119
Change in net position	$ 319,162	$ 1,411,327
Net position - beginning of year	25,203,258	23,791,931
Net position - end of year	$ 25,522,420	$ 25,203,258

The accompanying notes to financial statements are an integral part of this statement.

Statements of Cash Flows
Years Ended June 30, 2017 and 2016

		2017		2016
Cash flows from operating activities:				
Receipts from customers and users	$	1,478,777	$	1,429,458
Payments to employees		(248,368)		(669,514)
Payments to suppliers		(1,081,619)		(663,767)
Net cash provided by (used for) operating activities	$	148,790	$	96,177
Cash flows from capital and related financing activities:				
Intergovernmental capital contributions	$	993,097	$	2,613,355
Interest expense		(16,137)		(21,655)
Purchase of property, equipment and construction in progress		(1,069,280)		(2,538,888)
Retirement of indebtedness		(51,367)		(104,745)
Net cash provided by (used for) capital and related financing activities	$	(143,687)	$	(51,933)
Cash flows from noncapital and financing activities:				
Changes in bank overdraft	$	(5,103)	$	(36,244)
Decrease in unavailable revenues		-		(8,000)
Net cash provided by (used for) noncapital and financing activities		(5,103)		(44,244)
Net increase (decrease) in cash and cash equivalents	$	-	$	-
Cash and cash equivalents at beginning of year		-		-
Cash and cash equivalents at end of year	$	-	$	-
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	$	(806,739)	$	(685,137)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation		859,702		864,090
Changes in operating assets and liabilities:				
(Increase) decrease in:				
Accounts receivable		33,112		(45,355)
Due from other governments		24,900		(12,450)
Inventory		(23,610)		3,712
Prepaid items		155		(135)
Deferred outflows of resources - pension related		(46,573)		9,174
Increase (decrease) in:				
Accounts payable		41,165		6,099
Compensated absences		10,980		(15,530)
Deferred inflows of resources - pension related		(17,998)		(48,363)
Net pension liability		73,696		20,072
Net cash provided by (used for) operating activities	$	148,790	$	96,177

The accompanying notes to financial statements are an integral part of this statement.

NOTE 1 - BASIS OF PRESENTATION:

A. Organization and Purpose

The Winchester Regional Airport Authority was created by the City of Winchester and the Counties of Frederick, Clarke, Warren and Shenandoah to operate as a regional airport as provided in Chapter 3, Title 5.136 *Code of Virginia* (1950), as amended. On July 1, 1987 the City of Winchester executed and delivered a deed of quitclaim, discharge, transfer, and release to the Winchester Regional Airport Authority, all right, title, and interest of the City of Winchester in and to its several parcels of land owned by the City of Winchester and situated in Frederick County, Virginia, together with all improvements thereon and appurtenances there unto appertaining. The City also assigned all of the rights, title, and interest of the City in and to all franchises, leases, or other rights of whatsoever nature in connection therewith by agreement. Excepted from the conveyances is the property leased by Powlen Equipment Company. The City also conveyed to the Authority all of its rights, title, and interest in and to such personal property situated on the airport.

The Virginia Aviation Commission approved the transfer of the Commission's operator's license to the Authority. The Authority hired all of the Commission's employees and day-to-day operation of the airport was unchanged.

B. Financial Reporting Entity

The Authority has determined that it is a related organization to the City of Winchester and the Counties of Frederick, Clarke, Warren and Shenandoah in accordance with Governmental Accounting Standards Board GASB Statement Nos. 14 and 39. However, the Authority is a legally separate organization whose board members consist of two members from the City of Winchester, four members from Frederick County, and one member from the Counties of Clarke, Warren and Shenandoah, respectively. Since neither the City nor any County can impose its will on the Authority and since there is no potential financial benefit or burden relationship, the City and the Counties are not financially accountable for the Authority. Accordingly, the Authority is not considered a component unit of either the City or any participating locality.

