



METROPOLITAN
KNOXVILLE
AIRPORT
AUTHORITY

2015 Comprehensive Annual Financial Report

*A component unit of the City of Knoxville, Tennessee
For the fiscal years ended June 30, 2015 and 2014*

PREPARED BY:

Accounting and Finance Department of Metropolitan Knoxville Airport Authority

www.flyknoxville.com

This page intentionally left blank

Metropolitan Knoxville Airport Authority
Knoxville, Tennessee

A COMPONENT UNIT OF THE CITY OF KNOXVILLE

Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2015 and 2014

PREPARED BY THE ACCOUNTING AND FINANCE DEPARTMENT

This page intentionally left blank

Introductory Section

This section contains the following subsections:

Table of Contents

Metropolitan Knoxville Airport Authority Officials

Letter of Transmittal and Exhibits

Organizational Chart

This page intentionally left blank

TABLE OF CONTENTS

Introductory section

Metropolitan Knoxville Airport Authority Officials 5
 Letter of transmittal and exhibits 7
 Organizational chart 16

Financial section

Report of Independent Auditors 19
 Management’s discussion and analysis 22
 Financial statements:
 Statements of net position 30
 Statements of revenues, expenses and changes in net position 32
 Statements of cash flows 33
 Notes to financial statements 35

Statistical section (unaudited)

Schedule 1: Operating revenues and expenses—last ten years 50
 Schedule 2: Debt service coverage—last ten years 52
 Schedule 3: Ratios of debt service and outstanding debt—last ten years 54
 Schedule 4: McGhee Tyson Airport annual terminal rents and landing fees—last ten years 56
 Schedule 5: Airline arrivals and departures—last ten calendar years 58
 Schedule 6: Historical airline passenger activity—last ten calendar years 59
 Schedule 7: Distribution of airline passengers—calendar year ended December 31, 2014 59
 Schedule 8: Cargo—last ten calendar years 60
 Schedule 9: Distribution of cargo—calendar year ended December 31, 2014 60
 Schedule 10: Aircraft landed weights—last ten calendar years 61
 Schedule 11: Aircraft landed weights—ten calendar year trend history 62
 Schedule 12: Total passengers— ten calendar year trend history 64
 Schedule 13: Distribution of total cargo— ten calendar year trend history 66
 Schedule 14: Authority employees and demographic data—population 68
 Schedule 15: Demographic data—unemployment information last ten years 69
 Schedule 16: Demographic data—per capita personal income last ten years 69
 Schedule 17: Demographic data—total personal income last ten years 69
 Schedule 18: Demographic data—top employers in Knoxville area for last ten years 70
 Schedule 19: Airlines serving McGhee Tyson Airport 72
 Schedule 20: Flight information 73
 Schedule 21: Companies conducting business on airport property 74
 Schedule 22: Use of bond proceeds 75
 Schedule 23: Insurance in force 77
 Schedule 24: Capital asset information 78

Compliance section

Schedule of expenditures of federal awards, state financial assistance and passenger facility charges collected and expended 80
 Schedule of long-term debt principal and interest requirements 84
 Report of independent auditors on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Governmental Auditing Standards* 86
 Report of independent auditors on compliance for each major program and the passenger facility charge program and on internal control over compliance in accordance with OMB Circular A-133 88
 Schedule of findings and questioned costs 91

This page intentionally left blank

OFFICIALS

As of June 30, 2015

Board of Commissioners	Position	Term Expires
Howard H. Vogel	<i>Chairman</i>	June 30, 2020
Brian M. Simmons	<i>Vice Chairman</i>	June 30, 2018
Henrietta A. Grant	<i>Secretary</i>	June 30, 2019
Joseph M. Dawson	<i>Assistant Secretary</i>	June 30, 2016
Kathleen U. Finch		June 30, 2017
Kirk A. Huddleston		June 30, 2015
Maribel Koella		June 30, 2021
Eddie Mannis		June 30, 2016
Jeff W. Smith		June 30, 2016

OFFICERS AND KEY STAFF MEMBERS

William F. Marrison, A.A.E.	<i>President</i>
Michael R. Bachman, A.A.E., CPA	<i>Vice President of Finance & Administration</i>
James H. Evans, Jr.	<i>Vice President of Marketing & Air Service Development</i>
Trevis D. Gardner, A.A.E.	<i>Vice President of Airport Operations</i>
Bryan White, PE	<i>Vice President of Engineering & Planning</i>
Willie T. Aiken	<i>Director of Public Safety</i>
Becky Huckaby, APR	<i>Vice President of Public Relations</i>
Michael G. Long, CPA	<i>Controller</i>
Treva H. Best, CAP-OM	<i>Senior Executive Assistant</i>
E. Bruce Foster, Jr.	<i>Legal Counsel, Bass, Berry & Sims PLC</i>

This page intentionally left blank



METROPOLITAN
KNOXVILLE
AIRPORT
AUTHORITY

December 3, 2015

**To the Board of Commissioners of the
Metropolitan Knoxville Airport Authority:**

The Comprehensive Annual Financial Report of the Metropolitan Knoxville Airport Authority (the Authority) for the fiscal year ended June 30, 2015, is hereby submitted. The purpose of the report is to present fairly and disclose fully the Authority's financial position and the results of its operations. The report consists of four sections: Introductory, Financial, Statistical and Compliance.

The financial statements were audited by Coulter & Justus, P.C., Certified Public Accountants, and the supplementary information was prepared by the Accounting and Finance Department. This report is published in accordance with the laws and/or regulations of the State of Tennessee. The audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and requirements prescribed by the Comptroller of the Treasury, State of Tennessee.

This report consists of management's representations concerning the financial position of the Authority. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, management of the Authority has established a comprehensive internal control framework that has been designed to both protect the Authority's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Authority's financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). Because the cost of internal controls should not outweigh their benefits, the Authority's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements. As management, we assert that, to the best of our knowledge and belief, this report is complete and reliable in all material respects.

The goal of the independent audit is to provide reasonable assurance that the financial statements of the Authority for the years ending June 30, 2015 and 2014, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and any significant estimates made by management and evaluating the overall financial statements presentation. The independent auditors concluded based upon their audit, that there was a reasonable basis for rendering an unmodified opinion and that the Authority's financial statements for the years ended June 30, 2015 and 2014, are in conformity with GAAP. The independent auditors' report is the first component of the financial section of this report.

The independent audit of the financial statements is part of the broader mandated provisions of the Compliance Act of 1996 and the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, relative to federal financial awards received from the U.S. Government. It is also in conformity with the provisions of the September 2000 Audit Compliance and Reporting Guide for Public Agencies relative to the collection and use of Passenger Facility Charges.

The standards governing these provisions require the independent auditors not only to report on the fair presentation of the financial statements, but also on the Authority's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal and state grant awards. See reports of independent auditors presented in the Compliance Section.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of a Management Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A is in the financial section immediately following the report of independent auditors.

REPORTING ENTITY

The Metropolitan Knoxville Airport Authority was established in 1978 under Chapter No. 174, Public Acts of the State of Tennessee, 1969, and pursuant to Resolution No. R-63-78 of the Council of the City of Knoxville, Knoxville, Tennessee. It was organized for and has as its sole purpose the ownership, management, operation and maintenance of McGhee Tyson Airport and other airports, auxiliary fields and other properties, either acquired by or placed under the control of the Authority as outlined in Chapter 174. The Authority currently controls two airports: McGhee Tyson Airport and Knoxville Downtown Island Airport.

The Authority is a component unit of the City of Knoxville, governed by a nine-member Board of Commissioners appointed by the Mayor of the City of Knoxville. Each Commissioner is appointed for a seven-year term and must be confirmed by the Knoxville City Council. Since the Authority was established, it has been financially self-sufficient, with no local tax support.

The Board employs a President, who is the chief administrative and executive officer of the Authority. The President manages the airports under the Authority's control with a staff of 149 full-time equivalent employees. The staff is responsible for the day-to-day financial, administration, operational and personnel matters pertaining to the airports and the contractual arrangements with various aviation businesses.

An annual operating budget is prepared and approved by the Airport Authority's Board of Commissioners. All appropriations for operating expenditures lapse at the end of the fiscal year and must be reappropriated for the following year. Separate accounts are maintained for major capital projects, which are closed when the asset is placed in service. Since there is no legal requirement to report on the budgetary basis, no budget information is presented in the accompanying financial statements.

McGhee Tyson Airport

Located just 15 miles from downtown Knoxville, McGhee Tyson Airport lies in Blount County on 2,778 acres in the rolling foothills of the Great Smoky Mountains and provides employment for more than 2,800 people. McGhee Tyson has two parallel 9,000-foot runways and is served by most major U.S. airlines and/ or their regional partner. These airlines provide numerous non-stop flights to destinations throughout the United States for approximately 1.7 million passengers each year. The airport is also home to the Tennessee Air National Guard's 134th Air Refueling Wing. McGhee Tyson is classified by the FAA as a small air traffic hub airport.

Knoxville Downtown Island Airport

Knoxville Downtown Island Airport is a general aviation airport located less than three miles from downtown Knoxville and is base for more than one hundred and forty private and corporate aircrafts. The airport has a 3,500-foot runway with a published localizer-only approach.

ECONOMIC CONDITIONS AND OUTLOOK

The primary service area for McGhee Tyson Airport is the City of Knoxville and its Metropolitan Statistical Area (MSA), which comprises the heart of “Tennessee's Resource Valley,” a 16 county area that makes up Middle East Tennessee. According to the Bureau of the Census, in 2014 the population of Knox County was 444,622 and the population for the City of Knoxville was 183,270. The estimated 2014 population for the Knoxville MSA was 854,700.

In addition, a broader regional market is defined as the Tennessee, Kentucky, Virginia, North Carolina, South Carolina and Georgia counties lying within 100 miles of McGhee Tyson Airport, which is the largest airport in the region. Approximately three million people reside in these 76 counties.

The Knoxville MSA witnessed a decrease from 6.0 to 5.8 percent in unemployment in 2014 as compared to 2013, while the State of Tennessee saw a decrease from 7.7 to 6.7 percent. On a national level, the unemployment rate decreased from 6.7 to 6.2 percent.

According to an economic report prepared by the Center for Business and Economic Research, College of Business Administration, University of Tennessee, the Tennessee economy is continuing to show signs of growth. Moderate to strong growth is expected to continue through 2015 and throughout 2016. During 2014 employment firmed up as nonfarm employment increased by 1.8 percent. Nominal personal income in Tennessee grew by 4.1 percent last year and current predictions call for continuing improvement of 5.0 percent in 2016. The unemployment rate will remain elevated as the average is expected to be 6.5 percent for 2015 and 6.2 percent for 2016.

Knox County is the principal Gateway to the Great Smoky Mountains National Park which is the country's most visited national park. Between 8 and 10 million adventurers and sightseers visit the park each year. More than one-half of the nation's population lives within 500 miles of the park, which is located half in Tennessee and half in North Carolina. Part of the Appalachian Range, Great Smoky Mountains National Park contains 16 peaks higher than 6,000 feet, the highest being Clingmans Dome.

AIRLINE INFORMATION

As of June 30, 2015, McGhee Tyson Airport's six passenger airlines and/or their regional affiliates offered over 4000 daily seats in 17 nonstop markets. In addition, two cargo airlines linked the airport with three major air cargo hubs. A complete listing of air carriers and destinations is as follows:

Passenger Airlines

Allegiant Air
 American Airlines*
 Delta Air Lines*
 Frontier Airlines
 United Airlines*
 US Airways*

**some or all service offered through regional airline affiliates shown below*

Regional Airline Affiliates

Envoy Airlines, Inc./ American Eagle Airline, Inc.
 Endeavor Air/ Delta Connection
 ExpressJet/ American Eagle
 ExpressJet/ Delta Connection
 ExpressJet/ United Express
 Piedmont Airlines/ US Airways Express
 PSA Airlines Inc./US Airways Express
 Air Wisconsin Airlines, Inc./US Airways Express

Cargo Airlines

FedEx, Inc.
 UPS Airlines, Inc.

Passenger Airline Destinations (as of June 30, 2015)

Atlanta, Charlotte, Chicago-O'Hare, Dallas/Fort Worth, Denver, Detroit, Fort Lauderdale, Houston, Minneapolis/St. Paul, Newark, New York-LaGuardia, Orlando-Sanford, Philadelphia, Punta Gorda/SW Florida, St. Petersburg/Tampa Bay, Washington-Dulles and Washington-National

Cargo Airline Destinations

Indianapolis, Louisville and Memphis.

Airline Activity

McGhee Tyson Airport's six passenger airlines and/or their regional affiliates operated over 120 daily flights and served 1,739,183 passengers in FY2015, an increase of 1.3 % when compared to FY2014. Available airlines seats decreased 2% during the year. The FY2015 airport load factor (percentage of airline seats filled) was 83.5%, up 2.7 points compared to FY14.

75,811,173 pounds of freight and mail moved through the airport during FY2015, a decrease of 3.8% compared to the previous year.

FINANCIAL INFORMATION**Long-term Financial Planning**

The current Airport Master Plan for McGhee Tyson Airport was adopted by the Board of Commissioners on November 15, 2006. A Facility Planning Study for the Downtown Island Airport was prepared for the Authority on November 19, 2008, as a guide for future development of that airport.

The Airport Master Plan for McGhee Tyson defines a concept for development of the airport over the course of a 20-year planning period and is prepared in collaboration with Federal and State agencies, local municipalities and interested airport users. The primary objective of the Airport Master Plan is to produce a comprehensive planning guide for the continued development of a safe, efficient and environmentally compatible aviation facility that meets the goals of the Authority. The plan incorporates a financial model that evaluates the financial impact of the capital projects identified for the 20-year planning horizon, from 2005 through 2024.

The Authority prepares an annual operating and capital budget. The capital improvement program included in the budget identifies funding sources for capital projects for planning horizons of 0-5 years, 6-10 years and 11-20 years.

The Authority has a five year Airport Lease and Use Agreement with the airlines that serve McGhee Tyson Airport. The current agreement became effective on July 1, 2013, and expires on June 30, 2018. The Airport Lease and Use Agreement with the signatory airlines is a hybrid agreement. Airfield costs are recovered using the residual method. The Authority recovers the airfield cost by charging commercial aircraft a landing fee and

general aviation aircraft a fuel flowage fee. The military pays a joint use fee for their share of the airfield costs. Airline terminal rents are calculated using a compensatory method. The terminal costs are calculated by adding the operating and maintenance cost and the capital expense associated with the terminal complex and allocating the cost to the tenants. Passenger facility charge revenue is applied to the terminal debt service to fund the eligible portions of the terminal capital expense. The applicable terminal rent is then calculated by dividing the total remaining cost by the total usable terminal square footage. The Agreement provides for a mid-year adjustment, if projections vary by more than ten percent, and a year-end settlement. If airline rentals, fees and charges paid during the fiscal year are more than required, the excess will be issued as a credit to the airlines. If they are less, the airlines will be invoiced the deficiency.

Relevant Financial Policies

Financial policies for the operation of the two airports are detailed in the Authority's by-laws. The Authority also adopted a comprehensive set of financial policies in an effort to standardize the issuance and management of debt and provide additional guidance on cash reserves and capital improvements on April 18, 2001.

Debt is to be used only to finance capital projects and equipment, except in case of emergency. The Authority has no plans to issue any additional debt within the next fiscal year.

Cash reserves are intended to protect the Authority from unforeseen increases in expenditures or reductions in revenues, or both. Reserves are also to be used to minimize borrowings, provide funding to match grants from other entities, provide liquidity to fund operating expenses and used to generate interest income for the Authority. The Authority will maintain cash reserves at a minimum amount equal to normal cash requirements for operations and capital projects plus \$10,000,000 or the outstanding minimum annual debt service on all existing debt, whichever is greater. The Authority currently holds approximately \$52,308,000 in unrestricted cash and investments. The Authority is building up the cash balance above the minimum required to advance fund future capital projects rather than using debt and/or provide additional security in the case of an economic downturn or financial emergency.

The Authority actively seeks grants or other contributions to offset capital costs and minimize borrowing for projects that are consistent with the Authority's Capital Improvement Plan.

The Authority believes its prospects for the future are excellent.

MAJOR INITIATIVES

Current Year Projects

The Airport Authority has been primarily focused on the McGhee Tyson Airport airfield modernization program this year. A major milestone was crossed with the completion of the Environmental Assessment. CHA Consulting, Inc. was selected as the program manager for the Airfield Modernization Program at a fee of \$511,066 to be funded 90% with federal grant funds, 5% with state grant funds and 5% Airport Authority revenues. The Airfield Modernization Program is a multi-year program to improve the runway and taxiway systems at an estimated cost of \$108,000,000 funded primarily with federal and state grant funds.

The rehabilitation of the terminal entrance sidewalk was completed at a cost of \$660,000. The project removed the stone pavers at the upper and lower roadway entrances to the terminal and replaced them with a durable and accessible concrete sidewalk. The project was funded primarily with state grant funds.

A flight path obstruction abatement program along with the purchase of easements from property owners was completed at the Knoxville Downtown Island Airport this year.

Future Year Projects

Several major projects are in the planning stages for McGhee Tyson and Knoxville Downtown Island Airports for the next fiscal year:

As part of the Airfield Modernization program Michael Baker Jr. Inc. has been hired to prepare design documents and specifications to bid a project for the full reconstruction of Runway 5L/23R which is the main instrument runway for the airport. The project will consist of a full runway reconstruction to include replacement of touchdown zone and centerline lighting systems, runway shoulders and edge lighting systems and replace electrical vault equipment, under drains, signage and runway markings. This is a multi-year project scheduled for final completion in 2017. The phase one project cost estimate is \$45.9 million dollars and is to be funded 90% with federal grant funds, 5% state grant funds and 5% Airport Authority revenues.

The first phase of the Runway Modernization Program has begun with the awards in July 2014 of a \$4,848,572 construction contract to Blount Excavating, Inc. and a \$1,170,566 contract to Precision Approach, LLC for improvements to Runway 5R/23L and the installation of an Instrument Landing System (ILS) on Runway 23L in preparation to taking Runway 5L/23R out of service for approximately 2 years for reconstruction.

The Airport Authority is planning to reconstruct the service area on the West side of the terminal building in FYE June 30, 2016. The project will provide a covered canopy sidewalk system to the economy and employee parking lots; provide delivery and maintenance parking and reconstruct the terminal loading dock. The project is budgeted to cost \$1.4 million dollars and will be funded 90% with state grant funds and 10% with Airport Authority revenues.

The Airport Authority has joined with the Community Reuse Organization of East Tennessee, the Heritage Center and the Horizon Center to form a partnership for planning that could lead to the eventual construction of a new general aviation airport in Oak Ridge. The Airport Authority has entered into an agreement with Michael Baker Jr., Inc. for preliminary planning and coordination that will set the course for the future of this project.

At the Knoxville Downtown Island Airport a \$1.2 million dollar taxiway expansion for future T-hangars is planned. The project cost will be funded 95% with state grant funds and 5% with Airport Authority revenues.

