VIRGINIA TECH/MONTGOMERY REGIONAL AIRPORT AUTHORITY

FINANCIAL REPORT

Fiscal Year Ended June 30, 2018

VIRGINIA TECH/MONTGOMERY REGIONAL AIRPORT AUTHORITY

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INTRODUCTORY SECTION

VIRGINIA TECH/MONTGOMERY REGIONAL AIRPORT AUTHORITY

DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2018

MEMBERS OF THE BOARD

Mr. L. Allen Bowman – Chairman
Mayor Ron Rordam – Vice Chairman
Ms. Ann H. Carter – Secretary-Treasurer
Dr. Sherwood Wilson
Ms. Mary W. Biggs

INDEPENDENT AUDITORS

Brown, Edwards & Company, L.L.P.

ATTORNEYS

Sands Anderson, P.C.

FINANCIAL SECTION

The Financial Section contains the Basic Financial Statements.

BROWN EDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Directors
Virginia Tech/Montgomery Regional Airport Authority
Blacksburg, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Virginia Tech/Montgomery Regional Airport Authority (the "Authority") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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Report on the Financial Statements (Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Virginia Tech/Montgomery Regional Airport Authority, as of June 30, 2018, and the 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.

Change in Accounting Principle

As described in Note 15 to the financial statements, in 2018, the Authority adopted new accounting guidance, *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions* and *GASB 89, Accounting for Interest Cost Incurred before the End of a Construction Period.* Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Authority's 2017 financial statements, and our report dated September 21, 2017 expressed an unmodified opinion on the financial statements of the Authority. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived. Because information to restate prior years in relation to GASB 75, discussed above, is not readily available, the comparative information has not been restated.

Other Matters (Continued)

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statement as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2018 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 6, 2018

BASIC FINANCIAL STATEMENTS

EXHIBIT 1

VIRGINIA TECH/MONTGOMERY REGIONAL AIRPORT AUTHORITY

STATEMENT OF NET POSITION
JUNE 30, 2018

	2018	(For Comparative Purposes Only) 2017
ASSETS		
Current Assets		
Cash and cash equivalents (Note 2)	$ 16,515	$ 419,672
Cash and cash equivalents, restricted (Note 2)	1,132,399	1,677,063
Accounts receivable (Note 10)	56,519	43,104
Due from other governments (Note 3)	3,037,370	6,175,970
Inventory	42,432	28,773
Total current assets	4,285,235	8,344,582
Noncurrent Assets		
Due from other governments (Note 3)	8,045,385	6,636,820
Capital Assets: (Note 4)		
Nondepreciable	23,979,673	17,631,367
Depreciable, net	10,011,053	10,828,473
Total noncurrent assets	42,036,111	35,096,660
Total assets	46,321,346	43,441,242
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions (Note 7)	97,340	139,738
Deferred outflows related to other post-employment benefits (Note 8)	3,237	-
Total deferred outflows of resources	100,577	139,738
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	1,926,303	3,796,904
Compensated absences (Note 5)	12,697	8,749
Due to Town of Blacksburg	238,573	179,325
Accrued interest payable	5,072	5,304
Current portion of long-term debt (Note 6)	1,402,146	2,830,307
Total current liabilities	3,584,791	6,820,589
Net pension liability (Note 7)	247,306	307,518
Other post-employment benefits (Note 8)	158,078	9,186
Compensated absences (Note 5)	22,986	16,204
Revenue bonds (Note 6)	2,013,194	2,114,564
Grant anticipation note (Note 6)	8,099,224	6,668,261
Total noncurrent liabilities	10,540,788	9,115,733
Total liabilities	14,125,579	15,936,322
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions (Note 7)	28,401	-
Deferred inflows related to other post-employment benefits (Note 8)	2,896	-
Total deferred inflows of resources	31,297	-
NET POSITION		
Net investment in capital assets	32,656,681	27,489,465
Restricted	38,614	38,482
Unrestricted	(430,248)	116,711
Total net position	$ 32,265,047	$ 27,644,658

The Notes to Financial Statements are
an integral part of this statement.

VIRGINIA TECH/MONTGOMERY REGIONAL AIRPORT AUTHORITY

EXHIBIT 2

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2018

	2018	(For Comparative Purposes Only) 2017
REVENUES		
Fuel sales (Note 10)	$ 624,815	$ 639,574
Hangar rentals	50,838	53,905
Parking	123,851	93,874
Property leases	80,307	80,240
Other income	16,835	12,294
Total operating revenues	896,646	879,887
OPERATING EXPENSES		
Salaries and wages	340,409	317,207
Directors' compensation	7,375	6,000
Employee benefits	97,332	98,747
Payroll taxes	25,175	23,663
Training and travel	3,120	2,791
Advertising	886	-
Administrative	31,236	29,480
Repair and maintenance	197,385	118,620
Supplies	26,142	14,451
Dues and subscriptions	1,861	1,470
Professional fees	80,034	72,268
Insurance	14,453	14,370
Inspection	4,400	3,100
Utilities	26,489	25,254
Fuel	323,976	309,187
Other	20,470	11,162
Telephone	7,007	6,417
Depreciation	847,287	846,246
Capital outlay	8,084	-
Landscaping	-	2,944
Total operating expenses	2,063,121	1,903,377
Operating loss	(1,166,475)	(1,023,490)

(Continued)

The Notes to Financial Statements are an integral part of this statement.

