Stafford Regional Airport Authority

FINANCIAL AND COMPLIANCE REPORTS

YEAR ENDED JUNE 30, 2022

PBMares

ASSURANCE, TAX & ADVISORY SERVICES

STAFFORD REGIONAL AIRPORT AUTHORITY

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Charles Kirkland, Treasurer
Desi Arnaiz, Secretary
Samar Shalaby
Roderick Hall
Henry Scharpenberg

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Stafford Regional Airport Authority
Stafford, Virginia

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Stafford Regional Airport Authority (Authority), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2022, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Our responsibilities under those standards and specifications are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 15 to the financial statements, the 2021 financial statements have been restated to correct misstatements. Our opinion is not modified with respect to this matter.

Other Matter

The financial statements of the Authority, as of and for the year ended June 30, 2021, before they were restated for the matter discussed in Note 15 to the financial statements, were audited by other auditors, whose report dated January 31, 2022, expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4-8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2023 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's 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 Authority's internal control over financial reporting and compliance.

PBMares, LLP

Harrisonburg, Virginia
April 27, 2023

STAFFORD REGIONAL AIRPORT AUTHORITY

Management Discussion and Analysis

As the management of the Stafford Regional Airport Authority (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Stafford Regional Airport for the fiscal year ended June 30, 2022. We encourage readers to consider the information presented here in conjunction with the additional information presented in the financial statements and notes to the financial statements.

Overview of the Financial Statements

The Authority's financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB). The Authority is structured as a single enterprise fund with revenues recognized when incurred, not when paid. Capital assets are capitalized and are depreciated (expect land and construction in progress) over their useful lives. See the notes to the financial statements for a summary of the Authority's significant accounting policies.

Following the Management's Discussion and Analysis are the basic financial statement of the Authority together with the notes, which are essential to a full understanding of the data contained in the financial statements. The Authority's basic financial statements are designed to provide readers with a broad overview of the Authority's finances.

The *Statement of Net Position* presents information on all the Authority's assets and liabilities, with the difference between the two reported as a net position. Over time, increases or decreases in net position may serve as a useful indicator of the Authority's financial position.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how the Authority's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future periods.

Financial Highlights

- Current assets increased from $1,081,307 to $5,549,426 due to a change this year in GASB reporting that recognize the present value of existing leases as an asset on the Statement of Net Position.

- Long-term liabilities decreased from $2,538,449 in 2021 to $2,504,424 in 2022, a decrease of $34,025. The primary driver for this decrease is debt servicing of the Airport's T-Hangars.

- The increase in personnel costs reflects an overlap in management and an increase in holdover and callout requests. Personnel costs are expected to decrease in the near future.

The following represents the Authority's financial position for the years ended June 30, 2022 and June 30, 2021:

Summary of Net Position
Years Ended June 30, 2022 and 2021

	2022	2021
Current Assets	**$ 5,549,426**	$ 1,081,307
Non-current Assets - capital assets	**45,120,597**	40,035,165
Total assets	**50,670,023**	41,116,472
Long-term Liabilities	**3,325,885**	3,308,436
Other Liabilities	**972,902**	923,648
Total liabilities	**4,298,787**	4,232,084
Deferred Inflows of Resources	**4,246,757**	-
Net Position		
Invested in capital assets, net of related debt	**40,969,469**	35,919,470
Unrestricted	**1,155,010**	964,918
Total net position	**$ 42,124,479**	$ 36,884,388

Summary of Changes in Net Position
Years Ended June 30, 2022 and 2021

	2022		2021	
	Amount	**Percent of Totals**	Amount	Percent of Totals
Operating Revenues				
Fuel sales, net	**$ 443,120**	**52.8%**	$ 340,129	48.1%
Rent	**374,696**	**44.6%**	353,650	50.0%
Other revenues	**21,476**	**2.6%**	13,446	1.9%
Total operating revenues	**839,292**	**100.0%**	707,225	100.0%
Operating Expenses				
Personnel	**381,334**	**53.9%**	291,883	38.7%
Purchased services	**147,694**	**20.9%**	296,925	39.4%
Supplies and materials	**41,655**	**5.9%**	36,409	4.8%
Promotion	**8,438**	**1.2%**	5,653	0.8%
Utilties	**76,533**	**10.8%**	78,736	10.4%
Insurance	**51,056**	**7.2%**	44,184	5.9%
Other	**1,153**	**0.1%**	-	0.0%
Total operating expenses before depreciation and amortization	**707,863**	**100.0%**	753,790	100.0%
Operating income (loss) before depreciation and amortization	**131,429**		(46,565)	
Less Depreciation and Amortization	**(1,207,697)**		(1,233,971)	
Nonoperating Revenues, net	**286,429**		164,622	
Capital Grant Contributions	**6,029,930**		3,836,513	
Change in net position	**5,240,091**		2,720,599	
Net Position, beginning, as restated	**36,884,388**		34,163,789	
Net Position, ending, as restated	**$ 42,124,479**		$ 36,884,388	

Debt Administration

2004 Bond

On April 14, 2004, the Stafford Regional Airport Authority borrowed $743,719 through the Virginia Resource Authority (VRA) to be used for the construction of a hangar and fuel storage facilities. Monthly payments are $3,892 and the bond matures April 2029.

