

**Chattanooga Metropolitan
Airport Authority**

Report on Financial Statements

For the years ended June 30, 2019 and 2018

Chattanooga Metropolitan Airport Authority

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Chattanooga Metropolitan Airport Authority

Roster of Officials

June 30, 2019

(Unaudited)

CMAA Board of Commissioners

Daniel R. Jacobson, *Chairman*

James E. Hall, *Vice Chairman*

Warren Barnett

Dr. Paul Conn

Farzana Khaleel

Travis Lytle

Michael Mallen

Donna Roddy

Tom Snow

Terry L. Hart, *President and Chief Executive Officer*



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Daniel R. Jacobson, *Chairman*
 James E. Hall, *Vice Chairman*
 Warren Barnett
 Dr. Paul Conn
 Travis Lytle
 Michael Mallen
 Farzana Khaleel
 Donna Roddy
 Tom Snow

Terry L. Hart, *President*

Letter from the President

Fiscal year 2019 was a year of firsts for the Airport! We realized yet another record setting year as we enplaned 504,298 customers, the first time to ever exceed 500,000 enplanements and surpass 1 million total passengers. This growth has prompted us to focus on the future of the airport and how we can provide the services and infrastructure necessary to support our unprecedented growth. Plans include a new parking deck and an expanded terminal building, additional hangar space, and expanded ramps to support more aeronautical infrastructure.

During FY 2019, American Airlines announced new service direct from Chattanooga to Philadelphia. This new service added another non-stop destination from Chattanooga bringing our total non-stop destinations to 10. Another first for the Airport!

Wilson Air Center – Chattanooga (WAC-CHA), was recognized by Aviation International News (AIN) as being rated in the top 5% of FBOs in the Americas. With this score, WAC-CHA was tied for the eighth highest rating in the survey. This is the first time WAC-CHA has earned this recognition. Congratulations to Wilson Air Center – Chattanooga!

The Airport also completed construction of the third phase of our solar farm. With the addition of this phase, the Chattanooga Airport became the first airport in the world to produce as much power as it consumes. This accomplishment has garnered a significant amount of recognition for the Airport and has greatly increased our sustainability initiatives.

Financially, revenues grew to over \$24.4 million, another first for the Airport. Landing fees were up to \$1.4 million due to additional seat capacity from more flights and larger aircraft from all of our air carriers. Parking revenues exceeded \$6 million for the first time ever. The rental cars continue to exceed their minimum annual guarantees resulting in over \$2.3 million in revenues. In April 2019, the Airport paid in full the balance of its 2009 Bond Issue. This payment reduced the total amount of debt on our Balance Sheet from \$9.2 million to \$5.8 million and assisted in increasing the total net position of the Airport by almost \$12 million during FY 2019.

For FY 2020, we will continue to work to provide additional services and amenities that our customers expect. We appreciate your support of the Airport!

Get ready Chattanooga, more good things to come!!!

Terry L. Hart
 President & CEO

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Independent Auditor's Report

Board of Commissioners
Chattanooga Metropolitan Airport Authority
Chattanooga, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the Chattanooga Metropolitan Airport Authority (the "Authority"), a component unit of the City of Chattanooga, Tennessee, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 Comptroller 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 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 financial position of the Authority as of June 30, 2019 and 2018, and the changes in its financial position 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 Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the net pension liability and related ratios, schedule of employer pension contributions, schedule of changes in the net other post-employment liability and related ratios, and schedule of employer OPEB contributions on pages 5 through 9 and 40 through 43 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 audits 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The roster of officials, the letter from the President, the schedule of bonds payable, the schedule of changes in long-term debt by individual issue, the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards*, the schedule of expenditures of state awards, as required by the State of Tennessee, and the schedule of passenger facility charges, investment income and related expenditures as specified in the Passenger Facility Charge Audit Guide for Public Agencies issued by the Federal Aviation Administration are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of bonds payable, the schedule of changes in long-term debt by individual issue, the schedule of expenditures of federal awards, the schedule of expenditures of state awards, and the schedule of passenger facility charges, investment income and related expenditures are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of bonds payable, the schedule of changes in long-term debt by individual issue, the schedule of expenditures of federal awards, the schedule of expenditures of state awards, and the schedule of passenger facility charges, investment income and related expenditures are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The roster of officials and the letter from the President, as listed in the table of contents, have 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2019, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Chattanooga, Tennessee
October 14, 2019

CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2019

The Comprehensive Annual Financial Report of the Chattanooga Metropolitan Airport Authority ("the Authority") for the fiscal year ended June 30, 2019, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Finance Department of the Authority. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Authority. All disclosures necessary to enable the reader to gain an understanding of the Authority's financial activities have been included.

The Airport Authority

The Authority was established pursuant to the Metropolitan Airport Authority Act of Tennessee and all amendments thereto. The major purposes of the Authority are to plan, establish, acquire, construct, improve and operate an airport within Hamilton County. The Authority has the power to issue bonds to accomplish any of the purposes authorized by the Metropolitan Airport Authority Act of Tennessee. All bonds shall be payable solely from the revenues, income and charges of the Authority and such bonds shall only constitute an obligation of the City of Chattanooga ("the City") in the event of default by the Authority.

The Mayor of the City appoints all members of a nine-member Board of Commissioners to govern the Authority. The Board appoints the President who is the Chief Executive Officer of the Authority. The President appoints the remaining officers with Board confirmation. These officers manage and operate the airport with a staff of permanent employees.

Based on the financial accountability the City has over the Authority, the Authority is considered a component unit of the City under the criteria set forth by the Governmental Accounting Standards Board (GASB).

Airport Activity & Highlights

The Chattanooga Metropolitan Airport (the "Airport") saw passenger enplanements of 504,298 during calendar year 2018 which is 4% above calendar year 2017. This enplanement number represented another record year for the airport, the first time ever surpassing 1 million passengers. Airport operations increased 3% over 2017 which is reflective of the airports overall growth. Landing weights also increased by 7% for calendar year 2018 as a result of increased frequencies and air carriers utilizing larger aircraft in the market to support growing passenger traffic. Cargo was down slightly in 2018 with almost 19 million pounds of cargo.

	2018	2017	2016
Enplanements	504,298	484,517	419,059
% Increase / (Decrease)	4%	16%	7%
Aircraft Operations	61,386	59,861	58,842
% Increase / (Decrease)	3%	2%	15%
Landed Weight	623,912	585,239	538,786
% Increase / (Decrease)	7%	8%	11%
Mail / Freight Cargo (lbs.)	18,983,852	19,750,902	20,285,674
% Increase / (Decrease)	(4%)	(3%)	17%

Summary of Operations Highlights

Highlights of 2018-2019 fiscal year actual and budget vs. 2017-2018 fiscal year actual.

Revenues

Operating revenues remain strong for FY 2019 at \$24,475,716. Landing fees from air carrier operations increased 15% to \$1,442,361 for the year. This increase is primarily driven by additional seat capacity from more flights and larger aircraft from all of our air carriers. Parking revenues increased 23% for FY 2019 exceeding \$6 million in revenue for the first time. This continued growth has required the airport to construct additional parking lots and continue using the off-site shuttle operation to meet demand. Rental car operations increased 10% for FY 2019 to \$2,354,708. Along with all of the airport's operations, the car rental operations continue to grow and exceed the specified minimum annual guarantee. Finally, fixed based operation revenues were up 5% for the year exceeding \$10 million in revenue.

Comparison of actual revenues for selected revenue accounts is as follows:

Operating Revenues (in thousands)

	FY 2019 Actual	FY 2018 Actual	Variance	FY 2019 Budget
Landing Fees	\$1,442	\$1,259	15%	\$1,275
Parking Operation	\$6,084	\$4,956	23%	\$5,000
Rental Car	\$2,355	\$2,149	10%	\$2,296
Fixed Based Operator	\$10,737	\$10,180	5%	\$10,383

Expenses

Operating expenses were \$15,951,566 for FY 2019 which is a 2% increase from FY 2018. The additional expense is the product of the growth we are experiencing. Primarily, growth in our parking operations was due to increased demand in our economy parking lots which requires a shuttle to transport employees and passengers to the terminal building. Additional costs for repairs to equipment by our fixed base operation resulted in additional expenses to the airport.

Operating Expenses (In thousands)

	FY 2019 Actual	FY 2018 Actual	Variance	FY 2019 Budget
Personnel Services	\$3,027	\$3,040	(0.4%)	\$3,770
Insurance	\$317	\$318	(0.3%)	\$342
Repairs and Maintenance	\$612	\$566	8%	\$638
Promotion	\$437	\$492	(11%)	\$510
Parking	\$661	\$539	23%	\$561
Fixed Base Operations	\$9,217	\$8,865	4%	\$8,982

Statement of Net Position

Total net position of the Authority increased by \$11,839,299 during the year ended June 30, 2019 to a total of \$143,567,565. The increase came primarily from growth in cash from operations and Property and Equipment. In addition, the Authority realized a significant reduction in long term debt by making the final payment on the Airport's 2009 Bond.

Assets and Liabilities (in thousands)	June 30, 2019	June 30, 2018
Cash and Equivalents - Restricted and Unrestricted	\$15,596	\$11,439
Certificates of Deposit	\$12,016	\$12,000
Receivables	\$3,045	\$2,299
Property and Equipment, net	\$122,031	\$117,407
Total Assets	\$155,423	\$145,407
Long Term Debt	\$5,830	\$9,214
Total Net Position	\$143,568	\$131,728

Capital Acquisitions and Construction Activities

Current Projects

East Public Ramp Expansion

Due to increased aviation demand and economic development associated with new businesses entering our region it had become necessary to renovate the East Aviation Ramp. Because of funding constraints, this project was a multi-year, multiphase project. Phase I, II and III of the project are complete and Phase IV will be completed in FY 2020. This phase of the project has been funded through a State Economic Development Grant and an Airport Improvement Project grant.

Runway 2/20 Lighting Project

The current lighting system on our primary runway exceeds 30 years in age. The system has begun to degrade to a point that it requires attention, with examples including failing wire insulation, and unrepairable light fixtures. Additionally, the older wiring with failing insulation costs the airport much more than a newer, more efficient system. This project includes replacement of all the lighting fixtures on the primary runway, to include the Edge, Centerline, and Touch-Down lights. Additionally, all wiring will be replaced, in conduit, back to the airfield electrical vault.

Parking Garage

As part of the Master Plan process, the Authority learned that in order to accommodate the passenger traffic that is forecasted to occur over the next 20 years, additional infrastructure would be required. Our consultant, Intervistas, recommended construction of a 1,300 space parking structure to provide parking for the additional traffic. The Authority has released a Request for Proposals for a firm to design and build the structure as specified in the Master Plan.