MAJOR AIRPORT CAPITAL IMPROVEMENTS COMPLETED

Year Completed	Description	Cost
1989	Parking Garage Phase I (775 spaces)	\$5.7 million
1991	Air Cargo Complex (FedEx and UPS)	\$12 million
1993	Runway 5R/23L 3,000 foot extension	\$14 million
1995	Parking Garage Phase II (619 spaces)	\$3.2 million
1998	Parking Garage Phase III (1,417 spaces)	\$8.2 million
2000	Passenger Terminal Building Renovation and Expansion	\$72 million
2000	Express Jet Maintenance Facility	\$13.7 million
2002	Delta Air Lines Maintenance Facility	\$8.5 million
2008	Airport Rescue and Fire Fighting Facility	\$11.6 million
2009	West Aviation Area	\$53 million
2010	Taxiway B Reconstruction	\$5.4 million
2013	Airfield Maintenance Complex	\$18.7 million
2015	Land acquisition in Runway 23R Runway Protection Zone	\$6.1 million

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Metropolitan Knoxville Airport Authority for its comprehensive annual financial report for the fiscal year ended June 30, 2014. This was the twenty-second consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

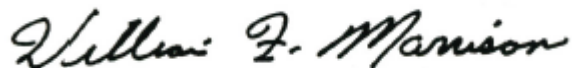
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

The preparation of this report could not have been accomplished without the professional assistance of the entire Finance and Accounting staff and the cooperation of each department within the Knoxville Metropolitan Airport Authority. We also extend our appreciation to the staff of Coulter & Justus, P.C. for their technical assistance and guidance in the preparation of this report.

We would also like to thank the individual members of the Board of Commissioners of Metropolitan Airport Authority for their interest, support, and leadership in planning and conducting the financial operations of the Authority in a responsible and progressive manner.

Respectfully submitted,



Bill Marrison, A.A.E.
President



Michael R. Bachman, A.A.E., CPA
Vice President, Finance & Administration



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Metropolitan Knoxville Airport
Authority, Tennessee**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO



DESTINATIONS

Allegiant Air
 Fort Lauderdale
 Orlando-Sanford
 St. Petersburg/Tampa Bay
 Punta Gorda/SW Florida

American Eagle Airlines
 Chicago-O'Hare
 Dallas/Fort Worth
 New York-LaGuardia

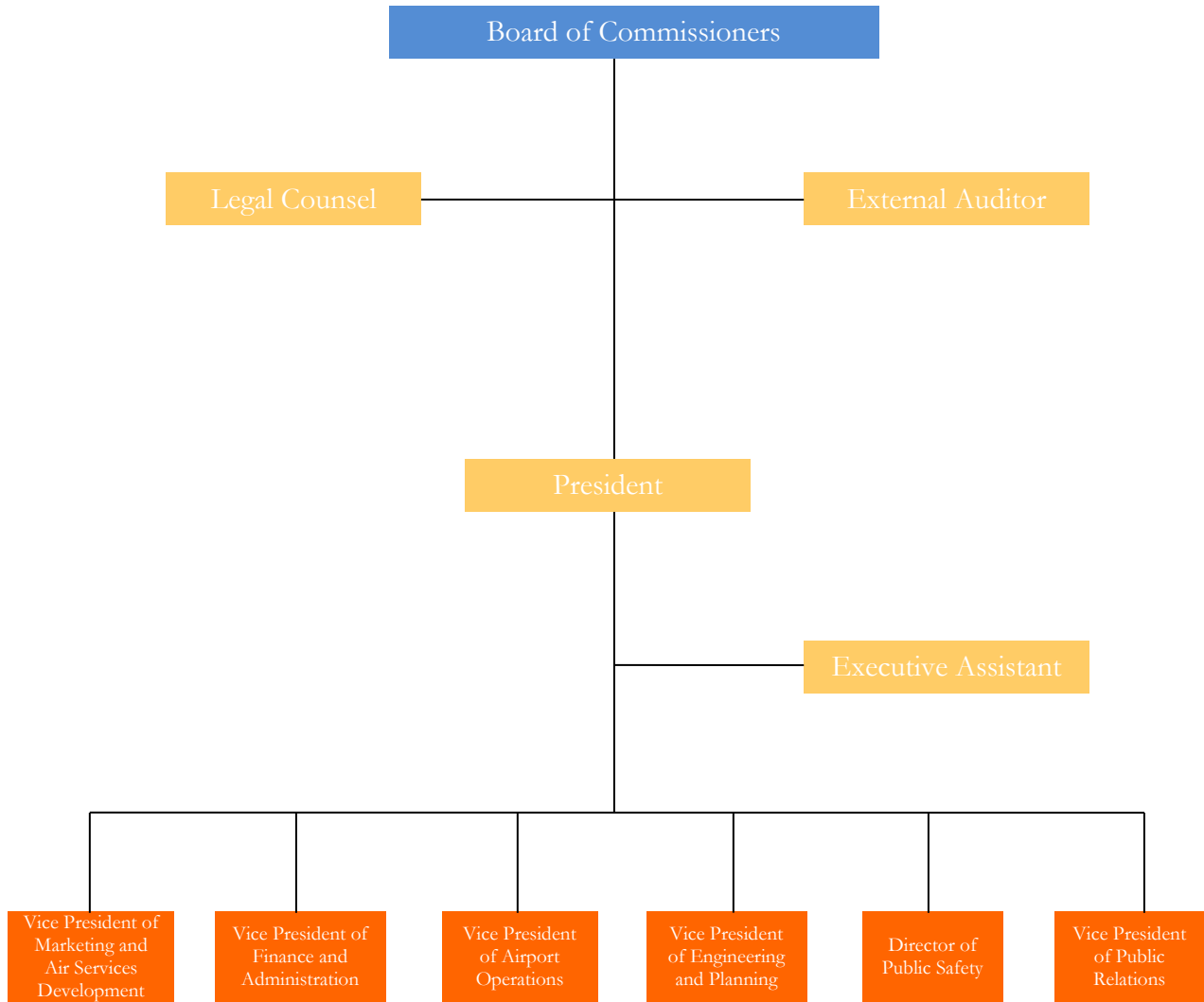
Delta/Delta Connection
 Atlanta
 Detroit
 Minneapolis/St. Paul
 New York-LaGuardia

Frontier
 Denver

United Express
 Chicago-O'Hare
 Denver
 Washington-Dulles
 Houston
 Newark

US Airways Express
 Charlotte
 Philadelphia
 Washington-National

ORGANIZATIONAL CHART



FINANCIAL SECTION

This section contains the following subsections:

Report of independent auditors

Management's discussion and analysis

Financial statements

This page intentionally left blank



Report of Independent Auditors

Board of Commissioners
Metropolitan Knoxville Airport Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Metropolitan Knoxville Airport Authority (a component unit of the City of Knoxville, Tennessee) (the “Authority”) as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Authority’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 Authority’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 Metropolitan Knoxville Airport Authority as of June 30, 2015 and 2014, and the respective 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.

Board of Commissioners
Metropolitan Knoxville Airport Authority

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Authority and do not purport to, and do not present fairly the financial position of the City of Knoxville, Tennessee as of June 30, 2015, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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 22 through 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, State Financial Assistance and Passenger Facility Charges Collected and Expended is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, and is also not a required part of the financial statements. The Schedules of Long-Term Debt Principal and Interest Requirements are also presented for purposes of additional analysis and are not a required part of the financial statements.

Board of Commissioners
Metropolitan Knoxville Airport Authority

Other Matters (*continued*)

The Schedule of Expenditures of Federal Awards, State Financial Assistance and Passenger Facility Charges Collected and Expended and the Schedules of Long-Term Debt Principal and Interest Requirements 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections 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 December 3, 2015, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Coulter & Justus, P.C.

December 3, 2015
Knoxville, Tennessee

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Metropolitan Knoxville Airport Authority's financial performance provides an overview of the financial activities of the McGhee Tyson Airport and the Knoxville Downtown Island Airport for the fiscal year ended June 30, 2015. Following this MD&A are the basic financial statements of the Authority together with the notes thereto.

Airport activities highlights

In conjunction with the continuing financial stress experienced in the overall economy and with the consolidating and restructuring occurring in the airline industry, aircraft operations and landed weights at McGhee Tyson Airport were stable during calendar year 2014 while cargo continued to decline. Passenger activity increased following two consecutive years during which passenger traffic declined.

The details of major airport indicators for the calendar years 2012-2014 are as follow:

	2014	2013	2012
Enplanements	871,964	858,671	875,687
% (decrease) increase	1.55%	(1.94)%	(1.40)%
Aircraft operations	100,421	100,841	105,806
% (decrease) increase	(0.42)%	(4.69)%	(1.85)%
Landed weight (thousand pound units)	1,277,907	1,276,912	1,302,329
% (decrease) increase	0.08%	(1.95)%	(5.36)%
Cargo (pounds)	74,114,103	83,492,247	91,497,807
% (decrease) increase	(11.23)%	(8.75)%	(1.15)%

By mid 2015, McGhee Tyson Airport offered East Tennessee travelers 17 nonstop airline destinations flown by six airlines and their affiliates. Few other communities of this size provide such a broad range of nonstop cities.

Financial highlights

The Airport Authority is treated as a component unit of the City of Knoxville, Tennessee. The Authority issues a Comprehensive Annual Financial Report, which is incorporated in the City of Knoxville's Comprehensive Annual Financial Report. The financial statements following this MD&A are comprised of the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, the Statements of Cash Flows and the accompanying Notes to the Financial Statements. The financial information herein is presented at a summarized level for analysis purposes only. See Note 1 to the financial statements for significant accounting policies related to the Authority.

2014-2015:

The Airport Authority's operating revenues increased by 4.43% from FY2014 to FY2015 due to the following:

Aviation and terminal area revenues increased 7.34% and 3.92%, respectively, due to increases in landing fees charged to airlines and a 6.6% increase in the airline leased space rentals and a 15.7% increase in rental car revenue leading to the improved revenues in the terminal area. Air cargo and other property revenues increased 3.18% from increases in rental rates.

Operating expenses increased 4.40% largely due to an 11.5% increase in administrative area expenses. The administrative area expense increases were primarily an increase in employee health insurance cost and one-time expenses associated with expensing planning cost for an inline baggage system that will not be constructed and the Authority's share of the cost of installing a traffic signal at the West Hunt Rd. intersection that will become the property of the City of Alcoa.

The Authority realized an 8.91% reduction in interest expense mostly due to decreases of 5.25% in the amount of debt outstanding and 9.07% in the notional amount of the derivative instruments. The lower notional amount also contributed to the \$479,594 of income from the change in fair value of the derivative instrument associated with the Series V-A-1 bonds. This contributed income declined 18.38% year-to-year.

There was an increase in net position from \$128,016,248 at the beginning of FY2015 to \$136,533,414 at the end of the fiscal year. The change in net position is an indication of whether the overall fiscal condition of the Authority has improved or worsened during the year. We feel the overall fiscal condition of the Authority remains strong.

2013-2014:

The Airport Authority's operating revenues increased by 7.20% from FY2013 to FY2014 due to the following:

Aviation and terminal area revenues increased 5.39% and 9.77%, respectively, due to increases in landing fees charged to airlines and to a seventeen percent increase in parking revenue leading to the improved revenues in the terminal area. Air cargo and other property revenues declined 1.76%

Operating expenses increased 2.08% largely due to a 7.16% increase in aviation area expenses and a 6.21 % increase in safety (crash fire and rescue) expenses. Additional costs associated with the new airfield maintenance complex and runway deicing costs resulted in the increases in aviation expenses and the resultant increase in airline landing fees mentioned above. Safety expenses were driven higher by increases in personnel costs.

The Authority realized a 16.00% reduction in interest expense due to the lower interest rate environment. Lower rates also contributed to the \$587,617 of income from the change in fair value of the derivative instrument associated with the Series V-A-1 bonds. This income compares to an expense of \$3,436,870 in FY 2013 which resulted from the derivative becoming ineffective and no longer qualifying for hedging purposes as discussed below. This is largely responsible for the improvement from a nonoperating loss in FY2013 to nonoperating income in FY2014.

There was an increase in net position from \$125,604,862 at the beginning of FY2014 to \$128,016,248 at the end of the fiscal year.

2012-2013:

The Airport Authority's operating revenues decreased by 2.30% from FY2012 to FY2013 due to the following:

Aviation and terminal area revenues were down 2.31% and 3.44%, respectively, primarily as the result of FY2013 passenger traffic being below the previous year levels. Air cargo and other property revenues increased by 2.99% due to increases in rental income from cargo delivery companies being up 13% and income from other companies doing business at the airport being stable.

FY2013 operating expenses decreased 1.00% largely as the result of the decrease in passenger traffic and the on-going management efforts to control operating costs.

The Authority realized a 12.09% reduction in interest expense due to the prepayment of a portion of their outstanding bonds during FY2012 and to the lower interest rate environment. During FY2013 it was determined the Series V-A-1 bond no longer qualified for hedging purposes thus resulting in a negative change in fair value of \$3,436,870. The result is reflected in the net nonoperating expense of \$2,650,537 in FY2013, thereby accounting for most of the change from nonoperating income in FY2012 to net nonoperating expense in FY 2013.

There was an increase in net position from \$119,040,951 at the beginning of FY2013 to \$125,604,862 at the end of the fiscal year.

Summary of revenues, expenses and changes in net position

	Year ended June 30		
	2015	2014	2013
Operating revenues	\$ 27,474,106	\$ 26,308,928	\$ 24,540,646
Operating expenses	(19,611,566)	(18,785,160)	(18,402,307)
Excess before depreciation and other income, net	7,862,540	7,523,768	6,138,339
Depreciation and amortization	(10,717,072)	(11,004,758)	(11,387,084)
Operating loss	(2,854,532)	(3,480,990)	(5,248,745)
Net nonoperating income (expense)	1,933,972	1,345,107	(2,650,537)
Loss before capital contributions	(920,560)	(2,135,883)	(7,899,282)
Capital contributions	9,437,726	4,547,269	14,463,193
Increase in net position	8,517,166	2,411,386	6,563,911
Net position at beginning of year	128,016,248	125,604,862	119,040,951
Net position at end of year	\$136,533,414	\$128,016,248	\$125,604,862

Financial summary

	Year ended June 30		
	2015	2014	2013
Current assets	\$ 57,408,962	\$ 54,790,661	\$ 46,088,487
Restricted assets	1,704,693	1,532,747	1,411,832
Capital assets (net)	156,777,929	156,100,744	162,576,123
Master plan and other plans (net)	73,491	101,845	12,837
Other	694,259	730,589	775,258
Deferred outflows - interest rate swaps	2,514,204	2,644,082	2,900,108
Total assets and deferred outflows of resources	219,173,538	215,900,668	\$213,764,645
Current liabilities	\$ 7,121,261	\$ 7,391,085	\$ 2,667,805
Long-term debt, less current portion	70,635,000	75,000,000	79,155,000
Interest rate swap liabilities – Hedging	2,514,204	2,644,082	2,900,108
Interest rate swap liabilities – Investment	2,369,659	2,849,253	3,436,870
Total liabilities	82,640,124	87,884,420	88,159,783
Net investment in capital assets	81,407,805	75,967,891	82,343,430
Restricted net position	1,704,693	1,532,747	1,411,832
Unrestricted net position	53,420,916	50,515,610	41,849,600
Total net position	136,533,414	128,016,248	125,604,862
Total liabilities and net position	\$219,173,538	\$215,900,668	\$213,764,645

The largest portion of the Authority's net position each year represents its investment in capital assets less the related indebtedness outstanding used to acquire those capital assets. The Authority uses these capital assets to provide services to its passengers and visitors; consequently these assets are not available for future spending.

Although the Authority's investment in its capital assets is reported net of related debt, the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be liquidated to pay liabilities. Another portion of net position is restricted and primarily represents PFCs that are restricted by Federal regulations. The remaining portion of net position is unrestricted and may be used to meet any of the Authority's ongoing obligations.

Airline signatory rates and charges

The Authority and certain airlines negotiated an agreement effective July 1, 2013, for five years, which established how those airlines would be assessed annual rates and charged for their use of the airport.

Terminal rates and landing fees are estimated at the beginning of the year with an annual year-end settlement calculation. The rates and charges for the signatory airlines were as follows:

	Year ended June 30		
	2015	2014	2013
Landing fees (per 1,000 lbs. MCLW)	\$3.43	\$3.28	\$3.09
Terminal rates (per square foot)	\$38.621	\$37.6869	\$38.9026
Loading bridge rate per bridge	\$51,378	\$45,955	\$47,828
Apron charge per gate	\$77,624	\$75,751	\$70,476

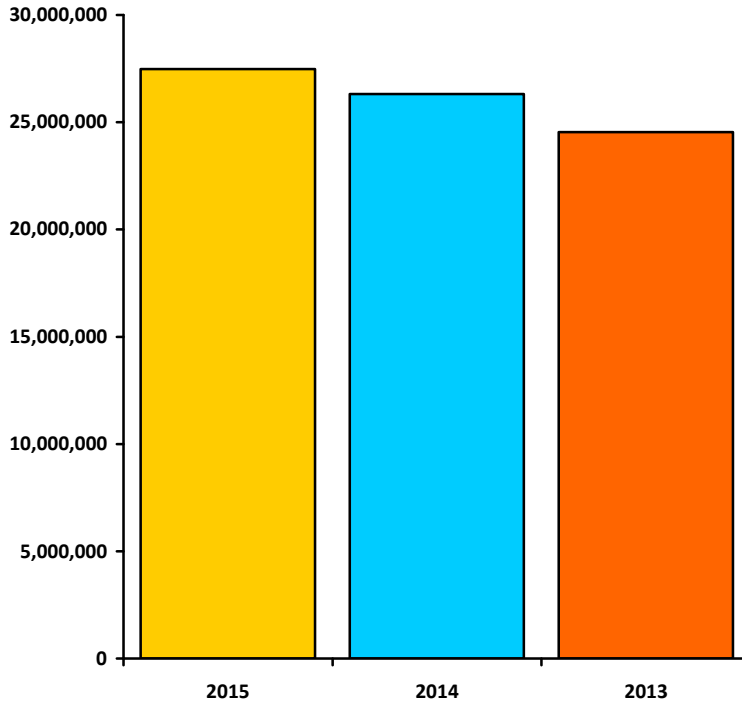
Financial details

Revenues

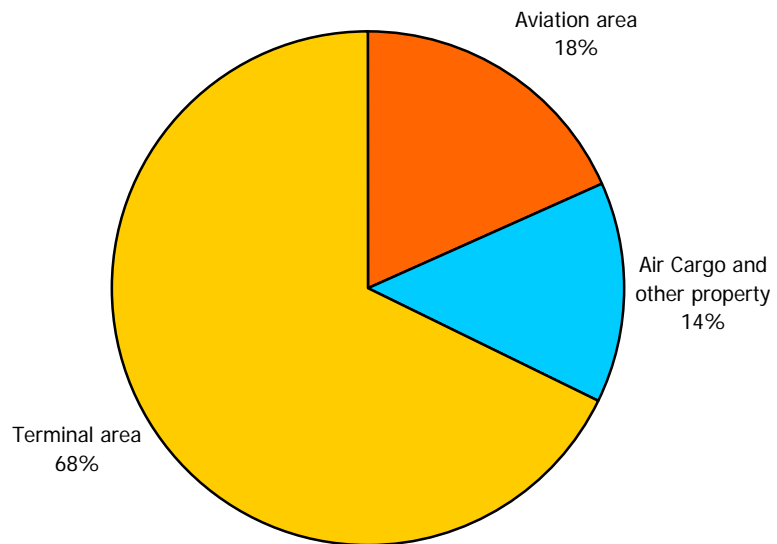
The following schedule presents a summary of operating revenues:

	Year ended June 30		
	2015	2014	2013
Operating revenues:			
Aviation area	\$ 5,038,282	\$ 4,693,762	\$ 4,453,779
Terminal area	18,625,307	17,922,026	16,327,587
Air cargo and other properties	3,810,517	3,693,140	3,759,280
Total operating revenues	27,474,106	26,308,928	24,540,646
Other income (deductions) and capital contributions:			
Passenger facility charges	3,355,133	3,391,670	3,312,540
Interest income	211,220	174,017	195,537
Change in fair value of investment interest rate swap	479,594	587,617	(3,436,870)
Other nonoperating, net	99,553	(380,407)	168,362
Capital contributions - grant receipts from governmental agencies	9,437,726	4,547,269	14,463,193
Net other income and capital contributions	13,583,226	8,320,166	14,702,762
Total revenues and other income	\$ 41,057,332	\$ 34,629,094	\$39,243,408

The following chart shows the operating revenues for the past three fiscal years.