VIRGINIA TECH/MONTGOMERY REGIONAL AIRPORT AUTHORITY **EXHIBIT 2**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2018

	2018	(For Comparative Purposes Only) 2017
NONOPERATING REVENUES (EXPENSES)		
Operating grants	$ 115,169	$ 65,914
Members' contributions	200,000	200,000
Interest income	1,939	1,603
Interest expense (Note 6)	(62,559)	(65,277)
Total nonoperating revenues (expenses), net	254,549	202,240
Loss before capital contributions	(911,926)	(821,250)
CAPITAL CONTRIBUTIONS (Note 11)	5,686,348	5,200,810
Change in net position	4,774,422	4,379,560
Net position beginning July 1, as restated (Note 15)	27,490,625	23,265,098
Net position ending at June 30	$ 32,265,047	$ 27,644,658

The Notes to Financial Statements are
an integral part of this statement.

VIRGINIA TECH/MONTGOMERY REGIONAL AIRPORT AUTHORITY

EXHIBIT 3

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018

	2018	(For Comparative Purposes Only) 2017
OPERATING ACTIVITIES		
Receipts from customers	$ 883,231	$ 905,029
Payments to suppliers	(754,486)	(504,097)
Payments to employees	(451,710)	(426,918)
Net cash used in operating activities	(322,965)	(25,986)
CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments on long-term debt	(98,568)	(95,847)
Purchases of capital assets	(8,196,988)	(2,223,968)
Capital contributions	7,478,371	2,122,412
Receipts from governmental units	253,181	265,263
Interest paid on capital debt	(62,791)	(65,503)
Net cash provided by (used in) capital and related financing activities	(626,795)	2,357
INVESTING ACTIVITIES		
Interest received on investments	1,939	1,603
Net cash provided by investing activities	1,939	1,603
Net decrease in cash and cash equivalents	(947,821)	(22,026)
CASH AND CASH EQUIVALENTS		
Beginning	2,096,735	2,118,761
Ending	$ 1,148,914	$ 2,096,735
Reconciliation to Statement of Net Position		
Cash and cash equivalents	$ 16,515	$ 419,672
Cash and cash equivalents, restricted	1,132,399	1,677,063
	$ 1,148,914	$ 2,096,735

(Continued)

The Notes to Financial Statements are an integral part of this statement.

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018

	2018	(For Comparative Purposes Only) 2017
Reconciliation of operating loss to net cash used in operating activities		
Operating Loss	$ (1,166,475)	$ (1,023,490)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	847,287	846,246
Pension expense net of employer contributions	10,587	11,365
Other post-employment benefit expense net of employer contributions	(5,482)	-
Change in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	(13,415)	25,142
Inventory	(13,659)	(2,511)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(51,786)	47,298
Compensated absences	10,730	2,629
Due to Town of Blacksburg	59,248	67,335
Net cash used in operating activities	$ (322,965)	$ (25,986)
NONCASH CAPITAL AND FINANCING ACITVITIES		
Capital asset purchases financed with accounts payable	$ 1,887,876	$ 3,706,691

The Notes to Financial Statements are an integral part of this statement.

Note 1. Summary of Significant Accounting Policies

Reporting entity:

The Virginia Tech/Montgomery Regional Airport Authority (the "Authority") was created in 2002 by the Virginia General Assembly. Its member jurisdictions are Virginia Tech, Montgomery County, and the Towns of Blacksburg and Christiansburg. The Authority's purpose is to develop a regional airport based on the mission of servicing corporate executive and other general aviation markets; obtaining grants, loans, and other funding for airport improvements and other activities; and promoting and assisting in regional economic development. The Authority operates on a Board-administrator form of government. However, the member jurisdictions do not have a financial interest in or responsibility to the Authority as defined by the Governmental Accounting Standards Board. No participants have access to the Authority's resources or surpluses, nor is any participant liable for the Authority's debts or deficits. None of the member jurisdictions appoints a voting majority of the Board members.

Based on the above facts, the Authority is a jointly-governed organization of the member jurisdictions. The Town of Blacksburg (the "Town") serves as the fiscal agent for the Authority.

Measurement focus and basis of accounting:

The Authority's financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with principal ongoing operations. The principal operating revenues are charges to customers for sales. Operating expenses include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and cash equivalents:

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities three months or less from the date of acquisition.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Valuation of receivables:

Receivables are stated at face amount and the Authority calculates its allowance for uncollectible accounts using historical collection data and specific account analysis. The allowance at June 30, 2018 and 2017 were $8 and $0, respectively.

