# METROPOLITAN NASHVILLE
# AIRPORT AUTHORITY

(A Component Unit of the Metropolitan Government of
Nashville and Davidson County, Tennessee)

## AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

## OTHER INFORMATION FOR THE YEAR ENDED JUNE 30, 2015

METROPOLITAN NASHVILLE AIRPORT AUTHORITY

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**METROPOLITAN NASHVILLE AIRPORT AUTHORITY**

# INTRODUCTION

The Metropolitan Nashville Airport Authority (the "Authority") is pleased to present its Annual Financial Report for the years ended June 30, 2015 and 2014.

## Responsibility and Controls

The Authority has prepared and is responsible for the financial statements and related information included in this report. A system of internal accounting controls is maintained to provide reasonable assurance that assets are safeguarded and that the books and records reflect only authorized transactions. Limitations exist in any system of internal controls. However, based on recognition that the cost of the system should not exceed its benefits, management believes its system of internal accounting controls maintains an appropriate cost/benefit relationship.

The Authority's system of internal accounting controls is evaluated on an ongoing basis by the Authority's internal financial staff. Dixon Hughes Goodman LLP, our external auditors, also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

Management believes that its policies and procedures provide guidance and reasonable assurance that the Authority's operations are conducted according to management's intentions and to a high standard of business ethics. In management's opinion, the financial statements present fairly, in all material respects, the financial position of the Authority as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## Audit Assurance

The unmodified opinion of our independent external auditors, Dixon Hughes Goodman LLP, is included in this report.

**METROPOLITAN NASHVILLE AIRPORT AUTHORITY**
**AS OF JUNE 30, 2015**

## BOARD OF COMMISSIONERS

| | |
|---|---|
| Juli H. Mosley, P.E. | Chair |
| A. Dexter Samuels, Ph.D. | Vice Chair |
| Robert J. Walker | Secretary |
| Mayor Karl F. Dean | Commissioner |
| Rod Essig | Commissioner |
| Amanda Farnsworth | Commissioner |
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## EXECUTIVE STAFF

| | |
|---|---|
| Robert R. Wigington | President and Chief Executive Officer |
| Doug Kreulen | Senior Vice President and Chief Operations Officer |
| Robert C. Watson | Senior Vice President and Chief Legal Officer |
| Amelia N. Armstrong | Senior Vice President and Chief People Officer |
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| Christine Vitt | Vice President, Strategic Planning & Sustainability |
| Walt Matwijec | Assistant Vice President, Continuous Improvement |

DIXON HUGHES GOODMAN LLP

# INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Metropolitan Nashville Airport Authority
Nashville, Tennessee

## Report on the Financial Statements

We have audited the accompanying financial statements of the Metropolitan Nashville Airport Authority (the "Authority"), a component unit of the Metropolitan Government of Nashville and Davidson County, 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 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.

### *Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Metropolitan Nashville Airport Authority as of June 30, 2015, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

DHG
DIXON HUGHES GOODMAN LLP

***Adjustments to Prior Period Financial Statements***

The financial statements of the Authority as of June 30, 2014, were audited by other auditors whose report dated October 31, 2014, expressed an unmodified opinion on those financial statements. As discussed in Notes 2 and 3 to the financial statements, the Authority has adjusted its 2014 financial statements to retrospectively apply the change in accounting for pensions based on the adoption of new accounting guidance required by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. The other auditors reported on those financial statements before the retrospective adjustment.

As part of our audit of the 2015 financial statements, we also audited the adjustments to the 2014 financial statements to retrospectively apply the change in accounting principle described in Note 3. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the Authority's 2014 financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2014 financial statements as a whole.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability, schedule of contributions, and schedule of funding progress, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers this information to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The introduction section, schedule of net position information by entity, schedule of revenues, expenses and changes in net position information by entity, and schedule of airport revenue bonds, principal and interest requirements by fiscal year, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal and state awards and related notes to this schedule are 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 State of Tennessee and are also not a required part of the basic financial statements.

The schedule of net position information by entity, schedule of revenues, expenses and changes in net position information by entity, schedule of airport revenue bonds, principal and interest requirements by fiscal year, schedule of expenditures of federal and state awards, and notes to the schedule of expenditures of federal and state awards 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

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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, this information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 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.

Dixon Hughes Goodman LLP

Brentwood, Tennessee
October 27, 2015

The following Management's Discussion and Analysis (MD&A) of the Metropolitan Nashville Airport Authority (the Authority or MNAA) is presented to assist the reader in focusing on significant financial issues, by providing an overview of the Authority's financial activity, and in identifying changes in the Authority's financial position. Management encourages the reader to consider the MD&A in conjunction with the information contained in the Authority's financial statements.

## BASIC FINANCIAL STATEMENTS

The Authority's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board. The Authority is structured as a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Capital assets are capitalized and (except land and construction in progress) are depreciated over their useful lives. Please refer to Note 2 to the financial statements for a summary of the Authority's significant accounting policies.

The *Statement of Net Position* presents information on all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the residual reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the Authority's financial position.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing the change in the Authority's net position during the fiscal year. All changes in net position are reported when the underlying events occur, regardless of the timing of related cash flows. Thus, revenues and expenses are recorded and reported in this statement for some items that will result in cash flows in future periods.

The *Statement of Cash Flows* relates to the inflows and outflows of cash and cash equivalents. Consequently, only transactions that affect the Authority's cash accounts are recorded in this statement. A reconciliation is provided within the Statement of Cash Flows to assist in understanding the difference between cash flows from operating activities and operating income.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

## AIRPORT ACTIVITY HIGHLIGHTS

Nashville International Airport (BNA) experienced another year of record growth in fiscal year 2015, surpassing 11.2 million passengers and over 5.6 million enplanements. Since 2010, the airport has experienced consistent enplanement growth of 3% or better each year, with increases of 5.5% and 5.4%, in fiscal years 2015 and 2014, respectively. Over the past 10 years, Nashville International Airport has jumped from the 43rd largest airport in 2005 to 33rd largest airport by total enplanements. Nashville International Airport is currently served by 10 airlines with 390 daily flights to more than 50 markets.

Recently, Nashville International Airport was also named the 8th best airport by Travel + Leisure readers. In December 2013, CNN named Nashville International Airport one of the "7 Most Entertaining Airports in the World." Nashville was one of only two U.S. airports to receive that honor. *BuzzFeed* named BNA to its list of "19 Airports You Wouldn't Mind Being Stuck In" for our live music, one of only three U.S. airports to make the list. *Time Money* recognized BNA's Drinks on the Go as one of the "10 Amazing Airport Amenities," one of only three U.S. airports on the list. *TheStreet* named BNA one of the "best Airports in the World."

In May, the Tennessee Department of Environment and Conservation (TDEC) awarded MNAA the 2015 Governor's Environmental Stewardship Award for Sustainable Performance, noting the Authority's efforts to promote water conservation, energy efficiency, social well-being and community involvement.

In fiscal year 2015, Nashville maintained its A+ and A1 ratings from Standard & Poor's and Moody's rating services, respectively. The Authority was the only U.S. airport to receive a rating upgrade from more than one rating agency for its general airport revenue bonds (GARB) during fiscal year 2014. In making their decisions, rating agencies cited the airport's low and declining debt levels and the above average growth of the Metropolitan Nashville area's population base, economy, and passenger enplanement levels. They further noted the airport had one of the strongest recoveries in passenger enplanement levels from the economic downturn, driven by both travel demand from area residents, as well as growing tourism supported by a new convention center.

The first ratings action occurred in February 2014, when Moody's Investors Service upgraded its rating on the Metropolitan Nashville Airport Authority's Airport Improvement Revenue Bonds from A2 to A1. Moody's also affirmed the A3 rating on the Authority's Special Facility Rental Bonds (MPC CONRAC LLC Project), Series 2010. The outlook for both rating actions was "stable." In May 2014, Standard & Poor's Ratings Services raised its long-term rating for the Authority's outstanding airport improvement revenue bonds from A to A+. Standard & Poor's also affirmed the long-term rating on MNAA's series 2010 special facility revenue bonds issued for BNA's consolidated rental car facility (CONRAC) project, with a "stable" outlook for both rating actions.

In recent years, the Authority had an aggressive capital program with major airfield and landside improvements, including extensive terminal renovations. Since 2007, MNAA has invested more than $452 million in facility improvements. The 2015 capital improvement budget was $39.3 million. The largest projects included in the budget were $10.5 million for the quarry geothermal project, $11.5 million for taxiway and runway reconstruction, $4.0 million for a new parking revenue control system, $3.0 for baggage handling systems, and $2.0 million for a communications center.

In the past several years, airline bankruptcies and consolidations have significantly reduced the number of major airlines operating in the United States. Recent changes have included Republic Airlines' sale of subsidiary Frontier Airlines to Indigo Partners, US Airways merger with American Airlines, and Southwest's acquisition of Airtran. American Airlines' parent, AMR Corporation, also filed for bankruptcy in November 2011. Delta's wholly owned subsidiary, Comair, ceased operations in 2013, and contracted regional partner, Pinnacle Airlines, went into bankruptcy. Other airline consolidations in recent years have included United's acquisition of Continental; Delta acquiring Northwest; and Republic Airlines' purchase of Frontier and Midwest Airlines.

Nashville International Airport also continued to add new air service in fiscal year 2015. Airlines announcing new air service to Nashville include Alaska Airlines (September 2015), OneJet (September 2015) and jetBlue (Spring 2016). In fiscal year 2015, 14 new daily nonstop flights were added including flights to Boston, Cleveland, Los Angeles, and Seattle. Two new daily flights were also added to Newark, with new international service added by Aeromexico to Cancun. Since the end of fiscal year 2015, new daily flights have been announced to Los Angeles, Pittsburgh, and Pensacola.

John C. Tune (JWN), BNA's reliever airport on the west side of Nashville, closed for a 60 day period in June and July of 2015 to make over $30 million in capital improvements. The airfield improvements extended both the runway and taxiway, added new runway safety areas, and included new LED airfield lighting. The closure period and absence of aircraft also provided an ideal environment to make major renovations to the main terminal, hangar repairs and improvements, and pave the aircraft ramp and apron.

The property development organization of the Authority, MNAA Properties Corporation (MPC), continued its efforts to refurbish its largest property, International Plaza. It continued to increase its operating revenue and maintain an occupancy level over 80%.

## OPERATIONAL HIGHLIGHTS

Enplanements rose 5.5% and 5.4% in fiscal years 2015 and 2014, respectively. Since 2005, Nashville has jumped from 43rd to 33rd to the largest airport by total passengers. Certified gross landed weights were also up 2.1%, totaling 6.7 billion pounds in 2015. Nashville International Airport served more than 11.2 million total passengers in fiscal year 2015, operating an average of 390 daily flights to approximately 50 markets. Nashville International Airport is able to accommodate continued growth in coming years, with space available for additional gates and aircraft parking. MNAA's two airports contribute more than $3.75 billion in total economic activity, $1.18 billion in wages and 37,000 jobs annually to the regional economy.

Several of the most common indicators of activity during 2015, 2014, and 2013 appear below:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| **Enplanements** | **5,604,148** | **5,312,021** | **5,037,975** |
| % increase (decrease) | 5.5% | 5.4% | 3.2% |
| **Aircraft landed weight (all – 000)** | **6,757,176** | **6,616,828** | **6,400,706** |
| % increase (decrease) | 2.1% | 3.4% | 4.1% |
| **Aircraft operations (passenger)** | **103,007** | **94,314** | **91,489** |
| % increase (decrease) | 9.2% | 3.1% | 2.7% |
| **Aircraft operations (all other)** | **75,725** | **81,038** | **81,272** |
| % increase (decrease) | (6.6%) | (0.3%) | (6.6%) |
| **Load factors** | **82.4%** | **80.5%** | **78.8%** |
| % increase (decrease) | 1.9% | 1.7% | 1.8% |

Load factors are the percentages of seats occupied on all passenger aircraft, both arriving and departing airplanes. Load factors saw another increase in 2015. Available seats also increased 2.9% in 2015. BNA saw a dramatic increase of 9.2% in passenger aircraft operations and a 1.9% increase in total aircraft operations in 2015. Consistent increases in load factors and landed weight indicate airlines continue to get better at optimizing the appropriate mix of aircraft to meet scheduling requirements.

The Authority approved the imposition of CFCs for rental car customers and began collecting a $4.00 CFC per transaction day, effective January 1, 2008. The CFC rate increased to $4.50 effective January 1, 2010. This nonoperating revenue source is to pay for costs, fees, and expenses associated with the planning, design, construction, financing, maintenance, and operation of the CONRAC facility as well as other costs, fees, and expenses that may be paid from CFC proceeds. Since imposition of the CFC fee, the Authority has collected over $71.8 million, with almost $11.7 million collected in fiscal year 2015. Transaction days have consistently improved in recent years, averaging 216,523 per month in 2015, compared to 200,472, 191,020, 186,844, and 168,050 in fiscal years 2014, 2013, 2012, and 2011, respectively.

## SUMMARY OF OPERATIONS AND CHANGES IN NET POSITION

The Authority's Statements of Revenues, Expenses and Changes in Net Position for the three most recent fiscal years provide considerable insight about the financial impact of activities during the respective years. The following represents a summary of changes in net position over the past three fiscal years with "% Change" representing the change from 2014 to 2015 and 2013 to 2014:

| | 2015 | (as restated) 2014 | % Change | (as restated) 2013 | % Change |
|---|---|---|---|---|---|
| Operating revenues | $118,995,123 | $112,129,122 | 6.1% | $99,791,725 | 12.4% |
| Operating expenses | 73,126,544 | 73,154,789 | -0.0% | 70,095,093 | 4.4% |
| **Operating income before depreciation** | **45,868,579** | **38,974,333** | **17.7%** | **29,696,632** | **31.2%** |
| Depreciation | 36,534,617 | 35,773,468 | 2.1% | 35,648,323 | 0.4% |
| **Operating (loss) income** | **9,333,962** | **3,200,865** | **>100.0%** | **(5,951,691)** | **>100.0%** |
| Nonoperating revenues | 27,850,266 | 24,969,783 | 11.5% | 24,549,154 | 1.9% |
| Nonoperating expenses | 7,610,829 | 9,000,146 | -15.4% | 10,231,288 | -11.7% |
| **Income (loss) before capital contributions** | **29,573,399** | **19,170,502** | **54.3%** | **8,366,175** | **>100.0%** |
| Capital contributions | 27,506,580 | 12,739,063 | >100.0% | 6,023,925 | >100.0% |
| **Increase in net assets** | **57,079,979** | **31,909,565** | **78.9%** | **14,390,100** | **>100.0%** |
| Net assets, beginning of year | 406,103,877 | 374,194,312 | 8.5% | 359,804,212 | 4.0% |
| **Net position assets, end of year** | **$463,183,856** | **$406,103,877** | **14.1%** | **$374,194,312** | **8.5%** |

During fiscal year 2015, the Authority implemented GASB Statement No. 68, *Accounting and Financial Report for Pensions – An Amendment of GASB Statement No. 27.* Accordingly, the amounts reported within the financial statements and in this management's discussion and analysis have been restated for the application of the new accounting principle. See additional information in Note 3 to the financial statements.

## OPERATING AND NONOPERATING REVENUE HIGHLIGHTS

Operating revenue for the year was up 6.1% over the prior year. The increases are attributable to increases in space rental (8.5%), parking (6.8%), signatory airlines (6.4%), and concessions (6.3%). "Other" revenues were down 4.5%.

Nonoperating revenues were up 13.7% in 2015. CFCs, which fund debt service for the CONRAC facility, were up 8.0%. CFC revenues were $11.6 million in 2015 compared to $10.8 million in 2014. Passenger facility charges (PFC) collections improved 16.3% due to higher enplanements, as well as the FAA approving collection authority from $3.00 to $4.50 level beginning in May 2015. Interest income was up by 9.6% as the Authority's cash holdings improved during the year.

In addition to BNA, MPC increased its total operating revenue to $2,550,496 for 2015, compared to $2,426,455 in 2014. JWN saw a reduction in operating revenue at $689,554 as it was closed during part of the year undergoing major airfield improvements. JWN operating revenues in 2014 were $785,009.

The following summarizes all the Authority's revenues for the fiscal years ended June 30, 2015, 2014, and 2013 with "% Change" representing the change from 2014 to 2015 and 2013 to 2014:

| | 2015 | 2014 | % Change | 2013 | % Change |
|---|---|---|---|---|---|
| **Operating revenues** | | | | | |
| Signatory airline | $39,414,175 | $37,026,998 | 6.4% | $29,373,222 | 26.1% |
| Parking | 38,725,346 | 36,258,325 | 6.8% | 34,020,205 | 6.6% |
| Concession | 22,873,310 | 21,520,372 | 6.3% | 19,490,760 | 10.4% |
| Space rental | 11,989,094 | 11,045,010 | 8.5% | 10,308,115 | 7.1% |
| Other | 5,993,198 | 6,278,417 | -4.5% | 6,599,423 | -4.9% |
| **Total operating revenues** | **118,995,123** | **112,129,122** | **6.1%** | **99,791,725** | **12.4%** |
| **Nonoperating revenues** | | | | | |
| Investment income | 359,790 | 328,349 | 9.6% | 426,259 | -23.0% |
| Passenger facility charges | 15,703,411 | 13,502,385 | 16.3% | 13,262,426 | 1.8% |
| Customer facility charges | 11,692,265 | 10,825,490 | 8.0% | 10,307,062 | 5.0% |
| Other nonoperating revenues, net | 94,800 | 313,559 | -67.5% | 553,407 | -43.3% |
| **Total nonoperating revenues** | **27,850,266** | **24,969,783** | **11.5%** | **24,549,154** | **1.7%** |
| **Capital contributions** | **27,506,580** | **12,739,063** | **>100.0%** | **6,023,925** | **>100.0%** |
| **Total revenues and capital Contributions** | **$174,351,969** | **$149,837,968** | **16.4%** | **$130,364,804** | **14.9%** |

The five revenue sources that comprise signatory airline fees and charges include ramp fees (RF), main terminal (MT), north (NC) and south concourse (SC) fees, as well as landing fees (LF). The budgeted rates for fiscal year 2015 were $266.69 (RF), $180.58 (MT), $112.07 (NC), $104.35 (SC), and $1.65 (LF). In comparison, fees and charges for 2014 were $223.05 (RF), $164.54 (MT), $79.11 (NC), $113.96 (SC), and $1.69 (LF). For comparative purposes, signatory airline rates charged in 2013 were $133.09 (RF), $130.84 (MT), $62.55 (NC), $57.62 (SC), and $1.52 (LF).

On September 24, 2015, the Authority executed the Metropolitan Nashville Airport Authority Signatory Airline Use and Lease Agreement July 1, 2015 – June 30, 2022 (the New Agreement) with American Airlines, Delta Air Lines, Southwest Airlines, and United Airlines. The New Agreements are effective retroactively to July 1, 2015 and replace, and are substantially different from, the Authority's prior Amended and Restated Lease Agreements (the Prior Agreement) which was scheduled to expire on September 30, 2017.

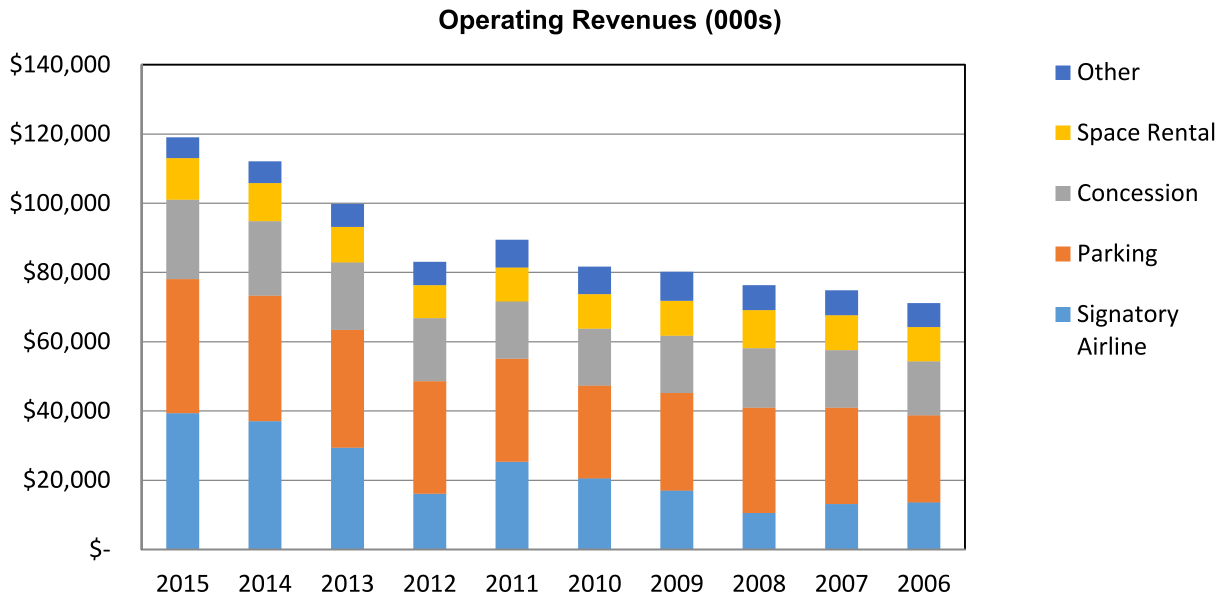
The Prior Agreement was "residual" in nature and generally provided for break-even financial operation of the Nashville International Airport (the Airport), including the full recovery on a cost center basis of debt service on Majority-in-Interest (MII) approved capital improvement projects.