2005 Bond

On March 9, 2005, the Stafford Regional Airport Authority borrowed $1,075,000 through the VRA, which was used to construct two hangars. Monthly payments are $6,506 and the bond matures March 2025.

2007 Bond

On March 21, 2007, the Stafford Regional Airport Authority borrowed $1,601,000 through the VRA, which was used to construct improvements to the Airport including utilities and hangar facilities. Monthly payments are $9,657 and the bond matures July 2027.

VARF-DL-19 Loan

In November 2020, the VRA granted funding to the Authority for the construction of a hangar in the amount of $790,000. The loan included a covenant requirement stating that the Authority will establish rates and fees charged to customers pertaining to this project at levels that will provide for annual net revenues to be equal at least 100% of the debt service on the loan and existing parity debt obligations.

Construction began in fiscal year 2022 and completion is expected in the third quarter of fiscal year 2023. Monthly payments will be $4,066. Revenues of the Authority have been pledged to secure VRA bonds and loans, and the City of Fredericksburg, Prince William County and Stafford County have approved their moral obligation regarding the debt.

Notes Payable

On September 6, 2005, Stafford County approved a loan for $526,120 to the Authority for the construction of water and sewer service on the Airport property with the understanding that the Authority is to repay the County as revenues allow. There have been no current payments made on this loan or demand for payment.

On July 17, 2012, Stafford County approved an interest free loan not to exceed $1,400,000 to be used for construction of a terminal building. The amount borrowed was $1,316,228. The loan will be repaid from 55% of the revenue derived from new commercial clients.

Line of Credit

The Authority has a line of credit with Atlantic Union Bank. The line of credit has a credit limit of $125,000, is unsecured and renewable annually. There is no outstanding balance on this line of credit.

Economic Factors

The Fredericksburg Region continues to be one of the fastest growing regions in Virginia. Since opening, the Airport has experienced a slow but steady increase in the number of based aircraft. Fuel sales have been steady over the last ten years and the airport was not significantly affected by the pandemic. Hangar rentals have been at nearly 100% over the last seven years and the Airport maintains an active wait list.

Increases in the costs of construction, energy costs and a substantial increase in interest rates have effectively halted construction projects, especially the potential construction of corporate hangars and an additional T-Hangar.

Request for Information

This financial statement is designed to provide a general overview of the Stafford Regional Airport Authority's finances for those with an interest in them. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Chairman, Stafford Regional Airport Authority, 95 Aviation Way, Fredericksburg, VA 22406.

Charles Kirkland
Treasurer
Stafford Regional Airport Authority

BASIC FINANCIAL STATEMENTS

STAFFORD REGIONAL AIRPORT AUTHORITY

STATEMENTS OF NET POSITION
June 30, 2022 with Comparative Totals for June 30, 2021

	2022	2021
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 462,736**	$ 207,455
Accounts receivable	**23,110**	24,582
Capital contribution and grant receivable	**641,625**	804,216
Leases receivable	**4,331,108**	-
Inventory	**74,347**	29,834
Prepaid items	**16,500**	15,220
Total current assets	**5,549,426**	1,081,307
Capital Assets		
Capital assets, net of accumulated depreciation and amortization where applicable:		
Land	**8,266,903**	8,266,903
Land and airport improvements	**46,205,275**	46,202,921
Machinery and equipment	**202,223**	202,223
Furniture and fixtures	**96,499**	96,499
Construction in progress	**10,206,560**	3,919,070
Less accumulated depreciation and amortization	**(19,856,863)**	(18,652,451)
Total capital assets	**45,120,597**	40,035,165
Total assets	**50,670,023**	41,116,472
LIABILITIES		
Current Liabilities		
Accounts payable	**86,949**	42,737
Capital improvements payable	**865,306**	800,572
Current portion of accrued compensated absences	**11,734**	10,762
Security deposits	**21,175**	23,725
Current portion of long-term debt	**792,278**	776,674
Other liabilities	**16,921**	39,165
Total current liabilities	**1,794,363**	1,693,635
Noncurrent Liabilities		
Long-term debt, less current portion	**2,493,544**	2,538,449
Long-term accrued compensated absences, less current portion	**10,880**	-
Total noncurrent liabilities	**2,504,424**	2,538,449
Total liabilities	**4,298,787**	4,232,084
DEFERRED INFLOWS OF RESOURCES		
Leases related	**4,246,757**	**-**
Total deferred inflows of resources	**4,246,757**	-
NET POSITION		
Net Investment in Capital Assets	**40,969,469**	35,919,470
Unrestricted	**1,155,010**	964,918
Total net position, as restated	**42,124,479**	36,884,388
Total liabilities and net position, as restated	**$ 46,423,266**	$ 41,116,472

STAFFORD REGIONAL AIRPORT AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
Year Ended June 30, 2022 with Comparative Totals for the Year Ended June 30, 2021