Hangar 20 Construction

With the addition of new aircraft on the airfield and a thriving economy within the region, there is a need for additional aircraft space. In an effort to better serve our community, the Authority is planning to design and construct a new community aviation hangar on underutilized ramp space which could hold up to eleven aircraft. The project will include a 24,900 square foot hangar with 3,700 square feet of contiguous office space. Vehicle parking and a ground support equipment storage site will be included. The project would have an anticipated completion date of July, 2020.

Completed Projects

Masterplan

With the growth the Airport had seen over the last few years it was necessary to look at ways to expand and handle the capacity levels that had been obtained. The FAA recommended that masterplans be updated every ten years, however, the last one which was completed in 2010 has surpassed each of the forecasted goals. A new airport masterplan was prepared by Intervistas for Fiscal Years 2017-2037. Several stakeholder meetings took place and several proposals for terminal and parking expansions were provided. The final proposal was completed in FY 2019. Intervistas' contract amount was \$1,159,167 and included \$110,000 in pavement management that had been funded through the Passenger Facility Charge Program at 100%. The remaining \$1,049,167 was funded by the FAA at 90% and the Authority at 10%.

Solar Farm Phase 3

In a continued effort to be environmentally friendly and to obtain 100% sustainability for the Airport, an additional Solar Farm was constructed. Solar Farm Phase 3 is located north of Phase I and II in the southwest corner of the airfield. It is expected to produce 640.86 kW's of power and had a construction cost of \$1,076,680. The project was funded 90% through federal grants with the remaining 10% funded by the Authority.

North Ramp Rehabilitation

The North Ramp which runs in front of hangars 4, 5 and 6 had exceeded its lifespan and was found to be in need of replacement. The project encompassed all sub-grade work, erosion control, drainage, asphalt milling and placement, and other related work. This project was completed in phases and the project was awarded to Talley Construction for \$2,668,017. The project was funded 90% through federal grants with the remaining 10% funded by the Authority.

PFC Application No. 7

Due to growth in passenger traffic, the Airport was close to reaching its impose and use authority for Passenger Facility Charges (PFC) collected. In order to continue receiving PFC funding, the airport submitted PFC Application No. 7. The application was approved on June 28, 2019 in the amount of \$4,593,479 to provide funding for several projects including the Airport's portion of three Airport Improvement Projects, equipment acquisitions, and airfield related projects.

Chattanooga Metropolitan Airport Authority

Statements of Net Position

As of June 30, 2019 and 2018

	2019	2018
Assets and Deferred Outflows of Resources		
Current assets		
Cash and cash equivalents	\$ 10,030,616	\$ 8,432,028
Receivables, net	3,045,059	2,299,006
Prepayments	824,849	402,097
Inventory	166,523	223,104
Certificates of deposit	12,016,274	12,000,000
Total current assets	<u>26,083,321</u>	<u>23,356,235</u>
Restricted assets		
Cash and cash equivalents	5,565,767	3,006,703
Passenger facility charges receivable	372,123	359,984
Customer facility charges receivable	77,388	69,256
Total restricted assets	<u>6,015,278</u>	<u>3,435,943</u>
Property and equipment, net	<u>122,031,316</u>	<u>117,406,812</u>
Deferred outflows of resources		
Deferred outflows of resources - pension plan	911,684	1,165,009
Deferred outflows of resources - other post-employment benefits	381,073	43,164
Total deferred outflows of resources	<u>1,292,757</u>	<u>1,208,173</u>
Total assets and deferred outflows of resources	<u>\$ 155,422,672</u>	<u>\$ 145,407,163</u>
Liabilities, Deferred Inflows of Resources and Net Position		
Current liabilities		
Current portion of long-term debt	\$ 308,916	\$ 3,383,764
Accounts payable and accrued expenses	2,825,425	1,490,922
Unearned revenue	105,474	107,029
Total current liabilities	<u>3,239,815</u>	<u>4,981,715</u>
Long-term liabilities		
Long-term debt	5,521,314	5,830,567
Net pension liability	2,337,836	2,497,670
Net other post-employment benefit liability	716,429	368,945
Total long-term liabilities	<u>8,575,579</u>	<u>8,697,182</u>
Total liabilities	<u>11,815,394</u>	<u>13,678,897</u>
Deferred inflows of resources		
Deferred inflows of resources - pension plan	33,302	-
Deferred inflows of resources - other post-employment benefits	6,411	-
Total deferred inflows of resources	<u>39,713</u>	<u>-</u>
Net position		
Net investment in capital assets	116,201,086	108,192,481
Restricted for debt service and construction	6,015,278	3,435,943
Unrestricted	21,351,201	20,099,842
Total net position	<u>143,567,565</u>	<u>131,728,266</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 155,422,672</u>	<u>\$ 145,407,163</u>

See Notes to Financial Statements

Chattanooga Metropolitan Airport Authority

Statements of Revenues, Expenses and Changes in Net Position

For the years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Airline revenues		
Landing fees	\$ 1,442,361	\$ 1,258,816
Terminal rental fees	709,508	678,708
Baggage fees	381,661	381,661
Loading bridge fees	88,193	88,193
Security and janitorial	499,489	486,718
Ground handling fees	90,687	89,656
	<u>3,211,899</u>	<u>2,983,752</u>
Nonairline revenues		
Hangar rental	463,057	343,906
Fuel flowage	253,347	262,800
Parking	6,083,825	4,956,484
Rental car	2,354,708	2,148,560
Diversions, charters and GSE	14,851	22,345
Advertising	233,505	214,745
TSA reimbursements	189,841	189,450
Tenant rent	22,681	24,880
Airfield revenues	24,223	24,403
Solar revenues	251,687	226,234
Other terminal revenues	593,899	466,613
Other	41,140	28,223
Fixed base operations	10,737,053	10,180,045
	<u>21,263,817</u>	<u>19,088,688</u>
Total operating revenues	<u>24,475,716</u>	<u>22,072,440</u>
Operating expenses		
Personnel services	3,026,990	3,040,182
Contractual services	160,954	121,844
Utilities and telephone	473,620	439,923
Insurance	316,509	318,043
Repairs and maintenance	612,076	565,791
Office and administrative	14,033	15,347
Promotion	436,710	492,250
Miscellaneous	77,606	246,634
Fuel	45,416	53,542
Rental equipment expense	-	9,058
Bad debt expense	3,140	-
Ground handling	218,064	211,479
Parking - management fees	38,698	37,571
Parking - expenses	660,508	538,502
General pension expense	558,013	611,678
General other post-employment benefit expense	92,137	38,253
Fixed base operations	9,217,092	8,864,956
Total operating expenses	<u>15,951,566</u>	<u>15,605,053</u>
Operating income before depreciation	8,524,150	6,467,387

See Notes to Financial Statements

Chattanooga Metropolitan Airport Authority

Statements of Revenues, Expenses and Changes in Net Position

For the years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Depreciation	<u>\$ (7,689,442)</u>	<u>\$ (7,642,760)</u>
Operating income (loss)	<u>834,708</u>	<u>(1,175,373)</u>
Nonoperating activities		
Interest income	377,587	158,464
Interest expense	(266,235)	(316,805)
Gain on disposal of property and equipment	-	44,880
	<u>111,352</u>	<u>(113,461)</u>
Income (loss) before other revenues	<u>946,060</u>	<u>(1,288,834)</u>
Other revenues		
Capital grants	7,804,967	5,195,943
Revenue from passenger facility charges	2,260,096	2,095,980
Revenue from customer facility charges	828,176	733,720
	<u>10,893,239</u>	<u>8,025,643</u>
Increase in net position	<u>11,839,299</u>	<u>6,736,809</u>
Net position, beginning of year as originally stated	131,728,266	125,174,747
Cumulative effect of implementation of accounting pronouncement	-	(183,290)
Net position, end of year	<u><u>\$ 143,567,565</u></u>	<u><u>\$ 131,728,266</u></u>

See Notes to Financial Statements

Chattanooga Metropolitan Airport Authority

Statements of Cash Flows

For the years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating activities		
Cash received from customers	\$ 24,646,122	\$ 21,919,776
Cash paid to suppliers	(11,365,105)	(12,487,339)
Cash paid to employees	(3,458,210)	(3,200,583)
Net cash flows from operating activities	<u>9,822,807</u>	<u>6,231,854</u>
Capital and related financing activities		
Capital expenditures	(12,313,946)	(9,298,858)
Repayment of long-term debt	(3,384,101)	(748,800)
Interest paid	(280,235)	(318,752)
Capital grants	6,883,813	4,183,298
Customer facility charges collected	820,044	727,512
Passenger facility charges collected	2,247,957	1,901,430
Net cash flows from capital and related financing activities	<u>(6,026,468)</u>	<u>(3,554,170)</u>
Investing activities		
Proceeds from certificates of deposit	12,000,000	-
Purchase of certificates of deposit	(12,016,274)	(12,000,000)
Proceeds from sale of property and equipment	-	50,005
Interest received	377,587	158,464
Net cash flows from investing activities	<u>361,313</u>	<u>(11,791,531)</u>
Net change in cash and cash equivalents	4,157,652	(9,113,847)
Cash and cash equivalents, beginning of year	<u>11,438,731</u>	<u>20,552,578</u>
Cash and cash equivalents, end of year	<u>\$ 15,596,383</u>	<u>\$ 11,438,731</u>
Cash and cash equivalents, end of year consists of:		
Unrestricted cash and cash equivalents	\$ 10,030,616	\$ 8,432,028
Restricted cash and cash equivalents	5,565,767	3,006,703
	<u>\$ 15,596,383</u>	<u>\$ 11,438,731</u>

See Notes to Financial Statements

Chattanooga Metropolitan Airport Authority

Statements of Cash Flows

For the years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of operating income (loss) to net cash flows from operating activities		
Operating income (loss)	\$ 834,708	\$ (1,175,373)
Depreciation	7,689,442	7,642,760
Net general pension expense	126,793	451,277
Net general other post-employment benefit	15,986	(286,285)
Bad debt expense	3,140	-
Changes in operating assets and liabilities:		
Receivables	171,961	(169,282)
Inventory	56,581	(120,524)
Prepayments	(422,752)	485,356
Accounts payable and accrued expenses	1,348,503	(612,693)
Unearned revenue	(1,555)	16,618
Net cash flows from operating activities	<u>\$ 9,822,807</u>	<u>\$ 6,231,854</u>

See Notes to Financial Statements

Chattanooga Metropolitan Airport Authority

Notes to Financial Statements

June 30, 2019 and 2018

Note 1. Summary of Significant Accounting Policies

The significant accounting policies and practices followed by the Authority are as follows:

Reporting entity:

Chattanooga Metropolitan Airport Authority is a metropolitan airport authority created May 29, 1985, pursuant to the provisions of the Metropolitan Airport Authority Act, Tennessee Code Annotated, Section 42-4-101 et seq., as amended (the "Act"). The Authority is a public and governmental body acting as an agency of the City of Chattanooga, Tennessee. The principal purpose of the Authority is the management and operation of the Chattanooga Metropolitan Airport (the "Airport"). The Authority is empowered under the Act to construct, improve and operate airports and to establish and charge fees, rentals, rates and other charges. Further, the Authority is authorized to issue revenue bonds for the purposes authorized by the Act. The Authority owns and operates the Airport.

