**VIRGINIA HIGHLANDS AIRPORT AUTHORITY**
**A COMPONENT UNIT OF**
**WASHINGTON COUNTY, VIRGINIA**
**AUDITED FINANCIAL REPORT**
**June 30, 2016**

VIRGINIA HIGHLANDS AIRPORT AUTHORITY

A COMPONENT UNIT OF WASHINGTON COUNTY, VIRGINIA

AUDITED FINANCIAL REPORT

YEAR ENDED JUNE 30, 2016

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LIST OF AUTHORITY MEMBERS

John White, Chairman

Edward "Earl" Maine, Vice-Chairman

David Anderson, Treasurer and Secretary

Andy Puckett, Assistant Treasurer and Assistant Secretary

Frank Sims, Member

Stephen Lowe, Member

Joe Straten, Member

# MANAGEMENT DISCUSSION AND ANALYSIS

Our discussion and analysis of the Virginia Highlands Airport Authority's performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2016. Please read this information in conjunction with the Authority's financial statements.

The Virginia Highlands Airport Authority presents three basic financial statements. These are: (1) a Statement of Net Position (2) a Statement of Revenues, Expenditures and Changes in Net Position and (3) a Statement of Cash Flows.

Our financial position is measured in terms of resources we own and obligations we owe on a given date. This information is reported on the Statement of Net Position, which reflects the Authority's assets in relation to its debts to its suppliers, employees and other creditors. The excess of our assets over liabilities is our net position.

Information regarding the results of our operation during the year is reported in the Statement of Revenues, Expenditures and Changes in Net Position. This statement shows how much our overall net assets increased or decreased during the year as a result of our operations.

Our Statement of Cash Flows discloses the flow of cash resources into and out of the Authority during the year (from operations, contributions and other sources) and how we applied those funds (for example, payment of expenses, purchases of new property, etc.).

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A summary of the Authority's Statement of Net Position for 2016 and 2015 is presented below:

Condensed Statement of Net Position

| | 2016 | 2015 |
|---|---|---|
| Current and Other Assets | $ 985,489 | $ 1,269,736 |
| Property and Equipment | 22,811,823 | 22,213,722 |
| TOTAL ASSETS | $ 23,797,312 | $ 23,483,458 |
| Current Liabilities | $ 314,214 | $ 685,119 |
| Long Term Liabilities | 2,389,044 | 2,413,048 |
| TOTAL LIABILITIES | 2,703,258 | 3,098,167 |
| Net Position | | |
| Invested in Capital Assets | 20,473,250 | 19,856,714 |
| Unrestricted | 620,804 | 528,577 |
| TOTAL NET POSITION | 21,094,054 | 20,385,291 |
| TOTAL NET POSITION AND LIABILITIES | $ 23,797,312 | $ 23,483,458 |

The financial position of the Virginia Highlands Airport Authority is good.

A summary of the Virginia Highlands Airport Authority's Statements of Revenues, Expenditures and Changes in Net Position for 2016 and 2015 are presented below.

Condensed Statements of Revenues, Expenditures and Changes in Net Position

| | 2016 | 2015 |
|---|---|---|
| Operating Income | $ 1,337,021 | $ 1,584,535 |
| Operating COGS & Expenses | 1,609,231 | 1,890,670 |
| Operating Income (loss) | (272,210) | (306,135) |
| Net Non-Operating Income | 980,973 | 1,709,453 |
| Changes in Net Position | $ 708,763 | $ 1,403,318 |

Operating income is defined as the amount of revenue received from providing customer services. Of this amount, 79% of the operating income was from fuel and inventory sales.

Operating expenses are comprised of the direct expenses of operating the Airport. These expenses include fuel purchases, salaries and benefits, repairs and maintenance, occupancy, supplies, travel and depreciation. (See the full Statement of Revenues, Expenditures and Changes in Net Position for a complete breakdown of these expenses for 2016).

Non-operating income is comprised of interest, County appropriations, interest expense and federal and state capital grants. During the current year the Airport had several projects in progress where there were federal and state grant reimbursements.