Due from other governments:

Due from other governments consists primarily of amounts due from the federal government and the Commonwealth of Virginia related to capital project reimbursements.

Inventory:

Inventory consists primarily of fuel and is valued at the lower of cost (first-in, first-out) or market.

Capital assets:

Capital assets are recorded at historical cost. The threshold for recording capital assets is $5,000. Depreciation is computed using the straight-line method over the assets' estimated useful lives, which range from five to ten years for equipment. Leasehold improvements include land purchased to extend Authority leased property and runway improvements. These leasehold improvements are depreciated over the shorter of the useful life of the asset, which is twenty years, or the remaining term of the lease. The lease term includes all reasonably assured renewals of the lease.

Compensated absences:

The Authority has a policy which allows for the accumulation and vesting of limited amounts of vacation leave, comp leave, flex leave, and holiday time until termination or retirement. Sick leave is paid out only on retirement.

Due to Town of Blacksburg:

Due to timing of cash flows at year end, the Town has not been reimbursed for certain payroll and other expenses of the Authority.

Pensions and Other Postemployment Benefits (OPEB):

For purposes of measuring all financial statement elements related to pension and OPEB plans, information about the fiduciary net position of the Authority's Plans and the additions to/deductions from the Authority's Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 1. Summary of Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources:

In addition to assets, the statement which presents financial position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement which presents financial position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will *not* be recognized as an inflow of resources (revenue) until that time.

Net position:

Net position is the difference between assets and deferred outflows, and liabilities and deferred inflows. Net position invested in capital assets represents capital assets less accumulated depreciation, less any outstanding debt and plus any restricted cash related to the acquisition, construction, or improvement of those assets.

Restricted net position consists of revenues received as rentals from a dislocated business that continued to operate on Authority owned property. This revenue represents program income related to federal award programs and must be used towards future program related expenditures.

Comparative data:

The basic financial statements include certain prior year summarized comparative information in total but not to the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority’s financial statements for the prior year from which the summarized information was derived.

Estimates:

Management uses estimates and assumptions in preparing its financial statements. Actual results could differ from those estimates.

Note 2. Cash

Deposits:

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Restricted cash consists of unspent bond proceeds and program income earned and unspent to date associated with the Airport Improvement federal grant program. These funds are to be used towards eligible expenditures of the program.

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, the Authority maintained no investments.

Note 3. Due from Other Governments

Amounts due from other governments includes:

	Federal	State	Total
Federal Excise Tax refunds	$ 108,145	$ -	$ 108,145
State maintenance Grants	-	58,622	58,622
Hanger site design	-	8,532	8,532
Hanger site Construction	-	288,306	288,306
Land acquisition	8,460,000	752,000	9,212,000
Runway extension (construction)	1,267,194	139,956	1,407,150
Total	9,835,339	1,247,416	11,082,755
Less: Current	2,437,892	599,478	3,037,370
Non current	$ 7,397,447	$ 647,938	$ 8,045,385

Note 3. Due from Other Governments (Continued)

The Federal Excise Tax refunds consist of approximately thriteen years of claims which, to date; have not been refunded to the Authority. While portions of these amounts are multiple years' old, management believes that all amounts due are collectible. No allowance has been recorded for uncollectible amounts.

Federal and state amounts are based on approvals from the applicable agency. However, all commitments for funding are ultimately contingent on annual funding appropriations to the agencies.

Note 4. Capital Assets

Capital asset activity was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated				
Improvements in progress	$ 17,631,367	$ 6,348,306	$ -	$ 23,979,673
Capital assets, nondepreciable	17,631,367	6,348,306	-	23,979,673
Capital assets, being depreciated				
Leasehold improvements – runway	17,209,712	10,000	-	17,219,712
Equipment	423,256	19,867	-	443,123
Capital assets, depreciable	17,632,968	29,867	-	17,662,835
Less accumulated depreciation				
Leasehold improvements – runway	(6,557,015)	(829,487)	-	(7,386,502)
Equipment	(247,480)	(17,800)	-	(265,280)
Total accumulated depreciation	(6,804,495)	(847,287)	-	(7,651,782)
Total capital assets being depreciated, net	10,828,473	(817,420)	-	10,011,053
Total capital assets, net	$ 28,459,840	$ 5,530,886	$ -	$ 33,990,726

Note 5. Compensated Absences

The following is a summary of changes in compensated absences for the year:

	Balance, Beginning	Increases	Decreases	Balance, Ending	Due within One Year
Compensated absences	$ 24,953	$ 27,369	$ (16,639)	$ 35,683	$ 12,697

Note 6. Long-Term Debt

During 2015, the Authority signed a 2014 Series, GAN in the amount of $9,400,000 at 0% interest maturing July 1, 2024, due to Virginia Tech. Virginia Tech is the registered owner of the note and is a member jurisdiction of the Authority. The note was issued pursuant to an agreement whereby the Authority purchased land from Virginia Tech. The land, which will revert to Virginia Tech as discussed in note 9, will be used as part of the expansion of the runway protection zone, runway extension, and stormwater management of the Authority. The Authority expects receipt of the grants in various installments during fiscal years 2019, 2020, and 2021, at which point the Authority will pay the note in full.

