

**CHATTANOOGA METROPOLITAN  
AIRPORT AUTHORITY**

**FINANCIAL STATEMENTS**

**June 30, 2014**

# CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

## CONTENTS

---

LETTER FROM THE PRESIDENT	1
INDEPENDENT AUDITOR'S REPORT	2/3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4/7
STATEMENTS OF NET POSITION	8
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	9/10
STATEMENTS OF CASH FLOWS	11/12
NOTES TO FINANCIAL STATEMENTS	13/24

### SUPPLEMENTARY INFORMATION

Independent Auditor's Report on Schedules of Expenditures of Federal and State Awards	26
Schedule of Expenditures of Federal Awards	27
Schedule of Expenditures of State Awards	28
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	29/30
Schedule of Passenger Facility Charges, Investment Income and Related Expenditures	31
Schedule of Findings and Questioned Costs - Passenger Facility Charge Program	32

### INTERNAL CONTROL AND COMPLIANCE REPORTS

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 <i>Government Auditing Standards</i>	34/35
Independent Auditor's Report on Compliance For Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	36/37
Schedule of Findings and Questioned Costs	38/39



1001 Airport Road, Suite 14  
Chattanooga, TN 37421  
P 423.855.2200  
F 423.855.2212

Daniel R. Jacobson, *Chairman*  
James E. Hall, *Vice Chairman*  
Lynda Griffin  
Travis Lytle  
Michael Mallen  
Bob McKamey  
Farzana Mitchell  
Tom Snow  
Gene Veazey

Terry L. Hart, *President*

## Letter from the President

Fiscal year 2014 has brought with it tremendous change for the Airport Authority. With continued growth in passenger traffic as well as strong economic development in the community, CMAA found it necessary to make some much needed changes in our business operations in order to continue maintaining our focus on the long term strategy identified by the Board and the core principles that have been established. First and foremost, we must provide a safe and secure environment for all operators and customers at our airport. Secondly, we must create a positive experience for every customer who uses our facilities and services. Finally, we must keep our attention on maintaining a strong long term financial position. In support of these principles, CMAA took on several important projects during FY 2014.

In August 2013, we negotiated an agreement for a new concessionaire to begin operations at CHA. The new operations brought with it expanded offerings of food and beverages as well as a new bar located post security which met a greatly desired customer need. The new offerings have also resulted in additional revenues to the airport while enhancing the experience for the traveling public.

Midyear, the airport issued revenue bonds to complete a transaction in which we acquired the leasehold interests and associated assets of TAC Air CHA. This transaction allowed the airport to take back over one million square feet of leasehold space which permits us to grow the airport and address the many needs of our stakeholders while allowing us to reprogram our expansion and development plans to encompass the newly acquired areas.

We also completed a \$7.2 million renovation of the terminal facility. This much needed update to the facility and its operating systems has allowed the airport to improve customer service. In addition, we were able to utilize various funding sources requiring the airport to pay less than 10 percent of the total project cost. Although we wait for confirmation, this project is expected to earn a LEED Silver designation by the US Green Building Council.

Moving forward, we have many exciting opportunities underway at the airport. Plans to expand and improve our public parking operations, rental car operations, and commercial and general aviation ramps will keep us on the path to achieve our goals of enhancing safety, the customer experience, and the bottom line. *Get On Board!*

Terry L. Hart  
President & CEO

## 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, 2014 and 2013, 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, 2014 and 2013, 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 on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2014, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Joseph DeCossimo and Company, PLLC". The signature is written in a cursive, flowing style.

Chattanooga, Tennessee  
October 20, 2014

# CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2014

---

The Comprehensive Annual Financial Report of the Chattanooga Metropolitan Airport Authority ("the Authority") for the fiscal year ended June 30, 2014, 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") or Hamilton County 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 both permanent and temporary 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 saw passenger enplanements of 309,235 during calendar year 2013 which is 1% above calendar year 2012. Although enplanements were only up slightly during calendar year 2013, the first half of calendar year 2014 is showing strong growth which we attribute to growth in our local economy. Mail and freight cargo operations continue to increase, 20% above calendar year 2012, primarily due to FedEx's presence in the market supporting local economic development in the community.

# CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2014

	Year Ended December 31, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011
<b>Enplanements</b>	<b>309,235</b>	307,162	304,016
% Increase (Decrease)	<b>1.0 %</b>	1.0 %	4.0 %
<b>Aircraft Operations</b>	<b>54,380</b>	57,877	53,341
% Increase (Decrease)	<b>(6.0)%</b>	9.0 %	(3.0)%
<b>Landed Weight</b>	<b>415,906</b>	428,621	377,976
% Increase (Decrease)	<b>(3.0)%</b>	13.0 %	(3.0)%
<b>Mail/Freight Cargo (lbs.)</b>	<b>18,755,233</b>	15,669,988	6,973,213
% Increase (Decrease)	<b>20.0 %</b>	125.0 %	67.0 %

### Summary of Operations Highlights

*Highlights of 2013-2014 fiscal year actual vs. 2012-2013 fiscal year actual.*

#### Revenues

Operating revenues were \$14,553,451 for FY 2014, up 44% over the previous year. The primary reason for the significant growth is the acquisition of TAC Air's leasehold interests and associated assets which caused revenues from FBO operations to increase 207%. Our solar revenue also experienced a significant increase with the addition of the second solar array. The airport array currently produces 2.1 megawatts of power which resulted in revenues of \$214,000 in FY 2014, more than double our solar revenue for the previous year. Finally, parking operations also experienced a 13% increase in revenues over the previous year. This increase is attributed to the additional passenger traffic that we experienced during 2013 and continue to see moving forward from the economic growth taking place throughout our region.