C. Deficit Funding

Pursuant to a “memorandum of understanding” dated December 13, 1994 between the County of Frederick and the City of Winchester, funding of the Authority’s operating deficits are to be shared by the County and City based on population, and capital costs are to be shared equally for years 1994 and 1995 and based on population in subsequent years.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Management’s Discussion and Analysis:

GASB Statement No. 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the Authority’s financial activities in the form of “Management’s Discussion and Analysis” (MD&A).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Enterprise Fund Financial Statements:

Since the Authority is only engaged in business-type activities, it is required to present only the financial statements required for enterprise funds. For the Authority, the basic financial statements consist of:

-- Enterprise fund financial statements
- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows
- Notes to Financial Statements

A. Financial Statement Presentation

The Authority operates as an enterprise fund and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash.

B. Inventory

Fuel and oil inventory of the general aviation terminal is valued at cost using the first-in, first-out method of valuation.

C. Prepaid Items

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. The cost of prepaid items is recorded as expenses when consumed rather than when purchased.

D. Capital Assets

Capital assets are defined by the entity as assets with an initial, individual cost of at least $3,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation is computed on the straight-line method over the following estimated lives:

Improvements other than buildings	25 years
Buildings	40 years
Furniture, fixtures and equipment	3 to 10 years

Depreciation expense is generally not computed on assets in their year of acquisition, and a full year is charged to operations in the year the asset is disposed of or removed from service.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

E. Cash and Cash Equivalents

For purposes of the statement of cash flows the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government.

F. Allowance for Uncollectible Accounts

The Authority calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. There is no allowance for uncollectible accounts at June 30, 2017 and 2016.

G. Budgetary Schedules

The supporting schedules as disclosed in the table of contents compare budget and actual data for operations and capital activity. A review of the budgetary comparisons presented herein will disclose how accurately the governing body was able to forecast the revenues and expenses of the Authority.

H. Revenue Recognition

Revenue from sales of fuel and services are recorded when earned. Rental revenues result from short-term lease agreements and similar arrangements. Contributions from localities are recognized when appropriated by the respective governing bodies of the participant localities. Federal and state grants are recorded on the basis of allowable reimbursable grant expenditures.

I. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

J. Compensated Absences

The Authority has a policy which allows for the accumulation and vesting of limited amounts of vacation leave until termination or retirement.

K. Capitalization of Interest

The Authority capitalizes interest costs on funds borrowed to finance the construction of infrastructure assets. No interest was capitalized for the years ended June 30, 2017 and 2016.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

L. Operating and Nonoperating Income and Expenses

Operating revenues and expenses result from providing services in connection with air transportation. The principal operating revenues of the Authority are charges to customers for sales and services.

Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

M. Net Position

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

N. Net Position Flow Assumption

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

O. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority has two items that qualify for reporting in this category. One is comprised of contributions to the pension plan made during the current year and subsequent to the net pension liability measurement date, which will be recognized as a reduction of the net pension liability next fiscal year. The other item is comprised of certain items related to the measurement of net pension liability. These include differences between expected and actual experience and the net difference between projected and actual earnings on pension plan investments. For more detailed information on these items, reference the pension note.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has one item that qualifies for reporting in this category. Certain items related to the measurement of the net pension liability are reported as deferred inflows of resources. These include differences between expected and actual experience and the net difference between projected and actual earnings on pension plan investments. For more detailed information on these items, reference the pension note.

NOTE 3 - DEPOSITS AND INVESTMENTS:

Deposits:

The Authority's fiscal agent, the County of Frederick, Virginia, provides certain accounting and cash management functions for the Authority. As a part of this arrangement, the Authority participates in the County's common cash pool for its operating and capital cash requirements. At June 30, 2017 and 2016 the Authority's cash held by the County totaled overdrafts of ($62,585) and ($67,688), respectively.

Investments:

Statutes authorize the Authority to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the state Treasurer's Local Government Investment Pool (LGIP). At June 30, 2017 and 2016 the Authority had no investments.