Net Position increased $708,763 in 2016.

A summary of the Virginia Highlands Airport Authority's Statements of Cash Flows for 2016 and 2015 are presented below:

Condensed Statement of Cash Flows

| | 2016 | 2015 |
|---|---|---|
| Cash Flows From Operating Activities | $ 128,171 | $ 5,142 |
| Cash Flows From Non-Capital Activities | 44,016 | 12,881 |
| Cash Flows From Capital and Financing Activities | (206,736) | (83,950) |
| Cash Flows From Investing Activities | 2,127 | 5,833 |
| Net Change in Cash | (32,422) | (60,094) |
| Cash Beginning of Year | 795,410 | 855,504 |
| Cash Ending of Year | $ 762,988 | $ 795,410 |

Cash flows from operating activities reconcile the operating loss recorded on the Statement of Revenues, Expenses and Changes in Net Position to cash provided by operating activities. In this process, the operating loss is decreased by the amount of any non-cash transactions and adjusted for changes in assets and liabilities. (See the full Statement of Cash Flows for a full listing of these transactions).

Cash flows from non-capital transactions are comprised of income received as operating grants. Cash flows from capital and financing activities are comprised of all the capital assets purchased by the Authority and the payment of the Authority's debt and interest. Cash flows from investing activities are comprised of interest income. During 2016 there was a decrease of $32,422 in cash.

Capital Assets

At the end of 2016, the Virginia Highlands Airport Authority had $22,811,823 in net property and equipment. Fixed assets are the largest asset of the Authority. This is comprised of $32,670,744 in fixed assets less $9,858,921 in accumulated depreciation. (See Note 3).

Debt

Virginia Highlands Airport Authority had $2,338,573 in debt outstanding at year-end. A line of credit was established to pay for project expenses until a grant could be received. (See Note 8).

Contacting the Airport's Financial Management

This financial report is designed to provide the taxpayers, customers, and our funding agencies with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions or need additional financial information, contact the Airport Manager.

# Hicok, Fern & Company

*Certified Public Accountants*

Thomas M. Hicok ,CPA, CVA, MAFF [I, IV]•
James H. Fern, CPA, CVA [III]•
David B. Brown, CPA
Juan J. Garcia, CPA
Karen L. Jackson, CPA
Rodney P. Jackson, CPA [II]

155 E. Valley Street
P.O. Box 821
Abingdon, Virginia 24212-0821
(276) 628-1123
Fax: (276) 676-3000
e-mail: hicokfern&co@firmcpa.com

All Accountants Licensed in Virginia with
Additional Licensures Noted:
[I] KY; [II] NC; [III] TN; [IV] WV

*Members of American Institute of Certified Public Accountants*

*Members of Virginia Society of Certified Public Accountants*

•*Members of National Association of Certified Valuation Analysts*

INDEPENDENT AUDITOR'S REPORT

To the Board
Virginia Highlands Airport Authority

***Report on the Financial Statements***

We have audited the accompanying financial statements of Virginia Highlands Airport Authority, which comprise the statement of net position as of June 30, 2016 and the related statement of revenues, expenditures and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

***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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 financial position of Virginia Highlands Airport Authority as of June 30, 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplemental Information*

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

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Virginia Highlands Airport Authority's basic financial statements. The supporting statement is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supporting schedule is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supporting schedule 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 a report, dated September 30, 2016, on our consideration of Virginia Highlands Airport Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 the 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 Virginia Highlands Airport Authority's internal control over financial reporting and compliance.