The New Agreement establishes three cost centers for determining rates and charges payable by the signatory airlines and other users of Airport facilities: Airfield, Terminal, and Terminal Ramp Area. Baggage and passenger loading bridge fees are also assessed. The New Agreement has a "hybrid" airline rate-setting methodology with the Landing Fees being calculated on a residual basis (as described below) and the Terminal Rental Rates (as described below) and Terminal Ramp Area rates being compensatory. Other than the Airfield, the signatory airlines are not required to provide for break-even financial operation of the Airport per the New Agreement.

Signatory Landing Fees under the New Agreement are calculated on a primarily residual basis and are currently budgeted at $3.25 for fiscal year 2016. The Terminal Rental Rate per square foot for fiscal year 2016 is $90.00, while the terminal ramp rental rate is $1.71.

Capital cost allocable to the Airfield, including debt service on Bonds, may be included in the calculation of the Landing Fees with MII approval or with MII approval under the Prior Agreement. While debt service on Bonds allocable to the Airfield may be included in the Landing Fees, the New Agreement does not include a provision for any coverage for bonds. The Terminal Rental Rate under the New Agreement is calculated on a compensatory basis with fixed rates.

The following chart demonstrates the 10-year trend for MNAA's operating revenues from 2006 through 2015:




Capital contributions were up 215.9% in 2015 and 111.5% in 2014. Capital contributions were $27.5 million in 2015, compared to $12.7 million in 2014, and $6.0 million in 2013.

## OPERATING AND NONOPERATING EXPENSES HIGHLIGHTS

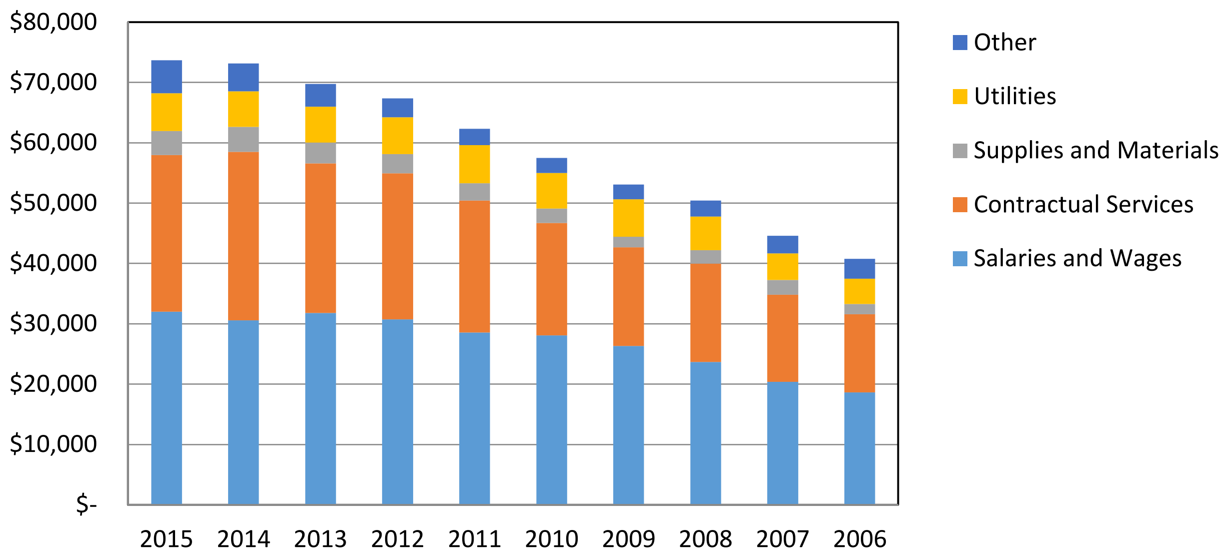
The Authority's expenses increased in 2015 for BNA, MPC, and JWN. The following represents a summary of expenses for the fiscal years ended June 30, 2015, 2014, and 2013, with "% Change" representing the change from 2014 to 2015 and 2013 to 2014:

| | 2015 | (as restated) 2014 | % Change | 2013 | % Change |
|---|---|---|---|---|---|
| **Operating expenses** | | | | | |
| Salaries and wages | $32,019,144 | $30,602,436 | 4.6% | $32,118,328 | -4.7% |
| Contractual services | 25,962,137 | 27,886,714 | -6.9% | 24,783,144 | 12.5% |
| Materials and supplies | 3,987,451 | 4,132,884 | -3.5% | 3,436,780 | 20.3% |
| Utilities | 6,255,942 | 5,887,708 | 6.3% | 5,970,579 | -1.4% |
| Other | 4,901,870 | 4,645,047 | 5.5% | 3,786,262 | 22.7% |
| **Total operating expenses Before provision for depreciation** | **73,126,544** | **73,154,789** | **-0.0%** | **70,095,093** | **4.4%** |
| **Provision for depreciation** | **36,534,617** | **35,773,468** | **2.1%** | **35,648,323** | **0.4%** |
| **Nonoperating expenses** | | | | | |
| Interest expense | 7,610,829 | 9,000,146 | -15.4% | 10,231,288 | -12.0% |
| **Total nonoperating expenses** | **7,610,829** | **9,000,146** | **-15.4%** | **10,231,288** | **-12.0%** |
| **Total expenses** | **$117,271,990** | **$117,928,403** | **-0.6%** | **$115,974,704** | **1.7%** |

While expenses were up in most categories in both 2015 and 2014, we noted a reduction in Contract Services and Materials & Supplies in 2015. The remaining categories had anticipated increases budgeted in 2014 and 2015. Total operating expenses decreased marginally, offset by increases in operating revenues of 6.1%. Depreciation increased in fiscal year 2015 by 2.1% and by 0.4% in 2014, reflecting the aggressive capital investment program that had been undertaken in recent years. Nonoperating expenses were down 15.4%, due to a reduction in interest expense on less outstanding debt.

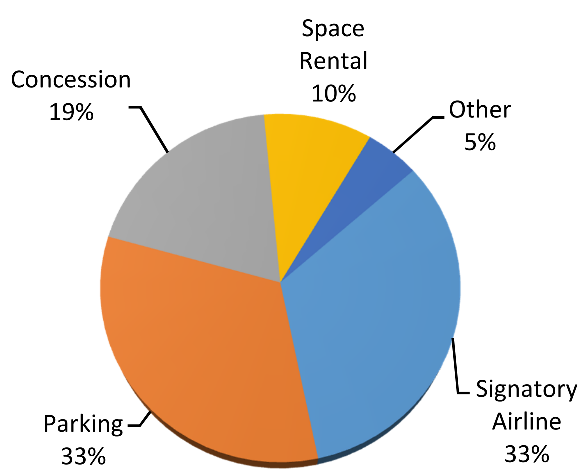
The following chart demonstrates the 10-year trend for MNAA's operating expenses from 2006 through 2015:

**Operating Expenses (before Depreciation) (000s)**

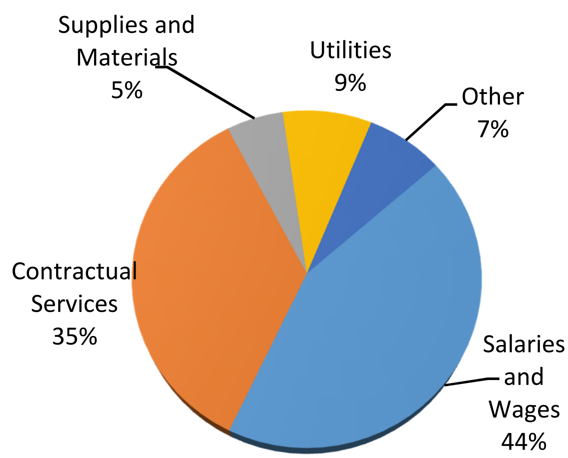



The composition of all MNAA operating revenues and operating expenses are presented here for 2015:

**Operating Revenues Composition**




**Operating Expense Composition before Provision for Depreciation**



## FINANCIAL POSITION SUMMARY

The Statements of Net Position depict the Authority's financial position as of June 30 and include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the Authority. Following is a condensed summary of the Authority's financial position at June 30, 2015, 2014, and 2013. The "% Change" reflects changes from 2014 to 2015 and 2013 to 2014, as follows:

| | 2015 | (as restated) 2014 | % Change | (as restated) 2013 | % Change |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets | $137,739,261 | $122,198,923 | 12.7% | $112,082,784 | 9.0% |
| Capital assets, net | 515,693,132 | 507,804,937 | 1.6% | 519,139,993 | -2.2% |
| Other noncurrent assets | 21,406,595 | 20,662,292 | 3.6% | 19,081,100 | 8.3% |
| **Total assets** | **674,838,988** | **650,666,152** | **3.7%** | **650,303,877** | **0.1%** |
| **Deferred outflows** | **4,726,150** | **3,157,917** | **49.7%** | **3,391,017** | **-6.9%** |
| **Total assets and deferred outflows** | **$679,565,138** | **$653,824,069** | **3.9%** | **$653,694,894** | **0.0%** |
| **Liabilities** | | | | | |
| Current liabilities | $50,125,210 | $46,822,686 | 7.1% | $43,816,601 | 6.9% |
| Noncurrent liabilities | 164,924,688 | 199,122,327 | -17.2% | 235,683,981 | -15.5% |
| **Total liabilities** | **215,049,898** | **245,945,013** | **-12.6%** | **279,500,582** | **-12.0%** |
| **Deferred Inflows** | **1,331,384** | **1,775,179** | **-25.0%** | **-** | **n/a** |
| **Net position** | | | | | |
| Invested in capital assets, net of related debt | 387,595,082 | 342,147,659 | 13.3% | 329,876,790 | 3.7% |
| Restricted | 56,559,259 | 65,801,442 | -14.0% | 60,319,520 | 9.1% |
| Unrestricted | 19,029,515 | (1,845,224) | >100% | (16,001,998) | 88.5% |
| **Total net position** | **463,183,856** | **406,103,877** | **14.1%** | **374,194,312** | **8.5%** |
| **Total liabilities, deferred inflows, and net position** | **$679,565,138** | **$653,824,069** | **3.9%** | **$653,694,894** | **0.0%** |

Current assets increased by 12.7% in 2015. Net capital assets increased by $7.9 million or 1.6%. Total liabilities decreased by $30.9 million, or 12.6%, in 2015, mostly from a reduction in airport revenue bonds outstanding. Current liabilities in 2015 increased during the year by $3.3 million, or 7.1%. The current portion of maturities for airport revenue bonds increased from $27,835,000 in 2014 to $29,105,000 in 2015.

The net pension liability declined by $2.4 million in fiscal year 2015. Other postemployment benefits (OPEB) commitments increased slightly by $226,927 in 2015. The Authority previously adopted a funding plan in which MNAA made $22 million in contributions to the retirement plan fiduciary since fiscal year 2010. The Board of Commissioners recently adopted 3-905, Funding Policy of the Retirement Plan for Employees of the Metropolitan Nashville Airport Authority (the Plan) on September 16, 2015. This policy requires the Authority to fund, at minimum, the actuarially determined contribution (ADC) each fiscal year to the Plan. The Authority has stated that during the term of the new airline agreement, it expects to budget combined contributions of $10 million each fiscal year to fund the retirement plan and the OPEB Trust. The Authority's intent is to prioritize funding for the retirement plan, with a goal to fully fund the retirement plan by 2022, with remaining contributions going to the OPEB Trust.

The portion of the Authority's net position shown below, $56,559,259, represents 12.2% of total net position. This compares with $65,801,442 (16.2% of total net position) in restricted net position at June 30, 2014. These resources are subject to restrictions on use and are not available for spending as they have already been committed as follows:

| | |
|---|---|
| Passenger facility charge projects and related debt services | $13,461,933 |
| Customer facility charge projects and related debt service | 19,285,387 |
| Debt service and other | 23,811,939 |
| Total restricted net position | $56,559,259 |

The unrestricted net position of $19,029,515 may be used to meet the Authority's ongoing obligations.

## CASH MANAGEMENT POLICIES AND CASH FLOW ACTIVITIES

All cash receipts are deposited daily into interest-bearing accounts. All investment types are in compliance with laws of the State of Tennessee and the Investment Policy adopted by the Board of Commissioners. Cash balances remained fairly consistent in 2015 with stronger operating cash flows and repayment of bonds.

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Cash flows provided by (used in): | | | |
| Operating | $42,836,983 | $35,930,378 | $33,887,217 |
| Non-capital financing | (1,359,435) | (1,369,336) | (1,967,459) |
| Capital and related financing | (28,738,198) | (24,107,787) | (27,854,644) |
| Investing | (3,598,004) | 3,210,200 | (6,426,341) |
| **Net (decrease) increase in cash and cash equivalents** | **9,141,346** | **13,663,455** | **(2,361,227)** |
| Cash and cash equivalents: | | | |
| Beginning of year | 121,961,306 | 108,297,851 | 110,659,078 |
| End of year | $131,102,652 | $121,961,306 | $108,297,851 |

## CAPITAL ACTIVITIES

Capital assets, net of accumulated depreciation, increased from $507,804,937 to $515,693,132 in 2015. The 2015 capital improvement budget was $39.3 million. The largest projects included in the budget were $10.5 million for the quarry geothermal project, $11.5 million for taxiway and runway reconstruction, $4.0 million for a new parking revenue control system, $3.0 for baggage handling systems, and $2.0 million for a communications center. The Authority continues to seek out federal and state support for eligible projects whenever possible. Additional funding is provided through PFCs, CFCs, airline rates and charges, and the issuance of debt. Capital asset acquisitions are capitalized at cost and depreciated using the straight-line method. Note 5 to the financial statements provides additional information about the additions, retirements, and transfers during the years ended June 30, 2015 and 2014.

## DEBT ADMINISTRATION

The Authority's most recent issuance of debt was the Airport Improvement Revenue Bond Series 2010B in the amount of $70,400,000 and Revenue Bond Series 2010 C in the amount of $16,170,000 in August 2010. The Series 2010B and 2010C bonds were issued to refund certain of the outstanding Airport Improvement Revenue Bonds, pay the premiums of municipal bond insurance policies and debt service reserve surety policies for the 2010 Bonds, and pay certain costs of their issuance. The refunding did not extend the maturity dates of the bonds and reduced the total principal and interest due during the remaining term of the bonds, fiscal years 2012 to 2017, by $11,345,710. For more information on the Authority's outstanding bonds, see Note 6 of the Notes to Financial Statements and "Schedule of Airport Revenue Bonds, Principal and Interest Requirements by Fiscal Year" on pp. 65 and 66.

As of June 30, 2015, the Authority's principal balance of outstanding long-term revenue bonds was $144,175,000 compared with $172,010,000 at the end of the prior year. The current portion of revenue bonds is $29,105,000 and is due on July 1, 2015.

There are currently no bonds issued under the PFC resolution. The last of these bonds matured on July 1, 2012. The Series 2010A bonds are being paid for with draws from PFC collections as a result of eligible projects undertaken in the 1990s that were paid for several years ago. These dollars are being reimbursed back to the Authority as needed to cover both principal and interest payments until maturity. Under PFC Application 14, approved during fiscal year 2009, debt service on the Series 2009A will also be paid with PFC collections. However, this bond series was actually issued under the MNAA master resolution as a general airport revenue bond rather than as a special revenue bond (under the PFC resolution), resulting in lower financing costs.

Airport bond activity for the year ended June 30, 2015, is summarized below. More detailed information about the Authority's debt can be found in Note 6 to the financial statements.

| Series Description | Balance June 30, 2014 | New Borrowings | Principal Repayment | Refundings | Amortization | Balance June 30, 2015 |
|---|---|---|---|---|---|---|
| Series 2003B | $ 15,695,000 | $ - | $ (445,000) | $ - | $ - | $ 15,250,000 |
| Series 2008A | 12,400,000 | - | (200,000) | - | - | 12,200,000 |
| Series 2009A | 27,310,000 | - | (3,555,000) | - | - | 23,755,000 |
| Series 2010A | 14,520,000 | - | (3,435,000) | - | - | 11,085,000 |
| CONRAC Series 2010 | 62,975,000 | - | (1,905,000) | - | - | 61,070,000 |
| Series 2010B | 31,965,000 | - | (15,490,000) | - | - | 16,475,000 |
| Series 2010C | 7,145,000 | - | (2,805,000) | - | - | 4,340,000 |
| Total | 172,010,000 | - | (27,835,000) | - | - | 144,175,000 |
| Plus unamortized premium | 2,207,486 | - | - | - | (1,419,584) | 787,902 |
| | 174,217,486 | $ - | $ (27,835,000) | $ - | $ (1,419,584) | 144,962,902 |
| Less current portion | (27,835,000) | | | | | (29,105,000) |
| | $ 146,382,486 | | | | | $ 115,857,902 |

## REQUEST FOR INFORMATION

This financial report is designed to provide detailed information on the Authority's operations to the Authority's Board of Commissioners, management, investors, creditors, customers and all others with an interest in the Authority's financial affairs and to demonstrate the Authority's accountability for the assets it controls and the funds it receives and expends. Questions concerning any of the information provided in this report or any request for additional information should be made in writing to the Metropolitan Nashville Airport Authority, One Terminal Drive, Suite 501, Nashville, Tennessee, 37214-4114.

Respectfully submitted,

Stan Van Ostran
Vice President and Chief Financial Officer
Nashville, Tennessee

METROPOLITAN NASHVILLE AIRPORT AUTHORITY
STATEMENTS OF NET POSITION
JUNE 30, 2015 AND 2014

| | 2015 | As Restated (Note 3) 2014 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Unrestricted assets: | | |
| Cash and cash equivalents | $ 78,234,916 | $ 60,636,649 |
| Accounts receivable (net of allowance for doubtful accounts of $90,000 and $110,000 in 2015 and 2014, respectively) | 5,145,345 | 4,902,711 |
| Inventories | 519,276 | 508,597 |
| Prepaid expenses and other | 1,550,628 | 1,119,610 |
| Total current unrestricted assets | 85,450,165 | 67,167,567 |
| Restricted assets: | | |
| Cash and cash equivalents | 32,950,497 | 42,494,021 |
| Short-term investments | 11,369,000 | 7,706,000 |
| Passenger facility charges receivable | 2,372,149 | 1,565,884 |
| Customer facility charges receivable | 1,086,438 | 985,512 |
| Amounts due from governmental agencies | 4,511,012 | 2,279,939 |
| Total current restricted assets | 52,289,096 | 55,031,356 |
| Total current assets | 137,739,261 | 122,198,923 |
| Noncurrent Assets: | | |
| Restricted assets: | | |
| Cash and cash equivalents | 19,917,239 | 18,830,636 |
| Capital assets: | | |
| Land and land improvements | 547,668,791 | 537,176,698 |
| Land held for future expansion | 36,701,068 | 36,701,068 |
| Buildings and building improvements | 258,305,085 | 255,460,891 |
| Equipment, furniture and fixtures | 114,296,969 | 108,530,594 |
| Construction in progress | 62,125,108 | 36,845,372 |
| Total capital assets | 1,019,097,021 | 974,714,623 |
| Less accumulated depreciation | (503,403,889) | (466,909,686) |
| Total capital assets, net | 515,693,132 | 507,804,937 |
| Other assets | 1,489,356 | 1,831,656 |
| Total noncurrent assets | 537,099,727 | 528,467,229 |
| Total assets | 674,838,988 | 650,666,152 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Actuarial losses - pension | 3,659,781 | 1,058,056 |
| Loss on bond refundings | 1,066,369 | 2,099,861 |
| Total deferred outflows of resources | 4,726,150 | 3,157,917 |
| Total assets and deferred outflows of resources | $ 679,565,138 | $ 653,824,069 |

See accompanying notes to financial statements.