NOTE 4 - DUE FROM OTHER GOVERNMENTS:

Receivables due from other governmental units at year end are as follows:

	2017	2016
Commonwealth of Virginia Department of Aviation	$ 23,041	$ 9,101
Federal Aviation Administration	200,931	52,545
County of Frederick	-	416
City of Winchester	4,124	41,992
Total	$ 228,096	$ 104,054

NOTE 5 - CAPITAL ASSETS:

A summary of capital assets at June 30, 2017 and 2016 is as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets, not being depreciated:				
Land	$ 5,241,546	$ -	$ -	$ 5,241,546
Construction in progress	4,316,310	1,301,353	4,253,869	1,363,794
Total capital assets not being depreciated	$ 9,557,856	$ 1,301,353	$ 4,253,869	$ 6,605,340
Capital assets being depreciated:				
Buildings	$ 6,021,735	$ -	$ -	$ 6,021,735
Improvements other than buildings	21,968,983	4,253,869	-	26,222,852
Furniture, fixtures and equipment	593,616	-	-	593,616
Total capital assets being depreciated	$ 28,584,334	$ 4,253,869	$ -	$ 32,838,203
Accumulated depreciation:				
Buildings	$ 2,665,400	$ 153,227	$ -	$ 2,818,627
Improvements other than buildings	9,237,046	700,182	-	9,937,228
Furniture, fixtures and equipment	548,620	6,293	-	554,913
Total accumulated depreciation	$ 12,451,066	$ 859,702	$ -	$ 13,310,768
Total capital assets being depreciated, net	$ 16,133,268	$ 3,394,167	$ -	$ 19,527,435
Capital assets, net	$ 25,691,124	$ 4,695,520	$ 4,253,869	$ 26,132,775

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets, not being depreciated:				
Land	$ 5,096,012	$ 145,534	$ -	$ 5,241,546
Construction in progress	2,499,621	1,962,223	145,534	4,316,310
Total capital assets not being depreciated	$ 7,595,633	$ 2,107,757	$ 145,534	$ 9,557,856
Capital assets being depreciated:				
Buildings	$ 6,021,735	$ -	$ -	$ 6,021,735
Improvements other than buildings	21,968,983	-	-	21,968,983
Furniture, fixtures and equipment	593,616	-	-	593,616
Total capital assets being depreciated	$ 28,584,334	$ -	$ -	$ 28,584,334
Accumulated depreciation:				
Buildings	$ 2,510,173	$ 155,227	$ -	$ 2,665,400
Improvements other than buildings	8,536,864	700,182	-	9,237,046
Furniture, fixtures and equipment	539,939	8,681	-	548,620
Total accumulated depreciation	$ 11,586,976	$ 864,090	$ -	$ 12,451,066
Total capital assets being depreciated, net	$ 16,997,358	$ (864,090)	$ -	$ 16,133,268
Capital assets, net	$ 24,592,991	$ 1,243,667	$ 145,534	$ 25,691,124

Depreciation expense for the years 2017 and 2016 was $859,702 and $864,090, respectively.

NOTE 5 - CAPITAL ASSETS: (continued)

Details of construction in progress at June 30, 2017 and June 30, 2016 are as follows:

Project	2017	2016
South Apron Project	$ -	$ 3,871,795
Runway 14 Approach Land Acquisition	318,516	111,090
Northside connector	862,868	263,612
Other projects	182,410	69,813
Total	$ 1,363,794	$ 4,316,310

NOTE 6 - LONG-TERM OBLIGATIONS:

The following is a summary of long-term obligations of the Authority for the year ended June 30, 2017 and June 30, 2016:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Current Portion
Note payable	$ 381,824	$ -	$ 51,367	$ 330,457	$ 41,648
Compensated absences	71,698	10,980	-	82,678	8,268
Net pension liability	181,119	175,076	101,380	254,815	-
Total long-term obligations	$ 634,641	$ 186,056	$ 152,747	$ 667,950	$ 49,916