During 2016, the Authority issued Revenue Bonds in the amount of $2,350,000. Of this amount, $850,000 is tax-exempt at a fixed interest rate of 2.13% and $1,500,000 is taxable at a fixed interest rate of 3.22%. Interest is payable semi-annually on June 1st and December 1st until the maturity date of June 1, 2035. The proceeds were used to refinance the 2007 Revenue Bonds, pay the 2% local portion of Phase I and II of the runway construction project, pay for the development of a corporate hangar site, a T-hanger site, and a 12 unit T-hangar, and pay for the costs of issuance.

Note 6. Long-Term Debt (Continued)

The following is a summary of long-term debt for the year:

	Beginning July 1	Additions	Reductions	Ending June 30	Due within One Year
Revenue Bonds	$ 2,213,132	$ -	$ (98,568)	$ 2,114,564	$ 101,370
Grant Anticipation Notes	9,400,000	-	-	9,400,000	1,300,776
Total	$ 11,613,132	$ -	$ (98,568)	$ 11,514,564	$ 1,402,146

The annual requirements to amortize long-term debt and related interest are as follows:

	Grant Anticipation Notes		Revenue Bonds		Total	
Fiscal Year	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2019	$ 1,300,776	$ -	$ 101,370	$ 59,990	$ 1,402,146	$ 59,990
2020	1,277,778	-	104,099	57,260	1,381,877	57,260
2021	3,135,978	-	107,219	54,141	3,243,197	54,141
2022	2,324,357	-	110,275	51,084	2,434,632	51,084
2023	1,361,111	-	113,423	47,937	1,474,534	47,937
2024-2028	-	-	617,465	189,332	617,465	189,332
2029-2033	-	-	698,811	95,266	698,811	95,266
2034-2035	-	-	261,902	9,935	261,902	9,935
	$ 9,400,000	$ -	$ 2,114,564	$ 564,945	$ 11,514,564	$ 564,945

Note 7. Defined Benefit Pension Plan

Plan Description

All full-time, salaried permanent employees of the Authority, (the "Political Subdivision") are automatically covered by VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer are paying contributions to VRS. Members are eligible to purchase prior service, based on specific criteria a 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 Authority participates in VRS through the Town of Blacksburg, Virginia (the "Town"). The Authority accounts for and reports its participation in the Town's VRS plan by applying the requirements for a cost-sharing multiple employer plan.

Note 7. Defined Benefit Pension Plan (Continued)

<u>Plan Description</u> (Continued)

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

<u>Plan 1</u> – 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.

- **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. 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.
- **Retirement Contributions –** Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. 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.
- **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.
- **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.
- **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. 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.

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

- **Average Final Compensation –** A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier –** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier is 1.70%.
- **Normal Retirement Age –** Age 65
- **Earliest Unreduced Retirement Eligibility –** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.
- **Earliest Reduced Retirement Eligibility –** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.
- **Cost-of-Living Adjustment (COLA) in Retirement –** The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%.
  - **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.
  - **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.

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **Disability Coverage** – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% 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.
- **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.

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.

- **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. 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.
- **Retirement Contributions –** Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction.
- **Creditable Service –** Same as Plan 1.
- **Vesting –** Same as Plan 1.
- **Calculating the Benefit –** See definition under Plan 1.
- **Average Final Compensation –** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier –** 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.
- **Normal Retirement Age –** Normal Social Security retirement age.

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 2 (Continued)

- **Earliest Unreduced Retirement Eligibility –** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.
- **Earliest Reduced Retirement Eligibility –** Age 60 with at least five years (60 months) of creditable service.
- **Cost-of-Living Adjustment (COLA) in Retirement –** The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.
    - **Eligibility** – Same as Plan 1.
    - **Exceptions to COLA Effective Dates** – Same as Plan 1.
- **Disability Coverage –** Same as Plan 1 except that the retirement multiplier is 1.65%.
- **Purchase of Prior Service –** Same as Plan 1.

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. The defined benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. 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 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 through 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. 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.

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **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.
- **Creditable Service –**
  - **Defined Benefit Component –** Under the defined benefit component of the plan, creditable service includes active service. Members earn credible 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 credible 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 Contributions Component –** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
- **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 Contributions 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. 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.