METROPOLITAN NASHVILLE AIRPORT AUTHORITY
STATEMENTS OF NET POSITION
JUNE 30, 2015 AND 2014

| | 2015 | As Restated (Note 3) 2014 |
|---|---|---|
| **LIABILITIES** | | |
| Current liabilities: | | |
| Payable from unrestricted assets: | | |
| Trade accounts payable | $ 10,975,290 | $ 9,042,556 |
| Accrued payroll and related items | 4,448,016 | 4,064,109 |
| Current maturities of notes payable | 882,666 | 849,601 |
| Total payable from unrestricted assets | 16,305,972 | 13,956,266 |
| Payable from restricted assets: | | |
| Trade accounts payable and other | 1,191,333 | 934,144 |
| Accrued interest payable | 3,522,905 | 4,097,276 |
| Current maturities of airport revenue bonds | 29,105,000 | 27,835,000 |
| Total payable from restricted assets | 33,819,238 | 32,866,420 |
| Total current liabilities | 50,125,210 | 46,822,686 |
| Noncurrent liabilities: | | |
| Airport revenue bonds, less current maturities | 115,857,902 | 146,382,486 |
| Notes payable, less current maturities | 8,326,676 | 9,212,123 |
| Fair value of derivative financial instrument | 1,542,095 | 1,886,325 |
| Unearned income | 1,890,423 | 2,118,574 |
| Net pension liability | 10,621,488 | 13,063,642 |
| Other postemployment benefits obligation | 26,686,104 | 26,459,177 |
| Total noncurrent liabilities | 164,924,688 | 199,122,327 |
| Total liabilities | 215,049,898 | 245,945,013 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Actuarial gains - pension | 1,331,384 | 1,775,179 |
| **NET POSITION** | | |
| Net investment in capital assets | 387,595,082 | 342,147,659 |
| Restricted for: | | |
| Passenger facility charge projects and debt service | 13,461,933 | 12,723,352 |
| Customer facility charge projects and debt service | 19,285,387 | 20,443,862 |
| Debt service and other | 23,811,939 | 32,634,228 |
| Total restricted net position | 56,559,259 | 65,801,442 |
| Unrestricted net position (deficit) | 19,029,515 | (1,845,224) |
| Total net position | 463,183,856 | 406,103,877 |
| Total liabilities, deferred inflows of resources, and net position | $ 679,565,138 | $ 653,824,069 |

See accompanying notes to financial statements.

METROPOLITAN NASHVILLE AIRPORT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

| | 2015 | As Restated (Note 3) 2014 |
|---|---|---|
| Operating revenues: | | |
| Signatory airline | $ 39,414,175 | $ 37,026,998 |
| Parking | 38,725,346 | 36,258,325 |
| Concession | 22,873,310 | 21,520,372 |
| Space rental | 11,989,094 | 11,045,010 |
| Other | 5,993,198 | 6,278,417 |
| | 118,995,123 | 112,129,122 |
| Operating expenses: | | |
| Salaries and wages | 32,019,144 | 30,602,436 |
| Contractual services | 25,962,137 | 27,886,714 |
| Materials and supplies | 3,987,451 | 4,132,884 |
| Utilities | 6,255,942 | 5,887,708 |
| Other | 4,901,870 | 4,645,047 |
| | 73,126,544 | 73,154,789 |
| Operating income before provision for depreciation | 45,868,579 | 38,974,333 |
| Provision for depreciation | 36,534,617 | 35,773,468 |
| Operating income | 9,333,962 | 3,200,865 |
| Nonoperating revenues (expenses): | | |
| Investment income | 359,790 | 328,349 |
| Passenger facility charges | 15,703,411 | 13,502,385 |
| Customer facility charges | 11,692,265 | 10,825,490 |
| Interest expense | (7,610,829) | (9,000,146) |
| Gain (loss) on disposal of property and equipment | (180,139) | 25,522 |
| Gain on derivative financial instrument | 344,230 | 322,718 |
| Other nonoperating, net | (69,291) | (34,681) |
| | 20,239,437 | 15,969,637 |
| Income before capital contributions | 29,573,399 | 19,170,502 |
| Capital contributions | 27,506,580 | 12,739,063 |
| Increase in net position | 57,079,979 | 31,909,565 |
| Total net position - beginning of year | 406,103,877 | 374,194,312 |
| Total net position - end of year | $ 463,183,856 | $ 406,103,877 |

See accompanying notes to financial statements.

METROPOLITAN NASHVILLE AIRPORT AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

| | 2015 | 2014 |
|---|---|---|
| Cash flows from operating activities: | | |
| Cash received from customers | $ 118,818,818 | $ 112,189,845 |
| Cash paid to employees | (36,895,984) | (29,968,389) |
| Cash paid to suppliers | (34,114,690) | (41,646,031) |
| Other payments | (4,971,161) | (4,645,047) |
| Net cash provided by operating activities | 42,836,983 | 35,930,378 |
| Cash flows from noncapital financing activities: | | |
| Payment on long-term debt | (445,000) | (420,000) |
| Interest paid on long-term debt | (914,435) | (914,655) |
| Other payments | - | (34,681) |
| Net cash used in noncapital financing activities | (1,359,435) | (1,369,336) |
| Cash flows from capital and related financial activities: | | |
| Receipt of passenger facility charges | 14,897,146 | 14,159,847 |
| Receipt of customer facility charges | 11,591,339 | 10,754,397 |
| Purchases of property and equipment | (44,602,951) | (24,438,412) |
| Interest paid on long-term debt | (7,656,857) | (8,709,881) |
| Payments on long-term debt | (28,242,382) | (26,996,080) |
| Contributions from governmental agencies | 25,275,507 | 11,096,820 |
| Receipts from sale of capital assets | - | 25,522 |
| Net cash used in capital and related financing activities | (28,738,198) | (24,107,787) |
| Cash flows from investing activities: | | |
| Purchase of investments | (18,258,000) | (21,766,731) |
| Proceeds from the sale and maturities of investments | 14,595,000 | 24,932,731 |
| Interest received on investments | 64,996 | 44,200 |
| Net cash provided by (used in) investing activities | (3,598,004) | 3,210,200 |
| Net increase in cash and cash equivalents | 9,141,346 | 13,663,455 |
| Cash and cash equivalents | | |
| Beginning of year | 121,961,306 | 108,297,851 |
| End of year | $ 131,102,652 | $ 121,961,306 |

See accompanying notes to financial statements.

METROPOLITAN NASHVILLE AIRPORT AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

| | 2015 | 2014 |
|---|---|---|
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | $ 9,333,962 | $ 3,200,865 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Provision for depreciation | 36,534,617 | 35,773,468 |
| Amortization of unearned rental income | (34,903) | (34,901) |
| Payments for nonoperating expenses | (69,291) | - |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in accounts receivable | (242,634) | 128,457 |
| Decrease (increase) in inventories | (10,679) | 82,769 |
| Increase in prepaid expenses | (431,018) | (232,468) |
| Decrease (increase) in other assets | 342,300 | (122,760) |
| Increase in trade accounts payable | 2,189,923 | 1,893,048 |
| Increase in accrued payroll and related items | 383,907 | 339,234 |
| Increase (decrease) in unearned income | 101,546 | (33,913) |
| Decrease in net pension liability and related deferred inflows/outflows of resources | (5,487,674) | (6,083,846) |
| Increase in other postemployment benefit obligation | 226,927 | 1,020,425 |
| Net cash provided by operating activities | $ 42,836,983 | $ 35,930,378 |
| Cash and cash equivalents - end of year consist of: | | |
| Unrestricted cash and cash equivalents | $ 78,234,916 | $ 60,636,649 |
| Restricted cash and cash equivalents | 52,867,736 | 61,324,657 |
| | $ 131,102,652 | $ 121,961,306 |
| **Noncash investing and financing activities:** | | |
| Interest expense for amortization of deferred outflows for refunding of debt, net of bond premium amortization | $ 386,092 | $ 128,426 |
| Investment income related to the amortization of unearned interest income | $ 294,794 | $ 284,149 |
| Change in fair value of derivative financial instruments | $ 344,230 | $ 322,718 |
| Change in amounts due from governmental agencies | $ 2,231,073 | $ 1,642,243 |

See accompanying notes to financial statements.

## 1. METROPOLITAN NASHVILLE AIRPORT AUTHORITY

The creation of the Metropolitan Nashville Airport Authority (the "Authority") was authorized by Public Chapter 174 of the Public Acts of the 86th General Assembly of the State of Tennessee, 1969 Session. The Metropolitan Council of the Metropolitan Government of Nashville and Davidson County, Tennessee ("Metropolitan Government") created the Authority to operate as a separate enterprise. The Authority owns and operates Nashville International Airport and John C. Tune Airport, a general aviation reliever airport. Based upon the criteria set forth by the Governmental Accounting Standards Board ("GASB"), it has been determined that the Authority is a component unit of the Metropolitan Government.

The Authority's Board of Commissioners consists of ten members who serve without compensation, nine of whom are appointed by the Metropolitan Government Mayor and approved by the Metropolitan Government Council, with the tenth being the Mayor (or his designee). There are provisions whereby commissioners may be removed by vote of the Metropolitan Government Council. All appointments to the Authority are for a term of four years. The terms are staggered to provide for continuity of Authority development and management. The Board of Commissioners appoints a President and charges him with the responsibility for day-to-day operations.

During April 2007, the Board of Commissioners of the Authority approved an interlocal cooperation agreement with the Industrial Development Board of the Metropolitan Government. As a result of this action, MNAA Properties Corporation ("MPC"), a Tennessee non-profit corporation, was formed for the purpose of supporting and facilitating the operations of the Authority and to help the economic development of the surrounding area. The Commissioners of the Authority constitute the Board of Directors of MPC. During fiscal year 2008, MPC Holdings, LLC, a limited liability company in which MPC is the sole member, purchased two separate multi-tenant buildings and commenced operation. Both facilities are on Nashville International Airport property. In July 2012, MPC Holdings, LLC purchased a small commercial building adjoining Nashville International Airport.

During November 2009, the Board of Commissioners approved the formation of a Tennessee nonprofit limited liability company, MPC CONRAC, LLC. This entity was created in connection with the special facilities financing for the Authority's consolidated rental car facility. MPC CONRAC, LLC is a single-member LLC, wholly owned by MPC. The formation of MPC CONRAC, LLC created an appropriate entity to execute various agreements and secure financing and services for the consolidated rental car ("CONRAC") facility, which was completed in November 2011, and is located at Nashville International Airport.

MPC, including its subsidiaries MPC Holdings, LLC and MPC CONRAC, LLC, is considered to be a blended component unit for financial reporting purposes based on the following: (i) the Authority's Board of Commissioners constitutes the Board of Directors of MPC; (ii) management of the Authority has operational responsibility for MPC; (iii) the Authority is financially accountable for MPC, including MPC's fiscal dependence on the Authority and MPC's potential to provide specific financial benefits or burden to the Authority; and (iv) MPC was created for the benefit of the Authority. The Authority does not issue separate financial statements for the blended component unit (see Note 23).

The accompanying financial statements also include the accounts of the Arts at the Airport Foundation, a nonprofit organization that facilitates the display and performance of artists within the Nashville International Airport terminal. The Arts at the Airport Foundation qualifies as a blended component unit of the Authority due to it being fiscally dependent on the Authority and due to the Authority's appointment of the voting majority of its governing board. The financial operations of the Arts at the Airport Foundation are generally immaterial to the Authority's financial statements and; thus, not shown separately in the financial statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting, and Basis of Presentation

The financial statements of the Authority are presented using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when incurred. The financial statements include the operations of Nashville International Airport, John C. Tune Airport, and MPC, including MPC CONRAC, LLC, as noted above.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the useful lives of capital assets, the fair value of derivative financial instruments, the allowance for doubtful accounts, pension valuation, other postemployment benefits obligation, and certain self-insured liabilities. Actual results could differ from those estimates.

Budgets

The Authority prepares an annual operating budget and capital improvement budget and submits for approval to the Board of Commissioners. A five-year capital improvement program, including modifications and reasons therefore, is also submitted each year.

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

Operating and Nonoperating Revenues and Expenses

The Authority distinguishes operating revenues and operating expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the principal, ongoing operations such as space rental and fees, landing fees, parking and other miscellaneous income. Transactions that are capital, financing, or investing related are reported as nonoperating revenues. Such nonoperating revenues include passenger facility charges (“PFCs”) as described in Note 10 and customer facility charges (“CFCs”) as described in Note 11.

Expenses from employee wages and benefits, purchases of services, materials and supplies, and other miscellaneous expenses are reported as operating expenses. Interest expense and financing costs are reported as nonoperating expenses.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The Authority's operating revenues are presented in five components as follows:

*Signatory Airline* - Signatory Airline revenue consists of the revenues earned from the signatory airlines operating at Nashville International Airport primarily for terminal space rentals and landing fees. Terminal space rentals and landing fees charged to the signatory airlines are based on a residual agreement which takes into account all eligible revenues, expenses, and debt service of the Authority. The residual agreement is designed to minimize the landing fees and terminal space rentals of the signatory airlines while assuring the payment of all net operating costs and debt service relating to the Authority. The Authority entered into New Airline Agreements effective July 1, 2015 (See Note 13). The New Airline Agreements have a "hybrid" airline rate-setting methodology with the landing fees being calculated on a residual basis and the terminal rental rates and terminal ramp area rates being compensatory. Other than the airfield, the signatory airlines are no longer required to provide for break-even financial operation of the airport per the New Airline Agreements.

*Parking* - Parking revenue is generated primarily from the operation of Authority-owned parking facilities at Nashville International Airport. This amount is presented net of 'frequent parker' and other incentive programs.

*Concession* - Concession revenue is generated through concessionaires and tenants who pay monthly fees for using airport facilities to offer their goods and services to the public. Payments to the Authority are based on negotiated agreements with concessionaires to remit amounts usually based either on a minimum guarantee or on a percentage of gross receipts.

*Space Rental* - Space rental revenue includes nonsignatory airline terminal space rental, car rental companies' space rental, and certain other income received from leases of Authority-owned property.

*Other* - Other revenue consists primarily of nonsignatory airline landing fees, cargo airline landing fees and the Authority's portion of fixed-based operators' fuel sales.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and short-term investments with original maturities of three months or less. Certain cash and cash equivalents are reported as noncurrent as these amounts are held for the liquidation of long-term debts.

Investments

Investments consist primarily of securities of U.S. Agencies. Investments are accounted for in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* which requires that certain investments be recorded at fair value (e.g., quoted market prices). Short-term, highly liquid debt instruments that have a remaining maturity, at time of purchase, of one year or less are reported at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors.

Amounts Due from Governmental Agencies

The Authority has grants for aid in construction and equipment from the Federal Airport Improvement Program ("AIP") of the Federal Aviation Administration ("FAA"), the U.S. Department of Homeland Security ("DHS"), and the Tennessee Department of Transportation ("TDOT"). Amounts due from governmental agencies under the terms of grant agreements are accrued as the related reimbursable costs are incurred.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

### Inventories

Inventories are stated at the lower of cost or market under the first-in, first-out method and consist primarily of supplies and maintenance repair parts.

### Restricted Assets and Payables from Restricted Assets

Restricted assets consist of cash and cash equivalents, investments, and other resources which are restricted legally or by enabling legislation. The Authority's restricted assets are to be used for purposes specified in the respective bond indentures or other authoritative or legal documents as is the case with the collection of CFCs for the consolidated rental car facility or for purposes specified by the PFC program, as administered by the FAA. Restricted assets not generally available for use within the next year are reported as noncurrent assets.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then use unrestricted resources as needed.

### Capital Assets

Capital assets are stated at cost, except for contributions of property received from governmental agencies, which are recorded at fair value at the time of contribution. The Authority's policy is to capitalize assets with a cost of $25,000 or more at Nashville International Airport and $10,000 at John C. Tune Airport and MPC. Routine maintenance and repairs are expensed as incurred. Interest cost incurred during the construction of facilities is capitalized as part of project costs if funding is not from grants. Provision for depreciation of property and equipment is made on a basis considered adequate to depreciate the cost of depreciable assets over their estimated useful lives and is computed on the straight-line method.

Asset lives used in the calculation of depreciation are generally as follows:

| | |
|---|---|
| Land improvements | 10 to 30 years |
| Buildings and building improvements | 10 to 30 years |
| Equipment, furniture and fixtures | 3 to 15 years |

### Derivative Financial Instrument

The Authority's derivative financial instrument consists of an interest rate swap agreement, and is accounted for at fair value in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

### Postemployment Benefits

Postemployment pension benefits are accounted for under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment to GASB Statement No. 27* ("GASB No. 68"), which establishes standards for the measurement, recognition, and display of pension expense and related liabilities, deferred inflows/outflows of resources, note disclosures, and required supplementary information. See additional information regarding the Authority's pension benefits in Recent Accounting Pronouncements below and in Note 17. The Authority's Retirement Plan issues a separate, publically available, financial report under the requirement of GASB Statement No. 67.

Postemployment healthcare benefits other than pension benefits are accounted for under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions,* which establishes standards for the measurement, recognition, and display of postemployment healthcare benefits expense and related liabilities, assets, note disclosures, and, if applicable, required supplementary information.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

### Compensated Absences

Compensated absences are accrued as payable when earned by employees and are cumulative from one fiscal year to the next. The compensated absences liability is reported with accrued payroll and related items in the accompanying statements of net position.

### Self-insurance

The Authority is self-insured, up to certain limits, for employee group health insurance claims. The Authority has purchased reinsurance in order to limit its exposure. The cost of claims reported and an estimate of claims incurred but not reported are charged to operating expenses. Liabilities for unpaid claims are accrued based on management's estimate using historical experience and current trends and are included in accrued payroll and related items on the statements of net position. The appropriateness of the self-insurance accrued liabilities is continually reviewed and updated by management.

### Deferred Outflows/Inflows of Resources

The statements of net position will sometimes report a separate section for deferred outflows of resources and/or deferred inflows of resources. *Deferred outflows of resources* represent a consumption of net position that applies to a future period and; therefore, not recognized as an outflow of resources (expense) until then. *Deferred inflows of resources* represent an acquisition of net position that applies to a future period and; therefore, not recognized as an inflow of resources (revenue) until then.

The Authority has two items that qualify for reporting as deferred outflows/inflows of resources. These are losses on bond refundings and GASB No. 68 variances from actuarial assumptions.

A deferred loss on refunding results from the difference between the net carrying amount of the original debt and the reacquisition price, shown as a deferred outflow of resources in the accompanying statements of net position. This amount is deferred and amortized over the term of the new bonds or old bonds, whichever is shorter, using the effective interest method or the straight-line method, when not materially different.

GASB No. 68 variances can occur due to actuarial assumptions that differ between the actual plan experience and the original actuarial assumed rates. Differences can result from, among others, earnings on investments, changes in assumptions, and other experience gains or losses. A variance represents a gain or a loss, shown as deferred inflows of resources or deferred outflows of resources, respectively, in the accompanying statements of net position. These deferred outflows/inflows are amortized in accordance with the provisions of GASB No. 68. Additional items are determined annually based on each subsequent year's variances from actuarial assumptions.

### Unearned Income

Unearned income consists of unearned interest income and unearned rental income. Unearned interest income relates to the Authority's debt forward delivery agreement entered into in connection with certain bond-financing transactions (Note 4). The unearned interest income is being amortized to nonoperating income using the effective interest method over the term of the related agreements. Unearned rental income represents lease rentals received in advance under certain ground leases entered into with developers (Note 20). The unearned rental income is being recognized in nonoperating income on a straight-line basis over the terms of the related leases. Unearned revenues are included within liabilities in the accompanying statements of net position as such amounts may be returned to the counterparty if the related agreements were terminated.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

### Components of Net Position

The Authority's net position classifications are defined as follows:

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

*Restricted net position* - This component of net position represents restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law or through constitutional provisions or enabling legislation.

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

### Taxes

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

### Fair Value Measurements

Assets and liabilities recorded at fair value in the statements of net position are categorized based on the level of judgment associated with the inputs used to measure their fair value. Level inputs are as follows:

Level 1 - Values are unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Authority's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

### Recent Accounting Pronouncements Applicable to the Authority

During 2015, the Authority implemented GASB No. 68 which provides accounting and financial reporting guidance for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to pensions and related disclosures. The accounting changes required by GASB No. 68 are applied retroactively by reclassifying the statement of net position, net position information, and results of operations.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This statement is effective for periods beginning after June 15, 2016, with earlier application being encouraged. The Authority elected to implement this standard in prior years (see Note 23).

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB No. 74 revises existing guidance for the financial reports of most other post-employment benefit ("OPEB") plans for state and local governments and replaces the requirements of Statement Nos. 25, 43, 50, and 57 as they relate to OPEB plans that are administered through trusts or similar arrangements meeting certain criteria. GASB No. 74 enhances note disclosures and Required Supplementary Information (RSI). This statement is effective for periods beginning after June 15, 2016.

In June 2015, GASB issued Statement No. 75, Accounting and *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, which provides accounting and financial reporting guidance for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to pensions and related disclosures. The accounting changes required by GASB No. 75 should be applied retroactively by reclassifying the statement of net position, net position information, and results of operations. This statement is effective for periods beginning after June 15, 2017.