The sources and the percentage of operating revenue for fiscal year ended June 30, 2015 are shown below.

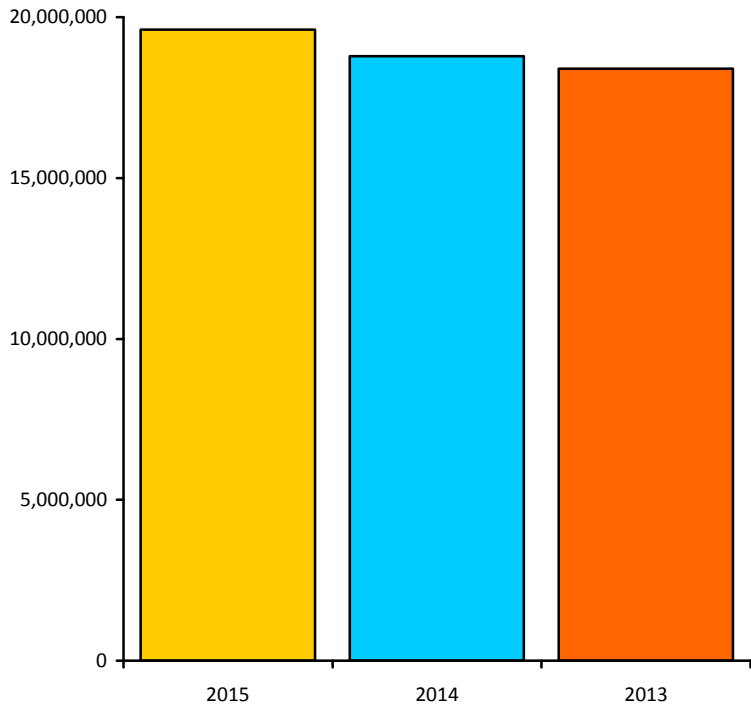


Expenses

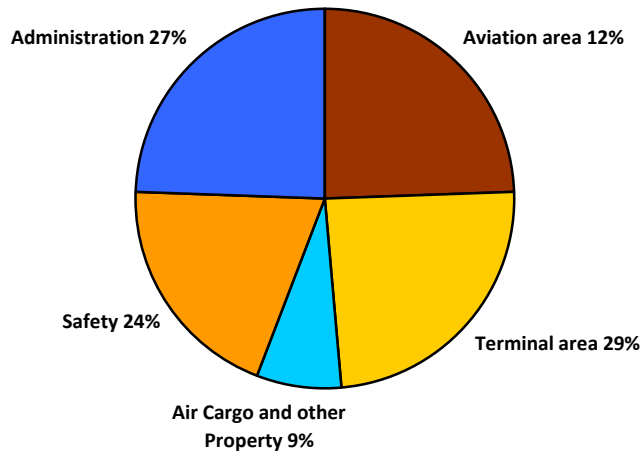
The following schedule presents a summary of operating expenses for the fiscal years ended June 30, 2015, June 30, 2014, and June 30, 2013:

	Year ended June 30		
	2015	2014	2013
Operating expenses:			
Aviation area	\$ 2,241,790	\$ 2,190,390	\$ 2,031,595
Terminal area	5,579,811	5,273,861	5,328,985
Air cargo and other properties	1,621,939	1,673,103	1,644,636
Safety	4,536,099	4,599,895	4,282,979
Administration	5,631,927	5,047,911	5,114,112
Total operating expenses	19,611,566	18,785,160	18,402,307
Depreciation and amortization	10,717,072	11,004,758	11,387,084
Interest expense	2,211,528	2,427,790	2,890,106
Total expenses	\$32,540,166	\$32,217,708	\$32,679,497

The following chart shows the operating expenses for the past three fiscal years.



The sources and the percentage of operating expense for fiscal year ended June 30, 2015, are shown below.



Summary of cash flow activities

	Year ended June 30		
	2015	2014	2013
Operating activities	\$ 7,527,371	\$ 8,297,269	\$ 6,332,744
Investing activities	2,323,385	(11,865,241)	(2,763,262)
Capital and related financing activities	(5,430,781)	2,141,926	(4,993,525)
Net increase (decrease) in cash and equivalents	4,419,975	(1,426,046)	(1,424,043)
Cash and cash equivalents at beginning of year	9,126,076	10,552,122	11,976,165
Cash and cash equivalents at end of year	\$13,546,051	\$9,126,076	\$10,552,122

Financial statements

The Authority’s financial statements are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board. The Authority is structured as a single enterprise fund with revenue recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and (except land and construction in progress) are depreciated over their useful lives. Amounts are restricted for debt service and, where applicable, for construction purposes. See the notes to the financial statements for a summary of the Authority’s significant accounting policies.

Capital acquisitions and construction activities

During fiscal year ending June 30, 2015 the Authority expended \$11,986,365 on capital activities. This included land acquisitions and major construction projects.

During fiscal year ended June 30, 2015, completed projects totaling \$7,977,490 were closed from construction-in-progress to their respective capital accounts.

Property and equipment acquisitions are capitalized at cost. Acquisitions are funded using a variety of financing techniques, including federal grants, state grants, debt issuances, and airport revenues. Please see Note 4 in the notes to the financial statements for more detailed information on capital asset activity.

Long-term debt

The outstanding long-term debt of the Authority is \$75,000,000 including current maturities of \$4,365,000 at June 30, 2015. This debt consists of Local Government Public Improvement Revenue Bonds. A portion of the Series II-D-1 and V-A-1 Bonds totaling \$11,145,000 and \$24,285,000, respectively, is subject to interest rate swap agreements. Based on the swap agreements, the Authority owes interest at an effective fixed rate of 5.29% and 3.32% on the Series II-D-1 and V-A-1 Bonds, respectively. The variable rate was 0.13% on the remaining portion of \$39,750,000 on the V-A-1 Bonds at June 30, 2015. Maturities range from 2016 to 2028. The principal and interest payable on the debt is paid from airport revenues.

The latest series of Local Government Public Improvement Revenue Bonds issued by the Authority was the Series V-A-1 issued in December, 2008. The bonds are secured by and payable solely from the net revenues derived from the operations of the airport by the Authority as defined in the Master Plan Resolution. On October 13, 2015 Moody's Rating Committee affirmed a rating of Baa1 for bonds issued by the Authority and S&P affirmed a rating of A- on August 28, 2015. Detailed information on long-term debt activity can be found in Note 5 of the notes to the financial statements.

Passenger facility charges

On October 6, 1993, the Metropolitan Knoxville Airport Authority received approval from the FAA to collect a \$3.00 passenger facility charge (PFC) on each passenger enplaning at McGhee Tyson Airport. On September 16, 2003, the FAA approved an increase in the Authority's PFC rate to \$4.50 per enplaning passenger. The FAA determined that the earliest effective date for the new rate was October 1, 2003. The collection authority has been extended to September 1, 2023. As of June 30, 2015, the Authority had collected \$58,958,887 of PFC revenue and expended \$58,050,511 on approved projects. The FAA has authorized \$103,981,548 for PFC collection by the Airport Authority as of June 30, 2015.

Request for information

The financial report is designed to provide a general overview of the Authority's finances for all those interested. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the Vice President of Finance and Administration or the Controller, Metropolitan Knoxville Airport Authority, P. O. Box 15600, Knoxville, TN 37901 or by email to bachman@tys.org or to mike.long@tys.org.

Respectfully submitted,



Michael R. Bachman, A.A.E., CPA
Vice President, Finance & Administration



Michael G. Long, CPA
Controller

STATEMENTS OF NET POSITION

	June 30	
	2015	2014
Assets		
Unrestricted current assets:		
Cash and cash equivalents	\$ 12,236,358	\$ 8,011,329
Investments	40,071,930	42,170,895
Receivables:		
Trade	1,085,109	733,281
Government agencies	3,533,113	3,570,270
Interest	38,095	51,295
Prepaid expenses and other current assets	444,357	253,591
Total unrestricted current assets	57,408,962	54,790,661
Restricted current assets:		
Cash and cash equivalents	1,309,693	1,114,747
Receivables for passenger facility charges	395,000	418,000
Total restricted current assets	1,704,693	1,532,747
Total current assets	59,113,655	56,323,408
Noncurrent assets:		
Capital assets, net of accumulated depreciation	156,777,929	156,100,744
Master plans and other plans, net of accumulated amortization	73,491	101,845
Other	694,259	730,589
Total noncurrent assets	157,545,679	156,933,178
Total assets	216,659,334	213,256,586
Deferred outflows of resources		
Accumulated decrease in fair value of hedging interest rate swaps	2,514,204	2,644,082
Total assets and deferred outflows of resources	\$ 219,173,538	\$ 215,900,668

STATEMENTS OF NET POSITION *(continued)*

	June 30	
	2015	2014
Liabilities and net position		
Current liabilities:		
Accounts payable	\$ 1,613,896	\$ 1,781,362
Accrued payroll and other expenses	1,059,020	1,356,542
Accrued interest	83,345	98,181
Current portion of long-term debt	4,365,000	4,155,000
Total current liabilities	7,121,261	7,391,085
Long-term liabilities:		
Long-term debt, less current portion	70,635,000	75,000,000
Interest rate swap liabilities:		
Hedging	2,514,204	2,644,082
Investment	2,369,659	2,849,253
Total long-term liabilities	75,518,863	80,493,335
Total liabilities	82,640,124	87,884,420
Net position:		
Net investment in capital assets	81,407,805	75,967,891
Restricted - expendable:		
Passenger facility charges	1,303,375	1,148,815
Law enforcement	401,318	383,932
Unrestricted	53,420,916	50,515,610
Total net position	136,533,414	128,016,248
Total liabilities and net position	\$ 219,173,538	\$ 215,900,668

See accompanying Notes to Financial Statements.

**STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION**

	Year ended June 30	
	2015	2014
Operating revenues:		
Aviation area	\$ 5,038,282	\$ 4,693,762
Terminal area	18,625,307	17,922,026
Air cargo and other properties	3,810,517	3,693,140
Total operating revenues	27,474,106	26,308,928
Operating expenses:		
Aviation area	2,241,790	2,190,390
Terminal area	5,579,811	5,273,861
Air cargo and other properties	1,621,939	1,673,103
General area:		
Safety	4,536,099	4,599,895
Administration	5,631,927	5,047,911
Total operating expenses	19,611,566	18,785,160
	7,862,540	7,523,768
Depreciation and amortization	(10,717,072)	(11,004,758)
Operating loss	(2,854,532)	(3,480,990)
Nonoperating income (expense):		
Passenger facility charges	3,355,133	3,391,670
Interest income	211,220	174,017
Change in fair value of investment interest rate swap	479,594	587,617
Interest expense	(2,211,528)	(2,427,790)
Other nonoperating, net	99,553	(380,407)
Net nonoperating income	1,933,972	1,345,107
Loss before capital contributions	(920,560)	(2,135,883)
Capital contributions	9,437,726	4,547,269
Increase in net position	8,517,166	2,411,386
Net position at beginning of year	128,016,248	125,604,862
Net position at end of year	\$ 136,533,414	\$ 128,016,248

See accompanying Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

	Year ended June 30	
	2015	2014
Operating activities		
Operating cash received from customers	\$ 27,122,278	\$ 26,249,957
Cash payments to suppliers of goods and services	(8,044,940)	(6,986,283)
Cash payments to employees for services	(11,549,967)	(10,966,405)
Net cash provided by operating activities	7,527,371	8,297,269
Investing activities		
Interest received	224,420	212,400
Purchases of investments	(29,008,191)	(51,070,895)
Proceeds from maturities of investments	31,107,156	38,993,254
Net cash provided by (used in) investing activities	2,323,385	(11,865,241)
Capital and related financing activities		
Interest paid	(2,226,364)	(2,443,739)
Repayments on bonds	(4,155,000)	(695,000)
Purchases of capital assets	(11,986,365)	(4,519,780)
Receipts of passenger facility charges	3,378,133	3,488,670
Grant receipts from governmental agencies and other income	9,558,815	6,311,775
Net cash (used in) provided by capital and related financing activities	(5,430,781)	2,141,926
Net increase (decrease) in cash and cash equivalents	4,419,975	(1,426,046)
Cash and cash equivalents at beginning of year	9,126,076	10,552,122
Cash and cash equivalents at end of year	\$ 13,546,051	\$ 9,126,076
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	(2,854,532)	(3,480,990)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	10,717,072	11,004,758
Changes in operating assets and liabilities:		
Receivables-trade	(351,828)	(58,971)
Prepaid expenses and other assets	(154,436)	237,411
Accounts payable (non-construction)	468,617	275,767
Accrued payroll and other expenses	(297,522)	319,294
Net cash provided by operating activities	\$ 7,527,371	\$ 8,297,269

Continued on next page

STATEMENTS OF CASH FLOWS *(continued)***Noncash and related financing transactions**

Payables related to the purchase of capital assets totaled \$443,615 and \$1,079,698 as of June 30, 2015 and 2014, respectively.

Receivables from governmental agencies related to capital contributions total \$3,533,113 and \$3,570,270 as of June 30, 2015 and 2014, respectively. Grant receipts from governmental agencies and other income also includes other income of \$78,339 and \$205,154, respectively.

Noncash and related investing transactions

Changes in fair value of investment interest rate swaps totaled \$479,954 and \$587,617 for years ended June 30, 2015 and 2014, respectively.

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies

Organization and Reporting Entity

The Metropolitan Knoxville Airport Authority (the “Authority”) is a component unit of the City of Knoxville, Tennessee (the “City”), governed by a nine-member Board of Commissioners appointed by the Mayor of the City and confirmed by members of City Council. A Master Resolution was adopted in 2000 whereby the Authority issues its own revenue obligations.

The reporting entity, as a component unit of the City of Knoxville, Tennessee, includes the accounts of McGhee Tyson Airport and Knoxville Downtown Island Airport. As a component unit, there are no agencies, departments or funds subordinate to the Authority, which might be considered for inclusion in the reporting entity.

The Authority operates under, and pursuant to, the authority granted by the Metropolitan Airport Authority Act of 1969 (Tennessee Code Annotated Section 42-4-101, et seq.).

Basis of Accounting

The Authority reports as a Business Type Activity. Business Type Activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

The Authority’s activities are accounted for similar to those often found in the private sector using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, net position, revenues and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred. Current assets include cash and amounts convertible to cash during the next normal operating cycle or one year. Current liabilities include those obligations to be liquidated with current assets.

Revenues from airlines, concessions, rental cars and parking are reported as operating revenues. Capital, grants, financing or investing related transactions are reported as nonoperating revenues. All expenses related to operating the Authority are reported as operating expenses. Interest expense and financing costs are reported as nonoperating deductions.

Fiscal Year-End

The Authority operates on a fiscal year ending June 30. All references in these notes refer to the fiscal year-end unless otherwise specified.

Estimates

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS *(continued)*

1. Significant Accounting Policies *(continued)*

Budgets

Under the by-laws of the Authority, management must submit an annual operating budget to the Board of Commissioners for approval. In addition, management must submit to the Board of Commissioners annually a capital-improvements budget covering a period of six years.

The Authority is not required to demonstrate statutory compliance with its annual operating or capital-improvements budget. Accordingly, budgetary data is not included in the financial statements. All budgets are prepared in accordance with bond covenants. Unexpended appropriations lapse at year-end.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, money market accounts and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

The Authority's investments are reported at fair value using quoted market price or the best available estimate thereof. Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction with willing parties, other than in a forced or liquidation sale. All investment income, including changes in the fair value of investments, is reported as revenues in the accompanying statements of revenues, expenses and changes in net position.

Amounts Due from Governmental Agencies

Certain expenditures for airport capital improvements are significantly funded through the Airport Improvement Program ("AIP") of the Federal Aviation Administration ("FAA"), with certain matching funds provided by the State of Tennessee ("State") and the Authority, or from various state allocations or grant programs. Capital funding provided under government grants is considered earned when the related allowable expenditures are incurred and the funds are available.

Restricted Assets

Restricted assets are held to satisfy bond principal and interest sinking fund requirements or are otherwise held for certain capital improvement and other expenditures. For expenditures for which both restricted and unrestricted net positions are available, the Authority first applies restricted assets when such expenditures are incurred.

Capital Assets

Capital assets are stated at cost and defined by the Authority as assets with an initial cost greater than \$5,000. Maintenance and repairs are charged to expense as incurred, and renewals and betterments are capitalized. The cost and accumulated depreciation on retired assets are removed from the books and the gain or loss, if any, is reflected in nonoperating activities. Interest is capitalized on construction projects until such projects are substantially completed.

Depreciable capital assets are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	5 – 20 years
Buildings and building improvements	5 – 30 years
Equipment, furniture and fixtures	3 – 10 years

NOTES TO FINANCIAL STATEMENTS *(continued)*

1. Significant Accounting Policies *(continued)*

Master Plans

Master plans are stated at cost. Amortization is computed using the straight-line method over the plans' estimated useful lives of five years.

Compensated Absences

Compensated absences are accrued as payable when earned and are cumulative from one fiscal year to the next. The liability is included with accrued payroll in the financial statements. The Authority does not have any long-term liabilities for compensated absences.

Net position

Net position is classified in the following categories:

Net investment in capital assets: Capital assets, net of accumulated depreciation, plus capital-related deferred outflows of resources, less outstanding principal of debt attributable to the acquisition, construction or improvement of those assets.

Restricted:

Nonexpendable – Net position subject to externally imposed stipulations that the Authority maintains them permanently. As of June 30, 2015 and 2014, the Authority does not have nonexpendable net position.

Expendable – Net position on which use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire by the passage of time.

Unrestricted: Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Commissioners or may otherwise be limited by contractual agreements with outside parties.

Operating Revenues and Expenses

Aviation area revenues are those revenues received from the use of the airfield such as landing fees, fuel flowage fees, airfield site leases and a military joint use agreement.

Terminal area revenues are those revenues received from space rentals paid by airlines conducting operations in the terminal and revenues received from public parking, rental car concessions and other businesses operating in the terminal.

Air cargo revenues are those revenues received from space leases in the cargo building and the air cargo complex. Revenues from other properties are those revenues received from the hotel lease and nonaviation property leases.