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Calculating the Benefit –**
  - **Defined Benefit Component –** See definition under Plan 1.
  - **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 –** Same as Plan 2 for the defined benefit component of the plan.
- **Service Retirement Multiplier –** 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.
- **Normal Retirement Age –**
  - **Defined Benefit Component –** Same as Plan 2
  - **Defined Contribution Component –** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Unreduced Retirement Eligibility –**
  - **Defined Benefit Component –** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.
  - **Defined Contribution Component –** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Reduced Retirement Eligibility –**
  - **Defined Benefit Component –** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.
  - **Defined Contribution Component –** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Cost-of-Living Adjustment (COLA) in Retirement**
  - **Defined Benefit Component –** Same as Plan 2.
  - **Defined Contribution Component –** Not Applicable.
  - **Eligibility –** Same as Plan 2.
  - **Exceptions to COLA Effective Dates –** Same as Plan 2.

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **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 –**
    - **Defined Benefit Component** – Same as Plan 1, with the following exception:
        - Hybrid Retirement Plan members are ineligible for ported service.
    - **Defined Contribution Component** – Not Applicable.

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, there were two active employees and zero inactive employees that were covered by the benefit terms of the pension plan.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, 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, 2018 was 13.89% 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 $31,961 and $30,698 for the years ended June 30, 2018 and June 30, 2017, respectively.

Note 7. Defined Benefit Pension Plan (Continued)

Net Pension Liability

At June 30, 2018, the Authority reported a liability of $247,306 for its proportionate share of the Collective Net Pension Liability of the Town Plan. The collective net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Actuarial Assumptions

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, 2017.

Inflation	2.50%
General Employees - Salary increases, including inflation	3.50 – 5.35%
Investment rate of return	7% 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 rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: General employees – 15 to 20% of deaths are assumed to be service related. Public Safety Employees – 70% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2014 Mortality Table Projected to 2020 with various set backs or set forwards for both males and females.

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

Note 7. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions (Continued)

General Employees - Largest 10 – Non-Hazardous Duty and All Others (Non 10 Largest): Update mortality table; lowered retirement rates at older ages, changed final retirement from 70 to 75; lowered disability rates, no change to salary scale, increased rate of line of duty disability from 14% to 20%.

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
Public Equity	40.00 %	4.54 %	1.82 %
Fixed Income	15.00	0.69	0.10
Credit Strategies	15.00	3.96	0.59
Real Assets	15.00	5.76	0.86
Private Equity	15.00	9.53	1.43
Total	100.00 %		4.80 %
Inflation			2.50 %
*Expected arithmetic nominal return			7.30 %

* The above allocation provides for a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.5%.

Note 7. Defined Benefit 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, 2016, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Authority's net pension liability	$ 412,946	$ 247,306	$ 113,184

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

For the year ended June 30, 2018, the Authority recognized pension expense of $42,710. At June 30, 2018, the Authority reported deferred outflows of resources related to pensions from the following sources:

Note 7. Defined Benefit Pension Plan (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 12,690	10,823
Change in proportionate share	52,689	-
Change in assumptions	-	4,026
Net difference between projected and actual earnings on pension plan investments	-	13,552
Employer contributions subsequent to the measurement date	31,961	-
Total	$ 97,340	$ 28,401

At June 30, 2018, the Authority's proportionate share was 1.54% as compared to 1.53% at June 30, 2017.

The $31,961 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 year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction to Pension Expense
2018	$ 9,245
2019	9,245
2020	9,245
2021	9,243
2022	-
Thereafter	-

Note 7. Defined Benefit Pension Plan (Continued)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

At June 30, 2018, approximately $2,730 was payable to the Virginia Retirement System for the legally required contributions related to June 2018 payroll.

Note 8. Other Post-Employment Benefits

The Authority participates in the two other postemployment benefit ("OPEB") plans through the Town of Blacksburg, Virginia (the "Town"). The Authority accounts for and reports its participation in the Town's OPEB plans by applying the requirements for a cost-sharing multiple employer plan.

Cost Sharing Plan (Town of Blacksburg)

Plan description and benefits provided:

The Town of Blacksburg includes Authority employees in its other post-employment benefits (OPEB). The Town provides post-employment health benefits through a single-employer defined benefit plan. The plan provides healthcare, prescription drug, vision, and life insurance benefits to retirees and their dependents. The Town may change, add, or delete benefits as it deems appropriate with Town Council approval. The plan does not grant retirees vested health coverage benefits.

Contributions

The Authority contributed $13,011 and $7,132 during the years ended June 30, 2018 and 2017, respectively.

Net OPEB Liability

The Authority's total net OPEB liability of $139,536 was measured as of June 30, 2018 and was determined by an actuarial valuation performed as of June 30, 2018. The Authority's proportionate share of the liability was 1.5% for both the year ended June 30, 2018 and 2017.