Hicok Fern & Company

HICOK, FERN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
September 30, 2016

# Hicok, Fern, & Company

***Certified Public Accountants***

Thomas M. Hicok ,CPA, CVA, MAFF [I, IV]•
James H. Fern, CPA, CVA [III]•
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Karen L. Jackson, CPA
Rodney P. Jackson, CPA [II]

155 E. Valley Street
P.O. Box 821
Abingdon, Virginia 24212-0821
(276) 628-1123
Fax: (276) 676-3000
e-mail: hicokfern&co@firmcpa.com

All Accountants Licensed in Virginia with
Additional Licensures Noted:
[I] KY; [II] NC; [III] TN; [IV] WV

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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 Board Virginia Highlands Airport Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of The Virginia Highlands Airport Authority as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Virginia Highlands Airport Authority's basic financial statements, and have issued our report thereon dated September 30, 2016.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Hicok Fern & Company

HICOK, FERN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
September 30, 2016

Virginia Highlands Airport Authority
A Component Unit of Washington County, Virginia
Statement of Net Position
At June 30, 2016

Exhibit 1

| Assets | | Amount |
|---|---|---|
| **Current Assets** | | |
| Cash on hand and in bank (Note 2) | $ 762,988 | |
| Accounts receivable | 29,842 | |
| Grant receivable | 118,437 | |
| Prepaid insurance | 20,926 | |
| Inventory (Note 1) | 44,825 | |
| Total Current Assets | | $ 977,018 |
| **Property, Plant and Equipment (Notes 1 & 3)** | | |
| Land | 10,410,073 | |
| Buildings | 5,475,839 | |
| Improvements other than buildings | 12,998,263 | |
| Construction in progress | 3,049,994 | |
| Equipment | 680,384 | |
| Furniture & fixtures | 56,191 | |
| | 32,670,744 | |
| Less: Accumulated Depreciation | 9,858,921 | |
| Total Property, Plant, & Equipment | | 22,811,823 |
| Total Assets | | $ 23,788,841 |
| **Deferred Outflows of Resources** | | |
| Deferred pensions | | $ 8,471 |
| **Liabilities and Net Position** | | |
| **Current Liabilities** | | |
| Accounts payable | $ 259,620 | |
| Accrued wages and taxes | 17,490 | |
| Accrued interest | 17,760 | |
| Current portion of long-term debt (Note 8) | 19,344 | |
| Total Current Liabilities | | $ 314,214 |
| **Long - Term Liabilities** | | |
| Loans payable less short-term portion (Note 8) | 2,319,229 | |
| Accrued vacation | 10,017 | |
| Pension liability | 56,323 | |
| Total Long - Term Liabilities | | 2,385,569 |
| Total Liabilities | | $ 2,699,783 |
| **Deferred Inflows of Resources** | | |
| Deferred pensions | | $ 3,475 |
| **Net Position** | | |
| Invested in capital assets, net of related debt | 20,473,250 | |
| Unrestricted | 620,804 | |
| Total Net Position | | $ 21,094,054 |

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

Virginia Highlands Airport Authority
A Component Unit of Washington County, Virginia
Statement of Revenues, Expenditures,
And Changes in Net Position
For the Year Ended June 30, 2016

Exhibit 2

| | | Amount |
|---|---|---|
| Operating Revenues: | | |
| Fuel sales | $ 1,050,533 | |
| Rental income | 272,018 | |
| Miscellaneous income | 14,470 | |
| Total Operating Revenues | | $ 1,337,021 |
| Cost of Goods Sold: | | |
| Beginning inventory at July 1, 2015 | 40,817 | |
| Add: Purchases | 598,849 | |
| Goods available for resale | 639,666 | |
| Less: Ending inventory at June 30, 2016 | 44,825 | |
| Total Cost of Goods Sold | | 594,841 |
| Gross Profit | | 742,180 |
| Total Operating Expenses (Schedule 1) | | 1,014,390 |
| Net Income (Loss) Before Non-Operating Revenues (Expenses) and Capital Contributions | | (272,210) |
| Non-Operating Revenues (Expenses) | | |
| Interest income | 2,127 | |
| Washington County funds | 44,016 | |
| Interest expense | (20,694) | |
| Total Non-Operating Revenues (Expenses) | | 25,449 |
| Income (Loss) Before Capital Contributions | | (246,761) |
| Capital Contributions | | 955,524 |
| Change in net position | | 708,763 |
| Net position at beginning of year | | 20,385,291 |
| Net position at end of year | | $ 21,094,054 |