All expenses related to operating the Airport are reported as operating expenses.

Risk Management

The Authority is subject to risks that include personal injury, property damage, employee bodily injury, employee theft, employee medical, public officials and employee conduct and workers' compensation. The Authority has purchased insurance policies that transfer these risks, subject to policy limits. Settlements have not exceeded insurance coverage in any of the past three fiscal years.

NOTES TO FINANCIAL STATEMENTS *(continued)*

1. Significant Accounting Policies *(continued)*

Reclassifications

Certain amounts in the prior year have been reclassified to conform with 2015 classifications.

Recently Issued Accounting Pronouncements

In February 2015, the Governmental Accounting Standards Board (“GASB”), issued Statement No. 72, *Fair Value Measurement and Application*. The objective of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. Statement No. 72 is effective for periods beginning after June 15, 2015. The Authority has elected not to adopt these standards early and has not completed the process of evaluating the impact of these statements on its financial statements.

2. Deposits and Investments

Deposits

Deposits are included in the Authority’s financial statements as “cash and cash equivalents” and “restricted cash and cash equivalents.” As of June 30, 2015 and 2014, all bank balances in excess of federal insurance limits were covered by the bank collateral pool administered by the Treasurer of the State of Tennessee. Banks participating in the pool report the aggregate balance of their public fund accounts to the State. Collateral to secure these deposits must be pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in aggregate rather than against each individual account. Public fund accounts covered by the pool are considered entirely insured or collateralized. Deposits total \$13,634,026 and \$9,235,064 as of June 30, 2015 and 2014, respectively.

Investments

Statutes authorize the Authority to invest idle funds in obligations of the United States Treasury, its agencies and instrumentalities; Certificates of Deposits; the Local Government Investment Pool, bonds of the state of Tennessee or Knox County; and nonconvertible debt securities of the following issuers: Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank and Student Loan Marketing Association.

In addition to the above deposits covered by the bank collateral pool administered by the Treasurer of the State of Tennessee, Certificates of Deposit totaling \$1,103,410 and \$15,153,780 as of June 30, 2015 and 2014, respectively, are also covered by the pool and considered entirely insured or collateralized.

The Authority requires debt securities must be rated in the highest category by two nationally recognized rating services. As of June 30, 2015, all Authority’s investments in debt securities were rated at least Aaa by Moody’s Investor Services or AA+ by Standard & Poor’s rating services.

To limit the Authority’s exposure to fair value losses arising from changing interest rates, the Authority’s investment policy prohibits more than 20% of investments (as defined) to be invested with maturities of greater than two years from the acquisition date. Also, investment maturities may not exceed five years from the acquisition date. Investments with maturities of greater than two years require approval of the finance committee.

NOTES TO FINANCIAL STATEMENTS *(continued)*

2. Deposits and Investments (continued)

As of June 30, 2015, the Authority had the following investments:

	Weighted Average Maturity (Months)	Fair Value	Interest Rates	Maturity Dates
Certificates of Deposit	5.00	\$1,103,410	.31%	11/25/15
Federal National Mortgage Association	5.00	1,004,490	1.50%	12/3/15
Federal Loan Mortgage Company	17.40	15,991,847	.43%-.90%	5/20/16 – 7/17/17
Federal Home Loan Bank	21.33	5,996,620	.80%-.82%	03/17/17 – 5/26/17
Federal Farm Credit Bank	11.50	15,975,563	.39%-.55%	05/27/16- 8/4/16
Total investments		<u>\$40,071,930</u>		
Portfolio weighted average maturity	14.99			

3. Leases

The Authority, as lessor, leases certain capital assets under operating leases expiring in various years through 2042.

As of June 30, 2015, minimum future base rentals to be received on noncancelable leases are as follows:

2016	\$ 8,990,859
2017	8,988,458
2018	8,873,289
2019	5,037,918
2020	1,619,586
Thereafter	13,823,026
Total minimum future base rentals	<u>\$ 47,333,136</u>

Under the terms of one of these leases, payments in future years increase significantly. The Authority is recognizing income for this lease on a straight-line basis, considering total payments over the lease term. Accordingly, advance rents of approximately \$677,000 and \$726,000 are included in other noncurrent assets in the accompanying statements of net position as of June 30, 2015 and 2014, respectively.

Contingent rentals, which consist primarily of rental car concessions and other similar revenues, amounted to \$2,768,805 in 2015 and \$1,697,710 in 2014.

NOTES TO FINANCIAL STATEMENTS *(continued)*

4. Capital Assets

Capital asset activity, including master plans, for the years ended June 30, 2015 and 2014, is as follows:

Year ended June 30, 2015	Beginning Balance	Increases	Decreases	Ending Balance
Nondepreciable capital assets:				
Land	\$ 30,955,069	\$ 6,914,234	\$ -	\$ 37,869,303
Land easements	625,903	-	-	625,903
Construction in progress	9,941,849	10,644,599	(7,977,490)	12,608,958
Total nondepreciable capital assets	<u>41,522,821</u>	<u>17,558,833</u>	<u>(7,977,490)</u>	<u>51,104,164</u>
Depreciable capital assets:				
Land improvements	143,343,108	162,004	-	143,505,112
Buildings and building improvements	164,686,414	414,407	-	165,100,821
Equipment, furniture and fixtures	10,330,786	1,236,800	(344,560)	11,223,026
Total depreciable capital assets	<u>318,360,308</u>	<u>1,813,211</u>	<u>(344,560)</u>	<u>319,828,959</u>
Less accumulated depreciation:				
Land improvements	(111,130,571)	(3,009,449)	-	(114,140,020)
Buildings and building improvements	(83,831,759)	(6,930,737)	-	(90,762,496)
Equipment, furniture and fixtures	(8,820,055)	(748,532)	315,909	(9,252,678)
Total accumulated depreciation	<u>(203,782,385)</u>	<u>(10,688,718)</u>	<u>315,909</u>	<u>(214,155,194)</u>
Net depreciable capital assets	<u>114,577,923</u>	<u>(8,875,507)</u>	<u>(28,651)</u>	<u>105,673,765</u>
Total capital assets, net of accumulated depreciation	<u>\$ 156,100,744</u>	<u>\$ 8,683,326</u>	<u>\$ (8,006,141)</u>	<u>\$ 156,777,929</u>
Other capital assets:				
Master plans and other plans	\$ 9,920,216	\$ -	\$ -	\$ 9,920,216
Accumulated amortization	(9,818,371)	(28,354)	-	(9,846,725)
Net other capital assets	<u>\$ 101,845</u>	<u>\$ (28,354)</u>	<u>\$ -</u>	<u>\$ 73,491</u>

NOTES TO FINANCIAL STATEMENTS *(continued)*4. Capital Assets *(continued)*

Year ended June 30, 2014	Beginning Balance	Increases	Decreases	Ending Balance
Nondepreciable capital assets:				
Land	\$ 30,929,013	\$ 26,056	\$ -	\$ 30,955,069
Land easements	129,144	496,759	-	625,903
Construction in progress	27,640,040	5,027,929	(22,726,120)	9,941,849
Total nondepreciable capital assets	58,698,197	5,550,744	(22,726,120)	41,522,821
Depreciable capital assets:				
Land improvements	142,166,342	1,176,766	-	143,343,108
Buildings and building improvements	144,722,529	19,963,885	-	164,686,414
Equipment, furniture and fixtures	10,878,405	578,463	(1,126,082)	10,330,786
Total depreciable capital assets	297,767,276	21,719,114	(1,126,082)	318,360,308
Less accumulated depreciation:				
Land improvements	(108,123,030)	(3,007,541)	-	(111,130,571)
Buildings and building improvements	(76,680,128)	(7,151,631)	-	(83,831,759)
Equipment, furniture and fixtures	(9,086,192)	(827,978)	1,094,115	(8,820,055)
Total accumulated depreciation	(193,889,350)	(10,987,150)	1,094,115	(203,782,385)
Net depreciable capital assets	103,877,926	10,731,964	(31,967)	114,577,923
Total capital assets, net of accumulated depreciation	\$ 162,576,123	\$ 16,282,708	\$ (22,758,087)	\$ 156,100,744
Other capital assets:				
Master plans and other plans	\$ 9,813,600	\$ 106,616	\$ -	\$ 9,920,216
Accumulated amortization	(9,800,763)	(17,608)	-	(9,818,371)
Net other capital assets	\$ 12,837	\$ 89,008	\$ -	\$ 101,845

The Authority is contractually obligated to expend an additional \$6,600,000 for various projects. Estimated costs to complete construction in progress for these projects total approximately \$102,700,000 as of June 30, 2015. The work will be funded through proceeds from Federal and State grants and other Authority funds.

In previous years there were approximately \$600,000 in expenditures that were added to construction in progress with the expectation that the related project would be capitalized. During 2014, the Authority ultimately determined the project did not meet the requirement for capitalization and accordingly the expenditures were expensed.

NOTES TO FINANCIAL STATEMENTS *(continued)*

5. Long-Term Debt

Long-term debt includes the following Airport Revenue Obligations issued by the Public Building Authority of Sevier County, payable from general airport revenues for the years ended June 30, 2015 and 2014:

	Beginning Balance	Payments	Ending Balance
Year ended June 30, 2015			
Series II-D-1	\$11,885,000	\$740,000	\$11,145,000
Series V-A-1	67,270,000	3,415,000	63,855,000
Total long-term portion	<u>79,155,000</u>	<u>\$4,155,000</u>	<u>75,000,000</u>
Less current portion	<u>4,155,000</u>		<u>4,365,000</u>
Long-term portion	<u>\$75,000,000</u>		<u>\$70,635,000</u>
Year ended June 30, 2014			
Series II-D-1	\$12,580,000	\$695,000	\$11,885,000
Series V-A-1	67,270,000	-	67,270,000
Total long-term portion	<u>79,850,000</u>	<u>\$695,000</u>	<u>79,155,000</u>
Less current portion	<u>695,000</u>		<u>4,155,000</u>
Long-term portion	<u>\$79,155,000</u>		<u>\$75,000,000</u>

During 2000, the Authority's Board of Commissioners adopted a Master Resolution allowing the Authority to issue Airport Revenue Obligations. Under this resolution, the Authority is required to establish certain funds, accounts and subaccounts to deposit funds to be held in trust by the Authority in order to meet the requirements of the resolution. These funds include:

Revenue Fund, including accounts for General Revenue and PFC Revenue into which the Authority is to deposit all such revenues.

Sinking Fund, including a payments account and a debt service reserve account, into which the Authority will deposit funds from the Revenue Fund as needed to pay revenue obligations as they come due.

Renewal and Extension Fund, into which the Authority may deposit any monies or securities held in the Revenue Fund (excluding PFC funds) in excess of 45 days' estimated expenses.

Project Fund, into which proceeds from issuance of revenue obligations will be deposited to fund project costs.

Outstanding debt as of June 30, 2015, consists of the following:

Series II-D-1 – Issued \$18,350,000 on July 1, 2000, with remaining annual installments ranging from \$785,000 to \$1,355,000 through June 2026. The remaining bonds outstanding of \$11,145,000 bear interest at a synthetic fixed rate of 5.29%. Interest is paid quarterly.

Series V-A-1 – Issued \$84,645,000 on December 1, 2008, with remaining annual installments ranging from \$3,580,000 in 2016 to \$6,490,000 in 2028. Of the bonds outstanding at June 30, 2015, \$24,285,000 bears interest at a synthetic fixed rate of 3.32%. The remaining \$39,570,000 bears interest at a variable rate (0.13% as of June 30, 2015). Interest is paid monthly.

NOTES TO FINANCIAL STATEMENTS *(continued)*

5. Long-Term Debt *(continued)*

In connection with the Series V-A-1 bonds, the Authority has entered into a Reimbursement Agreement with Branch Banking and Trust Company who has issued an irrevocable letter of credit in an amount not to exceed \$85,758,140. This letter of credit expires in November 2018. Costs of maintaining this letter of credit and other administrative fees are included in interest expense.

Derivative Instruments

In order to protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt, the Authority entered into two separate interest rate swap agreements (the “swaps”). The intention of the swaps is to effectively change the Authority’s variable interest rate on the bonds to a synthetic fixed rate.

The fair value of the interest rate swaps has been estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

The terms of the outstanding swaps as of June 30, 2015 and 2014, are as follows:

Associated Bond Issues	Effective Date	Fixed Rate Paid	Variable Rate Received	Swap Termination Date
Series II-D-1	9/8/2000	5.29%	SIFMA Municipal Swap Index	6/1/2026
Series V-A-1	6/28/2001	4.36%	62.5% of 5 Year LIBOR	6/1/2021

The notional amounts of the swaps match principal amounts of the associated debt. Except as discussed under the Series V-A-1 rollover risk, the Authority’s swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled reductions of the associated bond principal. The notional amounts of the swap associated with Series II-D-1 were \$11,145,000 and 11,885,000 as of June 30, 2015 and 2014, respectively. The notional amounts of the swap associated with Series V-A-1 were \$24,285,000 and 27,700,000 as of June 30, 2015 and 2014, respectively.

Hedging Derivative Instrument Risks

The Authority has a cash flow hedge associated with the Series II-D-1 bond. Using the regression analysis method, this pay-fixed interest rate swap has been determined to be effective. Accordingly, the \$129,878 decrease in the fair value in 2015 is included in accumulated deferred outflow of resources in the Statements of Net Position. The estimated fair values of \$2,514,204 and \$2,644,082 have been reported as a long-term liability at June 30, 2015 and 2014, respectively.

NOTES TO FINANCIAL STATEMENTS *(continued)*

5. Long-Term Debt *(continued)*

Hedging Derivative Instrument Risks

Credit risk: As of June 30, 2015, the Authority's cash flow hedge is not exposed to credit risk because the swap has a negative fair value and as such has no collateral requirements. However, should interest rates change and the fair value of the swap becomes positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value.

At the time of the swap the counterparty was unrated. In order to mitigate the potential for credit risk, the Authority received a Financial Guarantee Insurance Policy for the swap agreement from Ambac Assurance Corporation, who was rated "AAA" by Standard and Poor's and Fitch and "Aaa" by Moody's Investor Service at the time the interest rate swap agreement was entered. As of June 30, 2015, Ambac's credit rating has been severely downgraded and has been withdrawn by the rating agencies.

Interest rate risk: The Authority is exposed to interest rate risk on this instrument. As the Securities Industry and Financial Markets Association™ Index swap index decreases, the Authority's net payment on the swap increases.

Termination risk: The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination provision." The Authority or the counterparty may terminate either of the swaps if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value. Likewise, if the swap has a positive fair value at termination, the counterparty would be liable to the Authority for a payment equal to the swap's fair value.

Investment Derivative Instrument Risks

The Authority has an investment derivative associated with the Series V-A-1 bond. Accordingly, the \$479,594 decrease in the fair value in fiscal year 2015 is reported as a change in fair value of investment interest rate swap in the nonoperating income portion of the Statements of Revenues, Expenses and Changes in Net Position. The estimated fair value of \$2,369,659 and \$2,849,253 have been reported as a long-term liability at June 30, 2015 and 2014, respectively.

Credit risk: As of June 30, 2015, the Authority's investment derivative is not exposed to credit risk because the swap has a negative fair value and as such has no collateral requirements. However, should interest rates change and the fair value of the swap becomes positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value.

For the swap associated with Series V-A-1 bonds, the swap counterparty, Raymond James Financial Products, Inc. was rated "A" by Standard and Poor's as of June 30, 2015, with its Credit Support Provider, Deutsche Bank, rated A3/A/A+ by Moody's, Standard & Poor's and Fitch, respectively.

Interest rate risk: The Authority is exposed to interest rate risk on this instrument. As the LIBOR decreases, the Authority's net payment on the swap increases.

Rollover risk: The Authority is exposed to rollover risk on the swap associated with the Series V-A-1 bonds, as the termination date (June 1, 2021) does not extend to the maturity date (May 25, 2028) of the associated bonds. Once the swap is terminated, the Authority will not realize the synthetic rate offered by the swaps on the underlying bond issues.

NOTES TO FINANCIAL STATEMENTS *(continued)*

5. Long-Term Debt *(continued)*

Scheduled Debt Service Requirements

As of June 30, 2015, scheduled debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Year ending June 30	Variable Rate Bonds		Interest Rate Swaps, net	Total
	Principal	Interest		
2016	\$ 4,365,000	\$ 392,445	\$1,069,380	\$ 5,826,825
2017	4,590,000	365,650	930,393	5,886,043
2018	4,825,000	337,227	784,324	5,946,551
2019	5,075,000	307,135	630,833	6,012,968
2020	5,335,000	275,128	469,509	6,079,637
2021-2022	31,570,000	823,214	671,838	33,065,052
2026-2028	19,240,000	63,230	14,701	19,317,931
Total	\$75,000,000	\$2,564,029	\$4,570,978	\$82,135,007

6. Deferred Compensation Plan

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 and is administered by International City Management Association Retirement Corporation. The plan, available to all Authority employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Employee contributions to the Plan were \$91,065 in 2015 and \$93,540 in 2014. Separate audited financial reports are not available for this plan.

7. Retirement Plan

The Authority provides retirement benefits for all of its full-time employees through a defined contribution plan (Metropolitan Knoxville Airport Authority Plan) which was established and can be amended under the authority of the Board of Commissioners and is administered by International City Management Association Retirement Corporation. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. All full time employees are eligible to participate from the date of employment.

The Authority's contributions for each employee (and investment income allocated to the employees' account) are vested after one year of employment. Under the terms of the plan, employer contributions are determined annually by the Board of Commissioners. There are no minimum required employer contributions under the terms of the plan. Employee contributions are optional. Employer contributions totaled \$818,285 in 2015 and \$770,880 in 2014. Separate audited financial reports are not available for this plan.

NOTES TO FINANCIAL STATEMENTS *(continued)*

8. Passenger Facility Charges

Passenger Facility Charges (“PFC”) are fees imposed on enplaning passengers by airports to finance eligible airport-related projects that preserve or enhance the safety, security or capacity; reduce noise; or increase air carrier competition. Since September 2003, the air carriers have been collecting a \$4.50 PFC on qualifying passengers at McGhee Tyson Airport on behalf of the Authority. Both the fee and its intended projects must be reviewed and approved by the Federal Aviation Administration (“FAA”). PFCs, along with related interest earnings, are recorded as deferred revenues until authorized to use for construction and related debt services payments under FAA approved Application to Use. Once authorized to use, the PFC receipts are recognized and recorded as nonoperating income in the year collected by the air carriers. PFC revenues totaled \$3,355,133 in 2015 and \$3,391,670 in 2014. All PFCs were authorized for use, and no deferred revenues were recorded.

The Authority has received approval to collect \$95,800,334 on currently approved projects through July 2022. Cumulative expenditures to date on these approved PFC projects total \$50,078,925.

As of June 30, 2015 and 2014, the Authority has \$1,303,375 and \$1,148,815, respectively, of PFCs available and authorized for use. This amount is included in restricted net position on the balance sheet (see Note 11).

9. Conduit Debt

The Authority issued \$8,500,000 Metropolitan Knoxville Airport Authority Special Purpose Revenue Bonds on June 18, 2002. The bonds bear interest at 8% and are due in an aggregate principal amount of \$8,500,000 on April 1, 2032. Interest is payable semiannually on each April 1 and October 1.