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016	Current Portion
Note payable	$ 486,569	$ -	$ 104,745	$ 381,824	$ 51,085
Compensated absences	87,228	4,857	20,387	71,698	7,170
Net pension liability	161,047	151,519	131,447	181,119	-
Total long-term obligations	$ 734,844	$ 156,376	$ 256,579	$ 634,641	$ 58,255

NOTE 6 - LONG-TERM OBLIGATIONS: (continued)

Details of Long-term Obligations:

	2017	2016
Note Payable:		
$1,770,014 Series 2004 VRA Airports Revolving fund loan dated April 1, payable in variable monthly installments from May 1, 2004 through April 1, 2024, interest at 4.907% on March 16, 2017, the rate was readjusted to 2.8%	$ 330,457	$ 381,824
Total long-term obligations	$ 330,457	$ 381,824

Annual requirements to amortize long-term obligations and related interest on balances of debt outstanding at June 30, 2017 are as follows:

	VRA Series 2004	
	Principal	Interest
2018	$ 41,648	$ 15,591
2019	43,779	13,460
2020	46,019	11,221
2021	48,373	8,866
2022	50,848	6,391
2023	53,449	3,790
2024	46,341	1,075
Totals	$ 330,457	$ 60,394

NOTE 7 - COMPENSATED ABSENCES:

In accordance with GASB Statement 16, *Accounting for Compensated Absences*, the Authority has accrued the liability arising from outstanding compensated absences.

Authority employees earn vacation and sick leave at the rate of one day for each month. The Authority has outstanding accrued vacation and sick pay and related benefits totaling $82,678 and $71,698 at June 30, 2017 and 2016, respectively.

NOTE 8 - PENSION PLAN:

Plan Description

All full-time, salaried permanent employees of the Authority are automatically covered by a VRS Retirement Plan upon employment, through the County of Frederick. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. However, several entities participate in the VRS plan through County of Frederick, Virginia and the participating entities report their proportionate information on the basis of cost-sharing. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and, Hybrid. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 Plan 1 is a defined benefit plan. 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 Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**About Plan 2** Plan 2 is a defined benefit plan. 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 Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.

NOTE 8 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 (Cont.)	**About Plan 2 (Cont.)**	**About the Hybrid Retirement Plan (Cont.)** • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. **Hybrid Opt-In Election** VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.	**Eligible Members** Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. **Hybrid Opt-In Election** Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. ***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

NOTE 8 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	**Hybrid Opt-In Election (Cont.)** Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	***Non-Eligible Members (Cont.)** Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees are paying the full 5% as of July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees are paying the full 5% as of July 1, 2016.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

NOTE 8 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	**Creditable Service** Same as Plan 1.	**Creditable Service** **Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **Defined Contribution Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

NOTE 8 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	**Vesting** Same as Plan 1.	**Vesting** **Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **Defined Contribution Component:** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make.

NOTE 8 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Vesting (Cont.)	**Vesting (Cont.)**	**Vesting (Cont.)** **Defined Contribution Component: (Cont.)** Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** See definition under Plan 1.

NOTE 8 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Calculating the Benefit (Cont.) An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit (Cont.)**	**Calculating the Benefit (Cont.)** **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier **VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. **Sheriffs and regional jail superintendents:** The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. **Political subdivision hazardous duty employees:** The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	**Service Retirement Multiplier** **VRS:** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. **Sheriffs and regional jail superintendents:** Same as Plan 1. **Political subdivision hazardous duty employees:** Same as Plan 1.	**Service Retirement Multiplier** **Defined Benefit Component:** **VRS:** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **Sheriffs and regional jail superintendents:** Not applicable. **Political subdivision hazardous duty employees:** Not applicable. **Defined Contribution Component:** Not applicable.