The Authority is a component unit of the City of Chattanooga, Tennessee, due to the control it exercises over the appointments of the Authority's Board of Commissioners. The City of Chattanooga is also secondarily responsible for the retirement of a portion of the Authority's revenue bonds. There are no governmental units that would qualify as a component unit of the Authority.

The accounting policies of the Authority conform to the accounting principles generally accepted in the United States of America (GAAP) applicable to governmental entities. The more significant accounting policies established in GAAP and used by the Authority are discussed below.

Basis of accounting:

The financial statements of the Authority have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when they are earned and expenses are recognized when they are incurred.

The Authority's financial statements are prepared in accordance with GAAP. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments, including special purpose governments such as the Authority, through its pronouncements (Statements and Interpretations).

The Authority prepares its financial statements according to the governmental standards for external financial reporting and disclosure for state and local governmental entities, which include a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. Net position is required to be classified into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by contracts payable and outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Chattanooga Metropolitan Airport Authority

Notes to Financial Statements

June 30, 2019 and 2018

Note 1. Summary of Significant Accounting Policies, Continued

Basis of accounting, continued:

Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position consists of net position that does not meet the definition of restricted or net investment in capital assets.

Budgets:

The Authority has established the following formal budget procedures:

The President prepares an Annual Operating Budget and an Annual Capital Investments Budget for approval by the Board of Commissioners.

The Annual Operating Budget is submitted to the Board of Commissioners for approval prior to June 30.

The Capital Investments Budget is submitted to the Board of Commissioners for approval prior to June 30.

Cash and cash equivalents:

The Authority considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The Authority maintains cash and cash equivalent accounts with First Tennessee Bank which are at times in excess of federally insured amounts and which may at times significantly exceed statement of net position amounts due to outstanding checks. The financial institution is a member of the Tennessee State Collateral Pool. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 100% of the value of the uninsured deposits.

Trade receivables:

The Authority performs ongoing credit evaluations of its customers' financial condition but does not require collateral to support trade receivables. The Authority evaluates the need for an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information. All accounts or portions thereof considered uncollectible or to require excessive collection costs are written off to the allowance for doubtful accounts.

Grants receivable:

Grants receivable are due from governmental agencies under the terms of the grant agreements and are recognized as eligibility requirements are met. Grants receivable are accounted for in accordance with the governmental accounting standards for Accounting and Financial Reporting for Nonexchange Transactions, which requires that nonexchange transactions and exchange-like transactions be recognized as revenue. Amounts earned from capital grants have been classified as other revenues.

Chattanooga Metropolitan Airport Authority

Notes to Financial Statements

June 30, 2019 and 2018

Note 1. Summary of Significant Accounting Policies, Continued

Inventory:

Inventory consists of fuel and is stated at the lower of cost or net realizable value. Cost is determined on the first-in, first-out method. Net realizable value represents the estimated selling price for inventory less all estimated costs to sell.

Certificates of deposit:

The certificates of deposit are stated at amortized cost, which approximates fair value. The certificates have stated interest rates ranging from 2.00%-2.59% and maturity dates range between August 2019 and November 2019. All certificates of deposit as of June 30, 2019, had an original maturity of greater than 3 months. The financial institution is a member of the Tennessee State Collateral Pool.

Restricted assets:

Restricted assets consist of cash and cash equivalents, passenger facility and customer facility charges receivable. These assets are to be used for projects as specified by regulatory agencies.

Property and equipment:

Property and equipment are stated at cost or estimated historical cost less accumulated depreciation. Expenditures for repairs and maintenance are charged to expense as incurred and additions and improvements that significantly extend the lives of assets are capitalized. Upon the sale or other retirement of depreciable property, the cost and accumulated depreciation are removed from the related accounts and any gain or loss is reflected in operations.

Depreciation has been provided using the straight-line method over the following estimated useful lives:

Airport improvements	5-40 years
Buildings	30-40 years
Land improvements	2-30 years
Maintenance equipment	2-25 years
Airport equipment	2-25 years
Vehicles	2-25 years
Furniture and fixtures	2-10 years

Compensated absences:

Accumulated unpaid personal leave compensation is accrued when incurred. As of June 30, 2019 and 2018, the Authority had liabilities of \$595,320 and \$607,832, respectively, for accumulated compensated absences. The liability is classified within accounts payable and accrued expenses on the statements of net position.

Chattanooga Metropolitan Airport Authority

Notes to Financial Statements

June 30, 2019 and 2018

Note 1. Summary of Significant Accounting Policies, Continued

Income taxes:

The Authority is exempt from payment of federal and state income, property and certain other taxes.

Passenger facility charges:

Passenger facility charges (PFCs) have been approved by the Federal Aviation Administration for collection. Revenue from PFCs is recognized in the year it is earned. Expenditures are recognized when incurred.

Customer facility charges:

The proceeds from customer facility charges (CFCs) will be used to defray the cost of improvements relating to car rental activities. Revenue from CFCs is recognized in the year it is earned. Expenditures are recognized when incurred.

Estimates and uncertainties:

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risk management:

The Authority purchases commercial insurance coverage for claims arising out of bodily injury or property damage as well as property insurance on airport properties, which includes earthquake and flood coverage. The Authority is a member of the City of Chattanooga health insurance program. Effective July 1, 2007, the health insurance program of the City of Chattanooga became a self-insured plan. The plan is administered by Blue Cross Blue Shield of Tennessee. The City's insurance fund charges the Authority premiums which are used to pay claims and to fund the accrual for "incurred but not reported" claims and administrative costs of its health and medical benefits program. There were no losses or settlements that exceeded insurance coverage for the years ended June 30, 2019 or 2018.

Revenues:

Operating revenues are recognized as they are earned. Landing fees, rental fees and other charges are established by the Board of Commissioners. Nonoperating revenues include grants received from the Federal Aviation Administration and the State of Tennessee for approved airport improvement projects. Nonoperating revenues also include amounts received as passenger and customer facility charges. Grant revenues are recognized when funds are expended.

Chattanooga Metropolitan Airport Authority

Notes to Financial Statements

June 30, 2019 and 2018

Note 1. Summary of Significant Accounting Policies, Continued

Unearned revenue:

Unearned revenue consists of hangar rentals billed in advance and rental and advertising receipts that are recognized over the life of the agreements.

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 City of Chattanooga General Pension Plan (GPP) and additions to/deductions from GPP's fiduciary net position have been determined on the same basis as they are reported by GPP. 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.

Deferred outflows of resources and deferred inflows of resources:

Deferred outflows of resources represent consumption of net position that is applicable to a future period. Deferred inflows of resources represent acquisition of net position that is applicable to a future period. Changes in net pension liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability and net other post-employment benefit liability are reported as deferred outflows of resources.

Recently adopted accounting pronouncements:

GASB Statement No. 75, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions

This statement replaces GASB Statement No. 45. Statement 75 requires governments to report a liability on the face of the financial statements for the other post-employment benefits (OPEB) that they provide. The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. See Note 2.

GASB Statement No. 85, Omnibus 2017

The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits (pensions and OPEB). The Authority adopted the statement as of July 1, 2017. The statement did not have a material effect on the Authority's financial position or results of operations.

GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements

This statement requires additional essential information related to debt be disclosed in the notes to the financial statements, including unused lines of credit; assets pledged as collateral for debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to the financial statements related to debt, this statement also requires existing and additional information to be provided for direct borrowings and direct placements of debt separately from other debt. The Authority adopted the statement as of July 1, 2018. The statement did not have a material effect on the Authority's financial position or results of operations.

Chattanooga Metropolitan Airport Authority

Notes to Financial Statements

June 30, 2019 and 2018

Note 1. Summary of Significant Accounting Policies, Continued

Recently issued accounting pronouncements:

GASB Statement No. 87, Leases

The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The Authority is currently evaluating the impact this statement will have on its financial position and results of operations.

Subsequent events:

The Authority has evaluated subsequent events for potential recognition and disclosure through October 14, 2019, the date the financial statements were available to be issued, as disclosed in Note 14.

Note 2. Change in Accounting Principle for Other Post-Employment Benefits Other Than Pensions

Effective for the fiscal year ended June 30, 2018, the Authority adopted GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. As a result of this implementation, the Authority will now report its portion of the City of Chattanooga's net other post-employment benefit liability. Since the information for the adjustment of beginning balances of deferred inflows or resources or deferred outflows of resources is not available for the earliest period presented, the cumulative effect of the statement implementation will be shown as an adjustment to beginning net position as of July 1, 2017. The effect of this implementation was to decrease net position by \$183,290 as of July 1, 2017.