## 3. RETROSPECTIVE APPLICATION OF A CHANGE IN ACCOUNTING PRINCIPLE

The following table summarizes the effects of the implementation of GASB No. 68 in the statements of net position as of June 30, 2014.

| | As Previously Reported June 30, 2014 | Record Effects of GASB 68 | As Restated June 30, 2014 |
|---|---|---|---|
| Total assets | $ 662,742,818 | $ (12,076,666) | $ 650,666,152 |
| Deferred outflows of resources | 2,099,861 | 1,058,056 | 3,157,917 |
| Total liabilities | 232,881,371 | 13,063,642 | 245,945,013 |
| Deferred inflows of resources | - | 1,775,179 | 1,775,179 |
| Net position | | | |
| Net investment in capital assets | 342,147,659 | - | 342,147,659 |
| Restricted | 65,801,442 | - | 65,801,442 |
| Unrestricted | 24,012,207 | (25,857,431) | (1,845,224) |
| Total net position | $ 431,961,308 | $ (25,857,431) | $ 406,103,877 |

## 3. RETROSPECTIVE APPLICATION OF A CHANGE IN ACCOUNTING PRINCIPLE - Continued

The following table summarizes the effects of the implementation of GASB No. 68 in the statements of revenues, expenditures, and changes in net position as of June 30, 2014:

| | As Previously Reported June 30, 2014 | Record Effects of GASB 68 | As Restated June 30, 2014 |
|---|---|---|---|
| Total operating revenues | $ 112,129,122 | $ - | $ 112,129,122 |
| Total operating expenses | 73,880,401 | (725,612) | 73,154,789 |
| Provision for depreciation | 35,773,468 | - | 35,773,468 |
| Total operating income | 2,475,253 | 725,612 | 3,200,865 |
| Non operating revenues, net | 15,969,637 | - | 15,969,637 |
| Capital contributions | 12,739,063 | - | 12,739,063 |
| Increase in net positoin | 31,183,953 | 725,612 | 31,909,565 |
| Net position - beginning | 400,777,355 | (26,583,043) | 374,194,312 |
| Net position - ending | $ 431,961,308 | $ (25,857,431) | $ 406,103,877 |

## 4. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The Authority's deposit and investment policy is governed by the laws of the State of Tennessee and bond trust indentures and supplemental resolutions, which govern the investment of bond proceeds. Permissible investments generally include direct obligations of, or obligations guaranteed by, the U.S. Government, obligations issued or guaranteed by specific agencies of the U.S. Government, secured certificates of deposit, secured repurchase agreements, and specifically rated obligations of state governments, commercial paper and money market funds.

Cash and Cash Equivalents

The Authority's unrestricted and restricted cash and cash equivalent bank balances totaling $134,811,037 and $124,084.735 at June 30, 2015 and 2014, respectively, (with a carrying value of $131,102,652 and $121,961,306) represent a variety of time deposits and cash equivalents.

Cash deposits, maintained at three financial institutions, are carried at cost plus interest, which approximates fair value. Cash deposits are required by State statute to be secured and collateralized by such institutions. The collateral must meet certain requirements and must have a total minimum market value of 105% of the value of the deposits placed in the institutions less the amount protected by federal depository insurance or the bank must be a member of the State's Bank Collateral Pool.

The amount of collateral required to secure public deposits for Collateral Pool participants ranges between 90% and 115% of the average daily balance of public deposits held, depending on the participant's status and compliance with certain benchmarks established by the Collateral Pool. Collateral securities pledged by the participating banks are pledged to the State Treasurer on behalf of the Collateral Pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

## 4. CASH AND CASH EQUIVALENTS AND INVESTMENTS - Continued

Two of the Authority's banks participate in the Collateral Pool, representing approximately 81.3% of total cash in bank. A large banking institution, that is not a part of the Collateral Pool, holds the remaining 18.7%, or $25,011,806 at June 30, 2015. Per State law, the bank is required to have collateral supporting this deposit, net of FDIC insurance, of $26,012,396 at June 30, 2015. However, funds held by this bank were not collateralized. The Authority did not incur any losses from uncollateralized accounts. Effective July 1, 2015, the Authority has moved all funds from this bank to another bank that is a participant in the Collateral Pool.

Cash equivalents are held at another financial institution, and consist of money market and other short-term investments with original maturities of three months or less. Investment risk for such cash equivalent funds is governed by the Authority's investment policy.

Investments

As of June 30, 2015 and 2014, the Authority had the following investments and related maturities:

| | | | Investment Maturities (in Years) | | |
|---|---|---|---|---|---|
| Investment Type | Credit Rating | Fair Value | Less than 1 | 1– 5 | 6–10 |
| June 30, 2015: | | | | | |
| U.S. Agencies | AA+/Aaa | $ 11,369,000 | $ 11,369,000 | $ - | $ - |
| June 30, 2014: | | | | | |
| U.S. Agencies | AA+/Aaa | $ 7,706,000 | $ 7,706,000 | $ - | $ - |

The carrying amount of investments is reflected in short-term restricted investments in the accompanying statements of net position at June 30, 2015 and 2014.

*Interest Rate Risk* - The Authority's investment policy states that the investment portfolio may be allocated among U.S. Treasury Obligations (0 - 100%), U.S. Agency Instruments (0 - 100%), Repurchase Agreements (0 - 20%), Commercial Paper (0 - 25%), Money Market Mutual Funds (0 - 25%), Corporate Debt (0 - 15%), Asset-Backed Securities (0 - 25%), CMOs/Mortgage-Backed Securities (0 - 25%), and Cash Equivalents (0 - 100%). In addition, the maximum maturity of investments is 270 days (commercial paper), 180 days (repurchase agreements), 365 days (certificates of deposit, time deposits and bankers acceptances), 5 years (all other corporate debt), and 10 years (all other investments). To control the volatility of the portfolio and limit exposure to interest rate risk, the Authority's Chief Financial Officer ("CFO") determines a duration target for the portfolio, which typically does not exceed 3 years.

*Credit Risk* - The investment policy specifies acceptable credit ratings by instrument type but overall long-term credit ratings range from "A2" to "AAA" by Moody's and "A" to "AAA" by Standard & Poor's. Acceptable short-term credit rating levels are "A1" or better by Standard & Poor's and "P1" or better by Moody's.

*Custodial Credit Risk* - All investment securities purchased by the Authority are held in third-party safekeeping at a financial institution, acting solely as agent of the Authority and qualified to act in this capacity. As a means to limit custodial credit risk, all trades of marketable securities are executed on the basis of delivery versus payment and avoid the physical delivery of securities (bearer form) to ensure that securities are deposited with a custodian prior to the release of Authority funds. The Authority's investments at June 30, 2015 and 2014, are collateralized by securities held by the Authority's agent in the Authority's name.

**4. CASH AND CASH EQUIVALENTS AND INVESTMENTS - Continued**

*Concentration of Credit Risk -* The investment policy requires that no more than 10% of the Authority's portfolio may be invested in the securities of any single issuer with a maturity of less than 365 days and not more than 5% of the Authority's portfolio may be invested in the securities of any single issuer with a maturity greater than one year except that 100% of the Authority's portfolio may be invested in U.S. Treasury Obligations and U.S. Agency Instruments.

Forward Delivery Agreement

In November 1999, the Authority entered into a Debt Service Forward Delivery Agreement ("1999 DSFDA") with a financial institution for the continuous investment of certain bond principal and interest investments through the term of the respective bonds. The present value of future investment earnings under the 1999 DSFDA was received by the Authority in an upfront, lump sum payment of $3,275,000. The amount of the upfront payment was recorded as unearned interest income and is being amortized into income over the term of the agreement. Certain bond refundings have occurred since the Authority entered into the 1999 DSFDA. The principal and interest investments of the new bonds have replaced the investments of the former bond series. As of June 30, 2015, the bonds subject to the 1999 DSFDA include Series 2008A, Series 2010B (matured on July 1, 2015), and Series 2010C.

The remaining unearned amount relating to the forward delivery agreement was $67,253 and $362,047 at June 30, 2015 and 2014, respectively. Such amounts are reported as unearned interest income in the accompanying statements of net position.

## 5. CAPITAL ASSETS

Capital assets and related accumulated depreciation activity for the years ended June 30, 2015 and 2014, were as follows:

| | Balance June 30, 2014 | Additions | Retirements | Transfers | Balance June 30, 2015 |
|---|---|---|---|---|---|
| Capital assets not being depreciated: | | | | | |
| Land | $ 60,291,397 | $ 156,445 | $ (180,139) | $ - | $ 60,267,703 |
| Land held for future expansion | 36,701,068 | - | - | - | 36,701,068 |
| Construction in progress | 36,845,372 | 43,436,725 | - | (18,156,989) | 62,125,108 |
| Total capital assets not being depreciated | 133,837,837 | 43,593,170 | (180,139) | (18,156,989) | 159,093,879 |
| Capital assets being depreciated: | | | | | |
| Land improvements | 476,885,301 | 23,957 | - | 10,491,830 | 487,401,088 |
| Buildings and building improvements | 255,460,891 | 275,421 | - | 2,568,773 | 258,305,085 |
| Equipment, furniture and fixtures | 108,530,594 | 710,405 | (40,416) | 5,096,386 | 114,296,969 |
| Total capital assets being depreciated | 840,876,786 | 1,009,783 | (40,416) | 18,156,989 | 860,003,142 |
| Less accumulated depreciation: | | | | | |
| Land improvements | (295,002,744) | (17,633,618) | - | - | (312,636,362) |
| Buildings and building improvements | (121,057,323) | (12,307,846) | - | - | (133,365,169) |
| Equipment, furniture and fixtures | (50,849,619) | (6,593,155) | 40,416 | - | (57,402,358) |
| Total accumulated depreciation | (466,909,686) | (36,534,619) | 40,416 | - | (503,403,889) |
| Net capital assets being depreciated | 373,967,100 | (35,524,836) | - | 18,156,989 | 356,599,253 |
| Net capital assets | $ 507,804,937 | $ 8,068,334 | $ (180,139) | $ - | $ 515,693,132 |

| | Balance June 30, 2013 | Additions | Retirements | Transfers | Balance June 30, 2014 |
|---|---|---|---|---|---|
| Capital assets not being depreciated: | | | | | |
| Land | $ 60,291,397 | $ - | $ - | $ - | $ 60,291,397 |
| Land held for future expansion | 36,701,068 | - | - | - | 36,701,068 |
| Construction in progress | 20,469,818 | 23,453,487 | - | (7,077,933) | 36,845,372 |
| Total capital assets not being depreciated | 117,462,283 | 23,453,487 | - | (7,077,933) | 133,837,837 |
| Capital assets being depreciated: | | | | | |
| Land improvements | 474,449,844 | - | - | 2,435,457 | 476,885,301 |
| Buildings and building improvements | 254,508,281 | - | - | 952,610 | 255,460,891 |
| Equipment, furniture and fixtures | 103,981,903 | 984,925 | (126,100) | 3,689,866 | 108,530,594 |
| Total capital assets being depreciated | 832,940,028 | 984,925 | (126,100) | 7,077,933 | 840,876,786 |
| Less accumulated depreciation: | | | | | |
| Land improvements | (280,145,060) | (14,857,684) | - | - | (295,002,744) |
| Buildings and building improvements | (108,571,873) | (12,485,450) | - | - | (121,057,323) |
| Equipment, furniture and fixtures | (42,545,385) | (8,430,334) | 126,100 | - | (50,849,619) |
| Total accumulated depreciation | (431,262,318) | (35,773,468) | 126,100 | - | (466,909,686) |
| Net capital assets being depreciated | 401,677,710 | (34,788,543) | - | 7,077,933 | 373,967,100 |
| Net capital assets | $ 519,139,993 | $ (11,335,056) | $ - | $ - | $ 507,804,937 |

## 5. CAPITAL ASSETS - Continued

The amount of construction in progress at June 30, 2015, is attributable to the following:

| | |
|---|---|
| Runway safety area (JWN) | $ 15,144,974 |
| Reconstruct Runway 13-31 West | 13,899,564 |
| Improve stormwater collection & treatment | 7,388,312 |
| Reconstruct Taxiways B & T3 | 6,315,743 |
| Enterprise Resource Planning ("ERP") system implementation | 1,503,846 |
| Other projects | 17,872,669 |
| Total construction in progress | $ 62,125,108 |

During fiscal year 2015, $18,156,989 of construction in progress was substantially completed and transferred to capital assets as follows:

| | |
|---|---|
| Taxiway Kilo Reconstruction | $ 10,334,265 |
| Energy Phase 2 (Chiller, lighting, Quarry design) | 2,759,460 |
| HVAC Improvements (AHUs) | 1,816,413 |
| Replace Concourse Roof (Phase3) | 1,284,699 |
| Other projects | 1,962,152 |
| | $ 18,156,989 |

The amount of construction in progress at June 30, 2014, is attributable to the following:

| | |
|---|---|
| Taxiway Kilo reconstruction | $ 10,334,265 |
| Improve stormwater collection and treatment | 5,971,839 |
| Runway safety area (JWN) | 5,315,504 |
| Energy Phase II (chillers, lighting, quarry design) | 2,759,460 |
| Enterprise Resource Planning ("ERP") implementation | 2,886,156 |
| MNAA data center relocation-construction | 2,037,811 |
| HVAC improvements (AHUs) | 1,655,504 |
| Replace concourse roof | 1,283,449 |
| Other projects | 4,601,384 |
| | $ 36,845,372 |

During fiscal year 2014, $7,077,933 of construction in progress was substantially completed and transferred to capital assets as follows:

| | |
|---|---|
| Upgrade security camera system | $ 1,481,099 |
| Master plan | 1,472,044 |
| Other projects | 4,124,790 |
| | $ 7,077,933 |

## 6. AIRPORT BONDS

Airport Improvement Revenue Bonds, Series 2003B

During November 2003, the Authority issued Series 2003B taxable bonds in the principal amount of $19,585,000. These bonds were issued to provide funding for a portion of the projected unfunded liability of the Metropolitan Nashville Airport Authority Retirement Plan for Employees (See Note 17).

The remaining Series 2003B bonds contain serial bonds at interest rates ranging from 5.22% to 5.94%, with annual sinking fund requirements in progressive annual amounts ranging from $465,000 on July 1, 2016, to $1,280,000 on July 1, 2033. The annual amounts accumulated in the sinking fund will be used to pay bond holders on July 1, 2015, 2018, 2023, and 2033. The 2003B bonds are subject to an extraordinary optional redemption, in whole at any time, at a redemption price equal to the principal amount plus accrued interest to the date of redemption only in the event of the destruction or damage to all or substantially all of the Nashville International Airport or the condemnation of the airport facility.

Airport Improvement Revenue Bonds, Refunding Series 2008A

During June 2008, the Authority issued Refunding Series 2008A in the principal amount of $37,600,000. These bonds were issued to provide funds to refund $37,600,000 aggregate outstanding principal amount of the Authority's Series 1993 bonds. The purpose of the refunding was to replace the liquidity facility agreement with a direct pay letter of credit. There was no significant economic gain as a result of the refunding. There were no changes to the debt service schedule or other terms of the bonds. The refunding of the Series 1993 bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $2,124,070. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being amortized through fiscal year 2020.

The Series 2008A issue contains serial bonds bearing interest at a weekly variable rate. In order to limit its exposure to changes in interest rates, the Authority transferred its existing 1993 interest rate swap agreement to the 2008A bonds ("2008A Swap Agreement"), resulting in a fixed interest rate of 4.49% (See Note 9). The 2008A bonds mature in progressive annual amounts ranging from $200,000 on July 1, 2015, to $3,800,000 on July 1, 2019.

Airport Improvement Revenue Bonds, Series 2009A

During March 2009, the Authority issued Series 2009A bonds in the principal amount of $36,000,000. The bonds were issued to provide funds for the majority of the costs associated with the second phase of the terminal renovation project, and to fund a deposit to the debt service reserve account for the Series 2009A bonds.

The remaining Series 2009A bonds contain serial bonds at interest rates ranging from 4.00% to 5.25%, maturing in progressive annual amounts ranging from $3,715,000 on July 1, 2015, to $7,970,000 on July 1, 2019. The debt service reserve account and interest earned on that account will be used to pay a portion of the final principal payment on July 1, 2019.

Airport Improvement Revenue Bonds, Series 2010A

During February 2010, the Authority issued Series 2010A bonds in the principal amount of $25,770,000. The bonds were issued to provide funds to refund $25,050,000 aggregate outstanding principal amount of the Authority's Series 2008B bonds and to pay issuance costs. The purpose of the refunding was to replace variable-rate bonds with fixed-rate bonds thereby terminating an interest rate swap with a financial institution. There were no significant changes to the terms of the bonds, and there was no significant economic gain as a result of the refunding.

## 6. AIRPORT BONDS - Continued

The refunding of the Series 2008B bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $948,838. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being amortized through fiscal year 2018.

The remaining Series 2010A issue contains serial bonds at interest rates ranging from 4.75% to 5%, maturing in amounts ranging from $3,560,000 on July 1, 2015, to $3,835,000 on July 1, 2017.

Special Facility Revenue Bonds (MPC CONRAC LLC Project) Series 2010 Bonds

During February 2010, the Authority issued CONRAC Series 2010 bonds in the principal amount of $66,300,000. The bonds, together with customer facility charge ("CFC") collections on hand and collected during the construction period, were used for the development and construction of a new consolidated rental car ("CONRAC") facility and related improvements, including quick turnaround facilities at the Airport, to fund certain deposits to the debt service reserve fund and coverage fund, and to pay bond issue costs of $2,268,828. The CONRAC Series 2010 bonds are payable from and secured by a pledge of certain rental payments derived from CFC's under leases with rental car agencies (See Note 11).

The remaining CONRAC Series 2010 bonds contain serial bonds at interest rates ranging from 4.13% to 6.19%, maturing in progressive annual amounts ranging from $2,090,000 on July 1, 2015, to $3,800,000 on July 1, 2024. The CONRAC Series 2010 bonds also contain term bonds of $31,765,000, bearing interest at 6.79% and maturing on July 1, 2029. The CONRAC term bonds are subject to mandatory annual sinking fund requirements of $4,055,000 on July 1, 2025, to $13,755,000 on July 1, 2029.

Airport Improvement Revenue Bonds, Series 2010B&C

During August 2010, the Authority issued Series 2010B bonds in the principal amount of $70,400,000 and Series 2010C in the principal amount of $16,170,000, collectively the "Series 2010B&C Bonds." These bonds, together with other funds of the Authority, were issued to provide funds to refund $92,925,000 aggregate outstanding principal amount of the Authority's Series 1995, 1998A, 1998C, and 2001A bonds, to pay the premiums of municipal bond insurance policies and debt service reserve fund surety policies, and to pay certain costs of their issuance. Interest on the 2010C bonds is treated as a preference item in calculating alternative minimum tax. The 2010B&C bonds were issued at a premium totaling $5,755,919. The refunding resulted in an economic gain of approximately $8,500,000.

The refunding of the Series 1995, 1998A, 1998C and 2001A bonds resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of $4,918,969, including a 3.00% repayment premium of $1,274,700 on the 2001A bonds. This difference, reported as a deferred outflows of resources, is being amortized through fiscal year 2017.

The remaining Series 2010B issue contained serial bonds at interest rates of 4.00%, which matured on July 1, 2015 upon the Authority making the final payment of $16,475,000. The Series 2010C issue contains serial bonds at interest ranging from 3.00% to 4.00%, the bond maturing in annual amounts from $2,600,000 on July 1, 2015, to $1,740,000 on July 1, 2016.

## 6. AIRPORT BONDS - Continued

All of the Authority's bonds were issued under the Airport Improvement Revenue Bond Resolution adopted by the Board of Commissioners of the Authority on August 15, 1991 (as amended and supplemented from time to time). The Authority is using PFC revenues that were approved under PFC Program Application for its annual debt service costs on the 2009A bonds and the Series 2010A bonds (See Note 10). Although the CONRAC Series 2010 Bonds were issued under the General Resolution, the CFCs are not in and of themselves a part of airport revenues or net revenues as defined in the General Bond Resolution. Therefore, airport revenues derived by the Authority from the operation of the Airport are not pledged for payment of and do not constitute security for the CONRAC Series 2010 Bonds. All other bonds are secured by a pledge of and lien on net revenues derived by the Authority from the operation of the airports.

