VIRGINIA TECH/MONTGOMERY REGIONAL AIRPORT AUTHORITY

FINANCIAL REPORT

Fiscal Year Ended June 30, 2017

VIRGINIA TECH/MONTGOMERY REGIONAL AIRPORT AUTHORITY

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INTRODUCTORY SECTION

VIRGINIA TECH/MONTGOMERY REGIONAL AIRPORT AUTHORITY

DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2017

MEMBERS OF THE BOARD

Mr. L. Allen Bowman – Chairman
Mayor Ron Rordam – Vice Chairman
Ms. Ann H. Carter – Secretary-Treasurer
Dr. Sherwood Wilson
Ms. Annette S. Perkins

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, 2017, 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.

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, 2017, 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.

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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 and the other post-employment benefit schedule of funding progress 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 affected by this missing information.

Report on Summarized Comparative Information

We have previously audited the Authority's 2016 financial statements, on which, in our report dated September 23, 2016, we expressed an unmodified opinion. The 2016 financial information is provided for comparative purposes only.

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 September 21, 2017 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
September 21, 2017

BASIC FINANCIAL STATEMENTS

EXHIBIT 1

VIRGINIA TECH/MONTGOMERY REGIONAL AIRPORT AUTHORITY

STATEMENT OF NET POSITION
JUNE 30, 2017

	2017	(For Comparative Purposes Only) 2016
ASSETS		
Current Assets		
Cash and cash equivalents (Note 2)	$ 419,672	$ 174,644
Cash and cash equivalents, restricted (Note 2)	1,677,063	1,944,117
Accounts receivable (Note 10)	43,104	68,246
Due from other governments (Note 3)	6,175,970	428,754
Inventory	28,773	26,262
Total current assets	8,344,582	2,642,023
Noncurrent Assets		
Due from other governments (Note 3)	6,636,820	9,304,987
Capital Assets: (Note 4)		
Nondepreciable	17,631,367	12,091,228
Depreciable, net	10,828,473	11,674,719
Total noncurrent assets	35,096,660	33,070,934
Total assets	43,441,242	35,712,957
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions (Note 7)	139,738	59,853
Total deferred outflows of resources	139,738	59,853
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities (Note 8)	3,806,090	442,621
Compensated absences (Note 5)	24,953	22,324
Due to Town of Blacksburg	179,325	111,990
Accrued interest payable	5,304	5,530
Current portion of long-term debt (Note 6)	2,830,307	95,846
Total current liabilities	6,845,979	678,311
Net Pension Liability (Note 7)	307,518	198,859
Revenue bonds (Note 6)	2,114,564	2,213,133
Grant anticipation note (Note 6)	6,668,261	9,400,000
Total noncurrent liabilities	9,090,343	11,811,992
Total liabilities	15,936,322	12,490,303
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions (Note 7)	-	17,409
Total deferred inflows of resources	-	17,409
NET POSITION		
Net investment in capital assets	27,489,465	23,212,952
Restricted	38,482	38,367
Unrestricted	116,711	13,779
Total net position	$ 27,644,658	$ 23,265,098

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, 2017

	2017	(For Comparative Purposes Only) 2016
REVENUES		
Fuel sales (Note 10)	$ 639,574	$ 589,355
Hangar rentals	53,905	54,282
Parking	93,874	90,284
Property leases	80,240	67,418
Other income	12,294	12,979
Total operating revenues	879,887	814,318
OPERATING EXPENSES		
Salaries and wages	317,207	268,606
Directors' compensation	6,000	6,000
Employee benefits	98,747	53,548
Payroll taxes	23,663	20,245
Training and travel	2,791	3,922
Advertising	-	697
Administrative	29,480	27,318
Repair and maintenance	118,620	53,307
Supplies	14,451	20,184
Dues and subscriptions	1,470	1,229
Professional fees	72,268	85,318
Insurance	14,370	17,292
Inspection	3,100	7,395
Utilities	25,254	26,975
Fuel	309,187	357,537
Other	11,162	13,104
Telephone	6,417	6,355
Depreciation	846,246	847,601
Capital outlay	-	7,544
Landscaping	2,944	2,453
Total operating expenses	1,903,377	1,826,630
Operating loss	(1,023,490)	(1,012,312)