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

Virginia Highlands Airport Authority
A Component Unit of Washington County, Virginia
Statement of Cash Flows
For the Year Ended June 30, 2016

Exhibit 3

| | | Amount |
|---|---|---|
| Cash Flows from Operating Activities | | |
| Cash received from customers and others | $ 1,366,175 | |
| Cash payments to suppliers for goods and services | (860,254) | |
| Cash payments to employees for services and benefits | (377,750) | |
| Net Cash Flows Provided By Operating Activities | | $ 128,171 |
| Cash Flows From Non-Capital Financing Activities | | |
| Cash received from operating grants and contributions | | 44,016 |
| Cash Flows From Capital and Related Financing Activities | | |
| Interest paid | (20,896) | |
| Repayment of principle on debt | (18,435) | |
| Capital projects & assets purchased | (1,347,027) | |
| Capital contributions received | 1,179,622 | |
| Net Cash Flows Provided By Capital And Related Financing Activities | | (206,736) |
| Cash Flows From Investing Activities | | |
| Interest Received | | 2,127 |
| Decrease In Cash and Cash Equivalents | | (32,422) |
| Cash and Cash Equivalents At Beginning of Year | | 795,410 |
| Cash and Cash Equivalents At End of Year | | $ 762,988 |
| Reconcilitation Of Operating Income to Net Cash Provided By Operating Activities | | |
| Net loss from operations | $ (272,210) | |
| Depreciation and amortization | 376,854 | |
| Net pension obligation | (3,111) | |
| Changes in operating assets and liabilities | | |
| Receivables | 29,154 | |
| Inventory and prepaids | (1,459) | |
| Payables and other liabilities | (1,057) | |
| Net Cash Provided By Operating Activities | | $ 128,171 |

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

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Financial Statement Presentation

The Financial Statements of the Virginia Highlands Airport Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

### Proprietary Fund Type

Proprietary Funds account for operations that are financed in a manner similar to private business enterprises. The proprietary fund measurement focus is upon determination of net income, financial position, and cash flows. The proprietary fund of the Authority is an Enterprise Fund which includes all of the Authority's operations.

### Enterprise Fund

The Enterprise Fund accounts for the financing of services to the general public where all or most of the operating expenses involved are recovered in the form of charges to users of such services.

### Reporting Entity

The Authority has been included in the general purpose financial statements of Washington County, Virginia as a component unit, in accordance with Statement 61 of the Governmental Accounting Standards Board.

### Basis of Accounting

The Enterprise Fund uses the accrual basis of accounting. Under this method revenues are recognized in the accounting period in which they are earned, while expenses are recognized in the accounting period in which the related liability is incurred.

### Inventory

The Inventory is valued at lower of cost or market using the first in, last out method.

### Cash and Cash Equivalent

Virginia Highlands Airport Authority considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from these estimates.

Property, Plant, and Equipment

Property, plant, and equipment purchased are stated at cost or estimated cost. Donated property is recorded at market value prevailing at date of donation. Depreciation for fixed assets has been provided over the following estimated useful lives using the straight-line method:

| | |
|---|---|
| Buildings | 30-40 years |
| Improvements other than buildings | 15-25 years |
| Equipment | 5-20 years |

Net Position

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

NOTE 2 - CASH AND INVESTMENTS

Deposits

All cash of the Authority is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.1-359 et. seq. of the Code of Virginia or covered by federal depository insurance. The Authority has no investments as of or for the year ended June 30, 2016.

## NOTE 3 - CHANGES IN FIXED ASSETS

A summary of the changes in fixed assets follows:

| | Balance 7/1/2015 | Additions | Deletions | Balance 6/30/2016 |
|---|---|---|---|---|
| Land | $ 10,410,073 | $ - | $ - | $ 10,410,073 |
| Buildings | 5,475,839 | - | - | 5,475,839 |
| Improvements | 12,608,586 | 389,677 | - | 12,998,263 |
| Equipment | 680,384 | - | - | 680,384 |
| Furniture & Fixtures | 56,191 | - | - | 56,191 |
| Construction in Progress | 2,464,715 | 992,201 | 406,922 | 3,049,994 |
| Totals | 31,695,788 | 1,381,878 | 406,922 | 32,670,744 |
| Accumulated Depreciation | (9,482,067) | | | (9,858,921) |
| Net | 22,213,721 | | | 22,811,823 |

Depreciation expense for the year ending June 30, 2016 was $376,175

## NOTE 4 – COMPENSATED ABSENCES:

In accordance with GASB Statement 16 “Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences”, the Authority has accrued the liability arising from outstanding claims and judgments and compensated absences.