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

<b>Operating Revenues (in thousands)</b>	<b>FY 2014 Actual</b>	<b>FY 2013 Actual</b>	<b>Variance</b>
Landing fees	\$ 883	\$ 892	<b>(1)%</b>
Terminal rents	\$ 533	\$ 533	<b>0 %</b>
Parking operation	\$ 3,213	\$ 2,855	<b>13 %</b>
Rental car	\$ 1,444	\$ 1,408	<b>3 %</b>
Fuel flowage	\$ 244	\$ 295	<b>(17)%</b>
Solar	\$ 214	\$ 96	<b>123 %</b>
Fixed based operator	\$ 5,953	\$ 1,940	<b>207 %</b>

# CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2014

### Expenses

Operating expenses were \$11,595,815 for FY 2014 and included additional expenses for the expanded FBO operations. The primary driver of additional expenses in Contractual Services, Insurance, and Fixed Based Operations was the acquisition of the TAC Air leasehold interests, assets, and corresponding operations. The addition of one million square feet of space and additional operations caused overall expenses to rise. Repairs and Maintenance also experienced a significant increase from FY 2013 because of an expense to correct a failure of one of CMAA's Aircraft Rescue and Firefighting vehicles. CMAA was able to realize significant savings in advertising once again due to a reallocation of advertising dollars to ensure that we are utilizing those funds in the most effective way.

<b>Operating Expenses (in thousands)</b>	<b>FY 2014 Actual</b>	<b>FY 2013 Actual</b>	<b>Variance</b>
Personnel services	\$ 3,032	\$ 3,054	(1)%
Contractual services	\$ 229	\$ 188	22 %
Repairs and maintenance	\$ 518	\$ 455	14 %
Promotion	\$ 254	\$ 292	(13)%
Fixed base operations	\$ 5,952	\$ 2,446	143 %

### Assets and Liabilities

The net position of the Authority increased by \$4,920,555 during the year ended June 30, 2014 to a total of \$107,913,715. The majority of the increase came from additional property and equipment which grew by \$17,680,607 and was primarily due to the acquisition of TAC Air's leasehold interests and associated assets as well as the renovation of our commercial terminal building.

CMAA's long term debt for FY 2014 increased to \$13,975,093 which includes \$4,426,424 from the Series 2009 Taxable Revenue Refunding Bond and \$9,548,669 from the Series 2014A Tax Exempt Revenue Bond and Series 2014B Taxable Revenue Bond.

### Statement of Net Position

<b>Assets (in thousands)</b>	<b>June 30, 2014</b>	<b>June 30, 2013</b>
Cash and cash equivalents - restricted and unrestricted	\$ 10,259	\$ 15,374
Receivables	\$ 3,384	\$ 4,989
Property and equipment, net	\$ 110,421	\$ 92,740
Total assets	\$ 124,955	\$ 113,618
Long-term debt	\$ 14,035	\$ 4,855
Net position	\$ 107,914	\$ 102,993

# CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2014

---

### Capital Acquisitions and Construction Activities

#### **Current Projects**

##### North Terminal Ramp Rehabilitation

In June 2014, CMAA began a project to rehabilitate specific sections of the north commercial terminal ramp. The pavement in this area had been in place in excess of 50 years and had well exceeded its life expectancy. The project is being completed as three separate phases as to lessen the impact to our commercial air carrier operations. The project is budgeted at \$2.3 million and is being funded primarily by the Federal Airport Improvement Program. Completion is expected by the end of the calendar year.

##### West Side Ramp Expansion

In October 2014, CMAA began a project to expand the general aviation ramp located on the west side of the airfield. The additional general aviation operations that are now being serviced by Wilson Air Center has triggered the need for additional ramp space on the west side and this expansion is expected to meet that need. The total project cost is expected to be \$2.7 million and is also being funded primarily by the Federal Airport Improvement Program. Completion of the project is expected by the end of calendar year 2015.

##### Rental Car Ready Lot Expansion

In October 2014, CMAA also began a project to expand the rental car ready lot located south of the commercial terminal building. The project is expected to enhance the customer experience by reconfiguring the layout as well as expanding the number of available spaces. The project is budgeted at \$1.5 million and is being funded by customer facility charges paid by the rental car companies. In an effort to minimize the impact to our rental car operations the project will be conducted in phases with completion expected by Spring 2015.

##### Parking Lot Expansion

Due to our continued growth in passenger traffic, CMAA is designing an expansion to our public intermediate parking lot. The plan includes the demolition of one general aviation hangar that will be converted to surface parking for airport customers. The project includes demolition, site work including subgrade and drainage, paving, marking, and landscaping. In addition, a new covered sidewalk and parking control equipment will be installed. The project has been estimated at \$2.375 million and will be funded primarily through a State of Tennessee grant.

#### **Completed Projects**

##### Terminal Renovation

In March 2013, CMAA approved a contract to renovate the terminal building at a cost of approximately \$7.2 million. The scope of the project included, but was not limited to, a complete restroom renovation, replacement of the escalators, new flooring, and a complete redesign of the concession areas. The project was completed under budget in early 2014. CMAA currently awaits LEED Silver certification from the US Green Building Council.