NOTE 8 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Normal Retirement Age **VRS:** Age 65. **Political subdivisions hazardous duty employees:** Age 60.	**Normal Retirement Age** **VRS:** Normal Social Security retirement age. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Normal Retirement Age** **Defined Benefit Component:** **VRS:** Same as Plan 2. **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility **VRS:** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. **Political subdivisions hazardous duty employees:** Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**Earliest Unreduced Retirement Eligibility** **VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility **VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service.	**Earliest Reduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

NOTE 8 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Earliest Reduced Retirement Eligibility (Cont.) **Political subdivisions hazardous duty employees:** 50 with at least five years of creditable service.	**Earliest Reduced Retirement Eligibility (Cont.)** **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Earliest Reduced Retirement Eligibility (Cont.)** **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. **Eligibility:** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. **Eligibility:** Same as Plan 1.	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable. **Eligibility:** Same as Plan 1 and Plan 2.

NOTE 8 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Cost-of-Living Adjustment (COLA) in Retirement (Cont.) **Exceptions to COLA Effective Dates:** The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	**Cost-of-Living Adjustment (COLA) in Retirement (Cont.)** **Exceptions to COLA Effective Dates:** Same as Plan 1.	**Cost-of-Living Adjustment (COLA) in Retirement (Cont.)** **Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.

NOTE 8 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **<u>Defined Benefit Component:</u>** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. **<u>Defined Contribution Component:</u>** Not applicable.

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

NOTE 8 - PENSION PLAN: (continued)

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% 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.

The Authority's contractually required contribution rate for the year ended June 30, 2017 was 10.74% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were $42,405 and $48,570 for the years ended June 30, 2017 and June 30, 2016, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Authority reported a liability of $254,815 for its proportionate share of the net pension liability. The Authority's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016. The Authority's proportionate share of the same was calculated using creditable compensation as of June 30, 2016 and 2015 as a basis for allocation. At June 30, 2016 and 2015, the Authority's proportion was 1.09% and 1.15%, respectively.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Authority's Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Inflation	2.5%
Salary increases, including inflation	3.5% – 5.35%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

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

NOTE 8 - PENSION PLAN: (continued)

Actuarial Assumptions – General Employees (Continued)

Mortality rates: 14% of deaths are assumed to be service related

Largest 10 – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

All Others (Non 10 Largest) – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

NOTE 8 - PENSION PLAN: (continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
		Inflation	2.50%
		*Expected arithmetic nominal return	8.33%

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

NOTE 8 - PENSION PLAN: (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the County of Frederick, Virginia Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	Rate		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Authority's proportionate share of the County Retirement Plan Net Pension Liability (Asset)	$ 480,342	$ 254,815	$ 69,312

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2017, the Authority recognized pension expense of $44,112. At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 20,677	$ 2,708
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	6,451
Net difference between projected and actual earnings on pension plan investments	33,962	-
Employer contributions subsequent to the measurement date	$ 42,405	-
Total	97,044	$ 9,159

NOTE 8 - PENSION PLAN: (continued)

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

$42,405 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30		
2018	$	3,441
2019		3,441
2020		22,375
2021		16,223
Thereafter		-

NOTE 9 - LITIGATION:

The Authority is currently pursuing legal action against a vendor for lack of quality and care for services rendered. As of June 30, 2017, Management has not considered any positive outcome as a result of this suit. In addition, as of June 30, 2017, Management has no knowledge of any pending legal action against the Authority.

NOTE 10 - RISK MANAGEMENT:

The Authority contracts with commercial insurance carriers for property and liability coverages. Health insurance is provided through the County of Frederick's Health Insurance Fund, a public entity risk pool. Unemployment insurance is fully self-insured.

The amount of claims incurred but not reported as of June 30, 2017, relative to the Authority's participation in the County's health insurance plan is not available. The amount of unemployment claims unpaid and/or not reported at June 30, 2017 is insignificant.

There have been no reductions in insurance coverages or settlements in excess of insurance coverages in the past three fiscal years.

NOTE 11 - UPCOMING PRONOUNCEMENTS:

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension,* improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. This Statement is effective for fiscal years beginning after June 15, 2017.