	2022	2021
Operating Revenues		
Fuel sales, net	**$ 443,120**	$ 340,129
Airfield revenue	**374,696**	353,650
Other revenues	**21,476**	13,446
Total operating revenues	**839,292**	707,225
Operating Expenses		
Personnel	**381,334**	291,883
Purchased services	**147,694**	296,925
Supplies and materials	**41,655**	36,409
Promotion	**8,438**	5,653
Utilities	**76,533**	78,736
Insurance	**51,056**	44,184
Other	**1,153**	-
Total operating expenses before depreciation	**707,863**	753,790
Operating income (loss) before depreciation	**131,429**	(46,565)
Depreciation and amortization	**1,207,697**	1,233,971
Total loss before non-operating revenues	**(1,076,268)**	(1,280,536)
Nonoperating Revenues (Expenses)		
Interest income	**104,176**	89
Interest expense on loans	**(30,661)**	(35,468)
Intergovernmental revenue	**69,014**	-
Local government assessments	**150,001**	150,001
Loss on disposal	**(6,101)**	-
Easement	**-**	50,000
Total nonoperating revenues, net	**286,429**	164,622
Loss before capital contributions	**(789,839)**	(1,115,914)
Capital Grant Contributions	**6,029,930**	3,836,513
Change in net position	**5,240,091**	2,720,599
Net Position, beginning, as restated	**36,884,388**	34,163,789
Net Position, ending, as restated	**$ 42,124,479**	$ 36,884,388

STAFFORD REGIONAL AIRPORT AUTHORITY

STATEMENTS OF CASH FLOWS
Year Ended June 30, 2022 with Comparative Totals for the Year Ended June 30, 2021

	2022	2021
Cash Flows from Operating Activities:		
Cash received from customers and tenants	**$ 1,421,210**	$ 720,193
Payments to employees for services	**(392,357)**	(284,614)
Payments to suppliers for goods and services	**(770,113)**	(442,945)
Net cash provided by (used in) operating activities	**258,740**	(7,366)
Cash Flows from Noncapital Financing Activities:		
Intergovernmental revenue	**69,014**	-
Assessments from participating governments	**150,001**	150,001
Net cash provided by noncapital financing activities	**219,015**	150,001
Cash Flows from Capital and Related Financing Activities:		
Interest income	**104,176**	89
Capital grant contributions	**6,029,930**	3,772,648
Acquisition and construction of capital assets	**(6,299,230)**	(3,909,151)
Interest paid on debt	**(28,049)**	(35,468)
Principal payments on debt	**(238,043)**	(260,979)
Draws on VARF-DL-19 loan	**208,742**	272,932
Payment - line of credit	**-**	(10,750)
Easement proceeds	**-**	50,000
Net cash used in capital and related financing activities	**(222,474)**	(120,679)
Net change in cash and cash equivalents	**255,281**	21,956
Cash and Cash Equivalents, beginning of year	**207,455**	185,499
Cash and Cash Equivalents, end of year	**$ 462,736**	$ 207,455
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities:		
Operating loss	**$ (1,076,268)**	$ (1,280,536)
Depreciation and amortization	**1,207,697**	1,233,971
(Increase) decrease in assets:		
Accounts receivable	**164,063**	(9,963)
Inventory	**(44,513)**	4,039
Prepaid items	**(1,280)**	(2,287)
Cares Act grant receivable	**-**	30,000
Leases receivable	**(4,331,108)**	-
Increase (decrease) in liabilities and deferrals:		
Accounts payable	**108,946**	(101)
Accrued compensated absences	**11,852**	-
Security deposits	**(2,550)**	6,150
Other liabilities	**(24,856)**	11,361
Deferred inflows- leases related	**4,246,757**	-
Net cash flows provided by (used in) operating activities	**$ 258,740**	$ (7,366)

See Notes to Financial Statements.

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

Stafford Regional Airport Authority (Authority) is an independent, special purpose political subdivision of the Commonwealth of Virginia. The Stafford Regional Airport Authority was created on August 16, 1990, pursuant to the provisions of Title 5.1 Chapter 3, Sections 15.1-31, et. seq., *Code of Virginia* (1950) as amended. As a political subdivision, the Authority is distinct from, and is not, an agency of the Commonwealth of Virginia or any other local governmental unit.

The governing board for the Authority is jointly appointed by the Counties of Stafford and Prince William and the City of Fredericksburg. Four members are appointed by Stafford County, two by Prince William County and one by the City of Fredericksburg. The participating localities provide financial support to the Airport's operations.

The Authority is authorized to acquire, construct, maintain and operate an airport in order to provide incentives to regional economic development and improve the transportation alternatives available to the residents of the participating localities.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to government units (hereinafter referred to as generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority’s significant accounting policies are described below.

The Authority's operations are presented as a single enterprise fund. Enterprise funds distinguish operating revenues and expenses from non-operating items in accordance with the flow of economic resources measurement focus and 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.

Revenues from fuel sales, rentals and other fees are reported as operating revenues. Transactions, which are capital, financing or investing related, are reported as non-operating revenues. Expenses from employee wages and benefits, purchases of services, materials and supplies, and other miscellaneous expenses are reported as operating expenses. Interest expense and financing costs are reported as non-operating expenses.

Note 1. Summary of Significant Accounting Policies (Continued)

C. Assets, Liabilities, and Net Position

1. Deposits and Investments

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash equivalents include cash on hand, cash on deposit and temporary investments with original maturities of three months or less.