##### Brainerd Road Properties

With the support of an Airport Improvement Project grant, CMAA purchased the properties at 5915 Brainerd Road and 5949 Brainerd Road. The buildings located on each site have been demolished and the property has been redeveloped as part of the Brainerd/Midtown Greenspace Initiative. The Brainerd Road Water Quality Project has garnered two awards including the Jay Hollingsworth Speas Airport Award and the Governor's Environmental Stewardship Award.

# CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

## STATEMENTS OF NET POSITION

June 30, 2014 and 2013

	2014	2013
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 6,678,896	\$ 11,564,741
Receivables	3,104,320	4,786,886
Prepayments	709,867	385,088
Inventory	182,280	129,011
Total current assets	<u>10,675,363</u>	<u>16,865,726</u>
<b>RESTRICTED ASSETS</b>		
Cash and cash equivalents	3,579,803	3,809,411
Passenger facility charges receivable	225,318	157,206
Customer facility charges receivable	53,992	45,360
Total restricted assets	<u>3,859,113</u>	<u>4,011,977</u>
<b>PROPERTY AND EQUIPMENT, net</b>	<u>110,420,672</u>	<u>92,740,065</u>
<b>TOTAL ASSETS</b>	<u>\$ 124,955,148</u>	<u>\$ 113,617,768</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt	\$ 741,609	\$ 394,599
Current portion of capital lease obligations	46,661	46,661
Accounts payable and accrued expenses	1,364,766	1,529,984
Contracts payable	627,163	3,532,681
Unearned revenue	79,910	14,251
Total current liabilities	<u>2,860,109</u>	<u>5,518,176</u>
<b>LONG-TERM LIABILITIES</b>		
Long-term debt	13,975,093	4,855,272
Capital lease obligations	59,420	104,349
Total long-term liabilities	<u>14,034,513</u>	<u>4,959,621</u>
<b>UNFUNDED OTHER POST-EMPLOYMENT BENEFIT LIABILITY</b>	<u>146,811</u>	<u>146,811</u>
<b>NET POSITION</b>		
Net investment in capital assets	95,597,889	87,339,184
Restricted for debt service and construction	3,859,113	4,011,977
Unrestricted	8,456,713	11,641,999
Total net position	<u>107,913,715</u>	<u>102,993,160</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 124,955,148</u>	<u>\$ 113,617,768</u>

The accompanying notes are an integral part of the financial statements.

**CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

**Years Ended June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>AIRLINE REVENUES</b>		
Landing fees	\$ 882,876	\$ 892,347
Terminal rental fees	532,684	533,255
Baggage fees	362,462	343,279
Loading bridge fees	70,834	70,833
Security and janitorial	337,877	337,876
Ground handling fees	<u>65,753</u>	<u>63,338</u>
	<u>2,252,486</u>	<u>2,240,928</u>
<b>NONAIRLINE REVENUES</b>		
Hangar rental	456,756	571,350
Fuel flowage	244,184	294,582
Parking	3,213,149	2,855,794
Rental car	1,444,227	1,407,770
Diversions, charters and GSE	51,701	55,441
Advertising	109,955	121,650
TSA reimbursements	211,430	208,406
Tenant rent	66,009	80,341
Airfield revenues	49,626	27,744
Solar revenues	214,441	96,133
Storm water revenues	3,942	-
Other terminal revenues	226,107	189,077
Other	56,197	26,071
Fixed base operations	<u>5,953,241</u>	<u>1,939,504</u>
	<u>12,300,965</u>	<u>7,873,863</u>
 Total operating revenues	 <u>14,553,451</u>	 <u>10,114,791</u>
<b>OPERATING EXPENSES</b>		
Personnel services	3,032,379	3,053,993
Contractual services	228,938	188,315
Utilities and telephone	456,525	426,794
Insurance	315,766	292,799
Repairs and maintenance	517,765	455,012
Office and administrative	24,908	20,386
Promotion	254,329	291,977
Miscellaneous	174,415	109,265
Fuel	44,724	43,671
Rental equipment expense	13,437	46,759
Bad debt expense	7,379	15,114
Amortization	17,489	2,956
Ground handling	143,978	108,186
Parking - management fees	33,381	32,409
Parking - expenses	250,245	217,062
Loss (gain) on disposal of property and equipment	127,860	(247)
Fixed base operations	<u>5,952,297</u>	<u>2,446,199</u>
Total operating expenses	<u>11,595,815</u>	<u>7,750,650</u>

The accompanying notes are an integral part of the financial statements.

**CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

**Years Ended June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>OPERATING INCOME BEFORE DEPRECIATION</b>	<b>\$ 2,957,636</b>	<b>\$ 2,364,141</b>
Depreciation	<u>(5,485,508)</u>	<u>(5,096,727)</u>
<b>OPERATING LOSS</b>	<u>(2,527,872)</u>	<u>(2,732,586)</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>		
Interest income	28,716	66,576
Interest expense	<u>(380,908)</u>	<u>(202,459)</u>
	<u>(352,192)</u>	<u>(135,883)</u>
<b>LOSS BEFORE OTHER REVENUES</b>	<u>(2,880,064)</u>	<u>(2,868,469)</u>
<b>OTHER REVENUES</b>		
Capital grants	5,783,247	9,508,125
Revenue from passenger facility charges	1,481,956	1,200,927
Revenue from customer facility charges	<u>535,416</u>	<u>510,828</u>
	<u>7,800,619</u>	<u>11,219,880</u>
<b>INCREASE IN NET POSITION</b>	<b>4,920,555</b>	<b>8,351,411</b>
<b>NET POSITION - beginning of year</b>	<u>102,993,160</u>	<u>94,641,749</u>
<b>NET POSITION - end of year</b>	<u>\$ 107,913,715</u>	<u>\$ 102,993,160</u>

The accompanying notes are an integral part of the financial statements.

# CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

## STATEMENTS OF CASH FLOWS

Years Ended June 30, 2014 and 2013

	2014	2013
<b>OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 13,690,499	\$ 10,104,052
Cash paid to suppliers	(8,675,672)	(4,205,175)
Cash paid to employees	<u>(3,055,564)</u>	<u>(3,001,557)</u>
<b>Net cash flows from operating activities</b>	<u><b>1,959,263</b></u>	<u><b>2,897,320</b></u>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Payment for acquisition of assets of Truman Arnold Companies	(12,492,538)	-
Capital expenditures	(13,825,989)	(8,278,805)
Payments on capital lease obligations	(44,929)	(35,633)
Repayment of long-term debt	(533,169)	(380,704)
Interest paid	(358,677)	(203,582)
Proceeds from issuance of long-term debt	10,000,000	-
Capital grants	8,209,746	6,720,619
Customer facility charges collected	526,784	529,036
Passenger facility charges collected	<u>1,413,844</u>	<u>1,234,113</u>
<b>Net cash flows from capital and related financing activities</b>	<u><b>(7,104,928)</b></u>	<u><b>(414,956)</b></u>
<b>INVESTING ACTIVITIES</b>		
Interest received	28,716	66,576
Proceeds from sales of equipment	<u>1,496</u>	<u>-</u>
<b>Net cash flows from investing activities</b>	<u><b>30,212</b></u>	<u><b>66,576</b></u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(5,115,453)</b>	<b>2,548,940</b>
<b>CASH AND CASH EQUIVALENTS - beginning of year</b>	<u><b>15,374,152</b></u>	<u><b>12,825,212</b></u>
<b>CASH AND CASH EQUIVALENTS - end of year</b>	<u><b>\$ 10,258,699</b></u>	<u><b>\$ 15,374,152</b></u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR CONSISTS OF -</b>		
Unrestricted cash and cash equivalents	\$ 6,678,896	\$ 11,564,741
Restricted cash and cash equivalents	<u>3,579,803</u>	<u>3,809,411</u>
	<u><b>\$ 10,258,699</b></u>	<u><b>\$ 15,374,152</b></u>

The accompanying notes are an integral part of the financial statements.

# CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

## STATEMENTS OF CASH FLOWS

Years Ended June 30, 2014 and 2013

---

	2014	2013
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating loss	\$ (2,527,872)	\$ (2,732,586)
Depreciation	5,485,508	5,096,727
Amortization	17,489	2,956
Loss (gain) on disposal of property and equipment	127,860	(247)
Bad debt expense	7,379	15,114
Changes in operating assets and liabilities -		
Receivables	(751,312)	5,442
Inventory	31,268	(59,104)
Prepayments	(257,268)	(93,854)
Accounts payable and accrued expenses	(190,009)	679,053
Unearned revenue	<u>16,220</u>	<u>(16,181)</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ <u>1,959,263</u></b>	<b>\$ <u>2,897,320</u></b>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES</b>		
Additions to property and equipment included in contracts payable	\$ 627,163	\$ 3,532,681

The accompanying notes are an integral part of the financial statements.

# CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

---

### 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 generally accepted accounting principles applicable to governmental entities. The more significant accounting policies of the Authority are summarized as follows:

**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.

In accordance with generally accepted accounting principles, the Authority has elected to apply all Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

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 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.
- 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.

# CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

---

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- 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 a 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 asset amounts due to outstanding checks. The financial institutions are members of the Tennessee State Collateral Pool.

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 the related costs are incurred. 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.

INVENTORY - Inventory consists of fuel and is stated at the lower of cost or market. Cost is determined on the first-in, first-out method.

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. The policy of the Authority is to expend restricted assets when an expense is incurred for purposes for which both restricted and unrestricted assets are available.

BOND ISSUANCE COSTS - The Authority has adopted GASB Statement 65, *Items Previously Reported as Assets and Liabilities*, and accordingly, previously unamortized bond issuance costs were written off.

# CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

---

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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, 2014 and 2013, the Authority had liabilities of \$484,722 and \$512,485, respectively, for accumulated compensated absences. The liability is classified within accounts payable and accrued expenses on the statements of net position.

INCOME TAXES - The Chattanooga Metropolitan Airport 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 conformity with accounting principles generally accepted in the United States of America 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.

# CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

---

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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.

SUBSEQUENT EVENTS - The Authority has evaluated subsequent events for potential recognition and disclosure through October 20, 2014, the date the financial statements were available to be issued.

### NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS

GASB Statement 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement 71, *Pension Transition for Contributions made Subsequent to the Measurement Date*, provide guidance to improve accounting and financial reporting by state and local governments for pensions. GASB Statements 68 and 71 are effective for fiscal years beginning after June 15, 2014. As the Authority is a component unit of the City of Chattanooga, management is in the process of determining the effects that the adoption of these statements will have on the Authority's financial statements.