The bonds were issued pursuant to a lease agreement between the Authority and Northwest Airlines, Inc. (“Northwest”) dated July 12, 2001, and subsequently amended. Northwest has subsequently been acquired by Delta Air Lines. The proceeds of the bonds were used for the construction by Northwest of an aircraft maintenance hangar and related facilities to be leased by Northwest from the Authority under the lease agreement. Under the terms of the lease agreement, Delta Air Lines, formerly Northwest is obligated to pay base rental to a trustee assigned by the Authority in the amount necessary to meet debt service requirements on the bonds as they are due.

The Authority has no liability for repayment of these bonds and, accordingly, the bonds are not reported in the Authority’s financial statements. Revenues and receipts derived from the lease agreement and a guaranty by Delta Air Lines, are the only security for the bondholders. The entire amount of the bonds is outstanding at June 30, 2015.

10. Business Concentrations

The Authority is dependent to a large extent on five major airlines and their subsidiaries in that a significant portion of aviation area revenues are generated by these airlines. These airlines accounted for aviation area revenues totaling \$3,773,493 in 2015 and \$3,595,076 in 2014. In addition, a significant portion of terminal area revenue is directly and indirectly generated from four of these airlines’ passengers, which accounted for approximately 84% of total passengers in 2015 and 86% of total passengers in 2014. As of June 30, 2015 and 2014, 72% and 77%, respectively, of trade accounts receivable are due from these major airlines.

NOTES TO FINANCIAL STATEMENTS *(continued)*

11. Net Position

Net position consists of the following as of June 30:

	2015	2014
Net investment in capital assets		
Noncurrent assets:		
Capital assets, net	\$ 156,777,929	\$ 156,100,744
Master plans and other plans, net	73,491	101,845
Total noncurrent assets	<u>156,851,420</u>	<u>156,202,589</u>
Less related liabilities:		
Accounts payable (for construction)	443,615	1,079,698
Long-term debt	75,000,000	79,155,000
Total related liabilities	<u>75,443,615</u>	<u>80,234,698</u>
Net investment in capital assets	<u>\$ 81,407,805</u>	<u>\$ 75,967,891</u>
Restricted net position:		
Cash and cash equivalents - passenger facility charges	\$ 908,375	\$ 730,815
Cash and cash equivalents - other	401,318	383,932
Passenger facility charges receivable	395,000	418,000
Restricted net position	<u>\$ 1,704,693</u>	<u>\$ 1,532,747</u>
Unrestricted net position (all other items on statements of net position not reflected above):		
Assets:		
Cash and cash equivalents	\$ 12,236,358	\$ 8,011,329
Investments	40,071,930	42,170,895
Receivables	4,656,317	4,354,846
Prepaid expenses and other current assets	444,357	253,591
Other long-term assets	694,259	730,589
Total unrestricted assets	<u>58,103,221</u>	<u>55,521,250</u>
Less liabilities:		
Accounts payable (non-construction)	1,170,281	701,664
Accrued payroll and other expenses	1,059,020	1,356,542
Accrued interest	83,345	98,181
Investment interest rate swaps	2,369,659	2,849,253
Total liabilities	<u>4,682,305</u>	<u>5,005,640</u>
Unrestricted net position	<u>\$ 53,420,916</u>	<u>\$ 50,515,610</u>

NOTES TO FINANCIAL STATEMENTS (continued)

12. Division Information

The Metropolitan Knoxville Airport Authority provides services through two divisions - McGhee Tyson Airport and Knoxville Downtown Island Airport. Key financial data as of and for the years ended June 30, 2015 and 2014 for the two divisions is as follows:

	McGhee Tyson		Downtown Island	
	2015	2014	2015	2014
Unrestricted current assets	\$ 57,283,271	\$ 54,564,634	\$ 125,691	\$ 226,027
Restricted current assets	1,704,693	1,532,747	-	-
Capital assets, net	155,206,512	154,680,810	1,644,908	1,521,779
Other assets, net	677,334	725,832	16,925	4,757
Intercompany receivable	3,150,049	3,047,682	-	-
Deferred outflows - interest rate swaps	2,514,204	2,644,082	-	-
Total assets and deferred outflows	\$ 220,536,063	\$ 217,195,787	\$ 1,787,524	\$ 1,752,563
Current liabilities	\$ 7,063,379	\$ 7,319,844	\$ 57,882	\$ 71,241
Intercompany payable	-	-	3,150,049	3,047,682
Long-term debt, less current portion	70,204,791	74,569,791	430,209	430,209
Swap liabilities	4,861,867	5,471,339	21,996	21,996
Total liabilities	\$ 82,130,037	\$ 87,360,974	\$ 3,660,136	\$ 3,571,128
Net position:				
Net investment in capital assets	\$ 80,193,106	\$ 74,887,323	\$ 1,214,699	\$ 1,080,568
Restricted	1,704,693	1,532,747	-	-
Unrestricted	56,508,227	53,414,743	(3,087,311)	(2,899,133)
Total net position (deficit)	\$ 138,406,026	\$ 129,834,813	\$ (1,872,612)	\$ (1,818,565)
Operating revenues	26,209,757	25,022,924	1,264,349	1,286,004
Operating expenses	(18,191,680)	(17,352,694)	(1,419,886)	(1,432,466)
Depreciation and amortization	(10,516,374)	(10,818,814)	(200,698)	(185,944)
Operating loss	(2,498,297)	(3,148,584)	(356,235)	(332,406)
Net nonoperating income (deductions)	1,943,597	1,332,737	(9,625)	12,370
Capital contributions	9,125,913	4,123,707	311,813	423,562
Increase (decrease) in net position	\$ 8,571,213	\$ 2,307,860	\$ (54,047)	\$ 103,526
Cash flows:				
Operating activities	\$ 7,635,641	\$ 8,490,395	\$ (108,270)	\$ (193,126)
Investing activities	2,323,385	(11,865,241)	-	-
Capital and related financing activities	(5,539,042)	1,948,838	108,261	193,088
Net change in cash and cash equivalents	4,419,984	(1,426,008)	(9)	(38)
Cash and cash equivalents at beginning of the year	9,125,666	10,551,674	410	448
Cash and cash equivalents at end of the year	\$ 13,545,650	\$ 9,125,666	\$ 401	\$ 410

STATISTICAL SECTION

This part of the Metropolitan Knoxville Airport Authority's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the airport's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the airport's financial performance and well-being have changed over time

Debt Capacity

These schedules present information to help the reader assess the affordability of the airport's current levels of outstanding debt and the airport's ability to issue additional debt in the future

Revenue Capacity

These schedules contain information to help the reader assess the airport's most significant local revenue sources.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the airport's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the airport's financial report relates to the services the airport provides and activities it performs.

SCHEDULE 1:*Operating revenues and expenses - last ten years (unaudited)*

	2015	2014	2013
Aviation area	\$ 5,038,282	\$ 4,693,762	\$ 4,453,779
Terminal area	18,625,307	17,922,026	16,327,587
Air cargo and other properties	3,810,517	3,693,140	3,759,280
Total operating revenues	27,474,106	26,308,928	24,540,646
Operating expenses:			
Aviation area	2,241,790	2,190,390	2,031,595
Terminal area	5,579,811	5,273,861	5,328,985
Air cargo and other properties	1,621,939	1,673,103	1,644,636
General area:			
Safety	4,536,099	4,599,895	4,282,979
Administration	5,631,927	5,047,911	5,114,112
Total operating expenses	19,611,566	18,785,160	18,402,307
Operating income before adjustments	7,862,540	7,523,768	6,138,339
Depreciation and amortization (a)	(10,717,072)	(11,004,758)	(11,387,084)
Operating loss	(2,854,532)	(3,480,990)	(5,248,745)
Net nonoperating income (deductions) (a)	1,933,972	1,345,107	(2,650,537)
Loss before capital contributions	(920,560)	(2,135,883)	(7,899,282)
Capital contributions - grant receipts from governmental agencies	9,437,726	4,547,269	14,463,193
Increase (decrease) in net position	8,517,166	2,411,386	6,563,911
Net position at beginning of year, as previously reported	128,016,248	125,604,862	119,040,951
Restatement of beginning net position for adoption of new accounting guidance (a)	-	-	-
Net position at end of year	\$ 136,533,414	\$ 128,016,248	\$ 125,604,862
Net position at end of year:			
Net investment in capital assets	\$ 81,407,805	\$ 75,967,891	\$ 82,343,430
Restricted-expendable	1,704,693	1,532,747	1,411,832
Unrestricted	53,420,916	50,515,610	41,849,600
Net position at end of year	\$ 136,533,414	\$ 128,016,248	\$ 125,604,862

Source: Audited Financial Statements, 2006-2015

(a) The Authority adopted GASB Statement No. 65 in 2013, which requires bond issuance costs be expensed in the period incurred. Accordingly, fiscal years 2012 and 2011 have been restated to reflect the elimination of both unamortized bond issuance costs and deferred loss on bond refunding. The Authority does not consider it practicable to restate 2006-2010.

SCHEDULE 1:*Operating revenues and expenses - last ten years (unaudited) (continued)*

2012	2011	2010	2009	2008	2007	2006
\$ 4,559,117	\$ 4,600,042	\$ 4,092,297	\$ 4,420,850	\$ 4,622,734	\$ 4,366,880	\$ 4,381,859
16,909,768	15,942,418	15,008,917	15,578,397	15,612,877	14,505,557	13,762,394
3,650,100	3,747,735	3,537,641	3,599,473	3,812,602	3,768,884	3,305,919
25,118,985	24,290,195	22,638,855	23,598,720	24,048,213	22,641,321	21,450,172
2,060,220	2,052,420	1,846,296	1,606,297	1,762,287	1,567,699	1,308,025
5,479,501	5,488,460	5,211,340	5,525,804	4,769,384	4,617,915	4,439,240
1,536,805	1,430,679	1,215,671	1,386,129	1,286,001	1,123,379	641,378
4,087,663	4,021,409	3,908,435	3,827,547	3,787,698	3,640,733	3,057,949
5,423,518	4,679,484	4,318,658	4,587,923	4,494,436	4,323,784	4,168,574
18,587,707	17,672,452	16,500,400	16,933,700	16,099,806	15,273,510	13,615,166
6,531,278	6,617,743	6,138,455	6,665,020	7,948,407	7,367,811	7,835,006
(12,269,546)	(13,194,950)	(12,056,454)	(12,006,890)	(11,755,556)	(11,735,061)	(11,108,401)
(5,738,268)	(6,577,207)	(5,917,999)	(5,341,870)	(3,807,149)	(4,367,250)	(3,273,395)
358,676	604,526	924,371	77,185	(619,703)	190,870	(398,512)
(5,379,592)	(5,972,681)	(4,993,628)	(5,264,685)	(4,426,852)	(4,176,380)	(3,671,907)
5,598,693	6,929,117	9,771,088	10,814,592	13,462,701	8,507,430	7,805,242
219,101	956,436	4,777,460	5,549,907	9,035,849	4,331,050	4,133,335
118,821,850	120,241,621	115,464,161	109,914,254	100,878,405	96,547,355	92,414,020
-	(2,376,207)	-	-	-	-	-
\$ 119,040,951	\$ 118,821,850	\$ 120,241,621	\$ 115,464,161	\$ 109,914,254	\$ 100,878,405	\$ 96,547,355
\$ 75,944,810	\$ 74,579,458	\$ 77,855,580	\$ 74,649,890	\$ 73,317,006	\$ 67,842,292	\$ 66,031,833
1,358,687	1,050,744	1,187,852	1,113,328	868,759	889,423	1,171,633
41,737,454	43,191,648	41,198,189	39,700,943	35,728,489	32,146,690	29,343,889
\$ 119,040,951	\$ 118,821,850	\$ 120,241,621	\$ 115,464,161	\$ 109,914,254	\$ 100,878,405	\$ 96,547,355

SCHEDULE 2:*Debt service coverage - last ten years (unaudited)*

	2015	2014	2013
Operating revenues:			
Aviation area	\$ 5,038,282	\$ 4,693,762	\$ 4,453,779
Terminal area	18,625,307	17,922,026	16,327,587
Air cargo and other properties	3,810,517	3,693,140	3,759,280
Total operating revenues	27,474,106	26,308,928	24,540,646
Operating expenses:			
Aviation area	2,241,790	2,190,390	2,031,595
Terminal area	5,579,811	5,273,861	5,328,985
Air cargo and other properties	1,621,939	1,673,103	1,644,636
General area:			
Safety	4,536,099	4,599,895	4,282,979
Administration	5,631,927	5,047,911	5,114,112
Total operating expenses	19,611,566	18,785,160	18,402,307
Operating income before other income and other expenses	7,862,540	7,523,768	6,138,339
Other income	13,082,418	8,318,110	18,127,924
Net revenues	20,944,958	15,841,878	24,266,263
Less capital contributions - grant receipts from government agencies included in other income	(9,437,726)	(4,547,269)	(14,463,193)
Net revenues less grant receipts from government agencies in other income	\$ 11,507,232	\$ 11,294,609	\$ 9,803,070
Debt service on airport revenue general obligation bonds (a)	\$ 6,366,528	\$ 6,377,790	\$ 6,645,106
Coverage ratio - airport revenue general obligation bonds	180.7%	177.1%	147.5%

*Source: Audited Financial Statements, 2006-2015**(a) Amounts based on scheduled principal payments and exclude capitalized interest.*

SCHEDULE 2:*Debt service coverage - last ten years (unaudited) (continued)*

2012	2011	2010	2009	2008	2007	2006
\$ 4,559,117	\$ 4,600,042	\$ 4,092,297	\$ 4,420,850	\$ 4,622,734	\$ 4,366,880	\$ 4,381,859
16,909,768	15,942,418	15,008,917	15,578,397	15,612,877	14,505,557	13,762,394
3,650,100	3,747,735	3,537,641	3,599,473	3,812,602	3,768,884	3,305,919
25,118,985	24,290,195	22,638,855	23,598,720	24,048,213	22,641,321	21,450,172
2,060,220	2,052,420	1,846,296	1,606,297	1,762,287	1,567,699	1,308,025
5,479,501	5,488,460	5,211,340	5,525,804	4,769,384	4,617,915	4,439,240
1,536,805	1,430,679	1,215,671	1,386,129	1,286,001	1,123,379	641,378
4,087,663	4,021,409	3,908,435	3,827,547	3,787,698	3,640,733	3,057,949
5,423,518	4,679,484	4,318,658	4,587,923	4,494,436	4,323,784	4,168,574
18,587,707	17,672,452	16,500,400	16,933,700	16,099,806	15,273,510	13,615,166
6,531,278	6,617,743	6,138,455	6,665,020	7,948,407	7,367,811	7,835,006
9,742,814	10,976,093	14,017,466	15,568,628	18,647,493	13,633,802	12,097,768
16,274,092	17,593,836	20,155,921	22,233,648	26,595,900	21,001,613	19,932,774
(5,598,693)	(6,929,117)	(9,771,088)	(10,814,592)	(13,462,701)	(8,507,430)	(7,805,242)
\$ 10,675,399	\$ 10,664,719	\$ 10,384,833	\$ 11,419,056	\$ 13,133,199	\$ 12,494,183	\$ 12,127,532
\$ 6,862,478	\$ 6,998,949	\$ 6,561,014	\$ 7,768,148	\$ 8,778,101	\$ 7,770,389	\$ 7,344,918
155.6%	152.4%	158.3%	147.0%	149.6%	160.8%	165.1%

SCHEDULE 3:*Ratios of debt service and outstanding debt - last ten years (unaudited)*

	2015	2014	2013
Principal (a)	\$ 4,155,000	\$ 3,950,000	\$ 3,755,000
Interest (b)	2,211,528	2,427,790	2,890,106
Total debt service	6,366,528	6,377,790	6,645,106
Total expenses	32,540,166	32,217,708	32,679,497
Less depreciation and amortization (c)	(10,717,072)	(11,004,758)	(11,387,084)
Add principal (a)	4,155,000	3,950,000	3,755,000
Add net capitalized interest	-	-	-
Total general expenditures	\$ 25,978,094	\$ 25,162,950	\$ 25,047,413
Ratio of debt service to expenditures	24.5%	25.3%	26.5%
Outstanding debt (d)	\$ 75,000,000	\$ 79,155,000	\$ 79,850,000
Total number of passengers (e)	1,739,716	1,711,664	1,746,074
Outstanding debt per passenger	\$ 43.11	\$ 46.24	\$ 45.73
Debt service per passenger	\$ 3.66	\$ 3.73	\$ 3.81

Source: Audited Financial Statements, 2006-2015

(a) Amounts based on scheduled principal payments

(b) Includes net capitalized interest

(c) The Authority adopted GASB Statement No. 65 in 2013, which requires bond issuance costs be expensed in the period incurred. Accordingly, fiscal years 2012 and 2011 have been restated to reflect the elimination of both unamortized bond issuance costs and deferred loss on bond refunding. The Authority does not consider it practicable to restate 2006-2010.

(d) Outstanding debt is for Airport Revenue Obligations, payable from general airport revenue

(e) Passenger numbers for the calendar year ended during the fiscal year

SCHEDULE 3:

Ratios of debt service and outstanding debt - last ten years (unaudited) (continued)

2012	2011	2010	2009	2008	2007	2006
\$ 3,575,000	\$ 3,400,000	\$ 3,235,000	\$ 3,075,000	\$ 2,925,000	\$ 2,785,000	\$ 2,650,000
3,287,478	3,598,949	3,326,014	4,693,148	5,853,101	4,985,389	4,694,918
6,862,478	6,998,949	6,561,014	7,768,148	8,778,101	7,770,389	7,344,918
34,144,731	34,528,903	31,882,868	33,633,738	33,708,463	31,993,960	29,418,485
(12,269,546)	(13,257,502)	(12,056,454)	(12,006,890)	(11,755,556)	(11,735,061)	(11,108,401)
3,575,000	3,400,000	3,235,000	3,075,000	2,925,000	2,785,000	2,650,000
-	-	-	-	-	-	-
\$ 25,450,185	\$ 24,671,401	\$ 23,061,414	\$ 24,701,848	\$ 24,877,907	\$ 23,043,899	\$ 20,960,084
27.0%	28.4%	28.5%	31.4%	35.3%	33.7%	35.0%
\$ 80,505,000	\$ 89,151,626	\$ 92,414,952	\$ 95,505,419	\$ 98,878,982	\$ 101,743,567	\$ 104,464,634
1,773,654	1,687,763	1,680,428	1,742,090	1,821,469	1,676,432	1,846,794
\$ 45.39	\$ 52.82	\$ 54.99	\$ 54.82	\$ 54.29	\$ 60.69	\$ 56.57
\$ 3.87	\$ 4.15	\$ 3.90	\$ 4.46	\$ 4.82	\$ 4.64	\$ 3.98

SCHEDULE 4:

*McGhee Tyson Airport annual terminal rents and landing fees
last ten years (unaudited)*

	2015	2014	2013
Terminal rent:			
Ticket counter (per linear foot)	\$38.6210	\$37.6869	\$38.9026
Ticket queuing (per square foot) (a)	\$38.6210	\$37.6869	\$38.9026
Office space (per square foot)	\$38.6210	\$37.6869	\$38.9026
Outbound baggage space (per square foot)	\$38.6210	\$37.6869	\$38.9026
Operations space (per square foot)	\$38.6210	\$37.6869	\$38.9026
Baggage service office (per square foot)	\$38.6210	\$37.6869	\$38.9026
Holdroom area (per square foot)	\$38.6210	\$37.6869	\$38.9026
Baggage claim (per square foot)	\$38.6210	\$37.6869	\$38.9026
Apron charge (per gate) (a)	\$77,624.00	\$75,751.00	\$70,476.00
Loading bridge rent (per bridge) (a)	\$51,378.00	\$45,955.00	\$47,828.00
Landing fee (per 1,000 pounds)	\$3.43	\$3.28	\$3.09

Notes:

The revenue bases to which these rates are applied and their principal payers can be found in schedules 7, 9 and 11.