- Required Supplementary Information -

Schedule of Authority's Proportionate Share of the Net Pension Liability
Years Ended June 30, 2015 through 2017

Date (1)	Proportion of the Net Pension Liability (NPL) (2)	Proportionate Share of the NPL (3)	Covered Payroll (4)	Proportionate Share of the NPL as a Percentage of Covered Payroll (3)/(4) (5)	Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (6)
2016	1.0913%	$ 254,815	$ 399,753	63.74%	88%
2015	1.1540%	181,119	417,580	43.37%	88%
2014	1.1361%	161,047	346,305	46.50%	89%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

Schedule of Employer Contributions
Years Ended June 30, 2014 through June 30, 2017

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2017	$ 42,405	$ 42,405	$ -	$ 394,832	10.74%
2016	48,570	48,570	-	399,753	12.15%
2015	59,645	59,645	-	417,580	14.28%
2014	44,777	44,777	-	346,305	12.93%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 is not material.

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

Largest 10 – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 – LEOS:
- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – LEOS:
- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

- Other Supplementary Information -

Schedule of Revenues and Expenses--Budget and Actual
Budgetary Basis
Year Ended June 30, 2017

	Original Budget	Budget as Amended	Actual	Variance From Amended Budget Positive (Negative)
Operating revenues:				
Revenue from the local sources:				
Sales--fuel, oil and other merchandise	$ 1,036,875	$ 1,036,875	$ 765,503	$ (271,372)
Rental accounts	459,000	459,000	419,318	(39,682)
Land leases	57,430	57,430	57,441	11
Other services, fees, commissions	32,100	32,100	32,421	321
Miscellaneous	11,350	11,350	21,419	10,069
Contributions from participant localities	159,425	159,425	159,425	-
Total operating revenue from local sources	$ 1,756,180	$ 1,756,180	$ 1,455,527	$ (300,653)
Revenue from the Commonwealth:				
Operating grants	$ 27,860	$ 27,860	$ 11,811	$ (16,049)
Total operating revenues	$ 1,784,040	$ 1,784,040	$ 1,467,338	$ (316,702)
Operating expenses:				
Salaries	$ 526,131	$ 526,131	$ 518,889	$ 7,242
Fringe benefits	223,492	223,492	203,843	19,649
Professional services	26,500	26,500	29,113	(2,613)
Repair and maintenance	18,350	18,350	17,302	1,048
Other contractual services	40,000	40,000	32,284	7,716
Utilities	91,550	91,550	72,184	19,366
Insurance	37,720	37,720	36,891	829
Materials and supplies	57,400	57,400	28,099	29,301
Merchandise for resale	598,500	598,500	(412,074)	1,010,574
Equipment rental	33,300	33,300	29,982	3,318
Other operating expenses	62,330	62,330	33,714	28,616
Total operating expenses	$ 1,715,273	$ 1,715,273	$ 590,227	$ 1,125,046
Nonoperating expenses:				
Interest expense	$ 68,767	$ 68,767	$ 16,137	$ 52,630
Total expenses	$ 1,784,040	$ 1,784,040	$ 606,364	$ 1,177,676
Excess (deficiency) of revenues over (under) expenses	$ -	$ -	$ 860,974	$ 860,974

Schedule of Capital Revenues and Expenses--Budget and Actual
Budgetary Basis
Year Ended June 30, 2017