Note 8. Other Post-Employment Benefits (Continued)

Cost Sharing Plan (Town of Blacksburg) (Continued)

Actuarial Assumptions, Other Inputs, Discount Rate, Fiduciary Net Position, and Long-Term Expected Rate of Return

Details concerning actuarial assumptions and other inputs, discount rate, the plan's fiduciary net position, and the long-term expected rate of return on the Town's OPEB trust investment pool are available in the Town's Comprehensive Annual Financial Report that is available at http://www.blacksburg.gov/departments/departments-a-k/financial-services/budget-and-reports.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Authority, as well as what the Authority's net OPEB 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 discount rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Net OPEB liability	$ 171,292	$ 139,536	$ 113,600

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the Authority, as well as what the Authority's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	1.00% Decrease	Current Trend Rate	1.00% Increase
Net OPEB liability	$ 107,885	$ 139,536	$ 179,413

Note 8. Other Post-Employment Benefits (Continued)

Cost Sharing Plan (Town of Blacksburg) (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the Authority recognized OPEB expense of $2,659. At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	829
Employer contributions subsequent to the measurement date	-	-
Total	$ -	$ 829

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2019	$ (207)
2020	(207)
2021	(207)
2022	(208)
2023	-
Thereafter	-

Note 8. Other Post-Employment Benefits (Continued)

Cost Sharing Plan (Virginia Retirement System Group Life Insurance ("GLI"))

The Authority also participates as a cost sharing participant in the GLI provided by the Virginia Retirement System ("VRS"). Details concerning this plan, including plan description, actuarial assumptions and other inputs, long-term expected rate of return, and discount rate are available in the Town's Comprehensive Annual Financial Report as referenced above. Specific details of the GLI relative to the Authority are as follows:

June 30, 2018 proportionate share of liability	$18,542
June 30, 2017 proportion	1.57%
June 30, 2016 proportion	1.55%
June 30, 2018 contributions	$3,096
June 30, 2017 contributions	$2,947
June 30, 2018 expense	$2,823

At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 407
Change in assumptions	-	953
Change in proportionate share	141	-
Net difference between projected and actual earnings on OPEB plan investments	-	707
Employer contributions subsequent to the measurement date	3,096	-
Total	$ 3,237	$ 2,067

The deferred outflows of resources related to OPEB resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Note 8. Other Post-Employment Benefits (Continued)

Cost Sharing Plan (Virginia Retirement System Group Life Insurance ("GLI")) (Continued)

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2019	$ (482)
2020	(482)
2021	(482)
2022	(480)
2023	-
Thereafter	-

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Authority, as well as what the Authority's net OPEB 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 discount rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Net OPEB liability - GLI	$ 23,982	$ 18,542	$ 14,132

Note 9. Related Party Transactions

The Authority leases its real property and premises from Virginia Tech under a thirty-year operating lease ending June 30, 2032, with annual rent of $1. The lease includes the option to renew for an additional term of twenty years. This renewal was not considered in determining the amortizable life of leasehold improvements because renewal, at this time, is not reasonably assured. Under the lease, the Authority has the ability to conduct its day-to-day operations, which include such things as repairs to aircraft, fuel sales, operation of an air traffic control system and all activities related thereto, and to acquire, construct, renovate, and equip the premises. Virginia Tech continues to provide liability insurance on the property. Upon expiration of the lease, any buildings, structures, alterations, additions, improvements affixed, and real property purchased to meet Runway Protection Zone requirements to the premises shall become property of Virginia Tech.

Beginning in 2008, the Authority subleased land for a fire station to the Town of Blacksburg under a twenty-four year term ending in 2032.

Note 10. Significant Customers

Approximately 22% of revenues from fuel sales are derived from one customer.

Note 11. Capital Contributions

Capital contributions represent proceeds from federal and state agencies used towards the following capital projects:

	2018	2017
Runway extension design	$ -	$ 3,033
Runway extension construction	4,764,359	4,961,968
Hanger site prep design	921,989	235,809
	$ 5,686,348	$ 5,200,810

Note 12. Risk Management

Workers' compensation:

Workers' Compensation Insurance is provided through the Virginia Municipal League. During 2018, total premiums paid were $7,356.

General liability and other:

Virginia Tech provides general liability and other insurance on the property at no cost to the Authority.

USI Hargrove Insurance provides Airport Owners and Operators General Liability Policy Insurance. The Authority paid $12,001 for this insurance for 2018.

There were no significant reductions in insurance coverage from the prior year and no settlements that exceeded the amount of insurance coverage during the last three fiscal years.

Note 13. Commitments

During 2012, the FAA and the Virginia Department of Aviation approved capital assistance grants for various projects such as land acquisition, extending the runway, relocating roads and trails, and constructing new hangars. These projects are expected to be completed in 2019 and the costs associated with this grant will be funded with 90% federal grants, 8% state grants, and the remaining 2% will be paid by the Authority. As of June 30, 2018, $23,980,000 has been incurred and spent on these projects with an estimated $13,000,000 left to be incurred.

Note 14. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following statement which is not yet effective.

The GASB issued **Statement No. 83**, *Certain Asset Retirement Obligations* in November 2016. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The requirements of this Statement are effective for periods beginning after June 15, 2018.