The following shows the composition of restricted cash and cash equivalents and investments as of June 30, 2015 and 2014 (the restricted funds relate primarily to airport bonds and related activity):

| | 2015 | 2014 |
|---|---|---|
| Principal and Interest Funds: | | |
| Airport Improvement Revenue Bonds, Series 2003B | $ 910,875 | $ 902,272 |
| Airport Improvement Revenue Bonds, Series 2008A | 175,565 | 250,422 |
| Airport Improvement Revenue Bonds, Series 2009A | 4,239,532 | 4,159,519 |
| Airport Improvement Revenue Bonds, Series 2010A | 3,833,558 | 3,795,644 |
| Airport Improvement Revenue Bonds, Series 2010B | 11,152,525 | 16,130,612 |
| Airport Improvement Revenue Bonds, Series 2010C | 1,773,104 | 2,948,952 |
| CONRAC Series 2010 Bonds | 3,969,667 | 3,820,176 |
| Bond Reserve Funds: | | |
| Airport Improvement Revenue Bonds, Series 2009A | 3,665,909 | 3,664,438 |
| Airport Improvement Revenue Bonds, Series 2010A | 2,590,353 | 2,589,101 |
| CONRAC Series 2010 Bonds | 6,109,843 | 6,478,302 |
| Construction Funds: | | |
| PFC and Airport Improvement Revenue Bonds, Series 2003 | 11,089,784 | 11,157,468 |
| Airport Improvement Revenue Bonds, Series 2009A | 774,235 | 1,047,165 |
| CONRAC Series 2010 Bonds | 77,870 | 341,641 |
| Other Funds: | | |
| Various CONRAC Accounts | 12,219,527 | 11,048,609 |
| Energy Improvement | 136,261 | 136,262 |
| Other | 1,518,128 | 560,074 |
| | $ 64,236,736 | $ 69,030,657 |

## 6. AIRPORT BONDS - Continued

Airport bond activity for the years ended June 30, 2015 and 2014, is summarized as follows:

2015:

| Series Description | Balance June 30, 2014 | New Borrowings | Principal Repayment | Refundings | Amortization | Balance June 30, 2015 |
|---|---|---|---|---|---|---|
| Series 2003B | $ 15,695,000 | $ - | $ (445,000) | $ - | $ - | $ 15,250,000 |
| Series 2008A | 12,400,000 | - | (200,000) | - | - | 12,200,000 |
| Series 2009A | 27,310,000 | - | (3,555,000) | - | - | 23,755,000 |
| Series 2010A | 14,520,000 | - | (3,435,000) | - | - | 11,085,000 |
| CONRAC Series 2010 | 62,975,000 | - | (1,905,000) | - | - | 61,070,000 |
| Series 2010B | 31,965,000 | - | (15,490,000) | - | - | 16,475,000 |
| Series 2010C | 7,145,000 | - | (2,805,000) | - | - | 4,340,000 |
| Total | 172,010,000 | - | (27,835,000) | - | - | 144,175,000 |
| Plus unamortized premium | 2,207,486 | - | - | - | (1,419,584) | 787,902 |
| | 174,217,486 | $ - | $ (27,835,000) | $ - | $ (1,419,584) | 144,962,902 |
| Less current portion | (27,835,000) | | | | | (29,105,000) |
| | $ 146,382,486 | | | | | $ 115,857,902 |

2014:

| Series Description | Balance June 30, 2013 | New Borrowings | Principal Repayment | Refundings | Amortization | Balance June 30, 2014 |
|---|---|---|---|---|---|---|
| Series 2003B | $ 16,115,000 | $ - | $ (420,000) | $ - | $ - | $ 15,695,000 |
| Series 2008A | 12,500,000 | - | (100,000) | - | - | 12,400,000 |
| Series 2009A | 30,765,000 | - | (3,455,000) | - | - | 27,310,000 |
| Series 2010A | 17,855,000 | - | (3,335,000) | - | - | 14,520,000 |
| CONRAC Series 2010 | 64,720,000 | - | (1,745,000) | - | - | 62,975,000 |
| Series 2010B | 46,545,000 | - | (14,580,000) | - | - | 31,965,000 |
| Series 2010C | 10,155,000 | - | (3,010,000) | - | - | 7,145,000 |
| Total | 198,655,000 | - | (26,645,000) | - | - | 172,010,000 |
| Plus unamortized premium | 3,627,071 | - | - | - | (1,419,585) | 2,207,486 |
| | 202,282,071 | $ - | $ (26,645,000) | $ - | $ (1,419,585) | 174,217,486 |
| Less current portion | (26,645,000) | | | | | (27,835,000) |
| | $ 175,637,071 | | | | | $ 146,382,486 |

Aggregate maturities of the Authority's bonds outstanding at June 30, 2015, including the annual sinking fund requirements of the Series 2003B and CONRAC Series 2010 bonds, are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ 29,105,000 | $ 7,006,667 | $ 36,111,667 |
| 2017 | 13,265,000 | 6,109,826 | 19,374,826 |
| 2018 | 14,250,000 | 5,468,430 | 19,718,430 |
| 2019 | 11,030,000 | 4,864,859 | 15,894,859 |
| 2020 | 15,185,000 | 4,216,618 | 19,401,618 |
| 2021-2025 | 20,330,000 | 17,096,140 | 37,426,140 |
| 2026-2030 | 36,305,000 | 12,681,567 | 48,986,567 |
| 2031-2034 | 4,705,000 | 2,080,040 | 6,785,040 |
| | $ 144,175,000 | $ 59,524,147 | $ 203,699,147 |

## 6. AIRPORT BONDS - Continued

The interest amounts on the 2008A variable rate debt, which has an interest rate swap agreement associated with it, were computed based on the fixed rate in the agreement plus an estimate for additional fees where applicable.

## 7. NOTES PAYABLE

In October 2007, MPC Holdings, LLC, entered into a term note in the amount of $7,600,000 with a financial institution, the proceeds of which were used to provide financing for the purchase of International Plaza. During November 2012, the note was amended to bear interest at a fixed rate of 3.01%, and extend payments through November 2017. Principal and interest payments are due in monthly installments of $31,640 through November 2017, at which time the remaining balance will be $4,608,057. The principal balance outstanding was $5,141,855 and $5,363,129 at June 30, 2015 and 2014, respectively. The note is collateralized by the building.

In March 2008, MPC Holdings, LLC, entered into a term note in the amount of $1,360,000 with a financial institution. Proceeds were used to purchase a multi-purpose building on airport property from a major tenant. During March 2013, the note was amended to bear interest at a fixed rate of 3.12% with principal and interest payments of $5,758 per month. The amended note matures on April 1, 2018, at which time the remaining balance will be $823,302. The principal balance outstanding was $936,155 and $974,964 at June 30, 2015 and 2014, respectively. The note is collateralized by the building.

The anticipated aggregate principal and interest maturities of the MPC notes payable are as follows at June 30, 2015:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ 264,900 | $ 184,942 | $ 449,842 |
| 2017 | 273,203 | 175,573 | 448,776 |
| 2018 | 5,539,908 | 68,018 | 5,607,926 |
| | $ 6,078,011 | $ 428,533 | $ 6,506,544 |

As part of its loan agreements, MPC is required to comply with debt covenants, including certain financial ratios and minimum balance requirements. As of June 30, 2015 and 2014, MPC was in compliance with its financial covenants.

## 7. NOTES PAYABLE - Continued

Activity with respect to the MPC notes for 2015 and 2014 is as follows:

| Description | Balance June 30, 2014 | Principal Repayments | Balance June 30, 2015 |
|---|---|---|---|
| MPC Note 1 | $ 5,363,129 | $ (221,273) | $ 5,141,856 |
| MPC Note 2 | 974,965 | (38,810) | 936,155 |
| | $ 6,338,094 | $ (260,083) | $ 6,078,011 |

| Description | Balance June 30, 2013 | Principal Repayments | Balance June 30, 2014 |
|---|---|---|---|
| MPC Note 1 | $ 5,595,919 | $ (232,790) | $ 5,363,129 |
| MPC Note 2 | 1,015,685 | (40,720) | 974,965 |
| | $ 6,611,604 | $ (273,510) | $ 6,338,094 |

Energy Savings Performance Contract

The Authority has entered into an energy savings performance contract with an energy service company (ESCO) that conducted a comprehensive energy audit and identified improvements to save energy. The ESCO worked with the Authority to design and construct the approved projects, as well as to assist it with project financing. The ESCO guarantees that the improvements will generate energy cost savings sufficient to pay for the project over the term of the contract. After the contract ends, the Authority continues to benefit with additional energy cost savings as a result of the contract.

The Authority agreed to an energy saving project known as “Comprehensive Energy and Operational Services,” Phases I and II. The project primarily included lighting retrofits and replacement of a chiller, but also a conceptual design for a quarry geothermal system.

In June 2011, the Authority entered into a financing agreement in the amount of $1,807,000 with a financial institution, the proceeds of which were used to make certain energy enhancements at Nashville International Airport. The annual interest rate is 2.27%. Principal and interest payments are due in monthly installments of $30,878 from August 2012 through July 2017. The principal balance outstanding was $753,277 and $1,102,402 at June 30, 2015 and 2014, respectively.

In December 2012, the Authority entered into another financing agreement in the amount of $2,777,500 with a financial institution for phase II of the energy enhancement project. The annual interest rate is 1.85%. Principal and interest payments are due in progressive monthly installments between $23,700 and $31,178 from January 2014 through November 2022. The principal balance outstanding was $2,378,054 and $2,621,228 at June 30, 2015 and 2014, respectively.

**7. NOTES PAYABLE - Continued**

The anticipated aggregate principal and interest maturities of the Energy Loans are as follows at June 30, 2015:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ 617,766 | $ 55,219 | $ 672,985 |
| 2017 | 644,354 | 42,052 | 686,406 |
| 2018 | 329,234 | 31,580 | 360,814 |
| 2019 | 318,834 | 25,829 | 344,663 |
| 2020 | 340,338 | 19,751 | 360,089 |
| 2021 | 358,057 | 13,279 | 371,336 |
| 2022 | 367,573 | 6,563 | 374,136 |
| 2023 | 155,175 | 718 | 155,893 |
| | $ 3,131,331 | $ 194,991 | $ 3,326,322 |

Activity with respect to the Energy Loans for fiscal years 2015 and 2014, is as follows:

| Description | Balance June 30, 2014 | Principal Additions | Principal Repayments | Balance June 30, 2015 |
|---|---|---|---|---|
| Energy Loan Phase I | $ 1,102,402 | $ - | $ (349,125) | $ 753,277 |
| Energy Loan Phase II | 2,621,228 | - | (243,174) | $ 2,378,054 |
| | $ 3,723,630 | $ - | $ (592,299) | $ 3,131,331 |

| Description | Balance June 30, 2013 | Principal Additions | Principal Repayments | Balance June 30, 2014 |
|---|---|---|---|---|
| Energy Loan Phase I | $ 1,443,697 | $ - | $ (341,295) | $ 1,102,402 |
| Energy Loan Phase II | 2,777,500 | - | (156,272) | $ 2,621,228 |
| | $ 4,221,197 | $ - | $ (497,567) | $ 3,723,630 |

JWN Credit Facility Loan Agreement

On June 23, 2015, the Authority entered into a Credit Facility Loan Agreement with a financial institution. The Lender has made available to the Authority a non-revolving line of credit in the maximum principal of $10,000,000, the proceeds of which are to be used solely to pay all or a portion of costs associated with runway and taxiway improvements at the John C. Tune (JWN) Airport. The Note shall be payable from, but not secured by, available revenues of the Authority, including, without limitation, various grant funds to be received by the Authority for these projects. The Loan will bear interest at a variable interest rate equal to LIBOR (as adjusted by Lender on the first calendar day of each month) plus 32 basis points per annum. The Credit Facility Loan Agreement matures on February 1, 2016. There were no amounts outstanding under this facility at June 30, 2015.

## 8. OTHER NONCURRENT LIABILITIES

Other noncurrent liabilities activity for the years ended June 30, 2015 and 2014, is as follows:

| Other Noncurrent Liabilities Description | Balance June 30, 2014 | Net Cash Receipts (Repayments) | Amortization | Change in Derivative Instruments | Balance June 30, 2015 |
|---|---|---|---|---|---|
| Fair value of derivative financial instruments | $ 1,886,325 | $ - | $ - | $ (344,230) | $ 1,542,095 |
| Unearned interest income | 362,047 | - | (294,794) | - | 67,253 |
| Unearned rental income | 1,756,527 | 101,548 | (34,905) | - | 1,823,170 |
| | $ 4,004,899 | $ 101,548 | $ (329,699) | $ (344,230) | $ 3,432,518 |

| Other Noncurrent Liabilities Description | Balance June 30, 2013 | Net Cash Receipts (Repayments) | Amortization | Change in Derivative Instruments | Balance June 30, 2014 |
|---|---|---|---|---|---|
| Fair value of derivative financial instruments | $ 2,209,043 | $ - | $ - | $ (322,718) | $ 1,886,325 |
| Unearned interest income | 646,196 | - | (284,149) | - | 362,047 |
| Unearned rental income | 1,825,341 | (33,913) | (34,901) | - | 1,756,527 |
| | $ 4,680,580 | $ (33,913) | $ (319,050) | $ (322,718) | $ 4,004,899 |

## 9. DERIVATIVE FINANCIAL INSTRUMENTS

The Authority maintained a pay-fixed, receive-variable interest rate swap agreement during 2015 and 2014, in order to manage its exposure to market risk from fluctuations in interest rates.

*2008A Interest Rate Swap Agreement* - During 2008, in connection with the refunding of the Authority's Series 1993 bonds with the Series 2008A bonds, the Authority's 1993 Swap Agreement was transferred from the 1993 bonds to the 2008A bonds. All the terms of the 1993 Swap Agreement, now the "2008A Swap Agreement," remained intact and apply to the Series 2008A bonds. In general, the 2008A Swap Agreement provided that the Authority will pay a fixed rate of 4.49% to the counterparty on a notional amount, which is equal to the principal amount of the Series 2008A bonds outstanding.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* ("GASB No. 53"), was not effective for the Authority until fiscal 2010. Prior to this, management used the FASB requirements for determining hedge accounting treatment for the original 1993 swap and the 2008A swap agreements. Management elected not to perform the steps required to report the swap as a hedge. Upon implementation of GASB No. 53, the Authority evaluated the effectiveness of the swap at fiscal 2010 year end as required. Although the swap was determined to be effective under GASB No. 53, management determined that the effects on the financial statements based on changing to hedge accounting from accounting for the swap as a derivative financial instrument were not material.

The fair value of the interest rate swap agreement was a liability of $1,542,095 and $1,866,325 at June 30, 2015 and 2014, respectively. Other details of the interest rate swap are as follows:

| Description | Notional Amount June 30, 2015 | Maturity Date | Terms | Counterparty Credit Rating Moody's/S&P |
|---|---|---|---|---|
| 2008A Swap | $12,200,000 | 7/1/2019 | pay 4.49% fixed; receive SIFMA | A1/A |

## 9. DERIVATIVE FINANCIAL INSTRUMENTS - Continued

The fair value of the interest rate swap is recorded in noncurrent liabilities in the statements of net position. Changes in the fair value of the interest rate swap are included in nonoperating revenues (expenses) in the statement of revenues, expenses and changes in net position.

*Credit risk.* The Authority is exposed to credit risk on hedging derivative instruments that are in asset positions. There were no such instruments in asset positions at June 30, 2015 or 2014. The Authority relies primarily on the credit rating of the counterparty to assess credit risk.

*Interest rate risk.* The Authority is exposed to interest rate risk on its interest rate swap. On its pay-fixed, receive-variable interest rate swap, as the variable swap index decreases, the Authority's net payments to the counterparty increase.

*Basis risk.* The Authority is exposed to basis risk on its pay-fixed interest rate swap because the variable-rate payments received by the Authority are, in certain circumstances, based on a rate or an index other than interest rates the Authority pays on its hedged variable-rate debt.

*Termination Risk.* The Authority or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. If at the time of termination, a derivative instrument is in a liability position, the Authority would be liable to the counterparty for a payment equal to the liability.

Arrangements made in the Authority's interest rate swap agreements do not alter the Authority's obligation to pay the principal and interest on the related debt.

## 10. PASSENGER FACILITY CHARGES

On January 1, 1993, the airlines began collecting a Passenger Facility Charge ("PFC") on qualifying enplaning passengers at Nashville International Airport on behalf of the Authority. PFCs are fees imposed on enplaning passengers by airports to finance eligible airport-related projects that preserve or enhance safety, capacity, or security of the national air transportation system, reduce noise from an airport that is part of such system, or furnish opportunities for enhanced competition between or among air carriers. Both the fee and intended projects must be reviewed and approved by the FAA. Federal guidance on the PFC program has been updated from time to time since 1993, and the current maximum fee that can be authorized through federal regulation is $4.50 per enplaning passenger. PFCs are recorded as nonoperating revenue. PFC revenue during fiscal years 2015 and 2014 totaled $15,703,411 and $13,502,385, respectively.

Effective September 2010, the Authority was allowed to collect a $3.00 PFC per enplaning passenger. In May 2015, the Authority began collecting at a $4.50 PFC per enplaning passenger. The Authority anticipates remaining at this $4.50 collection level. The following project summary has been approved by the FAA as of June 30, 2015:

| | |
|---|---|
| Airfield development | $180,210,469 |
| Terminal development | 115,169,875 |
| Land acquisition | 21,260,411 |
| | $316,640,755 |

As of June 30, 2015, cumulative expenditures to date on approved PFC projects totaled $285,152,968.

## 11. CUSTOMER FACILITY CHARGES

On January 1, 2008, the Authority began requiring the car rental companies at Nashville International Airport to charge a Customer Facility Charge ("CFC") to be used to pay, or to reimburse the Authority, for costs, fees and expenses associated with the planning, design, construction, financing, maintenance and operation of the Consolidated Rental Car ("CONRAC") Facility, and other costs, fees, and expenses that may be paid from CFC proceeds. The CFC is a $4.50 per transaction day fee and is collected by on-airport car rental companies from each of their customers and subsequently remitted to the Authority. The Authority has pledged the CFC proceeds as collateral security for the payment of the CONRAC Series 2010 bonds issued in February 2010. Additionally, in accordance with the terms of the CONRAC Series 2010 bond agreements, CFCs must be used to establish bond principal, interest, and reserve funds, as well as various other funds for the operation and maintenance of the CONRAC facility (See Note 6). The Authority can use CFCs collected in excess of the various refunded funds for any lawful purpose. CFC revenue during fiscal years 2015 and 2014 totaled $11,692,265 and $10,825,490, respectively. CFC revenue is reported as nonoperating revenues.

The Authority is leasing the facility to MPC CONRAC LLC under a lease agreement and is leasing-back the facility from MPC CONRAC LLC under a sublease agreement. In turn, the Authority will lease the CONRAC facility to on-airport rental car companies under the consolidated rental car lease agreements. Under these lease agreements, on-airport rental car companies have agreed to collect the CFC on all vehicle rental transactions as specifically set forth in the CFC enabling resolution and the related lease agreements.

Net position relating to CFCs totaled $19,285,387 and $20,443,862 at June 30, 2015 and 2014, respectively, and is included in net investment in capital assets and restricted net position in the statements of net position.

## 12. SPECIAL FACILITY REVENUE BONDS

<u>Special Facility Revenue Bonds, Series 2005</u>

During April 2005, the Authority issued $9,500,000 of Special Facility Revenue Bonds, Series 2005, on behalf of Embraer Aircraft Maintenance Services, Inc. The bonds were issued to finance the development and construction of an aircraft maintenance facility at Nashville International Airport.

The outstanding Special Facility Revenue Bonds, Series 2005, are special obligations of the Authority, and the debt service thereon shall be payable solely from revenues provided by Embraer Aircraft Maintenance Services, Inc., pursuant to a special facility sublease agreement or from letter of credit drawings made by the trustee. These bonds mature in April 2030. The principal balance outstanding as of both June 30, 2015 and 2014 was $9,500,000. Since these bonds do not represent a claim on the Authority's assets or require the Authority to incur future obligations, they represent conduit debt and have not been recorded in the Authority's financial statements.

<u>Special Facility Revenue Bonds, Series 2006/Refunding Series 2010</u>

During July 2006, the Authority approved an amendment to the ground lease with Aero Nashville, LLC, whereby the Authority agreed to issue $6,515,000 of Special Facility Revenue Bonds, Series 2006, on behalf of Aero Nashville, LLC. Aero Nashville is an affiliate of Aeroterm US, Inc., the firm selected by Federal Express Corporation to be the developer of a 69,000-square-foot cargo and support facility on approximately 15 acres of land at Nashville International Airport in 2005.

During November 2010, the Authority issued $6,200,000 in Special Facility Revenue Bonds, Refunding Series 2010, the proceeds of which were used to currently refund the outstanding Series 2006 bonds. The Refunding Series 2010 bonds are term bonds with mandatory sinking fund requirements annually through July 2026.

## 12. SPECIAL FACILITY REVENUE BONDS - Continued

The Special Facility Revenue Bonds, Series 2006, and outstanding Refunding Series 2010 bonds are special obligations of the Authority and the debt service thereon shall be payable solely from revenues provided by Aero Nashville, LLC pursuant to a special facility sublease agreement or from letter of credit drawings made by the trustee. The principal balance outstanding as of June 30, 2015 and 2014 was $5,460,000 and $5,720,000, respectively. Since these bonds do not represent a claim on the Authority's assets or require the Authority to incur future obligations, they represent conduit debt and have not been recorded in the Authority's financial statements.

## 13. AIRLINE LEASE AGREEMENTS

The Authority recently entered into a new Signatory Airline Use and Lease Agreement with a term from July 1, 2015 to June 30, 2022 (the "New Airline Agreement") with American Airlines, Delta Air Lines, Southwest Airlines and United Airlines. As more fully described below, the New Airline Agreement replaces, and is substantially different from, the Authority's prior Amended and Restated Lease Agreements (the "Prior Airline Agreements") which were scheduled to expire on September 30, 2017.