The Authority employees earn 12 days of vacation after they have been employed with the Authority for one year. Vacation time accrues monthly up to a maximum of 80 hours without prior approval from management. At June 30, 2016 the Authority had outstanding accrued leave of $10,017.

## NOTE 5 - LEASES

Lease Revenue

The Authority has various operating lease agreements for buildings currently rented in their operation. The rental agreements have various rates and terms.

The following is a schedule of future minimum rental payments required to be received under operating lease terms in excess of one year as of June 30, 2016.

NOTE 5 – LEASES (CONTINUED)

| Year Ended June 30 | Amount |
|---|---|
| 2017 | $ 94,642 |
| 2018 | 12,226 |
| 2019 | 11,818 |
| 2020 | 11,818 |
| 2021 | 11,818 |
| 2022-2026 | 61,614 |
| 2027-2031 | 64,144 |
| 2032-2036 | 66,565 |
| 2037-2041 | 30,663 |
| Totals | $ 365,308 |

NOTE 6 - CONTINGENT LIABILITIES

In the normal course of operations, the Authority receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as a result of these audits is not believed to be material. The Authority is exposed to various risks of loss relating to torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the Authority carries commercial insurance. There have been no significant reductions in coverage from the prior year.

NOTE 7 - DEFINED BENEFIT PENSION PLAN

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources relating to pensions and pension expense, information about the fiduciary net position of the Authority 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.

**Plan Description**

All full-time, salaried permanent employees of the Authority 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 as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

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

NOTE 7 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

NOTE 7 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

| | | |
|---|---|---|
| were vested as of January 1, 2013.<br><br>**Hybrid Opt-In Election**<br>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.<br><br>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.<br><br>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.<br><br>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. | membership date is before July 1, 2010, and they were not vested as of January 1, 2013.<br><br>**Hybrid Opt-In Election**<br>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.<br><br>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.<br><br>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.<br><br>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. | January 1, 2014.<br>This includes:<br>• Political subdivision employees*<br>• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014<br><br>*Non-Eligible Members<br>Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:<br>• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees<br><br>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP. |
| **Retirement Contributions**<br>Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% | **Retirement Contributions**<br>Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% | **Retirement Contributions**<br>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 |

NOTE 7 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

| | | |
|---|---|---|
| member contribution but all employees will be paying the full 5% 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. | member contribution but all employees will be paying the full 5% by July 1, 2016. | 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**<br>Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. | **Creditable Service**<br>Same as Plan 1. | **Creditable Service**<br>**Defined Benefit Component:**<br>Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.<br><br>**Defined Contributions Component:**<br>Under the defined contribution |

NOTE 7 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

| | | |
|---|---|---|
| | | component, creditable service is used to determine vesting for the employer contribution portion of the plan. |
| **Vesting**<br>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.<br>Members are always 100% vested in the contributions that they make. | **Vesting**<br>Same as Plan 1. | **Vesting**<br>**<u>Defined Benefit Component:</u>**<br>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.<br>**<u>Defined Contributions Component:</u>**<br>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.<br><br>Members are always 100% vested in the contributions that they make.<br><br>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution |

NOTE 7 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

| | | |
|---|---|---|
| | | component of the plan, based on service.<br>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.<br>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.<br>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.<br><br>Distribution is not required by law until age 70½. |
| **Calculating the Benefit**<br>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.<br><br>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit. | **Calculating the Benefit**<br>See definition under Plan 1. | **Calculating the Benefit**<br>**Defined Benefit Component:**<br>See definition under Plan 1<br><br>**Defined Contribution Component:**<br>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**<br>A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee. | **Average Final Compensation**<br>A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee. | **Average Final Compensation**<br>Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan. |
| **Service Retirement Multiplier** | **Service Retirement Multiplier** | **Service Retirement Multiplier** |