The GASB issued **Statement No. 84**, *Fiduciary Activities* in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for periods beginning after December 15, 2018.

The GASB issued **Statement No. 87**, *Leases* in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for periods beginning after December 15, 2019.

The GASB issued **Statement No. 88**, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* in March 2018. This Statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The requirements of this Statement are effective for periods beginning after June 15, 2018.

The GASB issued **Statement No. 90**, *Major Equity Interests, an amendment of GASB Statements No. 14 and No. 61* in August 2018. This Statement improves the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

Note 14. New Accounting Standards (Continued)

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for periods beginning after December 15, 2018.The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

Management has not determined the effects these new GASB Statements may have on prospective financial statements.

Note 15. Restatement of Net Position

In the current year the Authority adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This standard replaces the requirements of GASB Statement No. 45 as it relates to governments that provide postemployment benefits other than pensions. The new Statement requires governments providing defined benefit postemployment benefits to recognize the long-term obligation for those benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of other postemployment benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the plans are determined, and assumptions and methods used to calculate the liability. Comparative prior year information, to the extent presented, has not been restated because the necessary information is not available.

Net position, July 1, 2017, as previously reported	$ 27,644,658
Recognition of other postemployment benefit related liabilities and deferred outflows/inflows in accordance with GASB No. 75	(154,033)
Net position, July 1, 2017, as restated	$ 27,490,625

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT 4

VIRGINIA TECH/MONTGOMERY REGIONAL AIRPORT AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S PROPORTIONATE SHARE OF NET PENSION LIABILITY

June 30, 2018

Year Ended June 30	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Covered Payroll	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	1.54%	$ 247,306	$ 223,857	110.47%	79.10%
2017	1.53%	$ 307,518	$ 217,755	141.22%	73.23%
2016	1.24%	$ 198,859	$ 168,656	117.91%	77.33%
2015	1.04%	$ 150,072	$ 143,168	104.82%	78.57%

Schedule is intended to show information for 10 years. Since 2015 was the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.
The covered payroll amounts above are for the measurement period which is the twelve months prior to the Authority's fiscal year.

The Notes to Required Supplementary Information are an intergral part of this schedule.

EXHIBIT 5

VIRGINIA TECH/MONTGOMERY REGIONAL AIRPORT AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2018

Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2018	$ 31,961	$ 31,961	$ -	$ 223,857	14.29%
2017	$ 30,698	$ 30,698	$ -	$ 217,755	14.11%
2016	$ 24,188	$ 24,188	$ -	$ 168,656	14.35%
2015	$ 20,066	$ 20,066	$ -	$ 143,168	14.03%

Schedule is intended to show information for 10 years. Since 2015 was the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.
The covered payroll amounts above are for the Authority's fiscal year - i.e. the covered payroll on which required contributions were based for the same year.

EXHIBIT 6

VIRGINIA TECH/MONTGOMERY AIRPORT AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
June 30, 2018

Entity Fiscal Year Ended June 30	Employer's Proportion of the Net OPEB Liability (Asset)	Employer's Proportionate Share of the Net OPEB Liability (Asset)	Covered Payroll	Employer's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
Virginia Retirement System - Group Life Insurance - General Employees					
2018	1.57%	$ 18,542	$ 228,218	8.12%	48.86%
Town of Blacksburg - Retiree Health					
2018	1.55%	$ 139,536	$ 215,397	64.78%	32.44%

Schedule is intended to show information for 10 years. Since 2018 was the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

The Notes to Required Supplementary Information are an intergral part of this schedule.

EXHIBIT 7

VIRGINIA TECH/MONTGOMERY AIRPORT AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OPEB CONTRIBUTIONS
June 30, 2018

Entity Fiscal Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
Virginia Retirement System - Group Life Insurance - General Employees					
2018	$ 3,096	$ 3,096	-	$ 228,218	1.36%
Town of Blacksburg - Retiree Health					
2018	$ 13,011	$ 13,011	-	$ 215,397	6.04%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

The covered payroll amounts above are for the entity's fiscal year - i.e. the covered payroll on which required contributions were based for the same year.

The Notes to Required Supplementary Information are an intergral part of this schedule.