Note 1. Summary of Significant Accounting Policies (Continued)

C. Assets, Liabilities, and Net Position (Continued)

2. Accounts Receivables

Accounts receivables are reported at their gross value when earned as the underlying exchange transaction occurs. Receivables are reduced by the estimated portion that is expected to be uncollectible. This estimate is made based on collection history and current information regarding the credit worthiness of the debtors. When continued collection activity results in receipts of amounts previously written off, revenue is recognized for the amount collected. There were no material amounts deemed uncollectible at June 30, 2022 and 2021.

3. Inventories

Inventories, consisting of stored fuel, are stated at the lower of cost or market. The cost of such inventories is recorded as expenses when consumed rather than when purchased.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements using the consumption method.

5. Capital Assets

Capital assets are stated at historical cost or estimated historical cost and include expenses which substantially increase the useful lives of existing assets. The Authority's policy is to capitalize assets with a cost of at least $500 for equipment and $5,000 for improvements. Routine maintenance and repairs are expensed as incurred. Donated capital assets are recorded at acquisition value at the date of donation. There are no impaired capital assets or right-to-use lease assets.

Depreciation of property and equipment is computed under the straight-line method at various rates considered adequate to allocate the cost over the estimated useful lives of such assets. The estimated lives by general classification are as follows:

Land and airport improvements	5-50 years
Machinery and equipment	5-15 years
Furniture and fixtures	5-7 years

6. Compensated Absences

The Authority has policies to allow the accumulation and vesting of limited amounts of paid leave and sick leave until termination or retirement. Amounts of such absences are accrued when incurred. A liability for these amounts is reported in the accompanying financial statements.

Note 1. Summary of Significant Accounting Policies (Continued)

C. Assets, Liabilities, and Net Position (Continued)

7. Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs, whether or not withheld from actual debt proceeds, are expensed.

8. Deferred inflows of resources

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net assets that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has one item that qualifies for reporting in this category, that being deferred amounts related to leases. See Note 11 for more info regarding this item.

9. Leases

Lessor: The Authority has hangar and tie-down rentals based upon monthly lease rates consisting of 60 tie-down spaces, 36 T-hangars and 4 jet pad hangars. The Authority is a lessor for noncancellable leases of these hangars, as well as seven other pieces of real estate at the airport. The Authority recognizes a lease receivable and a deferred inflow of resources in the financial statements.

At the commencement of the lease, the Authority initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgements include how the Authority determines (1) the discount rate is uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The Authority uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

8. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation and related debt. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. The Authority applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Operating Revenues and Expenses

Operating revenues consist of airfield, general aviation, terminal, and other revenues. Operating expenses include salaries and fringe benefit costs, other operating expenses and depreciation. All other revenues and expenses, with the exception of capital grants, are classified as nonoperating revenues and expenses.

E. Use of Estimates

Management of the Authority has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues, expenses, and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Actual results could differ from those estimates.

F. Subsequent Events

The Authority has evaluated subsequent events through April 27, 2023, the date on which the financial statements were available to be issued.

Note 2. 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.

The Authority categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The Authority has the following recurring fair value measurement as of June 30, 2022:

- Money market account of $215,466 is valued using quoted market prices (Level 1 inputs).

Note 3. Capital Assets

The change in capital assets for the year ended June 30, 2022 was as follows:

	Beginning Balance*	Additions	Deletions	Transfers	Ending Balance
Capital assets not being depreciated or amortized :					
Land	$ 8,266,903	$ -	$ -	$ -	$ 8,266,903
Construction in progress	3,919,070	6,299,230	-	(11,740)	10,206,560
Total	12,185,973	6,299,230	-	(11,740)	18,473,463
Capital assets being depreciated or amortized:					
Land and buildings improvements	46,202,921	-	(9,386)	11,740	46,205,275
Machinery and equipment	202,223	-	-	-	202,223
Furniture and fixtures	96,499	-	-	-	96,499
Total	46,501,643	-	(9,386)	11,740	46,503,997
Less accumulated depreciation and amortization:					
Land and buildings improvements	18,363,522	1,204,678	(3,285)	-	19,564,915
Machinery and equipment	192,430	3,019	-	-	195,449
Furniture and fixtures	96,499	-	-	-	96,499
Total	18,652,451	1,207,697	(3,285)	-	19,856,863
Total capital assets being depreciated or amortized, net	$ 40,035,165	$ 5,091,533	$ (6,101)	$ -	$ 45,120,597

*Beginning balances were restated due to prior year errors being discovered in the current fiscal year. See Note 15. Restatement.

Note 4. Unearned Revenue

Unearned revenue represents amounts for which asset recognition criteria have been met, but which revenue recognition criteria have not been met. Unearned revenue is comprised of rent collected from customers in advance in the amount of $-0- and $5,072 as of June 30, 2022 and 2021, respectively. The amounts are included as other liabilities.

Note 5. Line of Credit

The Authority has a line of credit with Atlantic Union Bank. The line of credit has a limit of $125,000 and is unsecured. The line of credit is renewable annually. The interest rate is five percent and payable monthly. There was no outstanding balance on the line of credit as of June 30, 2021 or June 30, 2022.