NOTE 7 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

| | | |
|---|---|---|
| **VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.<br><br>**Sheriffs and regional jail superintendents:** The retirement multiplier for sheriffs and regional jail superintendents is 1.85%<br><br>**Political subdivision hazardous duty employees**: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer. | **VRS:** Same as Plan1 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.<br><br>**Sheriffs and regional jail superintendents**: Same as Plan 1.<br><br>**Political subdivision hazardous duty employees:** Same as Plan 1. | **<u>Defined Benefit Component:</u>**<br>**VRS:** The retirement multiplier for the defined benefit component is 1.00%.<br><br>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.<br><br>**Sheriffs and regional jail superintendents**: Not applicable.<br><br>**Political subdivision hazardous duty employees:** Not applicable.<br><br>**<u>Defined Contribution Component:</u>**<br>Not applicable. |
| **Normal Retirement Age**<br>**VRS**: Age 65.<br><br>Political subdivisions hazardous duty employees: Age 60. | **Normal Retirement Age**<br>**VRS**: Normal Social Security retirement age.<br><br>Political subdivisions hazardous duty employees: Same as Plan 1. | **Normal Retirement Age**<br>**<u>Defined Benefit Component:</u>**<br>**VRS**: Same as Plan 2.<br><br>Political subdivisions hazardous duty employees: Not applicable.<br><br>**<u>Defined Contribution Component:</u>**<br>Members are eligible to receive distributions upon |

NOTE 7 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

NOTE 7 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

| | | |
|---|---|---|
| The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. | The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. | **Defined Benefit Component:**<br>Same as Plan 2.<br><br>**Defined Contribution Component:**<br>Not applicable. |
| **Eligibility:**<br>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.<br><br>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. | **Eligibility:**<br>Same as Plan 1 | **Eligibility:**<br>Same as Plan 1 and Plan 2. |
| **Exceptions to COLA Effective Dates:**<br>The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:<br>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.<br>• The member retires on disability.<br>• The member retires directly from short-term or long-term disability under the Virginia | **Exceptions to COLA Effective Dates:**<br>Same as Plan 1 | **Exceptions to COLA Effective Dates:**<br>Same as Plan 1 and Plan 2. |

NOTE 7 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

| | | |
|---|---|---|
| Sickness and Disability Program (VSDP).<br>• 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.<br>• 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. | | |
| **Disability Coverage**<br>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.<br><br>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits. | **Disability Coverage**<br>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.<br><br>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits. | **Disability Coverage**<br>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.<br><br>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**<br>Members may be eligible to purchase service from previous public employment, active duty military service, an | **Purchase of Prior Service**<br>Same as Plan 1. | **Purchase of Prior Service**<br>**<u>Defined Benefit Component:</u>**<br>Same as Plan 1, with the following exceptions:<br>• Hybrid Retirement Plan |

NOTE 7 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

| | | |
|---|---|---|
| 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. | | members are ineligible for ported service.<br>• The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.<br>• 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.<br><br>**Defined Contribution Component:**<br>Not applicable. |

NOTE 7 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

***Employees Covered by Benefit Terms***

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

| | **Number** |
|---|---|
| Inactive members or their beneficiaries currently receiving benefits | 4 |
| Inactive members: | |
| Vested inactive members | 0 |
| Non-vested Inactive members | 3 |
| Inactive members active elsewhere in VRS | 0 |
| Total inactive members | 3 |
| Active members | 7 |
| Total covered employees | 14 |

***Contributions***

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

The Authority's contractually required contribution rate for the year ended June 30, 2016 was 3.78 % of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

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 $8,471 and $8,503 for the years ended June 30, 2016 and June 30, 2015, respectively.

NOTE 7 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

***Net Pension Liability***

The Authority's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

***Actuarial Assumptions – General Employees***

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2014, 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, 2015.