Note 3. Receivables

Receivables, net consist of the following:

	<u>2019</u>	<u>2018</u>
Trade receivables	\$ 1,100,439	\$ 1,275,540
Allowance for doubtful accounts	<u>(25,000)</u>	<u>(25,000)</u>
	1,075,439	1,250,540
Grants receivable	<u>1,969,620</u>	<u>1,048,466</u>
	<u>\$ 3,045,059</u>	<u>\$ 2,299,006</u>

Chattanooga Metropolitan Airport Authority

Notes to Financial Statements

June 30, 2019 and 2018

Note 4. Property and Equipment

A summary of the changes in property and equipment is as follows:

	<u>June 30, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Reclassifications</u>	<u>June 30, 2019</u>
Property and equipment not being depreciated					
Land	\$ 8,540,424	\$ -	\$ -	\$ -	\$ 8,540,424
Construction in progress	<u>4,182,632</u>	<u>2,148,042</u>	<u>-</u>	<u>(3,535,509)</u>	<u>2,795,165</u>
Total property and equipment not being depreciated	<u>12,723,056</u>	<u>2,148,042</u>	<u>-</u>	<u>(3,535,509)</u>	<u>11,335,589</u>
Property and equipment being depreciated					
Land improvements	814,865	-	-	-	814,865
Airport improvements	103,929,079	9,895,970	-	3,535,509	117,360,558
Buildings	66,610,795	-	-	-	66,610,795
Maintenance equipment	287,218	-	-	-	287,218
Airport equipment	6,179,715	207,339	-	-	6,387,054
Vehicles	3,162,360	62,595	-	-	3,224,955
Furniture and fixtures	<u>179,089</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>179,089</u>
Total property and equipment being depreciated	<u>181,163,121</u>	<u>10,165,904</u>	<u>-</u>	<u>3,535,509</u>	<u>194,864,534</u>
Accumulated depreciation					
Land improvements	(611,717)	(43,457)	-	-	(655,174)
Airport improvements	(47,791,071)	(4,732,273)	-	-	(52,523,344)
Buildings	(24,036,038)	(2,353,018)	-	-	(26,389,056)
Maintenance equipment	(233,954)	(11,518)	-	-	(245,472)
Airport equipment	(2,496,591)	(376,901)	-	-	(2,873,492)
Vehicles	(1,137,596)	(168,265)	-	-	(1,305,861)
Furniture and fixtures	<u>(172,398)</u>	<u>(4,010)</u>	<u>-</u>	<u>-</u>	<u>(176,408)</u>
Total accumulated depreciation	<u>(76,479,365)</u>	<u>(7,689,442)</u>	<u>-</u>	<u>-</u>	<u>(84,168,807)</u>
Property and equipment, net	<u>\$ 117,406,812</u>	<u>\$ 4,624,504</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122,031,316</u>

Chattanooga Metropolitan Airport Authority

Notes to Financial Statements

June 30, 2019 and 2018

Note 4. Property and Equipment, Continued

A summary of the changes in property and equipment is as follows:

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Reclassifications</u>	<u>June 30, 2018</u>
Property and equipment not being depreciated					
Land	\$ 8,527,372	\$ 13,052	\$ -	\$ -	\$ 8,540,424
Construction in progress	<u>172,760</u>	<u>4,618,941</u>	<u>-</u>	<u>(609,069)</u>	<u>4,182,632</u>
Total property and equipment not being depreciated	<u>8,700,132</u>	<u>4,631,993</u>	<u>-</u>	<u>(609,069)</u>	<u>12,723,056</u>
Property and equipment being depreciated					
Land improvements	803,849	11,016	-	-	814,865
Airport improvements	100,819,047	2,500,963	-	609,069	103,929,079
Buildings	65,891,441	719,354	-	-	66,610,795
Maintenance equipment	281,368	5,850	-	-	287,218
Airport equipment	5,729,518	450,197	-	-	6,179,715
Vehicles	2,638,616	979,485	(455,741)	-	3,162,360
Furniture and fixtures	<u>179,089</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>179,089</u>
Total property and equipment being depreciated	<u>176,342,928</u>	<u>4,666,865</u>	<u>(455,741)</u>	<u>609,069</u>	<u>181,163,121</u>
Accumulated depreciation					
Land improvements	(565,260)	(46,457)	-	-	(611,717)
Airport improvements	(43,124,257)	(4,666,814)	-	-	(47,791,071)
Buildings	(21,617,128)	(2,418,910)	-	-	(24,036,038)
Maintenance equipment	(223,313)	(10,641)	-	-	(233,954)
Airport equipment	(2,135,856)	(360,735)	-	-	(2,496,591)
Vehicles	(1,454,016)	(134,196)	450,616	-	(1,137,596)
Furniture and fixtures	<u>(167,391)</u>	<u>(5,007)</u>	<u>-</u>	<u>-</u>	<u>(172,398)</u>
Total accumulated depreciation	<u>(69,287,221)</u>	<u>(7,642,760)</u>	<u>450,616</u>	<u>-</u>	<u>(76,479,365)</u>
Property and equipment, net	<u>\$ 115,755,839</u>	<u>\$ 1,656,098</u>	<u>\$ (5,125)</u>	<u>\$ -</u>	<u>\$ 117,406,812</u>

Chattanooga Metropolitan Airport Authority

Notes to Financial Statements

June 30, 2019 and 2018

Note 5. Long-Term Debt

A summary of the changes in long-term debt is as follows:

	<u>June 30, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2019</u>	<u>Current portion</u>
Direct placements:					
Series 2009 Taxable Revenue Refunding Bonds	\$ 3,085,663	\$ -	\$ 3,085,663	\$ -	\$ -
Series 2014A Tax Exempt Revenue Bond	2,674,575	-	138,673	2,535,902	142,481
Series 2014B Taxable Revenue Bond	<u>3,454,093</u>	<u>-</u>	<u>159,765</u>	<u>3,294,328</u>	<u>166,435</u>
	<u>\$ 9,214,331</u>	<u>\$ -</u>	<u>\$ 3,384,101</u>	<u>\$ 5,830,230</u>	<u>\$ 308,916</u>
	<u>June 30, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2018</u>	<u>Current portion</u>
Direct placements:					
Series 2009 Taxable Revenue Refunding Bonds	\$ 3,546,112	\$ -	\$ 460,449	\$ 3,085,663	\$ 3,085,663
Series 2014A Tax Exempt Revenue Bond	2,809,549	-	134,974	2,674,575	138,680
Series 2014B Taxable Revenue Bond	<u>3,607,470</u>	<u>-</u>	<u>153,377</u>	<u>3,454,093</u>	<u>159,421</u>
	<u>\$ 9,963,131</u>	<u>\$ -</u>	<u>\$ 748,800</u>	<u>\$ 9,214,331</u>	<u>\$ 3,383,764</u>

Long-term debt consists of the following:

	<u>2019</u>	<u>2018</u>
Series 2009 Taxable Revenue Refunding Bonds - \$6,600,000 bonds due in monthly installments of \$46,687 including interest at 2.95% beginning June 1, 2009 through April 1, 2019, when the remaining principal and unpaid interest were due.	\$ -	\$ 3,085,663
Series 2014A Tax Exempt Revenue Bond - \$5,086,077 bonds due in monthly installments of \$17,447 including interest at 2.67% beginning February 10, 2014 through January 10, 2024, when the remaining principal and unpaid interest are due.	2,535,902	2,674,575
Series 2014B Taxable Revenue Bond - \$4,913,923 bonds due in monthly installments of \$24,828 including interest at 4.03% beginning February 10, 2014 through January 10, 2024, when the remaining principal and unpaid interest are due.	<u>3,294,328</u>	<u>3,454,093</u>
	5,830,230	9,214,331
Less current portion	<u>308,916</u>	<u>3,383,764</u>
	<u>\$ 5,521,314</u>	<u>\$ 5,830,567</u>

Chattanooga Metropolitan Airport Authority

Notes to Financial Statements

June 30, 2019 and 2018

Note 5. Long-Term Debt, Continued

Debt service requirements for the years subsequent to June 30, 2019, are as follows:

<i>Year ending</i>	Long-term debt	
	Principal	Interest
June 30, 2020	\$ 308,916	\$ 198,389
June 30, 2021	319,752	187,553
June 30, 2022	330,981	176,324
June 30, 2023	342,622	164,683
June 30, 2024	<u>4,527,959</u>	<u>90,975</u>
	<u>\$ 5,830,230</u>	<u>\$ 817,924</u>

On January 10, 2014, the Authority entered into a bond purchase agreement with a financial institution in conjunction with the acquisition of net assets from the Truman Arnold Companies. The Authority issued a Series 2014A Tax Exempt Revenue Bond in the amount of \$5,086,077 and a Series 2014B Taxable Revenue Bond in the amount of \$4,913,923. These bonds are collateralized by the net revenues and all other property in which security interests or liens are now or hereafter granted under the agreement. The City of Chattanooga is not pledged to the payment of principal or interest on the bonds.

The Series 2009 Bond is collateralized by the Net Revenues and all other property in which security interests or liens are now or hereafter granted as specified in the Loan and Purchase Agreement, the Pledge Agreement and the Assignment. The Bond is further collateralized by the payments derived through an Airport Operation Service Contract with the City of Chattanooga. Under the service contract, if there is an anticipated shortfall, the City is obligated to make the monthly principal and interest payments to the Bank. In the event that the Authority has not repaid the City for shortfall payments made during the term of the service contract, the obligation from these payments shall survive termination of the service contract.

The term of the service contract is the same as the term of the Series 2009 Bond and requires the Authority to maintain a minimum balance of \$2,000,000 in support of the outstanding debt. This Bond was paid off during the year ended June 30, 2019.

Covenants related to the debt agreements of the Authority require maintenance of debt coverage ratios, minimum net worth and require the Authority to maintain a minimum balance of unrestricted cash and/or marketable securities of \$3,000,000. The covenants also place certain restrictions on the activities of the Authority (without prior written consent). As of June 30, 2019 and 2018, management believes that the Authority was in compliance with the covenants related to the debt agreements.

The Authority also has an unused line of credit in the amount of \$1,000,000.

Chattanooga Metropolitan Airport Authority

Notes to Financial Statements

June 30, 2019 and 2018

Note 6. Defined Benefit Pension Plan

Plan Descriptions

Plan administration:

The GPP is a defined benefit pension plan that provides pensions for all permanent, full-time general City employees and employees of the Chattanooga Metropolitan Airport Authority. Chapter 2, Article III, Division 17 of the City Code provides for the GPP. Future amendments to the plan provisions can be authorized by City ordinance upon recommendation from the Board of Trustees of the GPP, upon advice by the Mayor and upon receipt of an actuarial report as to the costs and actuarial soundness of such changes. The GPP is administered by the City of Chattanooga, Tennessee. The City issues a publicly available financial report that includes financial statements and required supplementary information for the City of Chattanooga. That report may be obtained by writing to the City of Chattanooga, Department of Finance, City Hall Annex, Chattanooga, Tennessee 37402.

Management of the GPP is vested in the GPP Board of Trustees, which consists of seven members. The Mayor is an ex-officio member with the other six appointed by the Mayor with the approval of a majority vote of the City Council.

Plan membership:

The following employees were covered by the benefit terms as of January 1, 2018, the valuation date:

Inactive plan members or beneficiaries currently receiving benefits	1,180
Inactive plan members entitled to but not yet receiving benefits	122
Active plan members	<u>1,395</u>
	<u>2,697</u>

Benefits provided:

The GPP provides retirement and disability benefits. The normal retirement benefit is two percent of average compensation multiplied by years of credited service up to twenty (20) years plus one percent of average earnings multiplied by years of credited service in excess of twenty (20) years. The normal retirement date is the first day of the month following the participant's attainment of age 62. Benefits are reduced on a pro rata basis for early retirement. An employee otherwise vested shall be penalized two and one-half percent for each year of age less than 62. However, if the sum of the participant's age and years of credited service is at least eighty (80), there shall be no reduction in the immediate early retirement benefit. Benefit terms provide for annual cost-of-living adjustments to each member's retirement allowance subsequent to the member's retirement date. The annual adjustment is 3.0 percent.