The Authority adopted GASB Statement 69, *Government Combinations and Disposals of Government Operations* as of July 1, 2013. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations.

### NOTE 3 - ACQUISITION OF ASSETS FROM THE TRUMAN ARNOLD COMPANIES

On January 10, 2014, the Authority entered into a purchase and sale agreement to purchase certain assets from the Truman Arnold Companies. The consideration paid by the Authority was \$12,492,538 which was financed by \$10,000,000 in long-term debt and \$2,492,538 in cash. The long-term debt consisted of 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 (See Note 7). The Authority also incurred certain costs related to this transaction including legal, accounting and debt related costs totaling \$105,321, which have been expensed during the year ended June 30, 2014. The allocation of the purchase price was based on the acquisition value as of the acquisition date. The acquisition value represents the price that would be paid for acquiring similar assets or having similar service capacity or discharging the liabilities assumed as of the acquisition date.

# CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### NOTE 3 - ACQUISITION OF ASSETS FROM THE TRUMAN ARNOLD COMPANIES - continued

The following table summarizes the consideration paid for the acquired assets of the Truman Arnold Companies and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date:

Consideration transferred	\$ <u>12,492,538</u>
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Inventory	\$ 84,537
Prepayments	85,000
Property and equipment	12,375,000
Unearned revenue	(49,439)
Accrued expenses	<u>(2,560)</u>
	<u>\$ 12,492,538</u>

### NOTE 4 - 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 5 - RECEIVABLES

Receivables consist of the following:

	2014	2013
Trade receivables	\$ 1,478,914	\$ 734,981
Allowance for doubtful accounts	<u>(25,000)</u>	<u>(25,000)</u>
	1,453,914	709,981
Grants receivable	<u>1,650,406</u>	<u>4,076,905</u>
	<u>\$ 3,104,320</u>	<u>\$ 4,786,886</u>

# CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### NOTE 6 - PROPERTY AND EQUIPMENT

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

	June 30, 2013	Additions	Deletions	June 30, 2014
<b>Property and equipment not being depreciated</b>				
Land	\$ 3,843,561	\$ -	\$ -	\$ 3,843,561
Construction in progress	<u>33,537,373</u>	<u>10,139,094</u>	<u>-</u>	<u>43,676,467</u>
Total property and equipment not being depreciated	<u>37,380,934</u>	<u>10,139,094</u>	<u>-</u>	<u>47,520,028</u>
<b>Property and equipment being depreciated</b>				
Land improvements	741,519	20,000	-	761,519
Airport improvements	61,677,107	264,060	(1,750,141)	60,191,026
Buildings	32,731,094	12,705,040	(520,497)	44,915,637
Maintenance equipment	271,481	-	(39,380)	232,101
Airport equipment	5,375,995	125,475	(328,450)	5,173,020
Vehicles	1,486,879	41,807	(3,299)	1,525,387
Furniture and fixtures	<u>413,509</u>	<u>-</u>	<u>(270,864)</u>	<u>142,645</u>
Total property and equipment being depreciated	<u>102,697,584</u>	<u>13,156,382</u>	<u>(2,912,631)</u>	<u>112,941,335</u>
Total property and equipment	<u>140,078,518</u>	<u>23,295,476</u>	<u>(2,912,631)</u>	<u>160,461,363</u>
<b>Accumulated depreciation</b>				
Land improvements	(569,139)	(19,589)	-	(588,728)
Airport improvements	(29,627,515)	(4,037,671)	1,696,471	(31,968,715)
Buildings	(14,384,422)	(1,228,943)	491,831	(15,121,534)
Maintenance equipment	(200,355)	(17,401)	38,434	(179,322)
Airport equipment	(1,015,850)	(44,275)	3,302	(1,056,823)
Vehicles	(1,210,811)	(82,675)	270,392	(1,023,094)
Furniture and fixtures	<u>(330,361)</u>	<u>(54,954)</u>	<u>282,840</u>	<u>(102,475)</u>
Total accumulated depreciation	<u>(47,338,453)</u>	<u>(5,485,508)</u>	<u>2,783,270</u>	<u>(50,040,691)</u>
<b>PROPERTY AND EQUIPMENT, net</b>	<u>\$ 92,740,065</u>	<u>\$ 17,809,968</u>	<u>\$ (129,361)</u>	<u>\$ 110,420,672</u>

# CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### NOTE 7 - LONG-TERM DEBT

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

	June 30, 2013	Additions	Retirements	June 30, 2014	Current Portion
Series 2009 Taxable Revenue Refunding Bonds	\$ 5,249,871	\$ -	\$ 402,458	\$ 4,847,413	\$ 420,989
Series 2014A Tax Exempt Revenue Bond	-	5,086,077	70,078	5,015,999	171,594
Series 2014B Taxable Revenue Bond	-	4,913,923	60,633	4,853,290	149,026
	<u>\$ 5,249,871</u>	<u>\$ 10,000,000</u>	<u>\$ 533,169</u>	<u>\$ 14,716,702</u>	<u>\$ 741,609</u>

Long-term debt consists of the following:

	2014	2013
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 are due.	\$ 4,847,413	\$ 5,249,871
Series 2014A Tax Exempt Revenue Bond - \$5,086,077 bonds due in monthly installments of \$30,947 including interest at 3.99% beginning February 10, 2014 through January 10, 2024, when the remaining principal and unpaid interest are due.	5,015,999	-
Series 2014B Taxable Revenue Bond - \$4,913,923 bonds due in monthly installments of \$32,597 including interest at 4.99% beginning February 10, 2014 through January 10, 2024, when the remaining principal and unpaid interest are due.	<u>4,853,290</u>	<u>-</u>
	14,716,702	5,249,871
Less current portion	<u>741,609</u>	<u>394,599</u>
	<u>\$ 13,975,093</u>	<u>\$ 4,855,272</u>

# CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### NOTE 7 - LONG-TERM DEBT - continued

Debt service requirements for the years subsequent to June 30, 2014, are as follows:

Year ending	Long-Term Debt	
	Principal	Interest
June 30, 2015	\$ 741,609	\$ 581,162
June 30, 2016	767,988	554,783
June 30, 2017	797,741	525,030
June 30, 2018	827,493	495,278
June 30, 2019	3,469,293	451,007
Thereafter	<u>8,112,578</u>	<u>1,496,684</u>
	<u>\$ 14,716,702</u>	<u>\$ 4,103,944</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.

On May 21, 2009, the Authority refunded the Series 2002 Variable Rate Demand Revenue and Refunding Bonds with the issuance of the Series 2009 Taxable Revenue Refunding Bond valued at \$6,600,000.

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.

Covenants related to the debt agreements of the Authority require maintenance of debt coverage ratios, minimum net worth and requires 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, 2014 and 2013, the Authority was in compliance with the covenants related to the debt agreements.

# CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

---

### **NOTE 8 - DEFINED BENEFIT RETIREMENT PLAN**

The Authority participates in the City of Chattanooga Retirement System. Although the Authority is a separate entity, plan benefits have been allocated to employees of the Authority. Disclosures follow guidelines for cost-sharing, multiple employer public employee retirement systems. Employees of the Authority are provided benefits through the defined benefit General Pension Plan of the City of Chattanooga. The City of Chattanooga acts as trustee for these plans. The City issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the City of Chattanooga, Department of Finance, City Hall Annex, Chattanooga, Tennessee 37402.

The plan covers all full-time employees. Each participant is required to contribute 2% of earnings. The Authority's contributions to the pension plan are based on calculations made by the City of Chattanooga.

The plan provides retirement benefits of 2% of average earnings multiplied by years of credited service up to 20 years, plus 1% of average earnings multiplied by years of credited service in excess of 20 years.

The benefits payable to retirees are increased annually by a 3% cost-of-living increase. Future amendments to the plan provisions can be authorized by City Ordinance upon recommendation from the Board of Trustees of the General Pension Plan, a statement of impact from the actuary and a favorable opinion of the Office of Mayor.

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 2.5% 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.

The contribution rates were 13.65% as of June 30, 2014 and 2013.

The Authority recognizes the cost of these benefits as contributions are made, which totaled \$271,535 for 2014 and \$270,297 for 2013.

### **NOTE 9 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

The Authority provides health and medical benefits for retirees and their dependents under the provisions of the City of Chattanooga Retirement System, a cost-sharing, multiple employer defined benefit post-employment healthcare plan administered by the City of Chattanooga. 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.

The City of Chattanooga requires a contribution of participating employers and plan members to the City of Chattanooga Retirement System for post-retirement health and medical benefits. This contribution amount is established by the City on an annual basis based on the recommendation of the plan administrator. Currently, any participant who retired prior to January 1, 2001, is required to pay the same premium as active employees. Any participant retiring after January 1, 2001, is required to pay 1.5 times the premium paid by active employees.

The Authority's contributions to the City of Chattanooga Retirement System for post-retirement health and medical benefits for the years ended June 30, 2014 and 2013, totaled \$56,524 and \$57,427, respectively.

# CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

---

### NOTE 9 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS - continued

On July 1, 2010, the City of Chattanooga modified its post-retirement health insurance benefit. In order for an airport employee to maintain lifetime health insurance coverage through the City of Chattanooga, an employee must have 25 years of employment effective July 1, 2010, or be 62 years of age with 10 years of consecutive service effective July 1, 2010.

All other employees and subsequent hires meeting the following criteria shall be entitled to maintain health insurance coverage until Medicare eligible. The criteria requirement includes 25 years of employment, or age 62 with 10 years of consecutive service, or non job-related disability with a minimum of 10 years of service, or a job-related disability.

During the year ended June 30, 2010, the City of Chattanooga notified the Authority of a liability for prior year's unfunded cost in the amount of \$146,811. This amount has been reported as a long-term liability on the statements of net position.

### NOTE 10 - MAJOR CUSTOMERS

Delta and its subsidiaries accounted for operating revenues as follows:

<b>Year ended</b>	<b>Operating Revenues</b>	<b>Percent of Operating Revenues</b>
June 30, 2014	\$ 953,879	7 %
June 30, 2013	\$ 956,748	9 %
June 30, 2012	\$ 930,969	10 %
June 30, 2011	\$ 770,947	10 %
June 30, 2010	\$ 629,479	11 %

### NOTE 11 - 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 2032.

Future minimum rent receipts under noncancelable leases as of June 30, 2014, are as follows:

<b>Year ending</b>	
June 30, 2015	\$ 1,854,421
June 30, 2016	1,783,414
June 30, 2017	1,689,951
June 30, 2018	1,070,116
June 30, 2019	202,160
Later years	<u>427,378</u>
	<u>\$ 7,027,440</u>

# CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

---

### NOTE 11 - OPERATING LEASES - continued

Rental revenue totaled \$2,889,807 for 2014 and \$2,969,139 for 2013.