The Prior Airline Agreements were "residual" in nature, pursuant to which the signatory airlines generally provided for break-even financial operation of the Nashville International Airport (the "Airport"), including the full recovery on a cost center basis of debt service on Majority-in-Interest (MII) approved capital improvement projects, including any coverage amount necessary to meet any rate covenant under the documents providing for the issuance of revenue bonds and any amount required to be deposited to any bond reserve fund under such documents.

The New Airline Agreements establish three cost centers for the purpose of determining rates and charges payable by the signatory airlines and other users of Airport facilities: Airfield, Terminal, and Terminal Ramp Area. Baggage and passenger loading bridge fees are also assessed. The New Airline Agreements have a "hybrid" airline rate-setting methodology with Landing Fees calculated on a residual basis (as described below); whereas, Terminal Rental Rates (as described below) and Terminal Ramp Area rates are compensatory. Other than the Airfield, the signatory airlines are not required to provide for break-even financial operation of the Airport per the New Airline Agreements.

Landing Fees under the New Airline Agreements are calculated on a primarily residual basis. Capital cost allocable to the Airfield, including debt service on Bonds, may be included in the calculation of the Landing Fees with MII approval. While debt service on Bonds allocable to the Airfield may be included in the Landing Fees, the New Airline Agreements do not permit inclusion in the Landing Fees of coverage on Bonds allocable to the Airfield or any amount required for replenishing the Airport Improvement Bond Reserve Fund Requirement allocable to such Bonds.

The Terminal Rental Rate under the New Airline Agreements is calculated on a compensatory basis with fixed rates. There is no provision in the New Airline Agreements for increasing the Terminal Rental Rate to provide for the payment of debt service on Outstanding or Additional Bonds, as defined, allocable to the Terminal or coverage on such Bonds or any amount required to replenish the Airport Improvement Bond Reserve Fund Requirement allocable to such Bonds. However, it should be noted that when the fixed Terminal Rental Rates were established, the Authority assumed allowances for Outstanding Bonds, the funding of its approximately $150.3 million capital improvement program for the Terminal from various sources including the debt service on Additional Bonds required to support approximately $66.5 million of projects costs, and typical Operations and Maintenance Expense escalations. With limited exceptions, there is no provision in the New Airline Agreements for increasing the Terminal Rental Rates for payment of debt service on Additional Bonds or increases in Operations and Maintenance Expenses, greater than modeled and assumed.

## 13. AIRLINE LEASE AGREEMENTS - Continued

Additionally, other than revenues allocable to the Airfield and the sharing with airlines a portion of revenues from in-terminal concessions and rental car concessions, the Authority is permitted to retain all other revenues. Under the Prior Airline Agreements, the residual nature of the agreement obligated the Authority to share these revenues as offsets to lower airline rates and charges.

Except as provided in the next succeeding paragraph, there is no provision in the New Airline Agreements for including debt service on Outstanding or Additional Bonds in airline rates and charges for Bonds issued for other Airport improvements not included in the Airfield or Terminal cost centers with or without MII approval.

Debt service on Bonds allocable to the acquisition of Passenger Loading Bridges or for Baggage Claim Equipment, Baggage Make-up Equipment and the Baggage Claim Areas may be included in the Passenger Loading Bridge fees or baggage fees that may be imposed under the New Airline Agreements without MII approval. There is no provision in the New Airline Agreements for increasing the Passenger Loading Bridge fees or baggage fees to provide for coverage on such Bonds or any amount required to replenish the Airport Improvement Bond Reserve Fund Requirement allocable to such Bonds. Debt Service on Bonds allocable to capital improvements in the Terminal Ramp Area may be included in the Terminal Ramp Area rate without MII approval. There is no provision in the New Airline Agreements for increasing the Terminal Ramp Area rate to provide for coverage on such Bonds or any amount required to replenish the Airport Improvement Bond Reserve Fund Requirement allocable to such Bonds.

Debt service on Bonds that are not allocated to Airfield improvements or the acquisition of Passenger Loading Bridges, as well as coverage or amounts required to replenish the Airport Improvement Bond Reserve Fund Requirement allocable to any Bonds, must be paid from sources other than signatory airlines rates and charges, which would principally be the Authority’s share of in-terminal concession revenues, rental car concessions, parking fees, and other non-airline lease revenues. Under the New Airline Agreement, the Authority shares a portion of in-terminal concession and rental car concession revenue with the signatory airlines by means of revenue sharing credits. The Authority does not share parking fees with the signatory airlines.

The Authority is obligated under the New Airline Agreements to undertake $250,312,000 of capital improvement projects that may not be funded through rates and charges to be paid by signatory airlines. It is anticipated that a large portion of the capital improvement project costs will be funded from sources other than rates and charges to be paid by signatory airlines (e.g. Federal and state grants, Passenger Facility Charges (PFCs), Authority net revenues, and new, additional non-airline revenues.) Principal amount of Bonds allocable to the funding of capitalized interest are not counted toward these requirements.

The New Airline Agreements provide signatory airline support for John C. Tune Airport, including the inclusion of certain Reliever Airport Support Costs in the Landing Fees and the use of amounts in the Operations and Maintenance Reserve Fund to pay Operating Expenses at John C. Tune Airport. It is anticipated that John C. Tune Airport will be included in the definition of Airport under the Master Resolution, with the effect of including Operating Expenses attributable to John C. Tune Airport in amounts which must be paid for by Airport Revenues from the Operating Fund and included in rate covenant calculation purposes.

The Authority also owns MNAA Properties Corporation (“MPC”), a Tennessee nonprofit corporation, whose purpose is to support and facilitate the operations of the Authority and to help the economic development of the surrounding area. The New Airline Agreements do not provide any signatory airline support for MPC. MPC financial obligations are not included within the Master Resolution, and any MPC shortfalls or deficits must be paid from other available Authority funds.

It is anticipated that changes will be made to the Master Resolution to, among other things, accommodate the provisions of the New Airline Agreements.

## 14. RISK MANAGEMENT AND INSURANCE ARRANGEMENTS

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; illnesses or injuries to employees; and natural disasters.

Self-insured employee medical benefit claims are accrued as incurred. The liability for reported claims and claims incurred but not reported, an estimate of which is based on historical experience and management projections, is reported with accrued payroll and related items in the financial statements. This liability does not include nonincremental claims adjustment expenses.

The following summarizes the changes in the estimated claims payable liability:

| | 6/30/2015 | 6/30/2014 |
|---|---|---|
| Balance - Beginning of year | $ 358,190 | $ 325,538 |
| Provision for incurred claims | 3,466,884 | 3,763,567 |
| Claim payments | (3,518,377) | (3,730,915) |
| Balance - End of year | $ 306,697 | $ 358,190 |

The Authority carries commercial insurance for other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## 15. COMPENSATED ABSENCES

*Compensated absences.* Compensated absences are another component of the Authority's employee benefits program. Based on years of service, employees earn annual leave and may accumulate earned hours to certain limits for future use. In 2015 and 2014, employees sold back $191,696 and $169,049 of their annual leave balances to the Authority in exchange for cash. Additional payments of $57,240 and $61,333 were made to employees who left employment with the Authority during the years ended June 30, 2015 and 2014, respectively. The change in accrued compensated absences balance is charged to salaries and wages expense.

The following summarizes the changes in the compensated absences liability which is included in accrued payroll and related items on the statements of net position:

| | 06/30/2015 | 06/30/2014 |
|---|---|---|
| Balance – Beginning of year | $1,743,853 | $1,523,210 |
| Provision for compensated absences | 575,491 | 451,025 |
| Annual leave buy-back and other | (248,936) | (230,382) |
| | $2,070,408 | $1,743,853 |

## 16. COMMITMENTS AND CONTINGENCIES

*Uncompleted construction contracts.* Estimated costs of completion of construction in progress at June 30, 2015, total $6,180,000 and relate to various projects. The estimated costs to complete construction in progress are anticipated to be received from the following sources:

| | |
|---|---|
| Reimbursed by governmental agencies, grant contracts | $ 5,810,210 |
| Funded by the Authority | 369,790 |
| | $ 6,180,000 |

*Environmental remediation.* On October 9, 2012, the Authority entered into a Consent Order with the Tennessee Department of Environment and Conservation in response to a routine inspection which identified that a local area stream had been contaminated by untreated de-icing chemicals. In the Consent Order, the Authority was assessed a penalty of $22,500; and it was determined that Natural Resource Damages in the amount of $218,520 exist. In lieu of payment, the Authority proposed to upgrade its de-icing fluid collection and treatment system. Multiple projects, worth over $7,000,000, have been undertaken in fiscal years 2014 and 2015 to implement agreed upon upgrades. The projects were designed to meet recommendations arising from a Feasibility Study which was conducted to determine possible treatability, monitoring, and capacity improvements for treating storm water contaminated with de-icing fluid. The upgrades divert uncontaminated storm water away from the treatment system so that only storm water containing deicer fluid is collected for treatment. This allows for additional fluid storage and improves the treatment system process by systematically feeding the fluids to the biological treatment lagoon. As of June 30, 2015, the Authority has implemented the majority of the programmed de-icing capital project improvements. The Authority continues to perform monitoring and reporting to the Tennessee Department of Environment and Conservation.

The Authority is a defendant to various legal proceedings incidental to its operations. In the opinion of management and the Authority's legal counsel, while the ultimate outcome of these matters, including an estimate of potential loss, cannot presently be determined, any losses sustained would not be material to the Authority's financial position or operations. Additionally, losses sustained would be recoverable through the Authority's leases with certain airlines discussed in Note 13.

## 17. RETIREMENT BENEFIT PLAN

### *General Information about the Pension Plan*

*Plan Description*. Effective September 1, 1989, the Metropolitan Nashville Airport Authority (the "Authority") adopted a single-employer public employee retirement system ("PERS") for its employees, whereby the net assets available for benefits relative to the Authority's employees were transferred from the retirement system of the Metropolitan Government of Nashville and Davidson County (the "Metropolitan Government") to the Metropolitan Nashville Airport Authority Retirement Plan for Employees. Those net assets transferred from the Metropolitan Government's retirement system to the Plan included accumulated employee contributions and allocated investment income. The Plan is a defined benefit pension plan.

The Plan is administered by management of the Authority and is governed by a Retirement Committee (the "Committee"). The Committee members are appointed by the Authority. At June 30, 2015, the Committee consists of 8 voting members, three of whom are active Authority senior management, four of whom are active Authority employees and members of the Plan and one of whom is a retiree under the Plan. Non-voting members of the Committee consist of an Advisor Member (vacant), and the Authority's paralegal, cash manager and manager of accounting.

## 17. RETIREMENT BENEFIT PLAN - Continued

*Benefits provided*. Eligible employees become 100% vested in their accrued pension benefit after 5 years of credited service and may elect to retire at any time after age 65 (or after age 55 for safety and security employees with completion of 10 years of service).

The employees who retire at or after age 65 (55 for safety and security employees) are entitled to a retirement benefit, payable monthly for life, equal to one-twelfth of the product of 2% of average earnings multiplied by years of credited service. Average earnings are the average of annual earnings for the five full consecutive calendar years in which earnings were the highest or for such lesser number of full calendar years of service as have been actually completed. Credited service is the total number of years and completed one-half months of service from the date of hire to date of termination, adjusted for some certain periods of unpaid absence. Certain supplemental benefits have been provided for in the Plan as incentives for certain prior officers of the Authority.

Early retirement under the Plan is retirement from service prior to the participant's normal retirement date and on or after the date as of which the participant has attained both the age of 55 years and completed 5 years of vesting service. A participant classified as a safety and security employee is eligible for early retirement on or after the date as of which such employee has attained both the age of 50 years and completed 5 years of vesting service. Participants electing early retirement, as defined above, receive reduced benefits immediately or may defer and receive full benefits at normal retirement age. There are also certain benefit provisions upon death or disability.

Changes to the Plan, including benefits provided thereunder can be made only by formal resolutions of the Authority's Board of Commissioners. Additionally, cost-of-living adjustments are made only as approved by the Board of Commissioners. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the Authority. Benefit provisions are established and may be amended by the Authority.

*Employees covered by benefit terms*. At June 30, 2015, the following employees were covered by the benefit terms:

| | |
|---|---|
| Retired | 134 |
| Deferred Vested | 49 |
| Active Vested | 127 |
| | 310 |

Effective June 27, 2003, the Plan was closed to new participants; therefore, employees hired after June 27, 2003, are not eligible to participate in the Plan.

*Contributions*. The Plan is non-contributory for employees; accordingly, no contributions shall be required or permitted to be made by plan participants. The Authority's Board of Commissioners has approved a funding plan which establishes the expected employer contributions to the Plan through fiscal year 2018. In determining the funding plan, the Authority considers the actuarially determined contribution, as recommended by an independent actuary. The actuarially determined contribution is the estimated amount necessary to finance the costs of benefits earned by plan participants, with an additional amount to finance the net pension liability.

## 17. RETIREMENT BENEFIT PLAN - Continued

### *Net Pension Liability*

The Authority's net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

*Actuarial Assumptions*. The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 2.25%, compounded annually |
| Salary increases | 4% per annum, compounded annually |
| Investment rate of return | 8% per annum, compounded annual, net of pension plan investment expense |

Mortality rates were based on the RP-2014 Generational Mortality Table for Males and Females, as applicable, with adjustments for mortality improvements based on Scale MP-2014.

The long term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Domestic Equity - Small Cap | 5.20% | 8.75% |
| Domestic Equity - Large Cap | 34.45% | 7.00% |
| Domestic Equity - Mid Cap | 9.10% | 8.00% |
| International Equity | 16.25% | 7.50% |
| Fixed Income | 32.00% | 2.00% |
| Cash | 3.00% | 1.25% |

*Discount rate.* The discount rate used to measure total pension liability as 8.00%. The projection of cash flows used to determine the discount rate assumed that Authority contributions will be made at rates at least equal to the actuarially determined contribution rates. Based on this assumption, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

## 17. RETIREMENT BENEFIT PLAN - Continued

**Changes in the Net Pension Liability**

| | Total Pension Liabiiity (a) | Plan Net Postion (b) | Net Pension Liability (a) - (b) |
|---|---|---|---|
| Balances-at 6/30/14 | $ 49,842,443 | $ 36,778,801 | $ 13,063,642 |
| Changes for the year: | | | |
| Service cost | 645,437 | - | 645,437 |
| Interest | 3,987,395 | - | 3,987,395 |
| Difference between expected and actual experience | 677,000 | - | 677,000 |
| Changes of assumptions | 1,676,218 | - | 1,676,218 |
| Contributions - Employer | - | 8,000,000 | (8,000,000) |
| Net investment income | - | 1,428,204 | (1,428,204) |
| Benefits paid | (2,552,544) | (2,552,544) | - |
| Net changes | 4,433,506 | 6,875,660 | (2,442,154) |
| Balance at 6/30/15 | $ 54,275,949 | $ 43,654,461 | $ 10,621,488 |

| | Total Pension Liabiiity (a) | Plan Net Postion (b) | Net Pension Liability (a) - (b) |
|---|---|---|---|
| Balances-at 6/30/13 | $ 46,548,703 | $ 26,684,092 | $ 19,864,611 |
| Changes for the year: | | | |
| Service cost | 638,903 | - | 638,903 |
| Interest | 3,723,896 | - | 3,723,896 |
| Difference between expected and actual experience | 356,625 | - | 356,625 |
| Changes of assumptions | 1,054,116 | - | 1,054,116 |
| Contributions - Employer | - | 8,000,000 | (8,000,000) |
| Net investment income | - | 4,574,509 | (4,574,509) |
| Benefits paid | (2,479,800) | (2,479,800) | - |
| Net changes | 3,293,740 | 10,094,709 | (6,800,969) |
| Balance at 6/30/14 | $ 49,842,443 | $ 36,778,801 | $ 13,063,642 |

Changes in assumption primarily relate to updated mortality table information.

*Sensitivity of the net pension liability to changes in the discount rate*. The following represents the net pension liability calculated using the stated discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rate:

| | 1% Decrease 7.00% | Current Rate 8.00% | 1% Increase 9.00% |
|---|---|---|---|
| Net Pension Liability | $ 16,815,432 | $ 10,621,488 | $ 5,367,692 |

*Pension plan fiduciary net position.* The Plan issues a publicly available financial report that includes financial statements and required supplementary information. Detailed information about the pension plan's fiduciary net position is available in this separately issued financial report. That report may be obtained by writing to Metropolitan Nashville Airport Authority, One Terminal Drive, Suite 501, Nashville, Tennessee, 37214, or by calling (615) 275-1600.

## 17. RETIREMENT BENEFIT PLAN - Continued

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

For the years ending June 30 2015 and 2014, the Authority recognized pension expense of $2,512,326 and $1,916,154, respectively. At June 30, 2015 and 2014, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

June 30, 2015

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Experience gains or losses | $ 629,646 | $ - |
| Change of Assumptions | 1,644,537 | - |
| Net difference between projected and actual earnings on investments | 1,385,598 | (1,331,384) |
| Total | $ 3,659,781 | $ (1,331,384) |

June 30, 2014

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Experience gains or losses | $ 267,469 | $ - |
| Change of Assumptions | 790,587 | - |
| Net difference between projected and actual earnings on investments | - | (1,775,179) |
| Total | $ 1,058,056 | $ (1,775,179) |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of June 30, 2015 will be recognized in pension expense as follows:

| Year ended June 30: | |
|---|---|
| 2016 | $ 1,039,696 |
| 2017 | $ 1,039,697 |
| 2018 | $ (97,394) |
| 2019 | $ 346,398 |
| 2020 | $ - |
| Thereafter | $ - |

## 18. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The Authority voluntarily provides postemployment healthcare benefits to certain eligible employees who retire under either the Authority's PERS or the Metropolitan Government's PERS.

The Authority pays approximately 75% of the medical, dental, vision, and prescription coverage cost, with retirees paying the remaining 25%. The Authority also pays 100% of the premium cost of a $14,000 life insurance policy on each retiree. In addition, the retirees have the option to pay 100% of the cost of supplemental life insurance coverage. Currently, 86 retirees and 63 retiree spouses are receiving OPEB benefits. The monthly contribution requirements for participants in the Authority's medical plan range from $44.80 (single "Core Wellness" premium) to $410.00 (family "Core Plus" premium). The Authority decided it would not provide postemployment benefits to any new entrants on January 1, 2009. Therefore, any employee hired on or after this date is not eligible for any postemployment benefits through the Authority. The Authority does not issue separate financial statements for postemployment benefits.

The Authority's annual OPEB cost, percentage of annual OPEB cost contributed, and the net OPEB obligation for 2015, 2014, and 2013 are as follows:

| Year Ended June 30, | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| 2015 | $2,284,474 | 90.1% | $26,686,104 |
| 2014 | $4,089,602 | 75.0% | $26,459,177 |
| 2013 | $6,365,995 | 37.0% | $25,438,752 |

The following table summarizes the changes in the Authority's OPEB obligation for the years ended June 30, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Annual OPEB cost: | | |
| Annual required contribution | $2,726,529 | $4,514,609 |
| Plus: Interest on the net OPEB obligation | 1,058,367 | 1,017,550 |
| Less: Amortization on the net OPEB obligation | (1,500,422) | (1,442,557) |
| Annual OPEB cost | 2,284,474 | 4,089,602 |
| Contributions made | (2,057,547) | (3,069,177) |
| Increase in the net OPEB obligation | 226,927 | 1,020,425 |
| Net OPEB obligation: | | |
| Beginning of year | 26,459,177 | 25,438,752 |
| End of year | $26,686,104 | $26,459,177 |

The Authority's contributions to the OPEB Trust during fiscal years 2015 and 2014 totaled $2,057,547 and $3,069,177, respectively. The amount contributed during fiscal years 2015 and 2014 included $1,000,000 and $2,000,000, respectively, to an OPEB Trust to fund plan assets as further described below.

## 18. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - Continued

The funded status of the OPEB Trust as of the biennial actuarial valuation date, July 1, 2015, is detailed below:

| | |
|---|---|
| Actuarial accrued liability (a) | $30,434,908 |
| Actuarial value of plan assets (b) | 5,269,817 |
| Unfunded actuarial accrued liability (a) - (b) | $25,165,091 |
| Funded ratio (b) / (a) | 17.3% |
| Covered payroll (c) | $15,851,912 |
| Unfunded actuarial accrued liability as a percentage of covered payroll [(a) - (b)] / (c) | 158.8% |

On April 22, 2009, the Board of Commissioners approved MNAA Resolution 2009-07 establishing an investment trust for the purpose of funding OPEB as provided in Tennessee Code Annotated, Title 8, Chapter 50, Part 12. The Tennessee State Funding Board approved the formation of the trust on June 17, 2009. There is no obligation to fund the trust; however, management has a plan whereby cash contributions are intended to be made to help offset the anticipated increased outflows in future years to cover retiree benefits. As described above, the Authority made $1,000,000 and $2,000,000 in contributions to the OPEB Trust during fiscal years 2015 and 2014, respectively. These contributions were considered in the July 1, 2015 and 2013 biennial actuarial valuations, respectively.