(Continued)

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

VIRGINIA TECH/MONTGOMERY REGIONAL AIRPORT AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2017

	2017	(For Comparative Purposes Only) 2016
NONOPERATING REVENUES (EXPENSES)		
Operating grants	$ 65,914	$ 27,166
Members' contributions	200,000	200,000
Interest income	1,603	1,587
Interest expense (Note 6)	(65,277)	(111,143)
Total nonoperating revenues (expenses), net	202,240	117,610
Loss before capital contributions	(821,250)	(894,702)
CAPITAL CONTRIBUTIONS (Note 11)	5,200,810	1,443,488
Change in net position	4,379,560	548,786
Net position beginning July 1	23,265,098	22,716,312
Net position ending at June 30	$ 27,644,658	$ 23,265,098

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, 2017

	2017	(For Comparative Purposes Only) 2016
OPERATING ACTIVITIES		
Receipts from customers	$ 905,029	$ 790,539
Payments to suppliers	(504,097)	(657,812)
Payments to employees	(426,918)	(349,364)
Net cash used in operating activities	(25,986)	(216,637)
CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments on long-term debt	(95,847)	(649,750)
Proceeds from issuance of revenue bonds	-	2,350,000
Purchases of capital assets	(2,223,968)	(1,100,886)
Capital contributions	2,122,412	1,311,748
Receipts from governmental units	265,263	222,247
Interest paid on capital debt	(65,503)	(109,359)
Net cash provided by capital and related financing activities	2,357	2,024,000
INVESTING ACTIVITIES		
Interest received on investments	1,603	1,587
Net cash provided by investing activities	1,603	1,587
Net increase (decrease) in cash and cash equivalents	(22,026)	1,808,950
CASH AND CASH EQUIVALENTS		
Beginning	2,118,761	309,811
Ending	$ 2,096,735	$ 2,118,761
Reconciliation to Statement of Net Position		
Cash and cash equivalents	$ 419,672	$ 174,644
Cash and cash equivalents, restricted	1,677,063	1,944,117
	$ 2,096,735	$ 2,118,761

(Continued)

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

VIRGINIA TECH/MONTGOMERY REGIONAL AIRPORT AUTHORITY

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017

	2017	(For Comparative Purposes Only) 2016
Reconciliation of operating loss to net cash used in operating activities		
Operating Loss	$ (1,023,490)	$ (1,012,312)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	846,246	847,601
Pension expense net of employer contributions	11,365	(7,194)
Change in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	25,142	(23,779)
Inventory	(2,511)	38,940
Increase (decrease) in:		
Accounts payable and accrued liabilities	47,298	(46,913)
Compensated absences	2,629	3,458
Due to Town of Blacksburg	67,335	(16,438)
Net cash used in operating activities	$ (25,986)	$ (216,637)
NONCASH CAPITAL AND FINANCING ACITVITIES		
Capital asset purchases financed with accounts payable	$ 3,706,691	$ 390,520

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, 2017 and 2016 were $0 and $90, 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.

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:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority's Retirement Plan and the additions to/deductions from the Authority's Retirement Plan's 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 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. The Authority has four items that qualify for reporting in this category. The first consists of contributions subsequent to the measurement date for pensions; this will be applied to the net pension liability in the next fiscal year. The second consists of the change in proportion due to the cost sharing participation of the Authority in the Town of Blacksburg's defined pension plan, where changes in proportion occur due to changes in the Authority's proportionate share of total contributions to the plan from one year to the next. The third consists of differences between expected and actual experience for economic or demographic factors in the total pension liability measurement. The fourth item consists of the difference between projected and actual earnings on pension plan investments.