The Authority leases certain vehicles and equipment under noncancelable operating leases. Future minimum lease payments under these operating leases with initial or remaining lease terms in excess of one year as of June 30, 2014, are as follows:

<b>Year ending</b>	
June 30, 2015	\$ 79,500
June 30, 2016	76,845
June 30, 2017	<u>280</u>
	<u>\$ 156,625</u>

Rent expense totaled \$35,023 for 2014 and \$54,865 for 2013.

### NOTE 12 - CAPITAL LEASES

Effective July 1, 2012, the Authority entered into a leasing arrangement for a fuel facility which is classified as a capital lease. Future minimum lease payments required under capital leases and the present value of the net minimum lease payments as of June 30, 2014, are as follows:

<b>Year ending</b>	
June 30, 2015	\$ 51,996
June 30, 2016	51,996
June 30, 2017	<u>8,666</u>
Total minimum lease payments	112,658
Less amount representing interest	<u>6,577</u>
	106,081
Less current portion	<u>46,661</u>
	<u>\$ 59,420</u>

### NOTE 13 - 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 \$21,665,798. Based on the operating information of the Authority, the estimated expiration date of the PFCs will be June 1, 2017.

# CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

---

### NOTE 13 - PASSENGER FACILITY CHARGES (PFC) - continued

The Authority recognized \$1,481,956 and \$1,200,927 in revenue from PFCs for 2014 and 2013, respectively. These amounts included investment income on PFC funds of \$7,068 and \$16,020 for 2014 and 2013, respectively. The PFCs receivable classified as restricted assets totaled \$225,318 and \$157,206 as of June 30, 2014 and 2013, respectively. The Authority made expenditures of \$2,010,838 and \$1,949,498 on approved PFC projects for 2014 and 2013, respectively.

### NOTE 14 - 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 \$535,416 and \$510,828 in revenue from CFCs for 2014 and 2013, respectively. CFC receivables classified as restricted assets totaled \$53,992 and \$45,360 for the years ended June 30, 2014 and 2013, respectively.

### NOTE 15 - 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 and \$150,000 for 2014 and 2013, respectively which is included in fixed base operations. Future amounts due to Wilson Air are as follows:

#### Year ending

June 30, 2015	\$ 200,000
June 30, 2016	\$ 200,000

### NOTE 16 - 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.

## **SUPPLEMENTARY INFORMATION**

**INDEPENDENT AUDITOR'S REPORT ON  
SCHEDULES OF EXPENDITURES OF FEDERAL AND  
STATE AWARDS**

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, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 20, 2014. Our audit was conducted for the purpose of forming our opinion on the Authority's basic financial statements. The accompanying schedules of expenditures of federal awards and state awards are presented for purposes of additional analysis as required by OMB Circular A-133 and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedules of expenditures of federal awards and state awards are fairly stated in all material respects in relation to the basic financial statements as a whole.



Chattanooga, Tennessee  
October 20, 2014

# CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2014

CFDA Number	Grant Number	Program Name	Grantor Agency	Receivable Balance June 30, 2013	Federal Reimbursements	Federal Expenditures	Receivable Balance June 30, 2014
20.106	3-47-0009-52	Airport Improvement Project	Federal Aviation Administration	\$ 46,926	\$ 53,197	\$ 6,271	\$ -
20.106	3-47-0009-53	Airport Improvement Project	Federal Aviation Administration	1,709	98,460	96,751	-
20.106	3-47-0009-54	Airport Improvement Project	Federal Aviation Administration	62,883	274,400	283,945	<b>72,428</b>
20.106	3-47-0009-55	Airport Improvement Project	Federal Aviation Administration	6,301	20,453	14,152	-
20.106	3-47-0009-56	Airport Improvement Project	Federal Aviation Administration	688,819	1,078,425	397,836	<b>8,230</b>
20.106	3-47-0009-57	Airport Improvement Project	Federal Aviation Administration	1,588,598	1,767,143	178,545	-
20.106	3-47-0009-58	Airport Improvement Project	Federal Aviation Administration	377,591	495,901	118,310	-
20.106	3-47-0009-59	Airport Improvement Project	Federal Aviation Administration	-	162,090	162,090	-
20.106	3-47-0009-60	Airport Improvement Project	Federal Aviation Administration	<u>-</u>	<u>-</u>	<u>73,070</u>	<u><b>73,070</b></u>
				<u>\$ 2,772,827</u>	<u>\$ 3,950,069</u>	<u>\$ 1,330,970</u>	<u>\$ <b>153,728</b></u>

Basis of Presentation - The schedule of expenditures of federal awards includes grant activity of the Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 EXPENDITURES OF STATE AWARDS