	Original Budget	Revised Budget	Actual	Variance From Amended Budget Positive (Negative)
Capital revenues from local sources:				
Clarke County	$ 2,500	$ 2,500	$ 2,500	$ -
Shenandoah County	5,000	5,000	5,000	-
Frederick County	155,193	155,193	70,813	(84,380)
City of Winchester	51,682	51,682	23,604	(28,078)
Total revenue from local sources	$ 214,375	$ 214,375	$ 101,917	$ (112,458)
Capital revenues from the Commonwealth:				
Northside connector - design phase	$ 432	$ 432	$ -	$ (432)
General aviation terminal building study	52,000	52,000	42,720	(9,280)
Land acquisition - parcels 64	88,000	88,000	-	(88,000)
Professional services-land surveys	69,469	69,469	-	(69,469)
Environmental assessment	400	400	1,132	732
Maintenance repairs	27,314	27,314	6,615	(20,699)
Northside connector-construction phase	219,880	219,880	68,166	(151,714)
Total revenue from the Commonwealth	$ 457,495	$ 457,495	$ 118,633	$ (338,862)
Capital revenues from the Federal Government:				
Northside connector - design phase	$ 4,860	$ 4,860	$ -	$ (4,860)
Land acquisition - parcels 64	990,000	990,000	150,323	(839,677)
Environmental assessment	4,500	4,500	4,306	(194)
Northside connector-construction phase	2,473,650	2,473,650	766,859	$ (1,706,791)
Professional services-land surveys	61,520	61,520	-	(61,520)
Total revenue from the Federal Government	$ 3,534,530	$ 3,534,530	$ 921,488	$ (2,613,042)
Total capital contributions	$ 4,206,400	$ 4,206,400	$ 1,142,038	$ (3,064,362)
Capital expenses:				
Northside connector - design phase	$ 5,400	$ 5,400	$ 1,450	$ 3,950
General aviation terminal building study	65,000	65,000	53,400	11,600
Land acquisition	1,168,355	1,168,355	318,516	849,839
Environmental assessment runway 14 approach	5,000	5,000	4,784	216
Professional services-legal	100,000	100,000	62,258	37,742
Northside connector-construction phase	2,748,500	2,748,500	850,615	1,897,885
Professional services-land surveys	80,000	80,000	-	80,000
Maintenance repairs	34,145	34,145	6,986	27,159
Total capital expenses	$ 4,206,400	$ 4,206,400	$ 1,298,009	$ 2,908,391
Excess (deficiency) of capital revenues over (under) expenses	$ -	$ -	$ (155,971)	$ (155,971)

COMPLIANCE SECTION

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*

To the Honorable Members of the Board of Directors
Winchester Regional Airport Authority
Winchester, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of the Winchester Regional Airport Authority as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Winchester Regional Airport Authority's basic financial statements, and have issued our report dated May 11, 2018.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management, or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority'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 Winchester Regional Airport Authority's financial statements are free of 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
May 11, 2018

Independent Auditors' Report on Compliance For Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Honorable Members of the Board of Directors
Winchester Regional Airport Authority
Winchester, Virginia

Report on Compliance for Each Major Federal Program

We have audited the Winchester Regional Airport Authority's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Winchester Regional Airport Authority's major federal programs for the year ended June 30, 2017. Winchester Regional Airport Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Winchester Regional Airport Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirement, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Winchester Regional Airport 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 each major federal program. However, our audit does not provide a legal determination of Winchester Regional Airport Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, Winchester Regional 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 each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of Winchester Regional Airport 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 Winchester Regional Airport Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Winchester Regional Airport Authority's internal control over compliance.

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

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

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

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
May 11, 2018

WINCHESTER REGIONAL AIRPORT AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Department of Transportation:			
Direct Payments:			
Airport Improvement Program	20.106	N/A	$ 921,488

Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Winchester Regional Airport Authority under the program of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the reporting requirements of Title 2 U.S. Code of Federal Regulatioins Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Winchester Regional Airport Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Winchester Regional Airport Authority.

Note 2 - Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, Cost Principles for States, Local and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 - Relationship to Financial Statements

Federal expenditures, revenues and capital contributions are reported in the Authority's basic financial statements as follows:

Capital contributions of federal revenues on Schedule 2, page 39	$ 921,488
Total federal expenditures per the Schedule of Expenditures of Federal Awards	$ 921,488

Note 4 - De Minimis Cost Rate

The Corporation did not elect to use the 10-percent de minimis indirect cost rate all under Uniform Guidance.

Note 5 - Subrecipients

No awards were passed through to subrecipients.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance 2 CFR section 200.516(a)?	No

Identification of major programs:

CFDA #	Name of Federal Program or Cluster
20.106	Airport Improvement Program

Dollar threshold used to distinguish between Type A and Type B programs	$ 750,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

There are no federal award findings and questioned costs to report.

Section IV - Prior Year Audit Findings

There are no prior year audit findings.