Chattanooga Metropolitan Airport Authority

Notes to Financial Statements

June 30, 2019 and 2018

Note 6. Defined Benefit Pension Plan, Continued

Plan Descriptions, Continued

Contributions:

The GPP Board of Trustees establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2019, the active member contribution rate was 2.0 percent of annual pay, and the Authority's contribution rate was 19.37 percent of annual pay. For the year ended June 30, 2018, the active member contribution rate was 2.0 percent of annual pay, and the Authority's contribution rate was 16.41 percent of annual pay.

Proportionate share:

The Authority's proportionate share of the GPP net pension liability was 3.61% and 3.44% as of June 30, 2019 and 2018, respectively, and is based on the Authority's covered-employee payroll in proportion to total covered-employee payroll of the GPP. The net pension liability of the City of Chattanooga GPP was \$64,725,907 as of June 30, 2019. The total pension liability of the City of Chattanooga GPP was \$363,710,846 as of June 30, 2019.

Partial Lump Sum Option

The Partial Lump Sum Option (PLOP) of the GPP offers participants the option of receiving a portion of total pension benefit as a lump-sum cash payment at the time of retirement. When a participant elects the PLOP, monthly benefit payments are reduced.

The PLOP payment can be paid in annual installments up to three years, depending on the participant's total credited service. The participant must have 26 years of credited service to be eligible for a one-year PLOP payment, 27 years for a two-year PLOP payment and at least 28 years for a three-year PLOP payment.

Net Pension Liability

The components of the net pension liability of the Authority as of June 30, 2019 and 2018, were as follows:

	<u>2019</u>	<u>2018</u>
Total pension liability	\$ 13,136,880	\$ 12,149,951
Plan net position	<u>10,799,044</u>	<u>9,652,281</u>
Net pension liability	<u>\$ 2,337,836</u>	<u>\$ 2,497,670</u>
Plan net position as a percentage of the total pension liability	<u>82.20%</u>	<u>79.44%</u>

Chattanooga Metropolitan Airport Authority

Notes to Financial Statements

June 30, 2019 and 2018

Note 6. Defined Benefit Pension Plan, Continued

Net Pension Liability, Continued

As of June 30, 2019, the Authority's net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018, rolled-forward to June 30, 2019. As of June 30, 2018, the Authority's net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018, rolled-forward to June 30, 2018.

Actuarial assumptions: The total pension liability as of June 30, 2019 and 2018, was determined by actuarial valuations as of January 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement.

Inflation	2.75 percent
Salary increases	4.0 - 5.0 percent, including inflation
Investment rate of return	7.25 percent for 2019 and 7.00 percent for 2018, net of pension plan investment expenses, including inflation

Both pre-retirement and post-retirement mortality rates were based on the RP-2000 Combined Mortality Table set forward four years for males and set forward two years for females and using a Scale AA projection to 2025.

Post-disability mortality rates were based on the RP 2000 disabled retiree mortality table set forward eight years for males and set forward nine years for females.

The actuarial assumptions used in the valuation dated January 1, 2018, were based on the results of an actuarial experience study, dated January 7, 2014.

Chattanooga Metropolitan Airport Authority

Notes to Financial Statements

June 30, 2019 and 2018

Note 6. Defined Benefit Pension Plan, Continued

Net Pension Liability, Continued

The long-term expected rate of return on pension plan 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 plan 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 allocation percentage and by adding expected inflation. The target allocation best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>
US large cap equity	38.0%	8.5%
US small cap equity	7.0	8.2
International equity	15.0	8.3
US core fixed income	10.0	1.0
US high yield fixed income	5.0	4.8
International fixed developed	5.0	1.7
Equity hedge funds	7.0	7.5
Diversified hedge funds	7.0	7.0
Private equity	3.0	15.0
Private real estate	<u>3.0</u>	8.0
	<u>100.0%</u>	

Discount rate: The discount rate used to measure the total pension liability was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Authority contributions will be made at rates equal to the actuarially determined contribution rate. Based on those assumptions, the pension plan's net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Chattanooga Metropolitan Airport Authority

Notes to Financial Statements

June 30, 2019 and 2018

Note 6. Defined Benefit Pension Plan, Continued

Changes in Net Pension Liability

	Increase (decrease)		
	Total pension liability (a)	Plan net position (b)	Net position liability (a)-(b)
Balances at June 30, 2017	\$ 12,530,116	\$ 9,988,703	\$ 2,541,413
Changes for the year:			
Service cost	240,471	-	240,471
Interest expense	801,766	-	801,766
Difference between expected and actual experience	90,598	-	90,598
Changes of assumptions	307,444	-	307,444
Changes of proportionate share	(1,122,108)	(894,518)	(227,590)
Contributions - employer	-	334,658	(334,658)
Contributions - member	-	40,627	(40,627)
Net investment income	-	886,614	(886,614)
Benefits paid	(698,336)	(698,336)	-
Plan administrative expenses	-	(5,467)	5,467
Net changes	<u>(380,165)</u>	<u>(336,422)</u>	<u>(43,743)</u>
Balances at June 30, 2018	<u>12,149,951</u>	<u>9,652,281</u>	<u>2,497,670</u>
Changes for the year:			
Service cost	268,649	-	268,649
Interest expense	864,559	-	864,559
Difference between expected and actual experience	44,652	-	44,652
Changes of assumptions	-	-	-
Changes of proportionate share	592,700	470,857	121,843
Contributions - employer	-	421,141	(421,141)
Contributions - member	-	43,487	(43,487)
Net investment income	-	1,009,109	(1,009,109)
Benefits paid	(783,631)	(783,631)	-
Plan administrative expenses	-	(14,200)	14,200
Net changes	<u>986,929</u>	<u>1,146,763</u>	<u>(159,834)</u>
Balances at June 30, 2019	<u>\$ 13,136,880</u>	<u>\$ 10,799,044</u>	<u>\$ 2,337,836</u>

Chattanooga Metropolitan Airport Authority

Notes to Financial Statements

June 30, 2019 and 2018

Note 6. Defined Benefit Pension Plan, Continued

Changes in Actuarial Assumptions

There were no changes in actuarial assumptions and methods used in the measurement of the total pension liability as of June 30, 2019, since the June 30, 2018, measurement date.

The following change in actuarial assumptions and methods was used in the measurement of the total pension liability as of June 30, 2018, since the June 30, 2017, measurement date.

Investment rate of return - The assumed investment rate of return was lowered from 7.25% to 7.00%.

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability of the Authority, calculated using the discount rate of 7.00 percent, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current rate:

	<u>1% Decrease (6.00%)</u>	<u>Current discount rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Authority's net pension liability	\$ 3,793,190	\$ 2,337,836	\$ 1,101,468

Pension Expense and Deferred Outflows of Resources Related to Pensions

For the years ended June 30, 2019 and 2018, the Authority recognized \$558,013 and \$611,678 in pension expense, respectively.

Deferred outflows of resources related to pensions are as follows:

	<u>2019</u>	<u>2018</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 287,153
Deferred contributions pension plan	461,268	401,553
Changes of proportion pension plan	54,749	30,636
Differences of experience pension plan	100,648	83,093
Changes of assumptions pension plan	<u>295,019</u>	<u>362,574</u>
	<u>\$ 911,684</u>	<u>\$ 1,165,009</u>

Deferred inflows of resources related to pensions are as follows:

	<u>2019</u>	<u>2018</u>
Net difference between projected and actual earnings on pension plan investments	<u>\$ 33,302</u>	<u>\$ -</u>

Chattanooga Metropolitan Airport Authority

Notes to Financial Statements

June 30, 2019 and 2018

Note 6. Defined Benefit Pension Plan, Continued

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

<i>Year ending</i>	
June 30, 2020	\$ (744,940)
June 30, 2021	(199,441)
June 30, 2022	24,067
June 30, 2023	<u>41,932</u>
	<u>\$ (878,382)</u>

Payable to the Pension Plan

As of June 30, 2019 and 2018, the Authority reported a payable of \$0 for the outstanding amount of contributions to the pension plan.

Note 7. Pension and Other Post-Employment Benefit Obligations

Other Post-Employment Benefits (City Fund)

General information:

Plan description - The Authority participates in an OPEB plan which is a single-employer defined benefit plan administered by the City of Chattanooga (the "City") that is used to provide post-employment benefits other than pensions for all permanent, full-time general City employees and employees of the Authority. A stand-alone Financial Report is not issued for this plan. The City issues a publicly available financial report that includes financial statements and required supplementary information for the City. That report may be obtained by writing to the City of Chattanooga, Department of Finance, City Hall Annex, Chattanooga, Tennessee 37402.

Management of the OPEB Plan vested in the GPP Board of Trustees, which consists of seven members. The Mayor is an ex-officio member with the other six appointed by the Mayor with the approval of a majority vote of the City Council.

Benefits provided - All of the Authority's employees may become eligible for benefits if they reach normal retirement age or certain service requirements while working for the Authority; those requirements are different for general employees and sworn safety employees. Those members meeting the eligibility conditions as of July 1, 2010, receive health benefits for life. Those not meeting the eligibility conditions as of July 1, 2010, receive health benefits until eligible for Medicare. A stand-alone financial report is not issued for the plan. Chapter 2, Article III, Division 17 of the City Code provides for the GPP and OPEB Plan. Future amendments to the plan provisions can be authorized by City ordinance upon recommendation from the Board of Trustees of the GPP, upon advice by the Mayor and upon receipt of an actuarial report as to the costs and actuarial soundness of such changes.

Chattanooga Metropolitan Airport Authority

Notes to Financial Statements

June 30, 2019 and 2018

Note 7. Pension and Other Post-Employment Benefit Obligations, Continued

Other Post-Employment Benefits (City Fund), Continued

General information, continued:

Employees covered by benefit terms - The following employees were covered by the benefit terms as of January 1, 2018, the date of the valuation used to determine the June 30, 2019, liability:

Inactive members or their beneficiaries currently receiving benefits	1,309
Inactive members entitled to but not yet receiving benefits	-
Active members	<u>2,217</u>
Total	<u><u>3,526</u></u>

Contributions - The Authority contributes to the plan at an actuarially determined rate. Retired plan members and beneficiaries are required to contribute specified amounts monthly toward the cost of health insurance premiums. Employees who retired prior to 2002 contribute an amount equal to the amount paid by active employees. Employees who retire after 2002 with 25 years of service or a job-related disability contribute an amount equal to 1.5 times that paid by active employees. Employees who retire after 2002 with less than 25 years of service or a non-job-related disability contribute an increased amount on the member of years' service less than 25 years. The Authority pays the remainder of the costs of medical coverage. The City established an Other Post-Employment Benefits Trust (the Trust) in 2008 to partially pre-fund benefits. Beginning in 2011, the City began funding the Trust based on an actuarial calculation in which all unfunded prior service costs as well as normal costs are allocated to various funds based on applicable payroll. The Authority is currently contributing 3.51 percent of the total covered payroll of participants. All obligations are liquidated from the OPEB trust.