Note 6. Long-term Debt

Changes in long-term liabilities consisted of the following for the year ended June 30, 2022:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Accrued compensated absences	$ 10,763	$ 21,811	$ 9,960	$ 22,614	$ 11,734
VRA bonds and loan	1,536,491	208,742	223,361	1,521,872	260,447
Notes payable	1,778,632	-	14,682	1,763,950	531,831
Total	**$ 3,325,886**	**$ 230,553**	**$ 248,003**	**$ 3,308,436**	**$ 804,012**

Details of long-term obligations are as follows:

Virginia Resource Authority (VRA) Bonds and Loans

2004 Bond

On April 1, 2004, the Authority borrowed $743,719 which was used to construct new hangar and fuel storage facilities.

The Authority refinanced the bond with VRA in fiscal year 2016 resulting in a reduction of the interest rate and monthly payment. Beginning in October 2015, the monthly payment was reduced to $3,892 with interest at 2.95 percent. The bond matures April 2029.

2005 Bond

On March 9, 2005, the Authority borrowed $1,075,000 which was used to construct two hangars.

The Authority refinanced the bond with VRA in fiscal year 2016 resulting in a reduction of the interest rate and monthly payment. Beginning in October 2015, the monthly payment was reduced to $6,506 with interest at 2.76 percent. The bond matures March 2025.

2007 Bond

On March 21, 2007, the Authority borrowed $1,601,000 which was used to construct improvements to the Airport to include utilities and hangar facilities. The bond carried interest at 5.08 percent with monthly payments in the amount of $11,030 until refinanced during fiscal year 2021. The bond is currently payable in monthly payments of $9,657 with interest at 1.31 percent. The bond matures July 2027 with no modification of the original terms and conditions of the bond.

Note 6. Long-term debt (Continued)

VARF-DL-19 Loan

On November 1, 2020, the Virginia Airports Revolving Fund (VARF) granted funding to the Authority to assist in financing the construction of a hangar facility. The project funding was granted for a loan up to $790,000. The loan includes a covenant requirement stating that the Authority will establish rates and fees charged to customers pertaining to this project at levels that will provide for annual net revenues to equal at least 100 percent of the annual debt service on the loan and existing parity debt obligations. The Authority is required to report annually its conformance to the annual net revenue coverage of the debt service.

The project construction began in fiscal year 2021 with the Authority making draws on the loan totaling $272,932 as of June 30, 2021. An additional $208,742 was borrowed during fiscal year 2022. The loan is scheduled for a 20-year term with monthly payments of $4,066 and interest at 2.15 percent. Interest only will be charged at the start of project draws. The loan is secured by a pledge of the Authority's revenues derived from general airport operations in addition to the moral obligation pledge of the City of Fredericksburg, Prince William County and Stafford County.

Revenues of the Authority have been pledged to secure the VRA bonds. Stafford County, Prince William County and the City of Fredericksburg have approved their moral obligation regarding the debt.

Notes Payable:

On September 6, 2005, Stafford County approved a loan for $526,120 to the Authority for the construction of water and sewer service on Airport property with the understanding that the Authority is to repay the County as revenues allow. There have been no current payments made on this loan or demand for payment. The entire balance is considered current.

On July 17, 2012, Stafford County approved an interest free loan not to exceed $1,400,000. The total borrowed was $1,316,228. The loan will be repaid from 55 percent of the revenue derived from new commercial clients. Interest is not charged.

Note 6. Long-term debt (Continued)

Repayment schedule and summary:

Principal and interest for the next five years and in subsequent five-year periods as of June 30, 2022 are as follows (future draws on VARF-19 debt is not included):

Year(s) Ending June 30,	Principal	Interest
2023	$ 792,278	$ 29,023
2024	272,621	23,524
2025	258,863	17,941
2026	204,739	13,677
2027	208,586	10,006
2028-2032	360,566	17,542
Thereafter	1,188,169	135
Total	$ 3,285,822	$ 111,848

A summary of long-term liability activity for the year ended June 30, 2022 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
VRA bond - 2004	**$ 323,234**	**$ -**	**$ 34,489**	**$ 288,745**	**$ 38,712**
VRA bond - 2005	**271,973**	**-**	**65,438**	**206,535**	**73,298**
VRA bond - 2007	**668,353**	**-**	**98,743**	**569,610**	**109,079**
Note payable - Stafford County	**526,120**	**-**	**-**	**526,120**	**526,120**
Note payable - Stafford County	**1,252,512**	**-**	**14,682**	**1,237,830**	**5,711**
VARF-DL-19	**272,931**	**208,742**	**24,691**	**456,982**	**39,358**
Total	**$ 3,315,123**	**$ 208,742**	**$ 238,043**	**$ 3,285,822**	**$ 792,278**

Interest expense:

For the years ended June 30, 2022 and 2021, interest expense was as follows:

	2022	2021
Virginia Resource Authority Bond - 2004	**$ 9,037**	$ 10,115
Virginia Resource Authority Bond - 2005	**6,607**	8,550
Virginia Resource Authority Bond - 2007	**8,110**	16,803
VARF DL-19	**6,907**	-
Total	**$ 30,661**	$ 35,468

Note 7. Fuel Sales

Gross profit on fuel sales for the years ended June 30, 2022 and 2021 was as follows:

	2022	2021
Fuel sales	$ 972,732	$ 761,179
Cost of sales:		
Fuel and supplies	529,612	399,851
Fuel truck rent	-	21,199
Total cost of sales	529,612	421,050
Gross profit	$ 443,120	$ 340,129

Note 8. Related Party - Local Government Assessments

Local government assessments are provided by the membership organizations as follows:

	2022	2021
County of Stafford	$ 85,714	$ 85,714
County of Prince William	42,857	42,857
City of Fredericksburg	21,430	21,430
Total	$ 150,001	$ 150,001

Note 9. Capital Grants

Capital asset purchases have been primarily funded by federal and state capital grant contributions. Additional matching requirements are met by the Authority primarily through loans obtained from the VRA. For the years ended June 30, 2022 and 2021, the Authority received capital grant contributions as follows:

	2022	2021
Federal	$ 5,936,263	$ 3,761,714
State	93,667	74,799
Total	$ 6,029,930	$ 3,836,513

Note 9. Capital Grants (Continued)

Various grants are subject to audit to determine compliance with specified requirements. The Authority's management believes that if any refunds are required, the amounts will not be material to the Authority's operations and overall financial position.

The Authority acknowledges that various federal grant contracts have the condition of duration and applicability. The terms, conditions and assurances of the various grant agreements remain in full force and effect throughout the useful life of the facilities developed or equipment acquired for a period not to exceed twenty (20) years. There is no limit on the duration of the assurances regarding exclusive rights and Authority revenue while operating as an airport. In addition, there is no limit on the duration of the terms, conditions, and assurances with respect to real property acquired with federal funds.

Note 10. Expansion Projects

Runway Extension Project

The Runway Extension project will extend Runway 15 to better serve existing and future airport customers.

During fiscal year 2021, the Environmental, Mitigation and Runway Extension Design phase was completed. The phase cost was $1,400,000 with federal funding of $1,260,000 (90 percent match) and state funding of $112,000 (eight percent match). Phase 1 construction began in fiscal year 2021 with a contracted cost of $5,777,777. Phase 1 construction is funded entirely by a federal grant with costs of $5,344,928 incurred as of June 30, 2022 indicating 92.51 percent completed.

Phase 2 construction began in fiscal year 2022 with a contracted cost of $8,110,000 funded by a federal grant, with costs of $4,047,984 incurred as of June 30, 2022 indicating 49.91 percent completed.

T-Hangar - Site 4 Project

The T-hangar project has budgeted costs of $1,035,714 and is partially funded by a loan with the VARF in the amount of $790,000 as described in Note 7. In addition, the Virginia Department of Aviation (DOAV) awarded a grant for T-Hangar- Site 4 in the amount of $261,000 with an 80 percent match. As of June 30, 2022, the Authority made draws on the VARF- 19-DL loan to fund project costs in the amount of $481,673 and received DOAV grant funds in the amount of $128,599.

Note 11. Leases

During the current fiscal year, the Authority leased spaces in 4 hangars, including 36 T-hangars and 4 jet-pad hangars to third parties. These spaces are expected to be leased for ten more years ending on June 30, 2032. The Authority will receive monthly payments ranging from $425 to $900. The Authority also had seven additional agreements with third parties to lease other property at the airport. The leases are expected to be leased for three to twenty-six years. The Authority recognized $324,443 in lease revenue and $104,131 in interest revenue during the current fiscal year related to these leases. As of June 30, 2022, the Authority's receivable for lease payments was $4,331,108. Also, the Authority has deferred inflows of resources associated with these leases that will be recognized as revenue over the lease term. As of June 30, 2022, the balance of the deferred inflows of resources was $4,246,757.

Note 11. Leases (Continued)

The public is invited to submit applications to rent rooms at the terminal based upon availability and event approval.

Total rent revenue from all sources totaled $374,696 and $353,650 as of June 30, 2022 and 2021, respectively.

Note 12. Concentrations

Revenue from fuel sales and rents comprise the majority of operating revenues for the Authority.

Note 13. Risk Management, Commitments and Other Matters

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; general liability claims; and natural disasters. The Authority manages these risks through the purchase of commercial insurance. From time to time, the Authority is involved in litigation in the normal course of operations. It is the opinion of the Authority's management that any adverse outcomes related to litigation would not have a material impact on the financial position, results of operations, or cash flows of the Authority as of and for the years ended June 30, 2022 and 2021.

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement of the grantor agencies. The Authority's management believes disallowances, if any, would be immaterial.

As of June 30, 2022 and 2021, the Authority had outstanding contractual commitments related to airport improvement projects totaling $4,494,865 and $10,395,025, respectively.

Note 14. Mitigation Easement Agreement

In June 2021, the Authority, as the property owner, entered into a mitigation easement agreement for the purpose of the Grantee of the agreement providing compensatory mitigation for unavoidable impacts to streams resulting from activities authorized under applicable federal and state laws. The project area of the easement is approximately 22.72 acres. The Grantee is responsible for obtaining approval by the applicable government entities, which is considered part of the Grantee's mitigation activities. The Grantee is responsible for the cost of obtaining the required approvals. The easement is granted in perpetuity unless modified as allowed by the agreement. The Authority received $50,000 of monetary consideration for the easement.