Actuarial valuations of an ongoing postemployment benefits plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of Trust assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive postemployment benefits (the plan as understood by the employer and retirees) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and retirees to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant actuarial methods and assumptions as of the July 1, 2015, biennial actuarial valuation are detailed below:

| | |
|---|---|
| Actuarial valuation method | Entry age normal method |
| Amortization method | Level dollar open over 30 years |
| Discount rate | 4% |
| Health care cost trend rate | 7.5% grading to 5% over 5 years for 2016 and beyond |
| Inflation rate | 4% |
| Mortality | RP-2014 Combined Mortality Table under Projection Scale MP-2014 |
| Retirement rates | Varying rates beginning with 5% at age 50 to 100% retirement at age 65 |

## 18. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - Continued

See further information in the OPEB Trust Schedule of Funding Progress (unaudited) in the required supplementary information section.

As part of the OPEB actuarial evaluation on July 1, 2013, which was effective for the Authority's 2014 fiscal year, certain changes to the OPEB Trust were considered, including the following: The Authority adopted an Employer Group Waiver Plan (EGWP) for post-65 retiree pharmacy benefits effective January 1, 2014. Additionally, the Authority adopted certain post-65 stop loss coverage. In the July 1, 2015, biennial valuation, for the Authority's fiscal years 2015 and 2016, these changes in assumptions reduced the unfunded accrued liability by approximately $14.6 million.

Under the Metropolitan Government's PERS, the Authority pays 75% of the cost of medical and dental coverage, while the retirees pay the remaining 25%. The Authority also pays 100% of the premium cost of a $10,000 life insurance policy on each retiree. As of June 30, 2015 and 2014, there were 16 and 18 retirees, respectively, receiving benefits under the PERS. During the years ended June 30, 2015 and 2014, payments of $76,116 and $61,769, respectively, were made to the Metropolitan Government for postemployment benefits under this PERS.

## 19. DEFINED CONTRIBUTION PLANS

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Authority employees, permits the deferral of a portion of salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The assets of the plan are held in custodial and annuity accounts for the exclusive benefit of plan participants, and accordingly, the related assets of the plan are not reflected on the Authority's statement of net position. Beginning January 1, 2001, the Authority's matching contributions have been made to a deferred compensation plan created in accordance with Internal Revenue Code Section 401(a). Amounts contributed by the Authority to the deferred compensation plan were $879,788 and $853,395 in 2015 and 2014, respectively. Employees contributed through payroll deductions to the plan $1,118,252 and $1,011,842 in 2015 and 2014, respectively.

During May 2013, the Board of Commissioners approved an additional 401(a) defined contribution retirement plan. Under this additional plan, the Authority contributed 10% of an employee's base compensation on an annual basis. The new 401(a) plan is available only to employees hired after June 27, 2003, who do not participate in the Authority's defined benefit pension plan described in Note 17. All contributions by the Authority are discretionary. Amounts contributed by the Authority to the deferred retirement compensation plan were $876,353 and $715,515 in 2015 and 2014, respectively.

## 20. LAND LEASES AND LAND OPTIONS

The Authority leases, or has entered into options to lease, several tracts of land to developers. The leases expire in 2058. In accordance with the terms of the lease agreements, the Authority received advance rental payments totaling $2,533,613. This amount is being amortized into income over the terms of the leases. The unamortized amount was $1,492,345 and $1,527,248 at June 30, 2015 and 2014, respectively, and is included in unearned rental income in the statements of net position. The buildings and any other improvements constructed on the land become the property of the Authority upon the expiration or termination of the leases.

## 21. MAJOR CUSTOMERS

The largest airline serving Nashville International Airport accounted for approximately 55.6% and 54.2% of the total enplanements of 5,604,148 and 5,312,021 in fiscal years 2015 and 2014, respectively.

## 22. FINANCIAL INSTRUMENTS REPORTED AT FAIR VALUE

Disclosures concerning financial instruments that are reported at fair value are presented below. Fair value has been determined based on the Authority's assessment of available market information and appropriate valuation methodologies. The following table summarizes fair value disclosures and measurements at June 30, 2015 and 2014:

| | | Fair Value Measurements at Reporting Date Using | | |
|---|---|---|---|---|
| | Fair Value | Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| June 30, 2015: | | | | |
| Investments: | | | | |
| U.S. agencies | 11,369,000 | 11,369,000 | - | - |
| Derivative financial instrument – interest rate swap | 1,542,095 | - | 1,542,095 | - |
| June 30, 2014: | | | | |
| Investments: | | | | |
| U.S. agencies | 7,706,000 | 7,706,000 | - | - |
| Derivative financial instrument – interest rate swap | 1,886,325 | - | 1,886,325 | - |

The following methods were used to estimate fair value of each class of significant financial instruments:

*Investments* - Fair value is estimated based upon quoted market prices, where available, and on Level 2 inputs (Note 4).

*Derivative Financial Instruments* - The fair value is estimated based on quotes from dealers of these instruments (Note 9).

The fair value presented herein is based on pertinent information available to management as of June 30, 2015 and 2014. Although management is not aware of any factors that would significantly affect fair value amounts, future events or other valuation techniques for determining fair value may differ significantly from the amounts presented herein.

## 23. CONDENSED FINANCIAL INFORMATION BY ENTITY

The following information presents the condensed financial information for the Authority's airports and its blended component unit, MPC. Such information is presented in accordance with GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, An Amendment of GASB Statements No. 14 and 34*. There are no separately issued financial statements for Nashville International Airport, John C. Tune, and MNAA Properties Corporation.

## 23. CONDENSED FINANCIAL INFORMATION BY ENTITY - Continued

| | June 30, 2015 | | | |
|---|---|---|---|---|
| | Airports | | Blended Component Unit | |
| | Nashville International Airport (1) | John C. Tune Airport | MNAA Properties Corporation (1) | Total |
| Condensed Statements of Net Position | | | | |
| Assets | | | | |
| Current assets | $ 129,067,787 | $ 4,492,819 | $ 4,178,655 | $ 137,739,261 |
| Noncurrent assets | 19,917,239 | - | - | 19,917,239 |
| Capital assets, net | 479,237,627 | 28,555,446 | 7,900,059 | 515,693,132 |
| Other assets | 1,436,864 | (950,000) | 1,002,492 | 1,489,356 |
| Total assets | 629,659,517 | 32,098,265 | 13,081,206 | 674,838,988 |
| Deferred outflows of resources | 4,726,150 | - | - | 4,726,150 |
| Total assets and deferred outflows of resources | $ 634,385,667 | $ 32,098,265 | $ 13,081,206 | $ 679,565,138 |
| Liabilities | | | | |
| Current liabilities | 45,050,334 | 4,691,002 | 383,874 | 50,125,210 |
| Noncurrent liabilities | 159,028,277 | 26,006 | 5,870,405 | 164,924,688 |
| Total liabilities | 204,078,611 | 4,717,008 | 6,254,279 | 215,049,898 |
| Deferred inflows of resources | 1,331,384 | - | - | 1,331,384 |
| Net position | | | | |
| Net investment in capital assets | 357,167,586 | 28,605,448 | 1,822,048 | 387,595,082 |
| Restricted for: | | | | |
| Passenger facility charge projects and debt service | 13,461,933 | - | - | 13,461,933 |
| Customer facility charge projects and debt service | 19,285,387 | - | - | 19,285,387 |
| Debt service and other | 23,811,939 | - | - | 23,811,939 |
| Total restricted net position | 56,559,259 | - | - | 56,559,259 |
| Unrestricted net position | 15,248,827 | (1,224,191) | 5,004,879 | 19,029,515 |
| Total net position | 428,975,672 | 27,381,257 | 6,826,927 | 463,183,856 |
| Total liabilities, deferred inflows of resources, and net position | $ 634,385,667 | $ 32,098,265 | $ 13,081,206 | $ 679,565,138 |
| Condensed Statements of Revenues, Expenses Changes in Net Position | | | | |
| Operating revenues | $ 115,755,073 | $ 689,554 | $ 2,550,496 | $ 118,995,123 |
| Operating expenses | 70,914,057 | 611,338 | 1,601,149 | 73,126,544 |
| Provision for depreciation | 34,658,067 | 1,126,839 | 749,711 | 36,534,617 |
| Operating income (loss) | 10,182,949 | (1,048,623) | 199,636 | 9,333,962 |
| Nonoperating revenues (expenses), net | 20,444,924 | (18,401) | (187,086) | 20,239,437 |
| Capital contributions | 17,286,276 | 10,220,304 | - | 27,506,580 |
| Transfer from (to) other funds | (1,573,750) | 1,573,750 | - | - |
| Increase in net position | 46,340,399 | 10,727,030 | 12,550 | 57,079,979 |
| Net position, beginning of year | 382,635,273 | 16,654,227 | 6,814,377 | 406,103,877 |
| Net position, end of year | $ 428,975,672 | $ 27,381,257 | $ 6,826,927 | $ 463,183,856 |
| Condensed Statements of Cash Flows | | | | |
| Cash flows from operating activities | $ 37,416,307 | $ 4,518,228 | $ 902,448 | $ 42,836,983 |
| Cash flows from noncapital financing activities | (1,359,435) | - | - | (1,359,435) |
| Cash flows from capital and related financing activities | (23,601,102) | (4,054,889) | (1,082,207) | (28,738,198) |
| Cash flows from investing activities | (3,598,004) | - | - | (3,598,004) |
| Increase (decrease) in cash and cash equivalents | 8,857,766 | 463,339 | (179,759) | 9,141,346 |
| Cash and cash equivalents, beginning of year | 116,839,146 | 800,217 | 4,321,943 | 121,961,306 |
| Cash and cash equivalents, end of year | $ 125,696,912 | $ 1,263,556 | $ 4,142,184 | $ 131,102,652 |

(1) The financial information of MPC CONRAC LLC is included in Nashville International Airport as the sole purpose of MPC CONRAC LLC relates to the CONRAC facility at Nashville International Airport; therefore, it is integrated with the Airport for reporting purposes.

## 23. CONDENSED FINANCIAL INFORMATION BY ENTITY - Continued

| | June 30, 2014 | | | |
|---|---|---|---|---|
| | Airports | | Blended Component Unit | |
| | (as restated) Nashville International Airport (1) | John C. Tune Airport | MNAA Properties Corporation (1) | (as restated) Total |
| **Condensed Statements of Net Position** | | | | |
| Assets | | | | |
| Current assets | $ 116,480,261 | $ 1,387,634 | $ 4,331,028 | $ 122,198,923 |
| Noncurrent assets | 18,830,636 | - | - | 18,830,636 |
| Capital assets, net | 483,287,948 | 16,500,651 | 8,016,338 | 507,804,937 |
| Other assets | 528,321 | 50,000 | 1,253,335 | 1,831,656 |
| Total assets | 619,127,166 | 17,938,285 | 13,600,701 | 650,666,152 |
| Deferred outflows of resources | 3,157,917 | - | - | 3,157,917 |
| Total assets and deferred outflows of resources | $ 622,285,083 | $ 17,938,285 | $ 13,600,701 | $ 653,824,069 |
| Liabilities | | | | |
| Current liabilities | 44,916,079 | 1,257,527 | 649,080 | 46,822,686 |
| Noncurrent liabilities | 192,958,552 | 26,531 | 6,137,244 | 199,122,327 |
| Total liabilities | 237,874,631 | 1,284,058 | 6,786,324 | 245,945,013 |
| Deferred inflows of resources | 1,775,179 | - | - | 1,775,179 |
| Net position | | | | |
| Net investment in capital assets | 323,918,764 | 16,550,651 | 1,678,244 | 342,147,659 |
| Restricted for: | | | | |
| Passenger facility charge projects and debt service | 12,723,352 | - | - | 12,723,352 |
| Customer facility charge projects and debt service | 20,443,862 | - | - | 20,443,862 |
| Debt service and other | 32,559,077 | - | 75,151 | 32,634,228 |
| Total restricted net position | 65,726,291 | - | 75,151 | 65,801,442 |
| Unrestricted net position | (7,009,782) | 103,576 | 5,060,982 | (1,845,224) |
| Total net position | 382,635,273 | 16,654,227 | 6,814,377 | 406,103,877 |
| Total liabilities, deferred inflows of resources, and net position | $ 622,285,083 | $ 17,938,285 | $ 13,600,701 | $ 653,824,069 |
| **Condensed Statements of Revenues, Expenses and Changes in Net Position** | | | | |
| Operating revenues | $ 108,917,658 | $ 785,009 | $ 2,426,455 | $ 112,129,122 |
| Operating expenses | 70,746,167 | 637,439 | 1,771,183 | 73,154,789 |
| Provision for depreciation | 33,879,806 | 1,147,994 | 745,668 | 35,773,468 |
| Operating income (loss) | 4,291,685 | (1,000,424) | (90,396) | 3,200,865 |
| Nonoperating revenues (expenses), net | 16,165,147 | (596) | (194,914) | 15,969,637 |
| Capital contributions | 9,936,544 | 2,802,519 | - | 12,739,063 |
| Increase (decrease) in net position | 30,393,376 | 1,801,499 | (285,310) | 31,909,565 |
| Net position, beginning of year | 352,241,897 | 14,852,728 | 7,099,687 | 374,194,312 |
| Net position, end of year | $ 382,635,273 | $ 16,654,227 | $ 6,814,377 | $ 406,103,877 |
| **Condensed Statements of Cash Flows** | | | | |
| Cash flows from operating activities | $ 33,601,065 | $ 682,845 | $ 1,646,468 | $ 35,930,378 |
| Cash flows from noncapital financing activities | (2,369,336) | 1,000,000 | - | (1,369,336) |
| Cash flows from capital and related financing activities | (20,441,413) | (2,516,083) | (1,150,291) | (24,107,787) |
| Cash flows from investing activities | 3,210,200 | - | - | 3,210,200 |
| Increase (decrease) in cash and cash equivalents | 14,000,516 | (833,238) | 496,177 | 13,663,455 |
| Cash and cash equivalents, beginning of year | 102,838,630 | 1,633,455 | 3,825,766 | 108,297,851 |
| Cash and cash equivalents, end of year | $ 116,839,146 | $ 800,217 | $ 4,321,943 | $ 121,961,306 |

(1) The financial information of MPC CONRAC LLC is included in Nashville International Airport as the sole purpose of MPC CONRAC LLC relates to the CONRAC facility at Nashville International Airport; therefore, it is integrated with the Airport for reporting purposes.

# REQUIRED SUPPLEMENTARY INFORMATION

METROPOLITAN NASHVILLE AIRPORT AUTHORITY
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
YEAR ENDED JUNE 30, 2015 AND 2014

| | 2015 | 2014 |
|---|---|---|
| Total pension liability | | |
| Service cost | $ 645,436 | $ 845,864 |
| Interest | 3,987,395 | 3,521,317 |
| Changes of benefit terms | - | - |
| Differences between expected and actual experience | 677,000 | 356,625 |
| Changes of assumptions | 1,676,218 | 3,581,969 |
| Benefit payments | (2,552,544) | (2,479,800) |
| Net change in total pension liability | 4,433,505 | 5,825,975 |
| Total pension liability - beginning | 49,842,443 | 44,016,468 |
| Total pension liability - ending (a) | $ 54,275,948 | $ 49,842,443 |
| Plan fiduciary net position | | |
| Contributions - employer | $ 8,000,000 | $ 8,000,000 |
| Net investment income | 1,428,203 | 4,574,509 |
| Benefit payments | (2,552,544) | (2,479,800) |
| Administrative expenses | - | - |
| Net change in plan fiduciary net position | 6,875,659 | 10,094,709 |
| Plan fiduciary net position - beginning | 36,778,801 | 26,684,092 |
| Plan fiduciary net position - ending (b) | $ 43,654,460 | $ 36,778,801 |
| Authority's net pension liability - ending (a) - (b) | $ 10,621,488 | $ 13,063,642 |
| Plan fiduciary net position as a percentage of the total pension liability | 80.4% | 73.8% |
| Covered-employee payroll | $ 8,078,834 | $ 7,895,716 |
| Net pension liability as a percentage of covered-employee payroll | 131.5% | 165.5% |

**Notes to Schedule**

*Change in assumptions* . In 2014, the actuarial cost method was changed from Projected Unit Credit to Entry Age Normal to comply with the requirements of GASB Statement No. 68. In 2015, mortality was changed from the RP-2000 Combined Mortality Table (Generational) to the RP-2014 Generational Mortality Table for Males and Females.

Note: Information in this schedule is presented for the year in which information is available.
Information will be added each year until a full 10-year trend is presented.

See independent auditors' report.

METROPOLITAN NASHVILLE AIRPORT AUTHORITY
SCHEDULE OF CONTRIBUTIONS
YEAR ENDED JUNE 30, 2015 AND 2014

| | 2015 | 2014 |
|---|---|---|
| Actuarially determined contribution | $ 2,165,146 | $ 2,667,945 |
| Contributions in relation to the actuarially determined contribution | 8,000,000 | 8,000,000 |
| Contribution deficiency (excess) | $ (5,834,854) | $ (5,332,055) |
| Covered-employee payroll | $ 8,078,834 | $ 7,895,716 |
| Contributions as a percentage covered-employee payroll | 99.0% | 101.3% |

**Notes to Schedule**

Actuarily determined contribution rates are based on the most recent valuation date, which was June 30, 2015. Methods and assumptions used to determine contribution rates are as follows:

| | |
|---|---|
| Actuarial cost method | Entry age normal, level dollar |
| Asset valuation method | Fair Value |
| Amortization period | 5-years for investment gains and losses<br>3-years for experience gains and losses |
| Inflation | 2.25%, compounded annually |
| Salary increases | 4%, compounded annually |
| Investment rate of return | 8%, per annum for funding purposes |
| Retirement age | Estimated experience for general employees (10% at age 55, 40% at age 62, and 50% at age 65)<br>Normal retirement age of 55 with 10 years of service, but no later than 65, for public safety employees |
| Mortality | RP-2014 Generational Mortality Table with rates projected using Scale MP<br>In 2014, the mortality rate was based on the RP-2000 Combined Mortality Table (Generational) |

Note: Information in this schedule is presented for the year in which information is available.
Information will be added each year until a full 10-year trend is presented.

See independent auditors' report.

METROPOLITAN NASHVILLE AIRPORT AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS
JUNE 30, 2015 (UNAUDITED)

OPEB TRUST:

| Actuarial Valuation Date (biennial) | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | (Underfunded) AAL (UAAL) (b)-(a) | Funded Ratio (a)/(b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| July 1, 2011 | $1,053,287 | $59,473,329 | $(58,420,042) | 1.77% | $14,015,134 | 416.84% |
| July 1, 2013 | 2,748,267 | 42,543,287 | (39,795,020) | 6.90% | 15,188,052 | 262.02% |
| July 1, 2015 | 5,269,817 | 30,434,908 | (25,165,091) | 17.30% | 15,851,912 | 158.75% |

See independent auditors' report.

# OTHER INFORMATION

METROPOLITAN NASHVILLE AIRPORT AUTHORITY
SCHEDULE OF NET POSITION INFORMATION BY ENTITY
JUNE 30, 2015

| | Nashville International Airport (1) | John C. Tune Airport | MNAA Properties Corporation (1) | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current assets: | | | | |
| Unrestricted assets: | | | | |
| Cash and cash equivalents | $ 72,829,176 | $ 1,263,556 | $ 4,142,184 | $ 78,234,916 |
| Accounts receivable, net | 5,075,968 | 10,863 | 58,514 | 5,145,345 |
| Inventories | 519,276 | - | - | 519,276 |
| Due from (to) other funds | (228,724) | 269,801 | (41,077) | - |
| Prepaid expenses and other | 1,526,219 | 5,375 | 19,034 | 1,550,628 |
| Total current unrestricted assets | 79,721,915 | 1,549,595 | 4,178,655 | 85,450,165 |
| Restricted assets: | | | | |
| Cash and cash equivalents | 32,950,497 | - | - | 32,950,497 |
| Short-term investments | 11,369,000 | - | - | 11,369,000 |
| Passenger facility charges receivable | 2,372,149 | - | - | 2,372,149 |
| Customer facility charges receivable | 1,086,438 | - | - | 1,086,438 |
| Amounts due from governmental agencies | 1,567,788 | 2,943,224 | - | 4,511,012 |
| Total current restricted assets | 49,345,872 | 2,943,224 | - | 52,289,096 |
| Total current assets | 129,067,787 | 4,492,819 | 4,178,655 | 137,739,261 |
| Noncurrent Assets: | | | | |
| Restricted assets: | | | | |
| Cash and cash equivalents | 19,917,239 | - | - | 19,917,239 |
| Capital assets: | | | | |
| Land and land improvements | 521,401,900 | 26,066,074 | 200,817 | 547,668,791 |
| Land held for future expansion | 36,701,068 | - | - | 36,701,068 |
| Buildings and building improvements | 241,657,108 | 4,503,528 | 12,144,449 | 258,305,085 |
| Equipment, furniture and fixtures | 113,724,330 | 572,639 | - | 114,296,969 |
| Construction in progress | 43,972,791 | 17,469,420 | 682,897 | 62,125,108 |
| Total capital assets | 957,457,197 | 48,611,661 | 13,028,163 | 1,019,097,021 |
| Less accumulated depreciation | (478,219,570) | (20,056,215) | (5,128,104) | (503,403,889) |
| Total capital assets, net | 479,237,627 | 28,555,446 | 7,900,059 | 515,693,132 |
| Loan to (from) other funds | 1,000,000 | (1,000,000) | - | - |
| Other assets | 436,864 | 50,000 | 1,002,492 | 1,489,356 |
| Total noncurrent assets | 500,591,730 | 27,605,446 | 8,902,551 | 537,099,727 |
| Total assets | 629,659,517 | 32,098,265 | 13,081,206 | 674,838,988 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| Actuarial losses - pension | 3,659,781 | - | - | 3,659,781 |
| Loss on bond refundings | 1,066,369 | - | - | 1,066,369 |
| Total deferred outflows of resources | 4,726,150 | - | - | 4,726,150 |
| Total assets and deferred outflows of resources | $ 634,385,667 | $ 32,098,265 | $ 13,081,206 | $ 679,565,138 |

(1) The financial information of MPC CONRAC LLC is included in Nashville International Airport as the sole purpose of MPC CONRAC LLC relates to the CONRAC facility at Nashville International Airport; therefore, it is integrated with the Airport for reporting purposes.