(a) Fees and rental charges became effective with beginning of fiscal year for which amounts are shown.

SCHEDULE 4:

*McGhee Tyson Airport annual terminal rents and landing fees - last ten years (unaudited)
last ten years (unaudited) (continued)*

2012	2011	2010	2009	2008	2007	2006
\$39.3310	\$39.4490	\$36.1119	\$39.6946	\$37.3748	\$36.3666	\$33.4356
\$39.3310	\$39.4490	\$36.1119	\$39.6946	\$37.3748	\$36.3666	\$33.4356
\$39.3310	\$39.4490	\$36.1119	\$39.6946	\$37.3748	\$36.3666	\$33.4356
\$39.3310	\$39.4490	\$36.1119	\$39.6946	\$37.3748	\$36.3666	\$33.4356
\$39.3310	\$39.4490	\$36.1119	\$39.6946	\$37.3748	\$36.3666	\$33.4356
\$39.3310	\$39.4490	\$36.1119	\$39.6946	\$37.3748	\$36.3666	\$33.4356
\$39.3310	\$39.4490	\$36.1119	\$39.6946	\$37.3748	\$36.3666	\$33.4356
\$39.3310	\$39.4490	\$36.1119	\$39.6946	\$37.3748	\$36.3666	\$33.4356
\$67,492.00	\$68,396.00	\$63,160.00	\$60,331.00	\$68,652.00	\$67,867.00	\$58,640.00
\$43,557.00	\$46,324.00	\$36,518.00	\$49,607.00	\$19,928.00	\$3,411.00	\$15,594.30
\$2.82	\$2.80	\$2.56	\$2.46	\$2.64	\$2.71	\$2.54

SCHEDULE 5:*Airline arrivals and departures - last ten calendar years (unaudited)*

Calendar Year	Air carrier	Air taxi	General aviation	Military	Total
2005	8,904	55,536	56,868	16,568	137,876
2006	7,180	51,140	54,786	19,070	132,176
2007	8,791	50,039	58,610	16,293	133,733
2008	10,265	46,210	47,631	17,554	121,660
2009	10,007	41,567	37,993	14,706	104,273
2010	9,705	42,526	41,651	16,274	110,156
2011	8,328	40,101	40,229	19,138	107,796
2012	8,150	35,988	36,077	25,591	105,806
2013	8,939	34,382	32,592	24,928	100,841
2014	11,250	30,499	34,113	24,559	100,421

*Source: McGhee Tyson Airport F.A.A. Control Tower**Note: Air carriers are passenger, charter, and cargo aircraft certified by the F.A. A. to carry 60 or more passengers. Air taxis include regional, charter, and cargo aircraft that are certified to carry less than 60 passengers.*

SCHEDULE 6:*Historical airline passenger activity - last ten calendar years (unaudited)*

Calendar Year	Passengers enplaned	Passengers deplaned	Total passengers
2005	924,876	921,918	1,846,794
2006	841,385	835,047	1,676,432
2007	913,342	908,127	1,821,469
2008	869,460	872,630	1,742,090
2009	842,347	838,081	1,680,428
2010	851,275	836,488	1,687,763
2011	888,146	885,508	1,773,654
2012	875,687	870,387	1,746,074
2013	858,671	852,993	1,711,664
2014	871,964	867,752	1,739,716

*Source: Metropolitan Knoxville Airport Authority Aviation's Activities Statistics Report***SCHEDULE 7:***Distribution of airline passengers - calendar year ended December 31, 2014 (unaudited)*

Airline	Enplaned passengers	Deplaned passengers	Total passengers	Percentage of passengers
PSA	174,295	178,555	352,850	20.28%
ExpressJet	185,429	188,989	374,418	21.52%
Allegiant Air	109,490	109,533	219,023	12.59%
American Eagle	78,284	75,281	153,565	8.83%
ASA	30,732	30,321	61,053	3.51%
Delta	249,887	243,280	493,167	28.35%
Chatauqua	10,260	10,184	20,444	1.18%
Frontier	21,486	21,353	42,839	2.46%
Air Wisconsin	9,329	7,238	16,567	0.95%
Other	2,772	3,018	5,790	0.33%
Total	871,964	867,752	1,739,716	100.00%

*Source: Metropolitan Knoxville Airport Authority, Annual Activity Report**Note: The Authority has elected not to report a ten-year history of passengers by airline because history has shown when a particular airline withdraws from the market, another airline enters the market or an existing airline expands their flights.*

SCHEDULE 8:*Cargo - last ten calendar years (in pounds) (unaudited)*

Calendar Year	Freight		Total cargo
	Enplaned	Deplaned	
2005	39,959,911	45,596,944	85,556,855
2006	44,512,472	48,504,794	93,017,266
2007	46,843,699	53,461,619	100,305,318
2008	48,079,845	51,042,101	99,121,946
2009	45,843,610	39,398,046	85,241,656
2010	49,734,211	44,055,635	93,789,846
2011	49,099,154	43,466,038	92,565,192
2012	49,394,961	42,102,846	91,497,807
2013	43,486,588	40,005,659	83,492,247
2014	36,102,190	38,011,913	74,114,103

*Source: Metropolitan Knoxville Airport Authority Aviation's Activities Statistics Report***SCHEDULE 9:***Distribution of cargo - calendar year ended December 31, 2014 (in pounds) (unaudited)*

Airline	Freight		Total	Percentage
	Enplaned	Deplaned		
Major:				
Delta	167,273	221,824	389,097	0.53%
Regional:				
PSA	53,995	76,542	130,537	0.18%
Cargo:				
FedEx	24,661,835	26,673,254	51,335,089	69.26%
UPS	11,173,453	10,843,333	22,016,786	29.71%
AmeriFlight	30,330	195,650	225,980	0.30%
Other Freight	15,304	1,310	16,614	0.02%
Total	36,102,190	38,011,913	74,114,103	100%

*Source: Metropolitan Knoxville Airport Authority, Annual Activity Report.**Note: The Authority has elected not to report a ten-year history of cargo by airline because history has shown when a particular airline withdraws from the market, another airline enters the market or an existing airline expands their flights.*

SCHEDULE 10:*Aircraft landed weights - last ten calendar years (in thousand pound units) (unaudited)*

Calendar Year	Major passenger airlines	Regional airlines	Cargo airlines	Total
2005	206,860	1,053,024	288,263	1,548,147
2006	131,386	924,557	299,278	1,355,221
2007	136,898	1,030,626	318,883	1,486,407
2008	64,228	1,065,072	343,897	1,473,197
2009	13,333	1,075,228	307,491	1,396,052
2010	30,030	1,083,329	312,442	1,425,801
2011	38,956	1,025,804	311,389	1,376,149
2012	55,273	933,345	313,711	1,302,329
2013	190,816	782,492	303,604	1,276,912
2014	261,204	732,616	284,087	1,277,907

Source: Metropolitan Knoxville Airport Authority Aviation's Activities Statistics Report

SCHEDULE 11:*Aircraft landed weights - ten calendar year trend history (in thousand pound units) (unaudited)*

Airline	2014		2013		2012		2011	
	Number	%	Number	%	Number	%	Number	%
PSA	216,880	17%	222,720	17%	211,818	16%	203,805	15%
ExpressJet	211,504	16%	209,541	17%	112,772	9%	116,312	8%
FedEx	194,247	15%	215,904	17%	244,906	19%	251,577	18%
Pinnacle	155,464	12%	144,815	12%	180,081	14%	159,691	12%
Delta	135,464	11%	79,204	6%	33,442	3%	38,956	3%
Allegiant Air	103,242	8%	98,341	8%	94,506	7%	95,997	7%
American Eagle	89,496	7%	98,729	8%	163,255	13%	135,089	10%
UPS	87,938	7%	85,739	7%	55,273	4%	57,600	4%
ASA	33,584	3%	76,112	6%	109,435	8%	107,859	8%
Frontier	22,498	2%	12,768	1%	2,914	0%	15,601	1%
Air Wisconsin	12,737	1%	3,995	0%	-	0%	47	0%
Chataqua	12,558	1%	16,049	1%	1,530	0%	8,970	1%
AmeriFlight	1,544	0%	1,621	0%	-	0%	1,576	0%
Piedmont	394	0%	3,235	0%	368	0%	6,724	0%
Mountain Air	217	0%	128	0%	-	0%	298	0%
Air Net	72	0%	187	0%	-	0%	338	0%
Mesa	-	0%	3,747	0%	-	0%	67	0%
Compass	-	0%	3,523	0%	56	0%	5,022	0%
Continental Express	-	0%	-	0%	67,181	5%	85,028	6%
AirTran Airways	-	0%	-	0%	9,569	1%	27,216	2%
Skywest	-	0%	-	0%	8,320	1%	22,469	2%
Comair	-	0%	-	0%	2,785	0%	14,194	1%
Mesaba	-	0%	-	0%	2,625	0%	9,150	1%
Vision Airlines	-	0%	-	0%	1,457	0%	7,712	1%
Trans States	-	0%	-	0%	36	0%	4,851	0%
Freedom	-	0%	-	0%	-	0%	-	0%
Shuttle America	-	0%	-	0%	-	0%	-	0%
DHL	-	0%	-	0%	-	0%	-	0%
Ross Aviation	-	0%	-	0%	-	0%	-	0%
Northwest	-	0%	-	0%	-	0%	-	0%
Independence Air	-	0%	-	0%	-	0%	-	0%
Martinaire	-	0%	-	0%	-	0%	-	0%
Other	68	0%	554	0%	-	0%	-	0%
Total	1,277,907	100%	1,276,912	100%	1,302,329	100%	1,376,149	100%

Source: Metropolitan Knoxville Airport Authority, Annual Activity Report

SCHEDULE 11:

Aircraft landed weights - ten calendar year trend history (in thousand pound units) (unaudited) (continued)

2010		2009		2008		2007		2006		2005	
Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
222,195	16%	180,509	13%	184,484	13%	171,875	12%	157,072	12%	149,721	10%
77,703	5%	25,732	2%	-	0%	-	0%	-	0%	-	0%
252,764	18%	240,053	17%	215,264	15%	187,799	13%	149,468	11%	150,752	10%
153,709	11%	190,705	14%	175,401	12%	150,729	10%	151,575	11%	161,915	10%
30,030	2%	1,013	0%	64,228	4%	136,898	9%	130,603	10%	198,612	13%
105,754	7%	108,339	8%	89,689	6%	70,781	5%	1,536	0%	-	0%
145,312	10%	130,633	9%	120,159	8%	125,742	8%	122,701	9%	121,487	8%
55,862	4%	66,235	5%	76,258	5%	79,310	5%	86,286	6%	76,053	5%
136,356	10%	132,687	10%	98,002	7%	82,101	6%	46,262	3%	128,233	8%
-	0%	-	0%	-	0%	-	0%	-	0%	-	0%
47	0%	-	0%	2,444	0%	14,006	1%	24,158	2%	51,888	3%
8,893	1%	851	0%	8,040	1%	16,644	1%	40,681	3%	35,247	2%
720	0%	-	0%	-	0%	-	0%	-	0%	-	0%
797	0%	25,544	2%	23,947	2%	17,441	1%	18,851	1%	27,651	2%
-	0%	81	0%	94	0%	45	0%	9,571	1%	2,727	0%
3,096	0%	-	0%	-	0%	-	0%	-	0%	-	0%
3,600	0%	24,038	2%	12,574	1%	74	0%	425	0%	20,595	1%
-	0%	-	0%	-	0%	-	0%	-	0%	-	0%
87,362	6%	93,466	7%	109,789	7%	105,441	7%	100,835	7%	87,650	6%
28,256	2%	12,320	1%	-	0%	-	0%	-	0%	-	0%
53,019	4%	53,659	4%	66,564	5%	54,317	4%	61,363	5%	24,863	2%
16,168	1%	34,557	2%	69,294	5%	87,548	6%	83,372	6%	101,168	7%
5,700	0%	-	0%	-	0%	-	0%	-	0%	-	0%
-	0%	-	0%	-	0%	-	0%	-	0%	-	0%
18,722	1%	36,805	3%	62,930	4%	102,288	7%	74,759	6%	39,398	3%
17,469	1%	10,880	1%	21,358	1%	31,281	2%	33,702	2%	-	0%
1,839	0%	26,202	2%	19,714	1%	217	0%	6,587	0%	5,467	0%
-	0%	1,122	0%	52,280	4%	51,729	3%	51,592	4%	48,921	3%
-	0%	-	0%	-	0%	-	0%	2,361	0%	8,858	1%
-	0%	-	0%	-	0%	-	0%	783	0%	8,248	1%
-	0%	-	0%	-	0%	-	0%	611	0%	97,713	6%
-	0%	-	0%	-	0%	-	0%	-	0%	952	0%
428	0%	621	0%	684	0%	142	0%	67	0%	28	0%
1,425,801	100%	1,396,052	100%	1,473,197	100%	1,486,408	100%	1,355,221	100%	1,548,147	100%

SCHEDULE 12:*Total Passengers - ten calendar year trend history (unaudited)*

Airline	2014		2013		2012		2011	
	Number	%	Number	%	Number	%	Number	%
Delta	493,167	28%	130,373	8%	94,695	5%	64,708	4%
ExpressJet	374,418	22%	326,156	19%	321,320	18%	185,454	10%
PSA	352,850	20%	351,831	21%	347,084	20%	315,902	18%
Allegiant Air	219,023	13%	209,320	12%	186,968	11%	191,284	11%
American Eagle	153,565	9%	176,407	10%	206,837	12%	216,316	12%
ASA	61,053	4%	140,937	8%	199,860	11%	195,141	11%
Frontier	42,839	2%	24,355	1%	47,930	3%	25,779	1%
Chautauqua	20,444	1%	25,833	2%	-	0%	16,422	1%
Air Wisconsin	16,567	1%	4,971	0%	2,649	0%	30	0%
Piedmont	833	0%	5,774	0%	5,824	0%	11,749	1%
Endeavor Air	-	0%	248,227	15%	284,617	16%	268,014	15%
ExpressJet AE	-	0%	45,908	3%	-	0%	-	0%
Compass	-	0%	5,598	0%	4,568	0%	8,321	0%
Mesa	-	0%	5,113	0%	602	0%	-	0%
Continental Express	-	0%	-	0%	13,930	1%	132,351	7%
AirTran Airways	-	0%	-	0%	13,928	1%	49,462	3%
Comair	-	0%	-	0%	5,576	0%	21,931	1%
Skywest	-	0%	-	0%	-	0%	26,649	2%
Vision Airlines	-	0%	-	0%	-	0%	11,799	1%
Mesaba	-	0%	-	0%	-	0%	11,398	1%
Trans States	-	0%	-	0%	-	0%	7,854	0%
Freedom Airlines	-	0%	-	0%	-	0%	-	0%
Shuttle America	-	0%	-	0%	-	0%	-	0%
Northwest	-	0%	-	0%	-	0%	-	0%
Independence Air	-	0%	-	0%	-	0%	-	0%
Other	4,957	0%	10,861	1%	9,686	1%	13,090	1%
Total	1,739,716	100%	1,711,664	100%	1,746,074	100%	1,773,654	100%

Source: Schedule 7 of Comprehensive Annual Financial Report.

SCHEDULE 12:*Total Passengers - ten calendar year trend history (unaudited) (continued)*

2010		2009		2008		2007		2006		2005	
Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
42,002	2%	1,906	0%	88,882	5%	195,735	11%	197,348	12%	267,349	14%
111,514	7%	39,344	2%	-	0%	-	0%	-	0%	-	0%
305,421	18%	264,914	16%	263,692	15%	262,471	14%	249,175	15%	185,242	10%
209,772	12%	207,695	12%	171,092	10%	132,802	7%	2,929	0%	-	0%
202,054	12%	205,582	12%	198,903	11%	217,554	12%	208,676	12%	198,454	11%
239,675	14%	217,978	13%	161,352	9%	139,077	8%	81,458	5%	205,091	11%
-	0%	-	0%	-	0%	-	0%	-	0%	-	0%
13,117	1%	1,294	0%	12,745	1%	25,353	1%	67,725	4%	62,722	3%
30	0%	-	0%	2,716	0%	17,043	1%	30,433	2%	75,215	4%
1,081	0%	37,330	2%	33,461	2%	26,911	1%	32,411	2%	42,738	2%
220,188	13%	282,009	17%	256,577	15%	220,263	12%	219,932	13%	235,474	13%
-	0%	-	0%	-	0%	-	0%	-	0%	-	0%
-	0%	-	0%	-	0%	-	0%	-	0%	-	0%
3,859	0%	30,669	2%	18,943	1%	-	0%	429	0%	29,827	2%
129,071	8%	141,162	8%	169,315	10%	164,525	9%	163,657	10%	140,539	8%
50,374	3%	23,682	1%	-	0%	-	0%	-	0%	-	0%
21,868	1%	44,147	3%	98,636	6%	129,141	7%	134,065	8%	146,177	8%
67,220	4%	72,037	4%	99,809	6%	83,693	5%	99,787	6%	40,403	2%
-	0%	-	0%	-	0%	-	0%	-	0%	-	0%
-	0%	-	0%	-	0%	-	0%	-	0%	-	0%
25,022	1%	50,272	3%	91,730	5%	152,836	8%	112,693	7%	57,444	3%
26,047	2%	18,328	1%	35,487	2%	48,695	3%	57,279	3%	-	0%
2,069	0%	31,150	2%	28,467	2%	-	0%	10,832	1%	8,100	0%
-	0%	-	0%	894	0%	296	0%	1,601	0%	6,581	0%
-	0%	-	0%	-	0%	-	0%	799	0%	138,107	7%
17,379	1%	10,929	1%	9,389	1%	5,074	0%	5,203	0%	7,331	0%
1,687,763	100%	1,680,428	100%	1,742,090	100%	1,821,469	100%	1,676,432	100%	1,846,794	100%

SCHEDULE 13:*Distribution of total cargo - ten calendar year trend history (in pounds)(unaudited)*

Airline	2014		2013		2012		2011	
	Number	%	Number	%	Number	%	Number	%
<i>Passenger:</i>								
Delta	389,097	1%	331,408	0%	250,349	0%	155,741	0%
PSA	130,537	0%	161,698	0%	232,477	0%	143,361	0%
American Eagle	3,033	0%	-	0%	-	0%	-	0%
ASA	-	0%	-	0%	16,437	0%	41,931	0%
Pinnacle	-	0%	-	0%	14,273	0%	8,669	0%
Comair	-	0%	-	0%	2,374	0%	2,383	0%
Chautauqua	-	0%	-	0%	486	0%	188	0%
Continental Express	-	0%	-	0%	-	0%	-	0%
Shuttle America	-	0%	-	0%	-	0%	-	0%
Skywest	-	0%	-	0%	-	0%	-	0%
Piedmont	-	0%	-	0%	-	0%	-	0%
Northwest	-	0%	-	0%	-	0%	-	0%
Trans States	-	0%	-	0%	-	0%	-	0%
Mesa	-	0%	-	0%	-	0%	-	0%
Air Wisconsin	-	0%	-	0%	-	0%	-	0%
Other	-	0%	-	0%	8	0%	76	0%
<i>Cargo:</i>								
FedEx	51,335,089	69%	61,376,305	74%	70,280,049	77%	75,006,336	81%
UPS	22,016,786	30%	21,383,678	26%	20,443,189	22%	16,883,576	18%
Air Net	531	0%	19,862	0%	8,744	0%	38,208	0%
AmeriFlight	225,980	0%	219,296	0%	227,381	0%	252,284	0%
Mountain Air	-	0%	-	0%	-	0%	32,439	0%
DHL	-	0%	-	0%	-	0%	-	0%
Martinaire	-	0%	-	0%	-	0%	-	0%
Other	13,050	0%	-	0%	22,040	0%	-	0%
Total	74,114,103	100%	83,492,247	100%	91,497,807	100%	92,565,192	100%

Source: Schedule 9 of Comprehensive Annual Financial Report.