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	$ 101,924	$ -	$ 101,924
State maintenance Grants	-	2,854	2,854
Hanger site design	-	8,532	8,532
Hanger site Construction	-	214,797	214,797
Land acquisition	8,460,000	752,000	9,212,000
Runway extension (design)	29,533	1,591	31,124
Runway extension (construction)	2,943,786	297,773	3,241,559
Total	11,535,243	1,277,547	12,812,790
Less: Current	5,431,884	744,086	6,175,970
Non current	$ 6,103,359	$ 533,461	$ 6,636,820

Note 3. Due from Other Governments (Continued)

The Federal Excise Tax refunds consist of approximately twelve 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	$ 12,091,228	$ 5,540,139	$ -	$ 17,631,367
Capital assets, nondepreciable	12,091,228	5,540,139	-	17,631,367
Capital assets, being depreciated				
Leasehold improvements – runway	17,209,712	-	-	17,209,712
Equipment	423,256	-	-	423,256
Capital assets, depreciable	17,632,968	-	-	17,632,968
Less accumulated depreciation				
Leasehold improvements – runway	(5,728,195)	(828,820)	-	(6,557,015)
Equipment	(230,054)	(17,426)	-	(247,480)
Total accumulated depreciation	(5,958,249)	(846,246)	-	(6,804,495)
Total capital assets being depreciated, net	11,674,719	(846,246)	-	10,828,473
Total capital assets, net	$ 23,765,947	$ 4,693,893	$ -	$ 28,459,840

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	$ 22,324	$ 25,702	$ (23,073)	$ 24,953	$ 24,953

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 2018, 2019, and 2020, 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	$ 2,308,979	$ -	$ (95,847)	$ 2,213,132	$ 98,568
Grant Anticipation Notes	9,400,000	-	-	9,400,000	2,731,739
Total	$ 11,708,979	$ -	$ (95,847)	$ 11,613,132	$ 2,830,307

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**
2018	$ 2,731,739	$ -	$ 98,568	$ 62,792	$ 2,830,307	$ 62,792
2019	5,555,555	-	101,370	59,990	5,656,925	59,990
2020	1,112,706	-	104,099	57,260	1,216,805	57,260
2021	-	-	107,219	54,141	107,219	54,141
2022	-	-	110,275	51,084	110,275	51,084
2023-2027	-	-	600,360	206,438	600,360	206,438
2028-2032	-	-	691,553	115,244	691,553	115,244
2033-2035	-	-	399,688	20,788	399,688	20,788
	$ 9,400,000	$ -	$ 2,213,132	$ 627,737	$ 11,613,132	$ 627,737

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)

Plan Description (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:

Plan 1 – Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

- **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. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.
- **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)

<u>Plan Description</u> (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. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016.
- **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 2, with the following exceptions:
        - Hybrid Retirement Plan members are ineligible for ported service.
        - The cost for purchasing refunded service is the higher or 4% of creditable compensation or average final compensation.
        - Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.

    - **Defined Contribution Component** – Not Applicable.

Employees Covered by Benefit Terms

As of the June 30, 2015 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, 2017 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 $30,698 and $24,188 for the years ended June 30, 2017 and June 30, 2016, respectively.

Note 7. Defined Benefit Pension Plan (Continued)

Net Pension Liability

At June 30, 2017, the Authority reported a liability of $307,518 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, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

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, 2016.

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 - 14% of deaths are assumed to be service related. Public Safety Employees – 60% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2000 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, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Note 7. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions (Continued)

General Employees - Largest 10 – Non-LEOS and All Others (Non 10 Largest): Update mortality table; decrease in rates of service retirement; decrease in rates of disability retirement; and reduce rates of salary increase by 0.25% per year.

Long-Term Expected Rate of Return

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

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

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

Note 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, 2018, 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, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the 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	$ 467,819	$ 307,518	$ 174,988

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

For the year ended June 30, 2017, the Authority recognized pension expense of $42,097. At June 30, 2017, 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	$ 19,185	-
Change in proportionate share	67,827	-
Net difference between projected and actual earnings on pension plan investments	22,028	-
Employer contributions subsequent to the measurement date	30,698	-
Total	$ 139,738	$ -

At June 30, 2017, the Authority's proportionate share was 1.53% as compared to 1.24% at June 30, 2016.