See independent auditors' report.

METROPOLITAN NASHVILLE AIRPORT AUTHORITY
SCHEDULE OF NET POSITION INFORMATION BY ENTITY
JUNE 30, 2015

| | Nashville International Airport (1) | John C. Tune Airport | MNAA Properties Corporation (1) | Total |
|---|---|---|---|---|
| **LIABILITIES** | | | | |
| Current liabilities: | | | | |
| Payable from unrestricted assets: | | | | |
| Trade accounts payable | $ 6,194,785 | $ 4,661,529 | $ 118,976 | $ 10,975,290 |
| Accrued payroll and related items | 4,418,543 | 29,473 | - | 4,448,016 |
| Current maturities of notes payable | 617,768 | - | 264,898 | 882,666 |
| Total payable from unrestricted assets | 11,231,096 | 4,691,002 | 383,874 | 16,305,972 |
| Payable from restricted assets: | | | | |
| Trade accounts payable and other | 1,191,333 | - | - | 1,191,333 |
| Accrued interest payable | 3,522,905 | - | - | 3,522,905 |
| Current maturities of airport revenue bonds | 29,105,000 | - | - | 29,105,000 |
| Total payable from restricted assets | 33,819,238 | - | - | 33,819,238 |
| Total current liabilities | 45,050,334 | 4,691,002 | 383,874 | 50,125,210 |
| Noncurrent liabilities: | | | | |
| Airport revenue bonds, less current maturities | 115,857,902 | - | - | 115,857,902 |
| Notes payable, less current maturities | 2,513,563 | - | 5,813,113 | 8,326,676 |
| Fair value of derivative financial instrument | 1,542,095 | - | - | 1,542,095 |
| Unearned income | 1,807,125 | 26,006 | 57,292 | 1,890,423 |
| Net pension liability | 10,621,488 | - | - | 10,621,488 |
| Other postemployment benefits obligation | 26,686,104 | - | - | 26,686,104 |
| Total noncurrent liabilities | 159,028,277 | 26,006 | 5,870,405 | 164,924,688 |
| Total liabilities | 204,078,611 | 4,717,008 | 6,254,279 | 215,049,898 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | |
| Actuarial gains - pension | 1,331,384 | - | - | 1,331,384 |
| **NET POSITION** | | | | |
| Net investment in capital assets | 357,167,586 | 28,605,448 | 1,822,048 | 387,595,082 |
| Restricted for: | | | | |
| Passenger facility charge projects and debt service | 13,461,933 | - | - | 13,461,933 |
| Customer facility charge projects and debt service | 19,285,387 | - | - | 19,285,387 |
| Debt service and other | 23,811,939 | - | - | 23,811,939 |
| Total restricted net position | 56,559,259 | - | - | 56,559,259 |
| Unrestricted net position | 15,248,827 | (1,224,191) | 5,004,879 | 19,029,515 |
| Total net position | 428,975,672 | 27,381,257 | 6,826,927 | 463,183,856 |
| Total liabilities, deferred inflows of resources, and net position | $ 634,385,667 | $ 32,098,265 | $ 13,081,206 | $ 679,565,138 |

(1) The financial information of MPC CONRAC LLC is included in Nashville International Airport as the sole purpose of MPC CONRAC LLC relates to the CONRAC facility at Nashville International Airport; therefore, it is integrated with the Airport for reporting purposes.

See independent auditors' report.

METROPOLITAN NASHVILLE AIRPORT AUTHORITY
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION INFORMATION BY ENTITY
FOR THE YEAR ENDED JUNE 30, 2015

| | Nashville International Airport (1) | John C. Tune Airport | MNAA Properties Corporation (1) | Total |
|---|---|---|---|---|
| Operating revenues: | | | | |
| Signatory airline | $ 39,414,175 | $ - | $ - | $ 39,414,175 |
| Parking | 38,725,346 | - | - | 38,725,346 |
| Concession | 22,873,310 | - | - | 22,873,310 |
| Space rental | 8,901,311 | 616,640 | 2,471,143 | 11,989,094 |
| Other | 5,840,931 | 72,914 | 79,353 | 5,993,198 |
| | 115,755,073 | 689,554 | 2,550,496 | 118,995,123 |
| Operating expenses: | | | | |
| Salaries and wages | 31,653,506 | 365,638 | - | 32,019,144 |
| Contractual services | 24,925,521 | 111,599 | 925,017 | 25,962,137 |
| Materials and supplies | 3,926,168 | 55,907 | 5,376 | 3,987,451 |
| Utilities | 5,841,398 | 47,826 | 366,718 | 6,255,942 |
| Other | 4,567,464 | 30,368 | 304,038 | 4,901,870 |
| | 70,914,057 | 611,338 | 1,601,149 | 73,126,544 |
| Operating income before provision for depreciation | 44,841,016 | 78,216 | 949,347 | 45,868,579 |
| Provision for depreciation | 34,658,067 | 1,126,839 | 749,711 | 36,534,617 |
| Operating income (loss) | 10,182,949 | (1,048,623) | 199,636 | 9,333,962 |
| Nonoperating revenues (expenses): | | | | |
| Investment income | 357,355 | 828 | 1,607 | 359,790 |
| Passenger facility charges | 15,703,411 | - | - | 15,703,411 |
| Customer facility charges | 11,692,265 | - | - | 11,692,265 |
| Interest expense | (7,402,907) | (19,229) | (188,693) | (7,610,829) |
| Loss on disposal of property and equipment | (180,139) | - | - | (180,139) |
| Gain on derivative financial instrument | 344,230 | - | - | 344,230 |
| Other nonoperating, net | (69,291) | - | - | (69,291) |
| | 20,444,924 | (18,401) | (187,086) | 20,239,437 |
| Income before capital contributions | 30,627,873 | (1,067,024) | 12,550 | 29,573,399 |
| Capital contributions | 17,286,276 | 10,220,304 | - | 27,506,580 |
| Income before transfers | 47,914,149 | 9,153,280 | 12,550 | 57,079,979 |
| Transfer from (to) other funds | (1,573,750) | 1,573,750 | - | - |
| Increase in net position | 46,340,399 | 10,727,030 | 12,550 | 57,079,979 |
| Total net position - beginning of year | 382,635,273 | 16,654,227 | 6,814,377 | 406,103,877 |
| Total net position - end of year | $ 428,975,672 | $ 27,381,257 | $ 6,826,927 | $ 463,183,856 |

(1) The financial information of MPC CONRAC LLC is included in Nashville International Airport as the sole purpose of MPC CONRAC LLC relates to the CONRAC facility at Nashville International Airport; therefore, it is integrated with the Airport for reporting purposes.

See independent auditors' report.

METROPOLITAN NASHVILLE AIRPORT AUTHORITY
SCHEDULE OF AIRPORT REVENUE BONDS, PRINCIPAL AND INTEREST REQUIREMENTS BY FISCAL YEAR
JUNE 30, 2015

| Year Ending June 30, | Series 2003B Revenue Bonds | | Series 2008A Revenue Bonds | | Series 2009A Revenue Bonds | | Series 2010A Revenue Bonds | |
|---|---|---|---|---|---|---|---|---|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2016 | $ 465,000 | $ 879,515 | $ 200,000 | $ 538,800 | $ 3,715,000 | $ 977,656 | $ 3,560,000 | $ 460,800 |
| 2017 | 490,000 | 867,378 | 1,200,000 | 484,920 | 3,860,000 | 825,394 | 3,690,000 | 284,000 |
| 2018 | 515,000 | 867,378 | 3,400,000 | 332,260 | 4,020,000 | 661,625 | 3,835,000 | 95,875 |
| 2019 | 545,000 | 824,831 | 3,600,000 | 170,620 | 4,190,000 | 487,056 | - | - |
| 2020 | 575,000 | 782,283 | 3,800,000 | - | 7,970,000 | 197,700 | - | - |
| 2021 | 610,000 | 782,283 | - | - | - | - | - | - |
| 2022 | 645,000 | 782,283 | - | - | - | - | - | - |
| 2023 | 680,000 | 782,283 | - | - | - | - | - | - |
| 2024 | 720,000 | 688,290 | - | - | - | - | - | - |
| 2025 | 760,000 | 594,297 | - | - | - | - | - | - |
| 2026 | 805,000 | 594,297 | - | - | - | - | - | - |
| 2027 | 855,000 | 594,297 | - | - | - | - | - | - |
| 2028 | 905,000 | 594,297 | - | - | - | - | - | - |
| 2029 | 960,000 | 594,297 | - | - | - | - | - | - |
| 2030 | 1,015,000 | 594,297 | - | - | - | - | - | - |
| 2031 | 1,075,000 | 594,297 | - | - | - | - | - | - |
| 2032 | 1,140,000 | 594,297 | - | - | - | - | - | - |
| 2033 | 1,210,000 | 594,297 | - | - | - | - | - | - |
| 2034 | 1,280,000 | 297,149 | - | - | - | - | - | - |
| | 15,250,000 | 12,902,346 | 12,200,000 | 1,526,600 | 23,755,000 | 3,149,431 | 11,085,000 | 840,675 |
| Bond Premium | - | - | - | - | 72,218 | - | 510,372 | - |
| | $ 15,250,000 | $ 12,902,346 | $ 12,200,000 | $ 1,526,600 | $ 23,827,218 | $ 3,149,431 | $ 11,595,372 | $ 840,675 |

Note 1: This schedule intends to present the cash outflow requirements for principal and interest on the Authority's bonds, including the annual sinking fund requirements of the 2003B and CONRAC 2010 Series bonds. Payments of principal on bonds is made annually on July 1. Payment of interest on fixed rate bonds is made semi-annually in July 1, and January 1. Payment of interest on variable rate bonds is generally made monthly.

See independent auditors' report.

METROPOLITAN NASHVILLE AIRPORT AUTHORITY
SCHEDULE OF AIRPORT REVENUE BONDS, PRINCIPAL AND INTEREST REQUIREMENTS BY FISCAL YEAR
JUNE 30, 2015

| Series 2010B Revenue Bonds | | Series 2010C Revenue Bonds | | CONRAC Series 2010 Revenue Bonds | | Total Debt Service | | |
|---|---|---|---|---|---|---|---|---|
| Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Total |
| $ 16,475,000 | $ 329,500 | $ 2,600,000 | $ 104,200 | $ 2,090,000 | $ 3,716,196 | $ 29,105,000 | $ 7,006,667 | $ 36,111,667 |
| - | - | 1,740,000 | 26,100 | 2,285,000 | 3,622,034 | 13,265,000 | 6,109,826 | 19,374,826 |
| - | - | - | - | 2,480,000 | 3,511,292 | 14,250,000 | 5,468,430 | 19,718,430 |
| - | - | - | - | 2,695,000 | 3,382,352 | 11,030,000 | 4,864,859 | 15,894,859 |
| - | - | - | - | 2,840,000 | 3,236,635 | 15,185,000 | 4,216,618 | 19,401,618 |
| - | - | - | - | 3,000,000 | 3,077,085 | 3,610,000 | 3,859,368 | 7,469,368 |
| - | - | - | - | 3,175,000 | 2,902,161 | 3,820,000 | 3,684,444 | 7,504,444 |
| - | - | - | - | 3,365,000 | 2,710,402 | 4,045,000 | 3,492,685 | 7,537,685 |
| - | - | - | - | 3,575,000 | 2,501,707 | 4,295,000 | 3,189,997 | 7,484,997 |
| - | - | - | - | 3,800,000 | 2,275,349 | 4,560,000 | 2,869,646 | 7,429,646 |
| - | - | - | - | 4,055,000 | 2,157,796 | 4,860,000 | 2,752,093 | 7,612,093 |
| - | - | - | - | 4,340,000 | 2,157,796 | 5,195,000 | 2,752,093 | 7,947,093 |
| - | - | - | - | 4,645,000 | 2,157,796 | 5,550,000 | 2,752,093 | 8,302,093 |
| - | - | - | - | 4,970,000 | 2,157,796 | 5,930,000 | 2,752,093 | 8,682,093 |
| - | - | - | - | 13,755,000 | 1,078,898 | 14,770,000 | 1,673,195 | 16,443,195 |
| - | - | - | - | - | - | 1,075,000 | 594,297 | 1,669,297 |
| - | - | - | - | - | - | 1,140,000 | 594,297 | 1,734,297 |
| - | - | - | - | - | - | 1,210,000 | 594,297 | 1,804,297 |
| - | - | - | - | - | - | 1,280,000 | 297,149 | 1,577,149 |
| 16,475,000 | 329,500 | 4,340,000 | 130,300 | 61,070,000 | 40,645,295 | 144,175,000 | 59,524,147 | 203,699,147 |
| 85,548 | - | 119,764 | - | - | - | 787,902 | - | 787,902 |
| $ 16,560,548 | $ 329,500 | $ 4,459,764 | $ 130,300 | $ 61,070,000 | $ 40,645,295 | $ 144,962,902 | $ 59,524,147 | $ 204,487,049 |

See independent auditors' report.

METROPOLITAN NASHVILLE AIRPORT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

| Airport | Program Title | CFDA Number | Grantor Agency | Accrued Balance June 30, 2014 | Cash Receipts | Expenditures | Accrued Balance June 30, 2015 |
|---|---|---|---|---|---|---|---|
| Federal Assistance | | | | | | | |
| Direct Awards: | | | | | | | |
| Nashville International | Airport Improvement Program | 20.106 | Federal Aviation Administration | $ 1,137,975 | $ 14,777,403 | $ 13,702,438 | $ 63,010 |
| John C. Tune | Airport Improvement Program | 20.106 | Federal Aviation Administration | 68,404 | 6,967,677 | 9,571,450 | 2,672,177 |
| | | | Total Federal Aviation Administration | 1,206,379 | 21,745,080 | 23,273,888 | 2,735,187 |
| Nashville International | Transportation Security Administration - Checked Baggage Inspection System | * | U.S. Department of Homeland Security Transportation Security Administration | 56,537 | 74,282 | 17,745 | - |
| | | | Total federal assistance | $ 1,262,916 | $ 21,819,362 | $ 23,291,633 | $ 2,735,187 |
| State Assistance: | | | | | | | |
| Nashville International | Airport Improvements | | Tennessee Department of Transportation | $ 790,194 | $ 2,851,507 | $ 3,566,093 | $ 1,504,780 |
| | Airport Improvements | | Tennessee Department of Transportation | 226,829 | 604,638 | 648,854 | 271,045 |
| | | | Total state assistance | $ 1,017,023 | $ 3,456,145 | $ 4,214,947 | $ 1,775,825 |
| | | | **Grand total** | **$ 2,279,939** | **$ 25,275,507** | **$ 27,506,580** | **$ 4,511,012** |

* CFDA number was not provided in the award documents.

See notes to schedule of expenditures of federal and state awards and independent auditors' report.

## A. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of the Metropolitan Nashville Airport Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the Comptroller of the Treasury of the State of Tennessee.

## B. CONTINGENCY

The grant revenue amounts received are subject to audit and adjustment. If any expenditures are disallowed by the grantor agencies as a result of such an audit, any claim for reimbursement to the grantor agencies would become a liability of the Authority. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal and state laws and regulations.

DIXON HUGHES GOODMAN LLP

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Commissioners
Metropolitan Nashville Airport Authority
Nashville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Metropolitan Nashville Airport Authority (the "Authority"), a component unit of the Metropolitan Government of Nashville and Davidson County, 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 October 27, 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2015-01.

DIXON HUGHES GOODMAN LLP

**The Authority's Response to Findings**

The Authority's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We noted certain other matters that we reported to management of the Authority in a separate letter dated October 27, 2015.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Brentwood, Tennessee
October 27, 2015

DIXON HUGHES GOODMAN LLP

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Commissioners
Metropolitan Nashville Airport Authority
Nashville, Tennessee

**Report on Compliance for the Major Federal Program**

We have audited Metropolitan Nashville Airport Authority (the "Authority"), a component unit of the Metropolitan Government of Nashville and Davidson County, 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 for the year ended June 30, 2015. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on the Major Federal Program***

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

DIXON HUGHES GOODMAN LLP

**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 to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Brentwood, Tennessee
October 27, 2015

**SECTION I - SUMMARY OF INDEPENDENT AUDITORS' RESULTS**

Financial Statements

| | |
|---|---|
| Type of auditors' report issued: | Unmodified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | ___yes _x_ no |
| Significant deficiency(ies) identified not considered to be material weaknesses? | ___yes _x_ none reported |
| Noncompliance material to financial statements noted? | _x_ yes ____ no |

Federal Awards

| | |
|---|---|
| Internal control over major programs: | |
| Material weakness(es) identified? | ___yes _x_ no |
| Significant deficiency(ies) identified not considered to be material weaknesses? | ___yes _x_ none reported |
| Type of auditors' report issued on compliance for major programs | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? | ___yes _x_ no |

Identification of major programs:

| CFDA Number | Name of Federal Program or Cluster | |
|---|---|---|
| 20.106 | Airport Improvement Program | $23,273,888 |

Dollar threshold used to distinguish between Type A and Type B programs: $698,749

Auditee qualified as low-risk auditee? _x_ yes ____ no

**SECTION II - FINANCIAL STATEMENT FINDINGS**

A. Significant Deficiencies in Internal Control

None reported

B. Compliance Findings

**2015-01. Collateralization of Deposits**

*Criteria or specific requirement.* Cash deposits are required by State statute to be secured and collateralized by the Authority's banking institutions. The collateral must meet certain requirements and must have a total minimum market value of 105% of the value of the deposits placed in the institutions less the amount protected by federal depository insurance or the bank must be a member of the State's Bank Collateral Pool.

*Condition/context*. Two of the Authority's banks participate in the Collateral Pool, representing approximately 81.3% of total cash in bank. A large banking institution, that is not a part of the Collateral Pool, holds the remaining 18.7%, or $25,011,806 at June 30, 2015. Per State law, these funds are required to have collateral supporting this deposit, net of FDIC insurance, of $26,012,396 at June 30, 2015. However, funds held by this bank were not collateralized.

*Effect.* The Authority did not incur any losses from uncollateralized accounts. Effective July 1, 2015, the Authority has moved all funds from this bank to another bank that is a participant in the Collateral Pool.

*Cause.* Prior to 2014, the financial institution provided the required collateral disclosures to the Authority. During an Agreed Upon Procedures engagement performed in 2014 by other auditors, their report issued in October 2014 (current fiscal year) identified that the bank would not provide details or confirmation on collateral held in favor of the Authority's deposits with the bank. The Authority immediately began to prepare and solicit a Request for Proposal to replace this bank with one that could provide the necessary evidence to show that the Authority had deposited funds in an institution that was in compliance with the State's collateralization statues. Once a replacement bank was chosen (December 2014) and the contract terms finalized (March 2015), the Authority gave the existing bank the required 90 day termination notice and the funds were transferred as soon as possible, which was July 2, 2015.

*Recommendation.* No further recommendations as the Authority appears to have remedied the potential noncompliance as of the date of this report.

*Views of responsible officials and planned corrective action.* The Authority had originally discussed transferring the custodial assets as early as June 11, 2015. However, after discussion with all parties and the recognition that a number of debt service payments were to be paid on July 1, it was agreed the timing of the transfer should be delayed until July 2, 2015. Management believes that timely action was taken as soon as the issue was brought to the Authority's attention and this issue has been resolved.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None

**SUMMARY OF PRIOR YEAR AUDIT FINDINGS**

The Authority had no prior year audit findings related to the testing of its federal award programs.