SCHEDULE 13:

Distribution of total cargo - ten calendar year trend history (in pounds)(unaudited) (continued)

2010		2009		2008		2007		2006		2005	
Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
159,235	0%	-	0%	404,524	0%	704,041	1%	681,385	1%	1,307,682	2%
98,960	0%	-	0%	-	0%	-	0%	31,239	0%	31,258	0%
-	0%	29,864	0%	23,232	0%	22,149	0%	24,940	0%	26,356	0%
49,589	0%	24,950	0%	38,990	0%	46,187	0%	31,410	0%	78,304	0%
9,306	0%	66,197	0%	136,690	0%	131,648	0%	152,193	0%	124,847	0%
47,025	0%	9,911	0%	14,856	0%	14,741	0%	41,155	0%	56,408	0%
-	0%	-	0%	310	0%	4,199	0%	16,800	0%	2,475	0%
-	0%	63,924	0%	135,820	0%	129,771	0%	152,392	0%	197,378	0%
-	0%	-	0%	1,794	0%	-	0%	-	0%	-	0%
-	0%	-	0%	217	0%	-	0%	-	0%	51,107	0%
-	0%	-	0%	-	0%	-	0%	959	0%	2,555	0%
-	0%	-	0%	-	0%	-	0%	495	0%	1,085	0%
-	0%	-	0%	-	0%	-	0%	-	0%	15,536	0%
-	0%	-	0%	-	0%	-	0%	-	0%	9,500	0%
-	0%	-	0%	-	0%	-	0%	-	0%	6,695	0%
-	0%	-	0%	1,507	0%	1,413	0%	13,563	0%	-	0%
77,185,499	83%	71,579,915	84%	68,529,873	69%	60,063,794	60%	58,048,691	62%	59,826,621	70%
15,722,927	17%	13,262,819	16%	14,750,798	15%	21,633,065	22%	18,049,466	19%	17,040,473	20%
379,301	0%	-	0%	-	0%	-	0%	-	0%	-	0%
138,004	0%	-	0%	-	0%	-	0%	-	0%	-	0%
-	0%	14,992	0%	10,382	0%	6,633	0%	2,654,476	3%	957,369	1%
-	0%	189,084	0%	15,072,953	15%	17,547,677	17%	13,118,102	14%	5,669,335	7%
-	0%	-	0%	-	0%	-	0%	-	0%	151,871	0%
-	0%	-	0%	-	0%	-	0%	-	0%	-	0%
93,789,846	100%	85,241,656	100%	99,121,946	100%	100,305,318	100%	93,017,266	100%	85,556,855	100%

SCHEDULE 14:

Authority employees and demographic data - population (unaudited)

	Full-time equivalent employees as of fiscal year-end									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Administration	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	13.0	12.5
Marketing/Public Relations	7.0	7.0	8.0	7.5	10.0	8.0	8.0	9.0	7.5	7.5
Engineering & Planning	7.0	6.0	6.0	6.0	5.5	5.5	5.5	5.5	5.5	5.5
Safety (Police & Fire)	45.0	42.0	45.0	45.0	46.0	46.0	46.0	44.0	43.0	42.0
Operations Administration	12.0	10.5	9.5	10.0	9.5	9.5	9.0	8.0	7.5	8.5
Building Maintenance	5.0	5.5	5.0	6.0	7.0	6.0	7.0	5.0	5.0	5.0
Electrical Maintenance	3.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Airfield Maintenance	22.0	21.5	21.5	24.0	24.0	21.0	19.5	18.5	18.0	18.0
Building Services (Janitorial)	29.0	28.5	28.5	31.0	30.0	29.5	28.0	32.0	27.0	27.0
Knoxville Downtown Island Airport	7.0	6.5	7.0	9.0	7.5	7.5	7.5	7.0	7.0	6.5
Total Employees	149.5	144.0	147.0	155.0	156.0	149.5	147.0	145.5	137.5	136.5

Notes:

A full-time employee is scheduled to work 2,080 hours per year (including vacation and sick leave). Full-time equivalent employment is calculated by dividing total labor hours by 2,080.

Demographic data - population (unaudited)

Actual	City	County	Metropolitan area (b)
1960	111,827	250,563	424,586
1970	174,587 (a)	276,293	461,876
1980	175,045	319,694	546,488
1990	165,121	335,749	585,926
2000	173,890	382,032	687,249
2010	178,874	432,226	787,919

Source: Bureau of the Census

Notes:

(a) Large increase in population due to annexation.

(b) Knoxville's Metropolitan Statistical Area (MSA) includes Anderson, Blount, Knox, Loudon, Sevier, and Union counties. Prior to 1983, statistics were gathered only for Anderson, Blount, Knox, and Union counties.

SCHEDULE 15:*Demographic data - unemployment information last ten years (unaudited)*

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
National	5.1%	4.6%	4.6%	5.8%	10.0%	9.1%	8.9%	8.1%	6.7%	6.2%
Tennessee	5.6	5.2	4.8	6.4	10.9	9.4	9.2	8.2	7.7	6.7
Major Tennessee metropolitan areas:										
Chattanooga	4.8	4.4	4.1	5.7	9.1	8.8	8.3	7.5	6.7	6.5
Knoxville (a)	4.4	4.1	3.7	5.1	8.7	7.9	7.3	6.7	6.0	5.8
Memphis	6.2	5.7	5.2	6.6	10.3	10.3	9.9	9.1	8.5	7.6
Nashville	4.4	4.2	4.0	5.5	9.4	8.7	8.0	6.8	5.5	5.2

*Source: Tennessee Department of Labor and Workforce Development**(a) Knoxville's Metropolitan Statistical Area (MSA) includes Anderson, Blount, Knox, Loudon, Sevier, and Union Counties.***SCHEDULE 16:***Demographic data - per capita personal income last ten years (unaudited)*

Calendar Year	Tennessee	United States
2005	30,969	34,513
2006	32,430	36,307
2007	33,711	38,617
2008	34,789	39,654
2009	35,287	39,205
2010	35,200	39,856
2011	36,596	41,348
2012	37,789	42,436
2013	38,752	43,735
2014	40,331	45,996

*Source: U.S. Department of Commerce Bureau of Economic Analysis***SCHEDULE 17:***Demographic data - total personal income last ten years (thousands of dollars) (unaudited)*

Calendar Year	Tennessee	United States
2005	184,442,901	10,239,000,000
2006	195,656,000	10,898,000,000
2007	204,896,000	11,660,000,000
2008	213,358,511	12,086,533,000
2009	217,884,000	12,070,000,000
2010	222,204,000	12,374,000,000
2011	232,832,000	12,960,000,000
2012	243,018,000	13,381,000,000
2013	256,969,000	14,151,000,000
2014	266,037,000	14,694,000,000

Source: U.S. Department of Commerce Bureau of Economic Analysis

SCHEDULE 18

Demographic data - top employers in Knoxville area for the last ten years (unaudited)

	2014		2013		2012		2011	
	Employees	%	Employees	%	Employees	%	Employees	%
Major Employers								
U.S. Department of Energy								
Oak Ridge Operations	11,637	3%	11,877	4%	12,947	3%	13,082	4%
Covenant Health	10,458	3%	9,122	3%	6,771	2%	9,494	3%
Knox County Schools	6,804	2%	7,066	2%	6,409	2%	6,891	2%
The University of Tennessee								
Knoxville	6,660	2%	6,550	2%	9,328	2%	6,400	2%
Wal-Mart Stores, Inc.	6,006	2%	5,776	2%	4,613	1%	4,668	1%
McGhee Tyson								
Air National Guard Base	1,717	0%	4,897	1%	2,174	1%	n/a	-
University of Tennessee								
Medical Center	4,224	1%	4,061	1%	3,986	1%	3,942	1%
K-VA-T Food Stores	4,078	1%	3,857	1%	3,537	1%	n/a	-
Denso Manufacturing								
Tennessee	3,500	1%	3,400	1%	2,184	1%	2,346	1%
Tennova Healthcare	4,067	1%	3,124	1%	5,326	1%	3,857	1%
Major Manufacturing:								
CNS - Y-12	4,300	1%	4,300	1%	4,478	1%	4,690	1%
Denso Manufacturing								
Tennessee	3,500	1%	3,400	1%	2,184	1%	2,346	1%
Aluminum Company								
of America	1,176	0%	1,207	0%	1,207	0%	1,233	0%
Green Mountain Coffee	975	0%	975	0%	900	0%	900	0%
SL America Corp	775	0%	850	0%	900	0%	400	0%
Exedy America Corp	751	0%	751	0%	725	0%	710	0%
Eagle Bend Manufacturing	700	0%	750	0%	700	0%	624	0%
JTEKT	923	0%	720	0%	722	0%	596	0%
Aisin Automotive Casting	615	0%	600	0%	512	0%	512	0%
Charles Blalock & Sons, Inc.	625	0%	600	0%	590	0%	525	0%
Major Customer								
Service Centers:								
Wal-Mart Stores, Inc.	6,006	2%	5,776	2%	5,326	1%	4,668	1%
K-VA-T Food Stores	4,078	1%	3,857	1%	3,537	1%	n/a	-
The Kroger Co.	2,616	1%	2,555	1%	2,668	1%	n/a	-
Dollywood Co.	2,521	1%	2,521	1%	2,558	1%	2,534	1%
McDonald's Corp.	2,377	1%	2,416	1%	2,858	1%	n/a	-
Yum! Brands RSC	1,830	0%	1,806	1%	1,945	1%	n/a	-
Cracker Barrel	1,608	0%	1,758	1%	1,467	0%	n/a	-
CVS Caremark Rx	1,740	0%	1,524	0%	1,484	0%	1,377	0%
Pilot Flying J	1,529	0%	1,451	0%	1,365	0%	n/a	-
Copper Cellar Corp.	1,265	0%	1,253	0%	1,223	0%	n/a	-

Source: Knoxville Area Chamber Partnership

Notes: Percentages reported above are based upon total employment in the Knoxville Metropolitan Statistical Area (MSA).

n/a = not available

SCHEDULE 18:

Demographic data - top employers in Knoxville area for the last ten years (unaudited) (continued)

2010		2009		2008		2007		2006		2005	
Employees	%	Employees	%	Employees	%	Employees	%	Employees	%	Employees	%
13,925	4%	13,182	4%	12,927	4%	12,620	4%	11,943	4%	11,802	3%
9,000	2%	8,982	3%	9,016	3%	8,834	2%	8,664	3%	6,997	2%
6,945	2%	8,382	3%	7,553	2%	8,150	2%	7,860	2%	7,900	2%
9,326	3%	11,901	4%	8,754	3%	8,429	2%	8,447	3%	7,997	2%
4,336	1%	5,330	2%	4,869	1%	5,300	1%	4,472	1%	4,565	1%
n/a	-	n/a	-	n/a	-	n/a	-	n/a	-	n/a	-
3,802	1%	3,724	1%	3,727	1%	3,579	1%	3,367	1%	3,195	1%
n/a	-	n/a	-	3,853	1%	n/a	-	n/a	-	n/a	-
2,700	1%	2,500	1%	3,000	1%	2,940	1%	2,900	1%	2,400	1%
5,700	2%	4,368	1%	5,711	2%	5,904	2%	3,529	1%	3,411	1%
n/a	-	n/a	-	n/a	-	n/a	-	n/a	-	n/a	-
2,700	1%	2,500	1%	3,000	1%	2,940	1%	2,900	1%	2,400	1%
1,218	0%	1,368	0%	1,758	1%	1,248	0%	1,680	1%	1,723	0%
n/a	-	n/a	-	n/a	-	n/a	-	n/a	-	n/a	-
n/a	-	n/a	-	n/a	-	n/a	-	n/a	-	n/a	-
n/a	-	n/a	-	n/a	-	n/a	-	n/a	-	n/a	-
n/a	-	n/a	-	n/a	-	n/a	-	n/a	-	n/a	-
n/a	-	n/a	-	n/a	-	n/a	-	n/a	-	n/a	-
n/a	-	n/a	-	n/a	-	n/a	-	n/a	-	n/a	-
n/a	-	n/a	-	n/a	-	n/a	-	n/a	-	n/a	-
4,336	1%	5,330	2%	4,869	1%	5,300	1%	4,472	1%	4,565	1%
n/a	-	n/a	-	3,853	1%	n/a	-	n/a	-	n/a	-
n/a	-	n/a	-	2,089	1%	n/a	-	n/a	-	n/a	-
2,467	1%	2,550	1%	2,573	1%	2,500	1%	2,350	1%	n/a	-
n/a	-	n/a	-	1,650	0%	n/a	-	n/a	-	n/a	-
n/a	-	n/a	-	2,019	1%	n/a	-	n/a	-	n/a	-
n/a	-	n/a	-	1,599	0%	n/a	-	n/a	-	n/a	-
1,200	0%	1,775	1%	1,259	0%	1,082	0%	475	0%	400	0%
n/a	-	n/a	-	1,128	0%	n/a	-	n/a	-	n/a	-
n/a	-	n/a	-	1,167	0%	n/a	-	n/a	-	n/a	-

SCHEDULE 19:*Airlines serving McGhee Tyson Airport (unaudited)*

June 30, 2015

Major/domestic passenger airlines

Allegiant Air

American Airlines*

Delta Air Lines*

Frontier Airlines*

United Airlines*

US Airways*

Some or all service offered through regional airline affiliates shown below*Regional Airline Affiliates**

Envoy Airlines, Inc./American Eagle Airlines, Inc.

Endeavor Air /Delta Connection

ExpressJet/American Eagle

ExpressJet/Delta Connection

ExpressJet/United Express

Piedmont Airlines/US Airways Express

PSA Airlines Inc./US Airways Express

Air Wisconsin Airlines, Inc./US Airways Express

Cargo airlines

FedEx, Inc.

UPS Airlines, Inc.

SCHEDULE 20:*Flight information (unaudited)*

June 30, 2015

Passenger Airlines	Destination	Daily flights	Daily seats	Aircraft
Allegiant Air*	St. Petersburg/Tampa Bay	1	166	MD80/A320
	Fort Lauderdale	1	166	MD80/A320
	Orlando-Sanford	1	166	MD80/A320
	Punta Gorda/SW Florida	1	166	MD80/A320
American Eagle	Dallas/Fort Worth	5	250	RJ
	Chicago-O'Hare	4	200	RJ
	New York-LaGuardia	1	50	RJ
Delta/Delta Connection	Atlanta	9	1,000	RJ/MD90
	New York-LaGuardia	2	100	RJ
	Detroit	4	225	RJ
	Minneapolis/St. Paul	1	50	RJ
Frontier Airlines*	Denver	1	137	A319
United Express	Chicago-O'Hare	5	250	RJ
	Denver	1	50	RJ
	Washington-Dulles	4	200	RJ
	Houston	4	200	RJ
	Newark	2	100	RJ
US Airways Express	Philadelphia	2	100	RJ
	Charlotte	8	400	RJ
	Washington-National	3	150	RJ
Totals		60	4,126	

*Less than daily service and/ or seasonal service in some markets.

Cargo Airlines	Destination	Daily flights	Daily seats	Aircraft
FedEx, Inc	Indianapolis	1	N/A	A310
	Memphis	2	N/A	A310
UPS Airlines	Louisville	1	N/A	B757

SCHEDULE 21:*Companies conducting business on airport property (unaudited)*

June 30, 2015

Aviation service operators

Aero Advertising, Inc.
 Aircraft Technicians, Inc.
 Consolidated Aviation Services, LLC
 G2 Secure Staff, LLC
 Grande Aviation, LLC
 Horizon Avionics, Inc.
 Jetstar Aviation, LLC
 Knoxville Flight Training Center, Inc.
 MaxAir Charters dba Flight Choice
 Murphey's Majestic Mountain Tours
 Quick Flight
 Smoky Mountain Air Charter Service
 Standard Aero Alliance
 TAC Air
 The Jet Shop, LLC
 Xpress Aircraft Maintenance, LLC

U.S. government agencies

Federal Aviation Administration
 Knox County Sheriff's Dept.
 Tennessee Air National Guard
 Tennessee Army National Guard
 Transportation Security Administration

Airline maintenance

ExpressJet
 Endeavor Air (Delta Connection)

Bank ATMs

First Tennessee Bank
 Regions Bank
 Suntrust Bank
 TN State Bank

Concessionaires

Classic Shine
 Digiboo
 Five Star Food Service
 HMS Host Corporation
 Knoxville Airport Hotel Company dba
 Knoxville Airport Hilton
 Knoxville Coca-Cola Co.
 Ruby Tuesday, Inc.
 Smarte Carte, Inc.
 Paradies-Knoxville, LLC
 Security Point Media, LLC

Rental car companies

Alamo Rent A Car
 Avis Car Rental
 Budget Car Rental
 Dollar Rent-a-Car
 Enterprise Rent-A-Car
 Hertz Rent-a-Car
 National Car Rental
 Payless Car Rental
 Sixt Rent A Car
 Thrifty Rent-a-Car
 Zipcar

Other

Airport Office Partners, LLC
 ARINC
 CNN Network
 GAT Security Services, Inc.
 Global Logistic, LLC
 National Safe Skies Alliance
 Passur Aerospace
 R Squared Construction
 Remote Area Medical
 Republic Parking System
 SITA
 Volunteer Turf, LLC

SCHEDULE 22:

Use of bond proceeds (unaudited)

Descriptions of the uses of proceeds from the Authority's bond issues are summarized below.

Local government public improvement revenues bonds

Series 2008 V-A-1—\$84,645,000

Proceeds from this bond issue were used to refund the Series III-A outstanding bonds in advance of their maturity.

Series 2000 II-D-1—\$18,500,000

Proceeds from this bond issue were used to finance a regional jet maintenance facility for ExpressJet, formerly Continental Express, Inc., and for the West Aviation Area at McGhee Tyson Airport. These were the first bonds issued under the new Master Bond Resolution.