VIRGINIA TECH/MONTGOMERY REGIONAL AIRPORT AUTHORITY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018

Note 1. Changes of Benefit Terms

Pension

There have been no actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

Other Postemployment Benefits (OPEB)

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

Note 2. Changes of Assumptions

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

Largest 10 – Non-Hazardous Duty:
- Update mortality table
- Lowered in rates of service retirement
- Update withdrawal rates to better fit experience
- Lowered in rates of disability retirement
- No changes to salary rates
- Increase Line of Duty Disability rates
- Applicable to: Pension, GLI OPEB, and HIC OPEB

Largest 10 –Hazardous Duty/Public Safety Employees:
- Update mortality table
- Lowered rates of retirement at older ages
- Update withdrawal rates to better fit experience
- Increased disability rates
- No changes to salary rates
- Increased Line of Duty disability rates
- Applicable to: Pension, GLI OPEB, and LODA OPEB

All Others (Non 10 Largest) – Non-Hazardous Duty:
- Update mortality table
- Lowered rates of retirement at older ages and changed final retirement from 70 to 75
- Update withdrawal rates to better fit experience
- Lowered disability rates
- No changes to salary rates
- Increased Line of Duty disability rates from 14% to 15%
- Applicable to: Pension and GLI OPEB

Note 2. Changes of Assumptions (Continued)

All Others (Non 10 Largest) – Hazardous Duty/Public Safety Employees:

- Update mortality table
- Increased retirement rate at age 50 and lowered rates at older ages
- Update withdrawal rates to better fit experience
- Update disability rates to better fit experience
- No changes to salary rates
- Lowered Line of Duty rate from 60% to 45%
- Applicable to: Pension, GLI OPEB, and LODA OPEB

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SUPPLEMENTAL SCHEDULE

VIRGINIA TECH/MONTGOMERY REGIONAL AIRPORT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018

Federal Grantor/Program Title	Federal CFDA Number	Federal Expenditures
FEDERAL AVIATION ADMINISTRATION		
Direct payments:		
Airport Improvement Program	20.106	$ 4,382,795

Notes to Schedule of Expenditures of Federal Awards

Significant Accounting Policy

This Schedule is prepared on the modified accrual basis of accounting as contemplated by accounting principles generally accepted in the United States of America.

De Minimus Indirect Cost Rate

The Authority did not elect to use the 10% de minimus indirect cost rate.

Outstanding Loan Balances

As of June 30, 2018, the Authority had no outstanding loan balances requiring continuing disclosure.

Subrecipients

No amounts were passed to subrecipients.

COMPLIANCE SECTION

INDEPENDENT AUDITOR'S 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 Members of the Board of Directors
Virginia Tech/Montgomery Regional Airport Authority
Blacksburg, 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 *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 Virginia Tech/Montgomery Regional Airport Authority (the "Authority"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated November 6, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. **We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2018-001 that we consider to be a significant deficiency.**

Compliance and Other Matters

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

The Authority's Response to Findings

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

Purpose of this Report

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

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 6, 2018

BROWN EDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Members of the Board of Directors
Virginia Tech/Montgomery Regional Airport Authority
Blacksburg, Virginia

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

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Report on Compliance for Each Major Federal Program (Continued)

Opinion on Each Major Federal Program

In our opinion, the Virginia Tech/Montgomery 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 its major federal program for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the Authority, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on 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 the Authority's internal control over compliance.

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

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

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

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 6, 2018

VIRGINIA TECH/MONTGOMERY REGIONAL AIRPORT AUTHORITY

SUMMARY OF COMPLIANCE MATTERS
June 30, 2018

As more fully described in the Independent Auditor's 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,* we performed tests of the Authority's compliance with certain provisions of the laws, regulations, contracts, and grant agreements shown below.

STATE COMPLIANCE MATTERS

Code of Virginia:
Cash and Investment Laws
Procurement Laws
Uniform Disposition of Unclaimed Property Act
Local Retirement Systems
Conflict of Interest Act

LOCAL COMPLIANCE MATTERS

Authority By-Laws

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal program selected for testing.

FAA COMPLIANCE MATTERS

Airport Sponsors Assurances

VIRGINIA TECH/MONTGOMERY REGIONAL AIRPORT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **One significant deficiency** relating to the audit of the financial statements was reported in the Independent Auditor's 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*.
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies** relating to the audit of the major federal award program were reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award program expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings relating to the major program**.
7. The program tested as a major program is:

Airport Improvement Program	20.106

8. The **threshold for** distinguishing Type A and B programs was **$750,000**.
9. The Authority was determined to be a **low-risk auditee**.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2018-001: Segregation of Duties (Significant Deficiency)

Condition:

A fundamental concept of internal controls is the separation of duties. No one employee should have access to both physical assets and the related accounting records, or to all phases of a transaction. Due to the limited staff size at the fiscal agent, a proper segregation of duties has not been established.

Recommendation:

Steps should be taken to eliminate conflicting duties and implement compensating controls where possible.

Management's Response:

Management concurs and has implemented controls that are cost beneficial.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

None.

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

None.

VIRGINIA TECH/MONTGOMERY REGIONAL AIRPORT AUTHORITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2018

A. FINDINGS – FINANCIAL STATEMENT AUDIT

2005-001: Segregation of Duties (Significant Deficiency)

Condition:

A fundamental concept of internal controls is the separation of duties. No one employee should have access to both physical assets and the related accounting records, or to all phases of a transaction. Due to the limited staff size at the fiscal agent, a proper segregation of duties has not been established.

Current Status:

Still applicable.