Net OPEB liability:

As of June 30, 2019, the City's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2018, rolled-forward to June 30, 2019. As of June 30, 2018, the City's net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated January 1, 2017, rolled-forward to June 30, 2018.

Chattanooga Metropolitan Airport Authority

Notes to Financial Statements

June 30, 2019 and 2018

Note 7. Pension and Other Post-Employment Benefit Obligations, Continued

Other Post-Employment Benefits (City Fund), Continued

Net OPEB liability, continued:

Actuarial assumptions - The total OPEB liability in the January 1, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.00 percent
Salary increases	1.50 to 5.00 percent, including inflation
Long-term investment rate of return	7.00 percent compounded annually, net of OPEB plan investment expenses, including inflation*
Single equivalent interest rate	7.00 percent*
Healthcare cost trend rates:	
Pre-medicare eligible	7.00 percent
Medicare eligible	5.75 percent
Ultimate trend rate:	
Pre-medicare eligible	5.00 percent
Medicare eligible	5.00 percent
Year of ultimate trend rate	2023

*Change in assumption from 7.50% as of June 30, 2017, measurement date to 7.00% as of June 30, 2018, measurement date.

Mortality - General Employee Deaths After Retirement: According to the RP-2000 Combined Mortality Table set forward four years for males and set forward two years for females and using a Scale AA projection to 2025, for service retirements and beneficiaries of retired participants. The RP-2000 Disabled Mortality Table set forward eight years for males and set forward nine years for females and using a Scale AA projection to 2025 is used for the period after disability retirement. Fire and Police Employee Deaths After Retirement: According to the RP 2014 Blue Collar Mortality fully generational using a modified MP-2014 projection scale and set forward three years for males and female for service retirements and beneficiaries of retired participants. The RP 2014 Disabled Mortality fully generational using a modified MP-2014 projection scale and set forward three years for both males and females is used for the period after disability retirement.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the January 1, 2018, valuation for general employees were based on the results of the last actuarial experience study, dated January 7, 2014. The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases for fire and police employees reflect the results of the experience investigation of the Fire and Police Pension Fund for the period ended December 31, 2014.

The remaining actuarial assumptions (e.g., initial per capital costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the January 1, 2018, valuation were based on a review of recent plan experience done concurrently with the January 1, 2018, valuation.

Chattanooga Metropolitan Airport Authority

Notes to Financial Statements

June 30, 2019 and 2018

Note 7. Pension and Other Post-Employment Benefit Obligations, Continued

Other Post-Employment Benefits (City Fund), Continued

Net OPEB liability, continued:

Mortality, continued - The long-term expected rate of return on plan assets is to be reviewed as part of regular experience studies prepared for the Plan every four to five years. Several factors should be considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in the current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation), as developed by the investment consultant for each major asset class. These ranges should be 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 then adding expected inflation. The capital market assumptions to be developed by the investment consultant may cover a shorter investment horizon and may not be useful in setting the long-term rate of return for funding OPEB plans which are likely to cover a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Upon adoption of the long-term rate of return by the Plan, the target asset allocation and best estimates of expected geometric real rates of return for each major asset class, as provided by the Plan's investment consultant, are to be summarized in a manner suggested by the following table:

<u>Asset class</u>	<u>Target allocation</u>	<u>3-Year expected real rate of return</u>
U.S. equity - large cap	38.0 %	4.0 %
U.S. equity - small cap	5.0	5.0 %
International equity	15.0	5.5 %
Global fixed income	15.0	(1.5) %
E.M. debt	5.0	4.5 %
Private debt	5.0	7.0 %
Equity hedge funds	3.5	4.5 %
Diversified hedge funds	3.5	4.0 %
Real estate	<u>10.0</u>	7.0 %
	<u>100.0</u> %	

Discount rate - The discount rate used to measure the OPEB liability was 7.0 percent. The plan will be funded based on the actuarially determined contribution each year in the future and, therefore, will not be projected to run out of money.

Based on these assumptions, the Plan's Fiduciary Net Position (FNP) was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the Total OPEB Liability (TOL). The discount rate determination does not use the Municipal Bond Index Rate. There was a change in the discount rate from 7.5% to 7.0% since the Prior Measurement Date.

Chattanooga Metropolitan Airport Authority

Notes to Financial Statements

June 30, 2019 and 2018

Note 7. Pension and Other Post-Employment Benefit Obligations, Continued

Other Post-Employment Benefits (City Fund), Continued

Changes in the net OPEB liability:

	Increase (decrease)		
	Total OPEB liability (a)	Plan net position (b)	Net OPEB liability (a) - (b)
Balances at June 30, 2018	\$ 533,621	\$ 164,676	\$ 368,945
Changes for the year:			
Service cost	20,386	-	20,386
Interest expense	69,976	-	69,976
Changes of assumptions	71,101	-	71,101
Difference between expected and actual experience	900	-	900
Changes of proportionate share	421,560	130,093	291,467
Contributions - employer	-	76,208	(76,208)
Contributions - employee	-	-	-
Net investment income	-	30,409	(30,409)
Benefits paid	(44,312)	(44,312)	-
Plan administrative expenses	-	(271)	271
Net changes	<u>539,611</u>	<u>192,127</u>	<u>347,484</u>
Balances at June 30, 2019	<u>\$ 1,073,232</u>	<u>\$ 356,803</u>	<u>\$ 716,429</u>

Sensitivity of the net OPEB liability to changes in the discount rate - The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current discount rate:

	1% decrease (6.00%)	Discount rate (7.00%)	1% increase (8.00%)
Net OPEB liability	\$ 828,446	\$ 716,429	\$ 619,894

Chattanooga Metropolitan Airport Authority

Notes to Financial Statements

June 30, 2019 and 2018

Note 7. Pension and Other Post-Employment Benefit Obligations, Continued

Other Post-Employment Benefits (City Fund), Continued

Changes in the net OPEB liability, continued:

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates - The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower (6.00% decreasing to 4.00% for pre-Medicare, 4.75% decreasing to 4.00% for Medicare) or 1-percentage point higher (8.00% decreasing to 6.00% for pre-Medicare, 6.75% decreasing to 6.00% for Medicare) than the current healthcare cost trend rates:

	<u>1%</u> <u>Decrease</u>	<u>Healthcare</u> <u>cost trend</u> <u>rates</u>	<u>1%</u> <u>Increase</u>
Net OPEB liability (asset)	\$ 607,594	\$ 716,429	\$ 844,285

OPEB plan fiduciary net position - The plan does not issue a separate financial report. Detailed information about the OPEB plan's fiduciary net position is found in Note 6 of the City of Chattanooga's publicly available financial statements.

OPEB expense and deferred outflows of resources and deferred inflows or resources related to OPEB:

For the year ended June 30, 2019, the Authority recognized OPEB expense of \$92,137. As of June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Airport</u> <u>Authority</u>
Deferred outflows of resources related to other post-employment benefits are as follows:	
Deferred contribution	\$ 76,151
Changes in assumption	59,725
Changes in proportion	244,440
Changes in experience	757
	<u>\$ 381,073</u>
Deferred inflows of resources related to other post-employment benefits are as follows:	
Investment gain	<u>\$ 6,411</u>

Chattanooga Metropolitan Airport Authority

Notes to Financial Statements

June 30, 2019 and 2018

Note 7. Pension and Other Post-Employment Benefit Obligations, Continued

Other Post-Employment Benefits (City Fund), Continued

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB, continued:

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

<i>Year ending</i>	<u>Airport Authority</u>
June 30, 2020	\$ 134,582
June 30, 2021	58,431
June 30, 2022	52,392
June 30, 2023	56,657
June 30, 2024	58,080
June 30, 2025	<u>14,521</u>
	<u>\$ 374,663</u>

Payable to the OPEB Plan:

As of June 30, 2019, the Authority reported a payable of \$0 for the outstanding amount of contribution to the OPEB plan.

Note 8. Operating Leases

The Authority's leasing operations consist principally of the leasing of land and buildings for parking, concessions and airfield facilities. These leases generally provide for fixed and contingent rentals based on the lessee's gross revenues and expire through 2030.

Future minimum rent receipts under noncancelable leases as of June 30, 2019, are as follows:

<i>Year ending</i>	
June 30, 2020	\$ 2,835,965
June 30, 2021	2,767,272
June 30, 2022	2,702,483
June 30, 2023	2,023,731
June 30, 2024	456,828
Later years	4,144,653

Rental revenue totaled \$4,014,939 for 2019 and \$3,645,763 for 2018.

Chattanooga Metropolitan Airport Authority

Notes to Financial Statements

June 30, 2019 and 2018

Note 9. Passenger Facility Charges (PFC)

As of July 1, 1994, the Authority became eligible to collect PFCs. These are charges which are levied by the Authority on passengers enplaning at the Airport. These charges are revenues of the Authority but are collected by the Airport carriers and remitted to the Authority. These revenues are restricted in their use to certain approved Airport improvement projects. The Authority is authorized to impose PFCs until the date on which the total net PFC revenue collected plus investment income equals the allowable cost of the approved projects. The amount of the approved projects is \$28,948,535. Based on the operating information of the Authority, the estimated expiration date of these PFCs will be July 1, 2020. As of June 26, 2019, the Authority was authorized to collect an additional \$4,593,479 in total PFC revenue, in which the estimated expiration date will be October 1, 2022.

The Authority recognized \$2,260,096 and \$2,095,980 in revenue from PFCs for 2019 and 2018, respectively. These amounts included investment income on PFC funds of \$23,903 and \$12,978 for 2019 and 2018, respectively. The PFCs receivable classified as restricted assets totaled \$372,123 and \$359,984 as of June 30, 2019 and 2018, respectively. The Authority made expenditures of \$566,797 and \$2,193,066 on approved PFC projects for 2019 and 2018, respectively.