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

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

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

NOTE 7 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2013. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:

-Update mortality table
-Decrease in rates of service retirement
-Decrease in rates of disability retirement
-Reduce rates of salary increase by 0.25% per year

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

-Update mortality table
-Decrease in rates of service retirement
-Decrease in rates of disability retirement
-Reduce rates of salary increase by 0.25% per year

***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:

NOTE 7 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

***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

NOTE 7 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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.

***Changes in Net Pension Liability***

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
| Balance at June 30, 2014 | $ 505,423 | $ 471,482 | $ 33,941 |
| Changes for the year: | | | |
| Service Cost | 16,723 | - | 16,723 |
| Interest | 34,484 | - | 34,484 |
| Differences between expected and actual experience | 12,187 | - | 12,187 |
| Contributions - employer | - | 8,503 | (8,503) |
| Contributions - employee | - | 11,248 | (11,248) |
| Net investment income | - | 21,563 | (21,563) |
| Benefit payments, including refunds of employee contributions | (25,585) | (25,585) | - |
| Administrative expenses | - | (297) | 297 |
| Other changes | - | (5) | 5 |
| Net changes | 37,809 | 15,427 | 22,382 |
| Balance at June 30, 2015 | $ 543,232 | $ 486,909 | $ 56,323 |

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

The following presents the net pension liability of the political subdivision using the discount rate of 7.00%, as well as what the political subdivision'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:

| | (6.00%) | Rate (7.00%) | (8.00%) |
|---|---|---|---|
| Net Pension Liability | $ 125,970 | $ 56,323 | $ (401) |

NOTE 7 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

For the year ended June 30, 2016, the political subdivision recognized pension expense of $5,658. At June 30, 2016, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | | Deferred Inflows of Resources | |
|---|---|---|---|---|
| Differences between expected and actual experience | $ | 9,070 | $ | - |
| Change in assumptions | $ | - | $ | - |
| Net difference between projected and actual earnings on pension plan investments | $ | - | $ | 12,545 |
| Employer contributions subsequent to the measurement date | $ | - | $ | - |
| Total | $ | 9,070 | $ | 12,545 |

$9,070 reported as deferred outflows of resources related to pensions resulting from the political subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. 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 ended June 30 | | |
|---|---|---|
| 2017 | $ | (1,814) |
| 2018 | | (1,814) |
| 2019 | | (2,093) |
| 2020 | | 2,246 |
| 2021 | | - |
| Thereafter | | - |
| | $ | (3,475) |

***Payables to the Pension Plan***

At June 30, 2016, the Authority reported a payable of $1,862 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

## NOTE 8 – NOTES PAYABLE

| | Interest Rate | Payment Amount | Balance 7/1/2015 | New Issues | Principle Repayment | Balance 6/30/2016 | Within One Year | Maturity Date |
|---|---|---|---|---|---|---|---|---|
| VRA | 4.87% | $19,666 Semi-Annual | $ 433,631 | $ - | $ 18,435 | $ 415,196 | $ 19,344 | 3/1/2031 |
| FB&T | 2.75% | Interest Only | 1,923,377 | - | - | 1,923,377 | - | 12/31/2019 |
| Total | | | $ 2,357,008 | $ - | $ 18,435 | $ 2,338,573 | $ 19,344 | |

Scheduled principal and interest payments are as follows:

| Year Ended June 30 | Principle | Interest |
|---|---|---|
| 2017 | $ 19,344 | $ 72,880 |
| 2018 | 20,298 | 71,927 |
| 2019 | 1,944,675 | 44,480 |
| 2020 | 22,347 | 16,983 |
| 2021 | 23,450 | 15,882 |
| 2022-2026 | 135,767 | 60,889 |
| 2027-2031 | 172,692 | 23,961 |
| Total | $ 2,338,573 | $ 307,002 |

## NOTE 9 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority's deferred outflow is pension expense of $8,471.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority's deferred inflow is changes in the net pension liability of $3,475.