Note 15. Restatement

As of July 1, 2021, the following restatement has been made to correct errors in prior year capital assets, accounts payable, and accounts receivable:

	July 1, 2021
Net position, as originally reported	**$ 38,423,061**
Adjustment to fiscal year 2021 capital asset balances to correct errors	**(1,538,373)**
Adjustment to fiscal year 2021 accounts payable balance to correct an error	**(300)**
Adjustment to fiscal year 2021 capital improvements payable balance to correct an error	**(217,449)**
Adjustment to fiscal year 2021 accounts receivable balance to correct an error	**217,449**
Net position, as restated	**$ 36,884,388**

Note 16. Pending GASB Statements

At June 30, 2022, the GASB had issued statements not yet implemented by the Authority. The statements which might impact the Authority are as follows:

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, will address accounting and financial reporting implications that result from the replacement of an interbank offered rate-most notably, the London Interbank Offered Rate (LIBOR), which is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. Portions of Statement No. 93 will be effective for fiscal years beginning after December 31, 2021.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements,* will improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. Statement No. 94 will be effective for fiscal years beginning after June 15, 2022.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, will provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). Statement No. 96 will be effective for fiscal years beginning after June 15, 2022.

Note 16. Pending GASB Statements (Continued)

GASB Statement No. 99, *Omnibus 2022*, will enhance comparability in accounting and financial reporting and improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB statements and (2) accounting and financial reporting for financial guarantees. The portion of Statement No. 99 related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022. The portion of the Statement related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for fiscal years beginning after June 15, 2023.

GASB Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62,* will enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. Statement No. 100 will be effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023.

GASB Statement No. 101, *Compensated Absences,* will better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. Statement No. 101 will be effective for fiscal years beginning after December 15, 2023.

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

COMPLIANCE SECTION

STAFFORD REGIONAL AIRPORT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/ Program Title (Pass-Through Grantor's Number)/ Cluster Title	Federal Assistance Listing Number	Pass-through Entity Identifying Number	Provided to Subrecipients	Federal Expenditures
DEPARMENT OF TRANSPORTATION				
Direct Payments:				
COVID-19 Cornavirus Response and Relief Supplemental Appropriations Act	20.000	N/A	$ -	$ 13,000
COVID-19 CARPAL	20.000	N/A	-	32,000
Airport Improvement Program	20.106	N/A	-	5,936,263
Total Department of Transportation			-	5,981,263
Total Expenditures of Federal Awards			$ -	$ 5,981,263

STAFFORD REGIONAL AIRPORT AUTHORITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2022

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal ward activity of the Stafford Regional Airport Authority (Authority) under programs of the federal government for the year ended June 30, 2022. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CPR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Authority.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

The Authority has elected to not use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

PBMares
CPAs and Consultants

**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 Stafford Regional Airport Authority
Stafford, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the Stafford Regional Airport Authority (Authority), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 27, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing 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 Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2022-001 and 2022-002 that we consider to be material weaknesses.

Report on 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 financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2022-003.

The Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion the response.

Purpose of this Report

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

PBMares, LLP

Harrisonburg, Virginia
April 27, 2023

PBMares
CPAs and Consultants

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

To the Members of the Stafford Regional Airport Authority
Stafford, Virginia

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited the Stafford Regional Airport Authority's (Authority) compliance with the types of compliance requirements identified as subject to audit 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, 2022. 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.

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2022.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Authority's federal program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards,* and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Authority's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies may exist that have not been identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

PBMares, LLP

Harrisonburg, Virginia
April 27, 2023

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2022

Section I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weaknesses identified?	√ Yes	___ No
Significant deficiencies identified?	___ Yes	√ None Reported
Noncompliance material to financial statements noted?	√ Yes	___ No

Federal Awards

Internal control over major federal program:

Material weaknesses identified?	___ Yes	√ No
Significant deficiencies identified?	___ Yes	√ None Reported

Type of auditor's report issued on compliance for the major federal program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?	___ Yes	√ No

Identification of major federal program:

Federal Assistance Listing Number	Name of Federal Program or Cluster
20.106	Airport Improvement Program

Dollar threshold used to distinguish between type A and type B programs $750,000

Auditee qualified as low-risk auditee? ____Yes √ No

Section II. FINANCIAL STATEMENT FINDINGS

A. Material Weakness in Internal Control

2022-001: Material Weakness Due to Lack of Segregation of Duties

Criteria: There should be adequate segregation of duties relating to journal entries and bank reconciliations. The authorization of journal entries and approval of bank reconciliations should not be carried out by the same person who posts journal entries and creates bank reconciliations.

Condition: Upon obtaining an understanding of the internal controls of the Authority, it was noted that there was no formal journal entry approval process or bank reconciliation process.

Context: The Executive Assistant is the only person who makes journal entries and codes revenues and expenses in the general ledger. The Executive Assistant is also the only person who creates the bank reconciliations. There is no approval process for either of these duties. There are also no formal policies and procedures in place to help ensure segregation of duties for the authorization and approval of journal entries and bank reconciliations.

Cause: There is a lack of formal policies and procedures in place including segregation of duties for journal entries and bank reconciliations.