Note 10. Customer Facility Charges (CFC)

As of June 1, 2011, a CFC was imposed by the Authority in the amount of \$2.00 per contract day for on-site rental car companies ("Operators"). The charge is imposed upon each rental car contract entered into between each Operator and each Operator's customers for automobiles to be picked up from or delivered to the Operator at the Airport. The Authority shall use the proceeds from the CFCs to defray the cost of improvements relating to car rental activities.

The Authority recognized \$828,176 and \$733,720 in revenue from CFCs for 2019 and 2018, respectively. CFC receivables classified as restricted assets totaled \$77,388 and \$69,256 as of June 30, 2019 and 2018, respectively.

Note 11. Fixed Based Operator Agreement

During the year ended June 30, 2011, the Authority constructed a facility on the airfield for a Fixed Based Operator (FBO). The FBO began operations in August 2011, and the facility is being operated by Wilson Air under a management contract with the Authority. The management contract specifies a fixed amount to be paid to Wilson Air plus an incentive fee. The incentive fee is based on operating performance benchmarks as specified in the management contract. The Authority also pays operating expenses for the FBO. The Authority paid Wilson Air a management fee of \$200,000 for 2019 and 2018, which is included in fixed base operations. Future amounts due to Wilson Air are as follows:

<i>Year ending</i>	
June 30, 2020	\$ 200,000
June 30, 2021	200,000

Chattanooga Metropolitan Airport Authority

Notes to Financial Statements

June 30, 2019 and 2018

Note 12. Investments and Investment Risks

Investment risks are as follows:

Interest rate risk:

The Authority presents its exposure to interest rate changes using the weighted average maturity method. The Authority's investment portfolio did not experience any significant fluctuations in fair value during the year.

Custodial credit risk:

The Authority's policies limit deposits and investments to those instruments allowed by applicable state laws. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 100% of the value of the uninsured deposits. The deposits must be covered by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the Authority's agent in the Authority's name or by the Federal Reserve Banks acting as third-party agents. State statutes also authorize the Authority to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, the state pooled investment fund, and mutual funds. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction.

Note 13. Commitments and Contingencies

The Authority has received federal and state grants for specific purposes that are subject to review and audit by grantor agencies. Such audits could result in reimbursements to the grantor agencies for expenditures disallowed under the terms of the grants. Authority management is not aware of any potential losses from such disallowances.

The Authority is subject to commitments, legal proceedings and claims which arise in the ordinary course of business. In management's opinion, the amount of any ultimate liability will not materially affect the operations or financial position of the Authority.

Note 14. Subsequent Event

Subsequent to year end, the Board of Commissioners of the Authority approved Resolution 77 authorizing the Authority to pay the prepayment and redemption amount of the Series 2014 A and B bonds in the amount of \$5,758,259. These bonds were paid from the balance of the Debt Service Reserve Fund and cash from operations. In addition, the Board also approved Resolution 78 authorizing the Authority to borrow up to \$25,000,000 for the construction of a parking garage.

Chattanooga Metropolitan Airport Authority

Schedule of Changes in the Net Pension Liability and Related Ratios

Last 10 Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability					
Service cost	\$ 268,649	\$ 240,471	\$ 241,311	\$ 227,692	\$ 189,949
Interest	864,559	801,766	858,424	783,235	696,297
Difference between expected and actual experience	44,652	90,598	27,820	(11,898)	-
Changes of assumptions	-	307,444	315,692	-	(184,466)
Benefit payments	(783,631)	(698,336)	(717,569)	(613,957)	(513,926)
Changes of proportionate share	592,700	(1,122,108)	669,255	1,320,818	-
Net change in total pension liability	986,929	(380,165)	1,394,933	1,705,890	187,854
Total pension liability, beginning of year	<u>12,149,951</u>	<u>12,530,116</u>	<u>11,135,183</u>	<u>9,429,293</u>	<u>9,241,439</u>
Total pension liability, end of year (a)	<u>13,136,880</u>	<u>12,149,951</u>	<u>12,530,116</u>	<u>11,135,183</u>	<u>9,429,293</u>
Plan fiduciary net position					
Contributions - employer	421,141	334,658	305,524	282,786	242,618
Contributions - member	43,487	40,627	43,835	40,682	35,378
Net investment income	1,009,109	886,614	7,308	331,488	975,810
Benefit payments	(783,631)	(698,336)	(717,569)	(613,957)	(513,926)
Administrative expense	(14,200)	(5,467)	(6,108)	(7,335)	(6,016)
Changes of proportionate share	470,857	(894,518)	587,118	1,196,086	-
Net change in plan fiduciary net position	1,146,763	(336,422)	220,108	1,229,750	733,864
Plan fiduciary net position, beginning of year	<u>9,652,281</u>	<u>9,988,703</u>	<u>9,768,595</u>	<u>8,538,845</u>	<u>7,804,981</u>
Plan fiduciary net position, end of year (b)	<u>10,799,044</u>	<u>9,652,281</u>	<u>9,988,703</u>	<u>9,768,595</u>	<u>8,538,845</u>
Net pension liability, end of year (a) - (b)	<u>\$ 2,337,836</u>	<u>\$ 2,497,670</u>	<u>\$ 2,541,413</u>	<u>\$ 1,366,588</u>	<u>\$ 890,448</u>
Plan fiduciary net position as a percentage of the total pension liability	82.20%	79.44%	79.72%	87.73%	90.56%
Covered payroll	<u>\$ 2,174,202</u>	<u>\$ 2,039,496</u>	<u>\$ 2,179,144</u>	<u>\$ 2,053,679</u>	<u>\$ 1,746,895</u>
Net pension liability as a percentage of covered payroll	107.53%	122.47%	116.62%	66.54%	50.97%
Proportionate share of net pension liability	3.61%	3.44%	3.78%	3.57%	3.13%

Notes to Schedule:

Benefit changes since the prior measurement date: None

Changes in actuarial assumptions since the prior measurement date: None

This schedule will be 10 years as information is available.

Chattanooga Metropolitan Airport Authority**Schedule of Employer Pension Contributions****Last 10 Fiscal Years**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined employer contribution	\$ 418,978	\$ 328,902	\$ 307,186	\$ 277,317	\$ 241,538
Actual employer contributions	<u>421,141</u>	<u>334,658</u>	<u>305,524</u>	<u>282,786</u>	<u>242,618</u>
Annual contribution deficiency (excess)	<u>\$ (2,163)</u>	<u>\$ (5,756)</u>	<u>\$ 1,662</u>	<u>\$ (5,469)</u>	<u>\$ (1,080)</u>
Covered-employee payroll	<u>\$ 2,174,202</u>	<u>\$ 2,039,496</u>	<u>\$ 2,179,144</u>	<u>\$ 2,053,679</u>	<u>\$ 1,746,895</u>
Actual contributions as a percentage of covered-employee payroll	19.37%	16.41%	14.02%	13.77%	13.89%

Notes to Schedule:Valuation date:

Actuarially determined contribution rates are calculated as of January 1, eighteen months prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level dollar, closed
Remaining amortization period	27 years
Asset valuation method	10-year smoothed market with a 20% corridor
Inflation	2.75%
Salary increases	4.0%-5.0%, including inflation
Investment rate of return	7.0%, net of pension plan investment expense, including inflation

This schedule will be 10 years as information is available.

Chattanooga Metropolitan Airport Authority

Schedule of Changes in the Net Other Post-Employment Liability and Related Ratios

Last 10 Fiscal Years

	<u>2019</u>	<u>2018</u>
Total OPEB liability		
Service cost	\$ 20,386	\$ 9,855
Interest	69,976	37,310
Difference between expected and actual experience	900	-
Changes of assumptions	71,101	-
Benefit payments	(44,312)	(22,023)
Changes of proportionate share	421,560	-
Net change in total OPEB liability	<u>539,611</u>	<u>25,142</u>
Total OPEB liability, beginning of year	<u>533,621</u>	<u>508,479</u>
Total OPEB liability, end of year (a)	<u>1,073,232</u>	<u>533,621</u>
Plan fiduciary net position		
Contributions - employer	76,208	40,211
Contributions - member	-	-
Net investment income	30,409	21,941
Benefit payments	(44,312)	(22,023)
Administrative expense	(271)	(126)
Changes of proportionate share	130,093	-
Net change in plan fiduciary net position	<u>192,127</u>	<u>40,003</u>
Plan fiduciary net position, beginning of year	<u>164,676</u>	<u>124,673</u>
Plan fiduciary net position, end of year (b)	<u>356,803</u>	<u>164,676</u>
Net OPEB liability, end of year (a) - (b)	<u>\$ 716,429</u>	<u>\$ 368,945</u>
Plan fiduciary net position as a percentage of the total OPEB liability	33.25%	30.86%
Covered payroll	<u>\$ 2,080,379</u>	<u>\$ 2,179,144</u>
Net OPEB liability as a percentage of covered payroll	34.44%	16.93%
Proportionate share of net pension liability	0.54%	0.30%

Notes to Schedule:

Benefit changes since the prior measurement date: None

Changes in actuarial assumptions since the prior measurement date: There was a change in the discount rate from 7.5% to 7.0%.

This schedule will be 10 years as information is available.

Chattanooga Metropolitan Airport Authority

Schedule of Employer OPEB Contributions

Last 10 Fiscal Years

	2019	2018
Actuarially determined employer contribution	\$ 73,021	\$ 40,211
Actual employer contributions	76,208	18,992
Annual contribution deficiency (excess)	<u>\$ (3,187)</u>	<u>\$ 21,219</u>
Covered-employee payroll	<u>\$ 2,080,379</u>	<u>\$ 2,179,144</u>
Actual contributions as a percentage of covered-employee payroll	3.66%	0.87%

Notes to Schedule:

Valuation date:

Actuarially determined contribution rates are calculated as of January 1, eighteen months prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, open
Remaining amortization period	30 years
Asset valuation method	Market value of assets
Inflation	3.00%
Healthcare cost trend rate	
Pre-Medicare eligible	7.00%
Medicare eligible	5.75%
Ultimate trend rate	
Pre-Medicare eligible	5.00%
Medicare eligible	5.00%
Year of ultimate trend rate	2021
Salary increases	1.5%-5.0%, including inflation
Investment rate of return	7.5%, including inflation
Retirement	
General employees:	Minimum 5 years of service and age 62 or Rule of 80 or 55
Fire / Police:	Age 55 with 10 years of service or any age with 25 years of service (30 years if hired after July 1, 2014)
Disability:	Immediate eligibility if duty-related disability, otherwise 10 years of service
Mortality	
General employee deaths after retirement:	According to the RP-2000 Combined Mortality Table set forward 4 years for females and using a Scale AA projection to 2025, for service retirements and beneficiaries of retired participants. The RP-2000 Disabled Mortality Table set forward 8 years for males and set forward 9 years for females and using a Scale AA projection to 2025 is used for the period after disability retirement.
Fire and Police employee deaths after retirement:	According to the RP-2014 Blue Collar Mortality fully generational using a modified MP-2014 projection scale and set forward 3 years for males and females for service retirements and beneficiaries of retired participants. The RP-2014 Disabled Retiree Mortality fully generational using a modified MP-2014 projection scale and set forward 3 years for both males and females is used for the period after disability retirement.