The $30,698 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, 2018. 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	$ 21,907
2019	21,907
2020	32,681
2021	24,781
2022	7,764
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 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

At June 30, 2017, approximately $2,628 was payable to the Virginia Retirement System for the legally required contributions related to June 2017 payroll.

Note 8. Other Post-Employment Benefits

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.

Annual OPEB cost and net OPEB obligation:

The liability relating to other post-employment benefits is included in accounts payable and accrued liabilities in Exhibit 1. The liability is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2017	$ 6,579	92%	$ 9,186
June 30, 2016	$ 5,341	98%	$ 6,835
June 30, 2015	$ 5,341	86%	$ 6,728

Actuarial information supporting the calculation of the Net OPEB Obligation and the Actuarial Accrued Liability, as well as funded status and funding progress, is included in the Town's comprehensive annual financial report.

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 24% 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:

	2017	2016
Runway extension design	$ 3,033	$ -
Runway extension construction	4,961,968	1,443,488
Hanger site prep design	235,809	-
	$ 5,200,810	$ 1,443,488

Note 12. Risk Management

Workers' compensation:

Workers' Compensation Insurance is provided through the Virginia Municipal League. During 2017, total premiums paid were $5,647.

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 $11,993 for this insurance for 2017.

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 2018 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, 2017, $17,631,000 has been incurred and spent on these projects.

Note 14. New Accounting Standards

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

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 45 and No. 57 and establishes new accounting requirements for OPEB plans. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* provides recognition and measurement guidance for situations in which a government is a beneficiary of an irrevocable split-interest agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions,* and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Specifically, this Statement addresses issues regarding the presentation of payroll related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement will be effective for the year ending June 30, 2018.

Note 14. New Accounting Standards (Continued)

GASB Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for Asset Retirement Obligations (AROs). This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. This Statement will be effective for the year ending June 30, 2019.

GASB Statement No. 84, *Fiduciary Activities* establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement will be effective for the year ending June 30, 2020.

GASB Statement No. 85, *Omnibus 2017* addresses practice issues that have been identified during implementation and application of certain GASB Statements, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and “negative” goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

This Statement will be effective for the year ending June 30, 2018.

Note 14. New Accounting Standards (Continued)

GASB Statement No. 86, *Certain Debt Extinguishment Issues,* improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 87, *Leases* establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement will be effective for the year ending June 30, 2021.

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REQUIRED SUPPLEMENTARY INFORMATION

VIRGINIA TECH/MONTGOMERY REGIONAL AIRPORT AUTHORITY

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

June 30, 2017

Year Ended June 30	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Employee Payroll	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
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.

VIRGINIA TECH/MONTGOMERY REGIONAL AIRPORT AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2017

Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
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.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2017

Note 1. Changes of Benefit Terms

There have been no significant changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012 (fiscal year 2014 for the teacher cost sharing pool). The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2014, and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

Note 2. Changes of Assumptions

The following changes in actuarial assumptions were made effective June 30, 2014 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

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

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

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

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

SUPPLEMENTAL SCHEDULE

VIRGINIA TECH/MONTGOMERY REGIONAL AIRPORT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

Federal Grantor/Program Title	Federal CFDA Number	Federal Expenditures
FEDERAL AVIATION ADMINISTRATION		
Direct payments:		
Airport Improvement Program	20.106	$ 4,561,350

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.

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, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated September 21, 2017.

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 2005-001 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, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
September 21, 2017

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, 2017. 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 the requirements of federal statutes, regulations, and 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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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, 2017.

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
September 21, 2017

VIRGINIA TECH/MONTGOMERY REGIONAL AIRPORT AUTHORITY

SUMMARY OF COMPLIANCE MATTERS
June 30, 2017

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, 2017

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

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.

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, 2017

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.