Effect: Lack of segregation of duties increases the risk that fraud or error may occur undetected.

Recommendation: We recommend the Authority implement formal policies and procedures to ensure proper segregation of duties for journal entries.

Views of Responsible Officials: The auditee agrees with these recommendations and has taken the necessary steps to prevent a recurrence.

2022-002: Material Weakness Due to Significant Audit Adjustments and Restatements

Criteria: The year-end financial statements should be free of significant misstatements.

Condition: Upon auditing the year-end balances, material errors were noted in the beginning balances of capital assets, accounts payable, accounts receivable. In addition, material adjustments to capital assets activity during the fiscal year 2022 were identified.

Context: Audit entries were required to properly record capital assets activity and beginning balances of capital assets, accounts payable, and accounts receivable. Additionally, reconciliation of capital asset accounts were not performed on a timely basis.

Cause: There was a lack of sufficient review to ensure items noted above were accurately recorded and reconciled timely.

Effect: As noted above, the effect of these transactions resulted in misstatements in the prior year ending balances of capital assets, accounts payable, accounts receivable, and current year balances of capital assets. The necessary restatements and journal entries were material to the financial statements and were included as adjustments in order to more accurately represent the financial position of the Authority. Failure to record the items noted above is a departure from accounting principles generally accepted in the United States of America.

Section II. FINANCIAL STATEMENT FINDINGS (Continued)

A. Material Weakness in Internal Control (Continued)

2022-002: Material Weakness Due to Significant Audit Adjustments and Restatements (Continued)

Recommendation: We recommend the Authority increase levels of due diligence in maintaining accurate account balances. We also recommend a thorough review of general ledger balances and supporting schedules prior to the audit, including reconciling all capital asset balances earlier in the closing process.

Views of Responsible Officials: The auditee agrees with these recommendations and has taken the necessary steps to prevent a recurrence.

B. Compliance Finding

2022-003: Compliance Finding Due to Failure to File Fiscal Year 2021's Federal Data Collection Form and Single Audit Reporting Package

Criteria: A Federal data collection form and Single Audit Reporting Package should be filed with the Federal Audit Clearinghouse in any year that a single audit was required.

Condition: Upon performing the single audit in the current year, it was noted that a Federal data collection form and Single Audit Reporting Package were not filed in the previous year.

Context: Despite there being a single audit in the previous year, a Federal data collection form and Single Audit Report Package with the Federal Audit Clearinghouse were never filed.

Cause: There is a lack of expertise surrounding federal grant requirements, resulting in the requirement being missed.

Effect: Failure to file the Federal data collection form and Single Audit Reporting Package causes the Authority to not be in compliance with federal grant requirements and could result in a loss of funding.

Recommendation: We recommend the Authority files the Federal data collection form and Single Audit Reporting Package in any year where a Single Audit was performed.

Views of Responsible Officials: The auditee agrees with these recommendations and has taken the necessary steps to prevent a recurrence.

Section III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None.

STAFFORD
REGIONAL AIRPORT

STAFFORD REGIONAL AIRPORT AUTHORITY

CORRECTIVE ACTION PLAN
Year Ended June 30, 2022

<u>Identifying Number:</u> 2022-001: Material Weakness Due to Lack of Segregation of Duties

<u>Finding:</u> The Authority does not have proper segregation of duties in place over journal entries and bank reconciliations. The approval of journal entries and bank reconciliations is not done by another person separate from the individual that completes the task.

<u>Corrective Action Taken or Planned:</u> The Internal Controls document established by the Airport Director (AD) was amended to include the requirement by the bookkeeper to provide a list of journal entries for each month to the AD. The AD will then review all the entries and take any necessary actions. An updated copy of the Internal Controls document has been forwarded to the auditor. The journal file for the month of March 2023 has been completed.

<u>Identifying Number:</u> 2022-002: Material Weakness Due to Significant Audit Adjustments

<u>Finding:</u> Upon auditing the year-end balances, there were instances of material errors in the beginning balances of capital assets, accounts receivable, and accounts payable requiring restatement of the prior year balances. There were also material errors identified in capital assets requiring audit adjustments in fiscal year 2022.

<u>Corrective Action Taken or Planned:</u> Once the audit is complete and the journal entries are approved by the Airport Director and Treasurer, the adjustments will be made by the bookkeeper and a trial balance will be given to both entities above to show the adjustments were made and the future depreciation schedule will be updated and given to the current auditors for the fiscal year 2023 audit.

<u>Identifying Number:</u> 2022-003: Compliance Finding Due to Failure to File Fiscal Year 2021's Federal Data Collection Form and Single Audit Reporting Package

<u>Finding:</u> The Authority did not file a Federal data collection form and Single Audit Reporting Package with the federal audit clearinghouse in the prior year, despite a Single Audit being performed.

<u>Corrective Action Taken or Planned:</u> The fiscal year 2021 audit has been uploaded to the Federal Audit Clearinghouse.

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STAFFORD REGIONAL AIRPORT AUTHORITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2022

The prior year single audit disclosed no findings in the Schedule of Findings and Questioned Costs and no uncorrected or unresolved findings exist from prior audit's Summary Schedule of Prior Audit Findings.