This schedule will be 10 years as information is available.

Chattanooga Metropolitan Airport Authority

Schedule of Bonds Payable

As of June 30, 2019

Year ended June 30,	Issue	Interest rate	Principal	Due interest	Total interest and principal
2020	Series 2014A Tax Exempt Revenue Bond	2.67%	\$ 142,481	\$ 66,888	\$ 209,369
2021		2.67%	146,387	62,982	209,369
2022		2.67%	150,399	58,970	209,369
2023		2.67%	154,521	54,848	209,369
2024		2.67%	1,942,113	30,196	1,972,309
			<u>2,535,901</u>	<u>273,884</u>	<u>2,809,785</u>
2020	Series 2014B Taxable Revenue Bond	4.03%	166,435	131,501	297,936
2021		4.03%	173,365	124,571	297,936
2022		4.03%	180,582	117,354	297,936
2023		4.03%	188,101	109,835	297,936
2024		4.03%	2,585,846	60,779	2,646,625
			<u>3,294,329</u>	<u>544,040</u>	<u>3,838,369</u>
			<u>\$ 5,830,230</u>	<u>\$ 817,924</u>	<u>\$ 6,648,154</u>

Chattanooga Metropolitan Airport Authority
Schedule of Changes in Long-Term Debt by Individual Issue
For the year ended June 30, 2019

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding July 1, 2018	Issued During Period	Paid and/or		Outstanding June 30, 2019
							Matured During Period	Refunded During Period	
<u>Bonds Payable</u>									
Series 2009 Taxable Revenue Refunding Bonds	\$ 6,600,000	2.95%	6/1/2009	4/1/2019	\$ 3,085,663	\$ -	\$ 3,085,663	\$ -	\$ -
Series 2014A Tax Exempt Revenue Bond	5,086,077	2.67%	2/10/2014	1/10/2024	2,674,575	-	138,674	-	2,535,901
Series 2014B Taxable Revenue Bond	4,913,923	4.03%	2/10/2014	1/10/2024	3,454,093	-	159,764	-	3,294,329
Total Bonds Payable					<u>\$ 9,214,331</u>	<u>\$ -</u>	<u>\$ 3,384,101</u>	<u>\$ -</u>	<u>\$ 5,830,230</u>

**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***

Board of Commissioners
Chattanooga Metropolitan Airport Authority
Chattanooga, Tennessee

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 Chattanooga Metropolitan Airport Authority (the "Authority"), a component unit of the City of Chattanooga, Tennessee, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents, and have issued our report thereon dated October 14, 2019.

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 opinions 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Chattanooga, Tennessee
October 14, 2019

**Independent Auditor's Report on Compliance for Each Major
Program and on Internal Control Over Compliance
Required by the Uniform Guidance**

Board of Commissioners
Chattanooga Metropolitan Airport Authority
Chattanooga, Tennessee

Report on Compliance for Each Major Federal Program

We have audited the Chattanooga Metropolitan 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 each of the Authority's major federal programs for the year ended June 30, 2019. The Authority's major federal programs are 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 laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative 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 each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

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 requirements of 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.



Chattanooga, Tennessee
October 14, 2019

Chattanooga Metropolitan Airport Authority

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2019

<u>CFDA number</u>	<u>Grant number</u>	<u>Program name</u>	<u>Grantor agency</u>	<u>Receivable balance June 30, 2018</u>	<u>Federal reimbursements</u>	<u>Federal expenditures</u>	<u>Receivable balance June 30, 2019</u>
20.106	3-47-0009-63	Airport Improvement Project	Federal Aviation Administration	\$ -	\$ -	\$ -	\$ -
20.106	3-47-0009-64	Airport Improvement Project	Federal Aviation Administration	94,532	509,240	477,268	62,560
20.106	3-47-0009-65	Airport Improvement Project	Federal Aviation Administration	540,711	552,716	12,005	-
20.106	3-47-0009-66	Airport Improvement Project	Federal Aviation Administration	3,983	2,626,004	2,622,022	1
20.106	3-47-0009-67	Airport Improvement Project	Federal Aviation Administration	16,875	1,467,227	1,515,159	64,807
				<u>\$ 656,101</u>	<u>\$ 5,155,187</u>	<u>\$ 4,626,454</u>	<u>\$ 127,368</u>

Note 1. Basis of Presentation

The schedule of expenditures of federal awards has been prepared on the accrual basis of accounting, consistent with the measurement focus and accounting basis used by the Airport. The information presented on this schedule is presented in accordance with the requirements of the Uniform Guidance.

The Authority elected not to use the 10% de-minimis indirect cost rate.

Chattanooga Metropolitan Airport Authority

Schedule of Expenditures of State Awards

For the year ended June 30, 2019

<u>Project number</u>	<u>Contract number</u>	<u>Program description</u>	<u>Grantor agency</u>	<u>Receivable balance June 30, 2018</u>	<u>State reimbursements</u>	<u>State expenditures, net</u>	<u>Receivable balance June 30, 2019</u>
33-555-0724-16	AERO-16-179-00	Hangar 13 Construction	State of Tennessee	\$ 2,851	\$ 2,851	\$ -	\$ -
33-555-0228-18	AERO-18-263-00	Site Development MRO Facility	State of Tennessee	39,490	1,375,751	2,923,779	1,587,518
33-555-0229-19		Site Development MRO Facility Phase 2	State of Tennessee	-	-	254,734	254,734
33-960-3630-54		Ground Support Equipment	State of Tennessee	350,024	350,024	-	-
				<u>\$ 392,365</u>	<u>\$ 1,728,626</u>	<u>\$ 3,178,513</u>	<u>\$ 1,842,252</u>

Note 1. Basis of Presentation

The schedule of expenditures of state awards includes grant activity of the Authority and is presented on the accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the financial statements.

Chattanooga Metropolitan Airport Authority

Schedule of Findings and Questioned Costs

For the year ended June 30, 2018

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- Material weaknesses identified?
- Significant deficiency that is not considered to be a material weakness?

Yes None Reported

Yes None Reported

Noncompliance material to financial statements noted?

Yes None Reported

Federal Awards

Internal control over major programs:

- Material weaknesses identified?
- Significant deficiencies identified that are not considered to be material weaknesses?

Yes None Reported

Yes None Reported

Type of auditor's report issued on compliance for major programs

Unmodified

- Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

Yes None Reported

Identification of major programs:

CFDA Number

20.106

Name of Federal Program or Cluster

Airport Improvement Project

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

Yes No

II. Financial Statement Findings

None reported.

III. Findings and Questioned Costs for Federal Awards

None reported.

Chattanooga Metropolitan Airport Authority

Summary Schedule of Prior Audit Findings

For the year ended June 30, 2019

There were no prior audit findings reported.

**Independent Auditor's Report on Compliance and on
Internal Control Over Compliance for the Passenger Facility
Charge Program and on the Schedule of Passenger Facility
Charges, Investment Income and Related Expenditures**

Board of Commissioners
Chattanooga Metropolitan Airport Authority
Chattanooga, Tennessee

Report on Compliance for Passenger Facility Program

We have audited the compliance of Chattanooga Metropolitan Airport Authority (the "Authority"), a component unit of the City of Chattanooga, Tennessee, with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* issued by the Federal Aviation Administration (the "Guide") that could have a direct and material effect on its passenger facility charge program for the year ended June 30, 2019.

Management's Responsibility

Management is responsible for compliance with the requirements of laws and regulations pertaining to the passenger facility charge program.

Auditor's Responsibility

Our responsibility is to express an opinion on the Authority's compliance 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 Guide. Those standards and the Guide 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 the passenger facility charge 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 passenger facility charge program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on the Passenger Facility Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program for the year ended June 30, 2019.

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 the passenger facility charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the passenger facility charge program and to test and report on internal control over compliance in accordance with the Guide, 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 Guide. Accordingly, this report is not suitable for any other purpose.



Chattanooga, Tennessee
October 14, 2019

Chattanooga Metropolitan Airport Authority

Schedule of Passenger Facility Charges, Investment Income and Related Expenditures

For the year ended June 30, 2019

	First quarter	Second quarter	Third quarter	Fourth quarter	Total
Passenger facility charges	\$ 545,902	\$ 734,802	\$ 338,038	\$ 617,451	\$ 2,236,193
Investment income	2,397	4,256	7,182	10,068	23,903
	<u>\$ 548,299</u>	<u>\$ 739,058</u>	<u>\$ 345,220</u>	<u>\$ 627,519</u>	<u>\$ 2,260,096</u>
Expenditures	<u>\$ 257,974</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 308,823</u>	<u>\$ 566,797</u>
	<u>PFC balance June 30, 2018</u>	<u>PFC revenues</u>	<u>Interest earnings</u>	<u>Expenditures</u>	<u>PFC balance June 30, 2019</u>
Federal Aviation Administration					
Passenger facility charges	<u>\$ 643,255</u>	<u>\$ 2,236,193</u>	<u>\$ 23,903</u>	<u>\$ 566,797</u>	<u>\$ 2,336,554</u>
Restricted cash and cash equivalents	\$ 283,271				\$ 1,964,431
Passenger facility charge receivables	359,984				372,123
	<u>\$ 643,255</u>				<u>\$ 2,336,554</u>

Note 1. Basis of Presentation

The accompanying schedule of passenger facility charges is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements described in the Passenger Facility Charge Audit Guide for Public Agencies, issued by the Federal Aviation Administration.

Chattanooga Metropolitan Airport Authority

Schedule of Findings and Questioned Costs

For the year ended June 30, 2019

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- Material weaknesses identified?
- Significant deficiencies that are not considered to be material weaknesses?

___ Yes X No

___ Yes X None

Noncompliance material to financial statements noted?

___ Yes X No

Passenger Facility Charge Program

Internal control over passenger facility charge program:

- Material weaknesses identified?
- Significant deficiencies identified that are not considered to be material weaknesses?

___ Yes X No

___ Yes X None

Type of auditor's report issued on compliance for major federal programs

Unmodified

Noncompliance material to passenger facility charge program?

___ Yes X No

Section II. Financial Statement Findings

None reported.

Section III. Passenger Facility Charge Findings and Questioned Costs

None reported.