Special purpose revenue bonds Series 2002—\$8,500,000

The Authority issued these bonds on behalf of Northwest Airlines, Inc., now Delta Air Lines, to construct a regional jet maintenance hangar for their affiliate airline, Pinnacle Airlines, Inc., in the West Aviation Area. The Authority is not at risk for these bonds.

Local government public improvement revenue bonds (retired)

Series 2001 III-A—\$ 95,000,000 (retired)

Proceeds from this bond issue were used for repayment of all outstanding General Obligation bonds, including Series E-1, E-2, II-G-2, III-B-1, III-G-2, and IV-A-1. They were also used for completion of the renovation and expansion of the terminal building at McGhee Tyson Airport, for the West Aviation Area, and for land acquisition.

Series 1999 IV-A-1—\$20,300,000 (retired)

Proceeds from this bond issue were used to finance the renovation and expansion of the terminal building at McGhee Tyson Airport, construct a 750-space public parking lot, and refinance the outstanding Airport Revenue-General Obligation Series G and H bonds.

Series 1999 111-G-2—\$5,500,000 (retired)

Proceeds from this bond issue were used to finance the renovation and expansion of the terminal building at McGhee Tyson Airport.

Series 1998 1MB-1—\$36,500,000 (retired)

Proceeds from this bond issue were used to finance the renovation and expansion of the terminal building at McGhee Tyson Airport.

Series 1997 II-G-2—\$ 8,000,000 (retired)

Proceeds from this bond issue were used to finance the renovation and expansion of the terminal building at McGhee Tyson Airport.

Series 1996 E-2—\$5,350,000 (retired)

Proceeds from this bond issue were used to finance the construction of improvements to the air cargo facilities at the McGhee Tyson Airport and aircraft T-hangars at the Knoxville Downtown Island Airport. They were also used to refinance the outstanding Airport Revenue-General Obligation Bonds, Series F.

Series 1996 E-1—\$7,150,000 (retired)

Proceeds from this bond issue were used to expand the public garage in front of the terminal building from 1,394 to 2,811 spaces.

SCHEDULE 22:

Use of bond proceeds (unaudited) (continued)

Airport revenue—general obligation bonds (retired)

Series 1994 H—\$3,400,000 (retired)

Proceeds from this bond issue were used to refund the remaining Series E outstanding bonds in advance of their maturity.

Series 1993 G—\$8,850,000 (retired)

Proceeds from this bond issue were used for a 619-space expansion to the public parking garage next to the terminal, roadway improvements, and refunding a portion of Series E outstanding bonds in advance of their maturity.

Series 1990 F—\$7,500,000 (retired)

Proceeds of this bond issue were used for certain airport improvements, consisting of an air cargo facility, improvements to the airport terminal, and land for airport development.

The air cargo complex includes three special purpose buildings totaling 54,200 square feet, 430,000 square feet of aircraft apron and more than 300,000 square feet of vehicular parking areas. Improvements to the airport terminal include improvements to the concourses and main terminal building. Land for use by the Authority includes the acquisition of certain tracts within the immediate vicinity of the airport for future airport development.

Series 1988 E—\$10,000,000 (retired)

Proceeds from this bond issue were used for certain airport improvements consisting of a parking structure, an air cargo complex and certain general aviation improvements.

The parking facility is the 775-space public parking garage constructed next to the terminal. The air cargo funds were used for design and earth work for the air cargo complex financed by the Series 1990 F Bonds. The general aviation improvements included ramp pavement in the general aviation area of the airport.

Series 1976 D—\$2,250,000 (retired)

Proceeds were used for improvements to Runways 5R/23L and 5L/23R.

Series 1974 C—\$3,000,000 (retired)

Proceeds were used for improvements to the terminal area.

Series 1972 B—\$4,000,000 (retired)

Proceeds were used to construct a new three-level terminal, terminal apron, taxiway construction and access roads.

Series 1972 A—\$2,220,000 (retired)

Proceeds were used for improvements to the terminal area.

Special facilities revenue bonds (retired)

Series 1969—\$385,000

These bonds were used for the construction of an air cargo building.

Municipal airport bonds (retired)

Series 1963 E, 1961D and 1950-1957—\$2,235,000

These bonds were issued to pay for construction, repairs, and improvements to the McGhee Tyson Airport and the Knoxville Downtown Island Airport.

SCHEDULE 23:
Insurance in force (unaudited)
June 30, 2015

Type of policy	Policy insurer	Expiration date	Policy limit	Risk Coverage
Airport Liability	ACE USA	July 11, 2016	\$200,000,000 aggregate limit	Personal injury and property damage
War Risk Liability	ACE USA	July 11, 2016	\$100,000,000	War and Terrorism
Commercial Property (Includes Terrorism) Boiler & Machinery	Affiliated FM Insurance	June 30, 2016	\$229,463,082	Buildings - Fire and other perils (includes contents, rental income and extra expense)
Flood Insurance - Knoxville Downtown Island Airport	National Flood Insurance Program	October 1, 2016	\$2,609,700	Flood
Public Officials and Employer Liability	Chartis	December 18, 2015	\$10,000,000	Commissioners and employee professional liability
Public Employee Dishonesty Bond	Cincinnati Insurance Company	July 26, 2016	\$500,000	Employee dishonesty
Automobile Liability	Cincinnati Insurance Company	June 30, 2016	\$1,000,000	Automobile liability
Physical Damage - Two Fire Trucks	Travelers	November 29, 2015	\$1,141,516	Property damage - two fire trucks
Workers' Compensation	North Point/NATA	June 30, 2016	By Law	Employer's liability - employee bodily injury
Employee Health and Dental	CIGNA Health Care	May 30, 2016		Employee medical and dental
Employee Long-Term Disability	CIGNA	June 30, 2016		Employee earnings after 90 days disability
Employee Life	CIGNA	June 30, 2016		Life, accidental death, and dismemberment

SCHEDULE 24:
Capital Asset Information (unaudited)
 As of June 30, 2015

Airport Code:	TYS	
Location:	Alcoa, TN	
Coordinates:	N35° 48.66'	
	W83° 59.64'	
Elevation:	981 feet	
Tower:	24/7 121.2	
Total acreage:	2,705 acres	
Runways:	RWY 05L-23R	9,005 x 150 ft.
	RWY 05R-23L	9,000 x 150 ft.
Apron area-sq ft:	Cargo Airlines	314,284
	Fixed Base Operator	1,985,064
Terminal Complex	Number of passenger gates	12
	Number of loading bridges	10
	Total area - sq ft	258,871
	Useable space - sq ft	227,624
	Leasable space - sq ft	98,222
	Mechanical - sq ft	31,247
Parking spaces, number:	Garage:	
	Short-term	663
	Long-term	1,680
	Rental Cars	435
	Total Garage	<u>2,778</u>
	Surface:	
	Short-term	45
	Long-term	695
	Economy	829
	Rental Cars and Taxi	87
	Employees	<u>472</u>
	Total Surface	<u>2,128</u>
	Total Parking	<u><u>4,906</u></u>
Fixed Base Operator	TAC Air	

Source: Metropolitan Knoxville Airport Authority Engineering and Planning department

COMPLIANCE SECTION

This section contains the following items:

**Schedule of Expenditures of Federal Awards, State
Financial Assistance and Passenger Facility
Charges Collected and Expended**

**Schedule of Long-Term Debt Principal and
Interest Requirements**

Reports of Independent Auditors

Schedule of Findings and Questioned Costs

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS,
STATE FINANCIAL ASSISTANCE AND
PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED**

Year ended June 30, 2015

Federal Grantor / Pass-Through Grantor	Program Title	CFDA Number	Contract Number	Expenditures
<u>Federal Awards</u>				
U.S. Department of Transportation	Airport Improvement Program	20.106	3-47-0037-063-2010	\$ 14,412
U.S. Department of Transportation	Airport Improvement Program	20.106	3-47-0037-066-2014	4,524,793
U.S. Department of Transportation	Airport Improvement Program	20.106	3-47-0037-067-2015	28,545
U.S. Department of Transportation	Airport Improvement Program	20.106	3-47-0037-068-2015	34,223
U.S. Department of Transportation Through Tennessee Department of Transportation- Aeronautics Division	Airport Improvement Program	20.106	47-555-1110-04	20,087
U.S. Department of Transportation Through Tennessee Department of Transportation- Aeronautics Division	Airport Improvement Program	20.106	47-555-0159-04	<u>217,894</u>
Total Program 20.106*				<u>4,839,954</u>
U.S. Department of Defense	National Guard Military Construction Program	12.400	W912L7-13-2-2101	<u>188,433</u>
TOTAL FEDERAL AWARDS				<u><u>5,028,387</u></u>

**Major federal financial assistance program.*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS,
STATE FINANCIAL ASSISTANCE AND
PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED**

Year ended June 30, 2015

Federal Grantor / Pass-Through Grantor	Program Title	CFDA Number	Contract Number	Expenditures
<u>State Financial Assistance</u>				
Tennessee Department of Transportation	Airport Improvements – McGhee Tyson Airport	N/A	47-555-0755-04	\$ 174,020
Tennessee Department of Transportation	Airport Improvements – McGhee Tyson Airport	N/A	47-555-0757-04	41,705
Tennessee Department of Transportation	Airport Improvements – McGhee Tyson Airport	N/A	47-555-1728-04	16,140
Tennessee Department of Transportation	Airport Improvements – McGhee Tyson Airport	N/A	47-555-1733-04	250,563
Tennessee Department of Transportation	Airport Improvements – McGhee Tyson Airport	N/A	47-555-0167-04	3,487
Tennessee Department of Transportation	Airport Improvements – McGhee Tyson Airport	N/A	47-555-0750-04	3,147,631
Tennessee Department of Transportation	Airport Improvements – McGhee Tyson Airport	N/A	47-555-0763-04	13,328
Tennessee Department of Transportation	Airport Improvements – McGhee Tyson Airport	N/A	47-555-0742-04	38,523
Tennessee Department of Transportation	Airport Improvements – McGhee Tyson Airport	N/A	47-555-0744-04	5,074
Tennessee Department of Transportation	Airport Improvements – McGhee Tyson Airport	N/A	47-555-0746-04	95,959
Tennessee Department of Transportation	Airport Improvements – McGhee Tyson Airport	N/A	47-555-0747-04	2,825
Tennessee Department of Transportation	Airport Improvements – McGhee Tyson Airport	N/A	47-555-0749-04	185,788
Tennessee Department of Transportation	Airport Improvements – McGhee Tyson Airport	N/A	47-555-0752-04	39,762
Tennessee Department of Transportation	Airport Improvements – McGhee Tyson Airport	N/A	47-555-0756-04	86,355
Tennessee Department of Transportation	Airport Improvements – McGhee Tyson Airport	N/A	47-555-0760-04	202,001
Tennessee Department of Transportation	Airport Improvements – McGhee Tyson Airport	N/A	47-555-0762-04	9,650
Tennessee Department of Transportation	Airport Improvements – McGhee Tyson Airport	N/A	47-555-1099-04	835
Tennessee Department of Transportation	Airport Improvements – McGhee Tyson Airport	N/A	47-555-1731-04	4,770
Tennessee Department of Transportation	Airport Improvements – Downtown Island Airport	N/A	47-555-0137-04	13,547
Tennessee Department of Transportation	Airport Improvements – Downtown Island Airport	N/A	47-555-1096-04	36,527
Tennessee Department of Transportation	Airport Improvements – Downtown Island Airport	N/A	47-555-1110-04	1,115
Tennessee Department of Transportation	Airport Improvements – Downtown Island Airport	N/A	47-555-0159-04	12,105
Tennessee Department of Transportation	Airport Improvements – Downtown Island Airport	N/A	47-555-0751-04	7,829
Tennessee Department of Transportation	Airport Improvements – Downtown Island Airport	N/A	47-555-1530-04	19,800
TOTAL STATE AWARDS				\$ 4,409,339
TOTAL FEDERAL AND STATE AWARDS				\$ 9,437,726

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS,
STATE FINANCIAL ASSISTANCE AND
PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED**

Year ended June 30, 2015

Passenger Facility Charges

Available at July 1, 2014	\$	1,148,815
Charges collected		3,359,718
Interest earned, net of service charges		(4,585)
Total available		4,503,948
Expended		(3,200,573)
Available at July 30, 2015	\$	1,303,375

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, STATE FINANCIAL ASSISTANCE AND PASSENGER FACILITY CHARGES COLLECTED AND EXPENDED

1. Basis of Presentation

The above Schedule of Expenditures of Federal Awards, State Financial Assistance, and Passenger Facility Charges Collected and Expended (the “Schedule”) summarizes the federal and state expenditures of Metropolitan Knoxville Airport Authority (the “Authority”) under programs of the federal and state government for the year ended June 30, 2015 and Passenger Facility Charges (“PFCs”) collected and expended for the year ended June 30, 2015, as compiled from the required quarterly reports. These amounts were obtained from the Authority’s general ledger, which is prepared on the accrual basis. Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, change in net position, and current revenues and expenditures of the Authority.

For purposes of the Schedule, federal assistance includes all grants and contracts entered into directly between the Authority and agencies and departments of the federal government. The awards are classified into major program categories in accordance with the provisions of Office of Management and Budget (“OMB”) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

2. Passenger Facility Charge Program

The objective of the Passenger Facility Charge program is to authorize public agencies controlling commercial service airports to impose a charge of \$1 to \$4.50 per enplaned passenger. The proceeds from such PFCs are to be used to finance approved, eligible airport-related projects that preserve or enhance safety, capacity, or security; reduce noise; or increase air carrier competition. PFCs are not considered to be Federal financial assistance defined by OMB Circular A-133.

3. Summary of Significant Accounting Policies

For purposes of the Schedule, expenditures for federal assistance programs and PFCs are recognized on the accrual basis of accounting. Federal expenditures are primarily for administering an Airport Improvement Program for Knoxville, Tennessee. The Authority uses PFCs for various improvement project expansions of the airport facilities and payments for debt service on bonds incurred to carry out such projects.

**SCHEDULE OF LONG-TERM DEBT PRINCIPAL
AND INTEREST REQUIREMENTS**

June 30, 2015

Airport Revenue Obligations, Series II-D-1, synthetic fixed rate of 5.29%:

Year Ended June 30:	Principal	Interest	Total
2016	785,000	585,475	1,370,475
2017	835,000	543,687	1,378,687
2018	885,000	499,255	1,384,255
2019	945,000	452,125	1,397,125
2020	1,000,000	401,848	1,401,848
2021	1,065,000	348,609	1,413,609
2022	1,135,000	291,905	1,426,905
2023	1,205,000	231,498	1,436,498
2024	1,280,000	167,363	1,447,363
2025	1,355,000	99,259	1,454,259
2026	655,000	31,232	686,232
Total	\$ 11,145,000	\$ 3,652,256	\$ 14,797,256

**SCHEDULE OF LONG-TERM DEBT PRINCIPAL
AND INTEREST REQUIREMENTS** *(continued)*

June 30, 2015

Airport Revenue Obligations, Series V-A-I (\$24,285,000 at synthetic fixed rate of 3.447% and \$39,570,000 at a variable rate):

Year Ended			
June 30:	Principal	Interest	Total
2016	3,580,000	876,349	4,456,349
2017	3,755,000	752,356	4,507,356
2018	3,940,000	622,296	4,562,296
2019	4,130,000	485,842	4,615,842
2020	4,335,000	342,788	4,677,788
2021	4,545,000	192,651	4,737,651
2022	4,880,000	50,815	4,930,815
2023	5,115,000	44,441	5,159,441
2024	5,365,000	37,760	5,402,760
2025	5,625,000	30,752	5,655,752
2026	5,905,000	23,403	5,928,403
2027	6,190,000	15,690	6,205,690
2028	6,490,000	7,605	6,497,605
Total	\$ 63,855,000	\$ 3,482,748	\$ 67,337,748



Report of Independent Auditors 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
Metropolitan Knoxville Airport Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Metropolitan Knoxville Airport Authority (the "Authority") (a component unit of the City of Knoxville, Tennessee) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 3, 2015.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

Board of Commissioners
Metropolitan Knoxville Airport Authority

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 Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Coulter & Justus, P.C.

December 3, 2015
Knoxville, Tennessee



Report of Independent Auditors on Compliance for Each Major Program and the
Passenger Facility Charge Program and on Internal Control Over Compliance
Required by OMB Circular A-133

Board of Commissioners
Metropolitan Knoxville Airport Authority

Report on Compliance for Each Major Program and Passenger Facility Charge Program

We have audited the Metropolitan Knoxville Airport Authority's (the "Authority's") (a component unit of the City of Knoxville, Tennessee) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Authority's major federal program and the compliance requirements of the Passenger Facility Charge ("PFC") program as described in the *Passenger Facility Charge Audit Compliance and Reporting Guide for Public Agencies* for the year ended June 30, 2015. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal program and the PFC program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Authority's major federal program and PFC program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and the *Passenger Facility Charge Audit Compliance and Reporting Guide for Public Agencies*, issued by the Federal Aviation Administration. 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 or the PFC program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program and PFC program. However, our audit does not provide a legal determination of the Authority's compliance.

Board of Commissioners
Metropolitan Knoxville Airport Authority

Opinion on the Major Federal Program and the PFC 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 its major federal program and the PFC program for the year ended June 30, 2015.

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 major federal program or the PFC program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major program and the PFC 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.

Coulter & Justus, P. C.

December 3, 2015
Knoxville, Tennessee

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2015

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting: Material weakness(es) identified?	None reported
Significant deficiency(s) identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements:	None reported

Federal Awards

Type of auditors' report issued on compliance for major programs:	Unmodified	
Internal control over major programs: Material weakness(es) identified?	None reported	
Significant deficiency(s) identified not considered to be material weaknesses?	None reported	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	No	
Identification of major programs:	CFDA Number <i>20.106</i>	Name of Program <i>Airport Improvement Program</i>
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000	
Auditee qualified as low-risk auditee?	Yes	

Section II – Financial Statement Audit Findings

None reported.

Section III – Single Audit Findings

None reported.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Year ended June 30, 2015

Section IV – Schedule of Prior Year Audit Findings

The following information is provided by management of the Metropolitan Knoxville Airport Authority. The contact person is Mike Long.

Finding 2014-1

The accounting and finance department and the engineering department staff meet at mid-year and year-end to review the status of all State and Federal grants to insure all qualifying expenditures, grant revenues and receivables are recorded properly. The engineering department staff advises the accounting and finance department staff when each new grant is approved. Additional meetings and communications between engineering and accounting staff include detailed reviews and comparisons of accounting and engineering records.

Finding 2014-2

The Controller and V.P. of Finance and Administration attended 8 hours of continuing education on OMB Circular A-133 that included how sub-recipients record pass-through grant awards. The engineering department staff forwards the Controller and V.P. of Finance and Administration a copy of all State and Federal grant agreements for review. The V.P. of Finance and Administration and the Controller independently review all new grants with particular emphasis upon Federal funding included in State grants.

Section IV – Corrective Action Plan

Not applicable as there were no 2015 findings reported.



METROPOLITAN
KNOXVILLE
AIRPORT
AUTHORITY

McGhee Tyson Airport
P.O. Box 15600
Knoxville, TN 37901

865/342-3000 * Fax 865/342-3050

Email: mcghee@tys.org