NOTE 10 – RELATED PARTIES

In the normal course of operations the Authority leases hanger and office rental space. Hanger space is rented to various board members and the lease terms are comparable to other leases entered into by the Authority.

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 30, 2016, the date which the financial statements were available to be issued.

VIRGINIA HIGHLANDS AIRPORT AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2016

VIRGINIA HIGHLANDS AIRPORT AUTHORITY | EXHIBIT A

SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY AND RELATED RATIOS

June 30, 2016

| | 2015 | 2014 |
|---|---|---|
| **Total pension liability** | | |
| Service cost | $ 16,723 | $ 15,722 |
| Interest | 34,484 | 32821 |
| Changes of benefit terms | - | - |
| Differences between expected and actual experience | 12,187 | - |
| Changes in assumptions | - | - |
| Benefit payments, including refunds of employee contributions | (25,585) | (23,975) |
| **Net change in total pension liability** | 37,809 | 24,568 |
| **Total pension liability - beginning** | 505,423 | 480,855 |
| **Total pension liability - ending** | $ 543,232 | $ 505,423 |
| | | |
| **Plan fiduciary net position** | | |
| Contributions - employer | $ 8,503 | $ 13,899 |
| Contributions - employee | 11,248 | 11,583 |
| Net investment income | 21,563 | 64,337 |
| Benefit payments, including refunds of employee contributions | (25,585) | (23,975) |
| Administrative expense | (297) | (343) |
| Other | (5) | 4 |
| **Net change in total pension liability** | 15,427 | 65,505 |
| **Total pension liability - beginning** | 471,482 | 405,977 |
| **Total pension liability - ending** | $ 486,909 | $ 471,482 |
| | | |
| **Political subdivision's net pension liability - ending** | $ 56,323 | $ 33,941 |
| | | |
| **Plan fiduciary net postion as a percentage of the total pension liability** | 89.63% | 93.28% |
| | | |
| **Covered - employee payroll** | $ 224,111 | $ 224,954 |
| | | |
| **Political subdivision's net pension liability as a percentage of covered-employee payroll** | 25.13% | 15.09% |

VIRGINIA HIGHLANDS AIRPORT AUTHORITY
SCHEDULE OF EMPLOYER CONTRIBUTIONS
June 30, 2016

EXHIBIT B

| Date | Contractually Required Contribution | Relation to Contractually Required Contribution | Contribution Deficiency (Excess) | Employer's Covered Employee Payroll | Contributions as a % of Covered Employee Payroll |
|---|---|---|---|---|---|
| 2015 | $ 8,504 | $ 8,504 | $ - | $ 224,954 | 3.78% |
| 2016 | $ 8,471 | $ 8,471 | $ - | $ 224,111 | 3.78% |

**Notes to Required Supplemental Information**
**For the Year Ended June 30, 2016**

Change of benefit terms - There have been no actuarially material changes to the Systems benefits provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 are not material.

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

Largest 10 - Non-LEOS
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increases by .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 increases by .25% per year

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

VIRGINIA HIGHLANDS AIRPORT AUTHORITY

SUPPORTING INFORMATION

JUNE 30, 2016

Virginia Highlands Airport Authority
A Component Unit of Washington County, Virginia
Schedule of Operating Expenses
For the Year Ended June 30, 2016

Schedule 1

| | | Amount |
|---|---|---|
| Operating Expenses: | | |
| Advertising | $ | 4,824 |
| Professional fees | | 23,808 |
| Salaries | | 310,214 |
| Travel and meetings | | 12,445 |
| Dues and fees | | 3,035 |
| Retirement and benefits | | 40,113 |
| Utilities | | 50,408 |
| Supplies | | 16,995 |
| Insurance | | 35,024 |
| Payroll taxes | | 25,976 |
| Other taxes | | 363 |
| Merchant processing fees | | 15,212 |
| Depreciation | | 376,854 |
| Repairs and maintenance | | 92,904 |
| Uniforms | | 3,059 |
| Miscellaneous | | 3,156 |
| Total Operating Expenses | $ | 1,014,390 |