**Year Ended June 30, 2014**

Project Number	Contract Number	Project Description	Grantor Agency	Receivable Balance June 30, 2013	State Reimbursements	State Expenditures	Receivable Balance June 30, 2014
33-555-1059-04	Z-09-21-3917-00	Airport Improvement Project	Tennessee Department of Transportation - Aeronautics Division	\$ 128,909	\$ 128,909	\$ -	\$ -
33-555-1066-04	Z-09-21-3973-00	Airport Improvement Project	Tennessee Department of Transportation - Aeronautics Division	33,805	-	(33,805)	-
33-555-1070-04	AERO-10-100-00	Airport Improvement Project	Tennessee Department of Transportation - Aeronautics Division	105,407	-	-	<b>105,407</b>
33-555-1707-04	AERO-12-240-00	Airport Improvement Project	Tennessee Department of Transportation - Aeronautics Division	1,035,957	2,799,133	2,103,697	<b>340,521</b>
33-555-1708-04	AERO-13-206-00	Airport Improvement Project	Tennessee Department of Transportation - Aeronautics Division	-	934,606	1,123,745	<b>189,139</b>
33-555-1714-04	AERO-14-136-00	Airport Improvement Project	Tennessee Department of Transportation - Aeronautics Division	-	397,029	1,217,682	<b>820,653</b>
33-555-0711-04	AERO-14-133-00	Airport Improvement Project	Tennessee Department of Transportation - Aeronautics Division	-	-	11,750	<b>11,750</b>
33-555-0175-04	AERO-14-205-00	Airport Improvement Project	Tennessee Department of Transportation - Aeronautics Division	<u>-</u>	<u>-</u>	<u>29,208</u>	<u><b>29,208</b></u>
				<u>\$ 1,304,078</u>	<u>\$ 4,259,677</u>	<u>\$ 4,452,277</u>	<u>\$ <b>1,496,678</b></u>

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. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the financial statements.

**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, 2014.

**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 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, 2014.

**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.

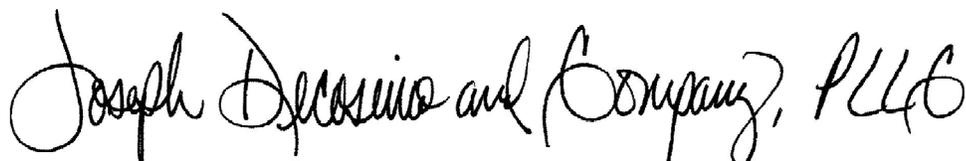
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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.

#### **Report on Schedule of Passenger Facility Charges, Investment Income and Related Expenditures**

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, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 20, 2014. We have audited the financial statements of the Authority as of and for the year ended June 30, 2014, and have issued our report thereon dated October 20, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of passenger facility charges, investment income and related expenditures is presented for purposes of additional analysis as required by the Guide and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 passenger facility charges, investment income and related expenditures is fairly stated in all material respects in relation to the financial statements as a whole.



Chattanooga, Tennessee  
October 20, 2014

**CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY**

**SCHEDULE OF PASSENGER FACILITY CHARGES, INVESTMENT  
INCOME AND RELATED EXPENDITURES**

**Year Ended June 30, 2014**

---

	<b>First Quarter (2)</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter (1)</b>	<b>Total</b>
Passenger facility charges	\$ 331,215	\$ 413,592	\$ 265,533	\$ 396,292	\$ 1,406,632
Investment income	\$ 2,276	\$ 1,740	\$ 1,355	\$ 1,697	\$ 7,068
Expenditures	\$ 1,059,444	\$ 510,871	\$ 440,523	\$ -	\$ 2,010,838

(1) Does not include amounts of \$225,318 accrued as of June 30, 2014, not received until subsequent to June 30, 2014.

(2) Includes amounts of \$157,206 received in July 2013, but accrued as of June 30, 2013.

Basis of Presentation - The schedule of passenger facility charges, investment income and related expenditures includes grant activity of the Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 - PASSENGER FACILITY CHARGE PROGRAM

Year Ended June 30, 2014

---

I) Summary of Auditor's Results

- a) An unmodified report was issued on the June 30, 2014, financial statements of Chattanooga Metropolitan Airport Authority.
- b) No noncompliance which is material to the financial statements was disclosed by the audit.
- c) An unmodified opinion was issued on compliance for the passenger facility charge program.

II) There were no findings related to the financial statements which are required to be reported in accordance with *Governmental Auditing Standards*.

## **INTERNAL CONTROL AND COMPLIANCE REPORTS**

**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, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 20, 2014.

**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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 "Joseph DeCassino and Company, PLLC". The signature is written in a cursive, flowing style.

Chattanooga, Tennessee  
October 20, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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 *U.S. Office of Management and Budget OMB Circular A-133 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, 2014. 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2014.

## 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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Joseph DeSantis and Company, PLLC". The signature is written in a cursive, flowing style.

Chattanooga, Tennessee  
October 20, 2014

# CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2014

---

### I. SUMMARY OF AUDITORS' RESULTS

#### *Financial Statements*

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified?  Yes  None Reported
- Significant deficiency identified that is not considered to be a material weakness?  Yes  None Reported

Noncompliance material to financial statements noted?  Yes  None Reported

#### *Federal Awards*

Internal control over major programs:

- Material weaknesses identified?  Yes  None Reported
- Significant deficiencies identified that are not considered to be material weaknesses?  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: \$300,000

Auditee qualified as low-risk auditee?  Yes  No

**CHATTANOOGA METROPOLITAN AIRPORT AUTHORITY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Year Ended June 30, 2014**

---

**II. FINANCIAL STATEMENT FINDINGS**

None reported.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None reported.