

**METROPOLITAN NASHVILLE
AIRPORT AUTHORITY**

AGREED-UPON PROCEDURES

**TREASURY INVESTMENT POLICY
AND INVESTMENT POLICY -
RETIREMENT PLAN FOR EMPLOYEES**

**FOR THE PERIOD
JULY 1, 2008 TO JUNE 30, 2009**

To the Audit Committee and Management of
Metropolitan Nashville Airport Authority
Nashville, Tennessee

Re: Independent Accountants' Report on Applying Agreed-Upon Procedures

We have performed the procedures enumerated below, which were agreed to by the management of Metropolitan Nashville Airport Authority ("MNAA"), solely to assist you in evaluating MNAA's compliance with Procedure 3-901 (Revised) "Treasury Investment Policy" and Procedure 3-903 (Revised) "Investment Policy - Retirement Plan for Employees" (collectively, the "Policies") for the period July 1, 2008 to June 30, 2009. MNAA's management is responsible for compliance with the Policies. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on MNAA's compliance with the Treasury Investment Policy and the Investment Policy - Retirement Plan for Employees. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The Treasury Investment Policy and Investment Policy - Retirement Plan for Employees are described as follows:

- Treasury Investment Policy: This policy covers the "operational" investments. MNAA invests excess cash funds, certain Passenger Facility Charges funds, and certain funds under debt service agreements. The assets covered by this policy are approximately \$57 million using the cost basis at June 30, 2009. MNAA personnel manage approximately \$56 million while approximately \$1 million is managed by Atlanta Capital, an outside investment management firm.
- Investment Policy - Retirement Plan for Employees: This policy governs the investment assets of the MNAA Retirement Pension Plan for Employees. The pension plan has been closed to new participants for several years. The retirement plan assets are approximately \$18 million at June 30, 2009. Through May 1, 2009, the assets were managed by the Alexander Key Division of SunTrust Investment Services, Inc. Starting May 1, 2009, the assets are managed by Wells Fargo.

The agreed-upon procedures were conducted through review of MNAA documentation and discussions with MNAA personnel and consultants. During the procedures, we held discussions with and/or obtained assistance from the following individuals:

- Raul Regalado, President and Chief Executive Officer
- Stan Van Ostran, Vice President and Chief Financial Officer; Investment Manager as defined by the Treasury Investment Policy
- Monty Burgess, Senior Vice President and Chief Operating Officer, and Chairman of MNAA Employee Retirement Fund Committee
- Amy Armstrong, Vice President and Chief People Officer, and Vice-Chairperson of the MNAA Employee Retirement Fund Committee
- Julie Zwicknagel and Basil Dosunmu, Internal Auditors
- Debbie Howard, Assistant Treasurer
- Jami McLeod, Controller
- Janet McReynolds, Staff Accountant
- Terry Steele, Staff Accountant
- Laurie Temple, Vice President, Wells Fargo Bank, N.A. Institutional Trust Securities

The agreed-upon procedures and the related recommendations are as follows:

PROCEDURE 3-901 (REVISED) - TREASURY INVESTMENT POLICY

1. Ethical Considerations

Background

The Treasury Investment Policy states that the Chief Financial Officer (CFO), as the designated Investment Manager, shall disclose to the President and Chief Executive Officer of MNAA any financial interests he or she may have in any broker/dealer or other financial institution that conducts business with MNAA.

Observation and Testing

We inspected the CFO's Financial Interest Disclosure prepared in accordance with the Treasury Investment Policy, which was dated August 11, 2008 and certified compliance with the Treasury Investment Policy dated October 10, 2007. MNAA amended the Treasury Investment Policy on March 18, 2009. The CFO subsequently signed a Financial Interest Disclosure for the revised Treasury Investment Policy on August 11, 2009.

Recommendations

There are no recommendations relating to these procedures.

2. **Delegation of Authority/Establishment of Procedures**

Background

According to the Treasury Investment Policy, the CFO shall establish a system of procedures and internal controls governing the administration and management of the investment portfolio. The procedures and internal controls shall specify any delegation by the CFO to other persons responsible for investment transactions.

Observation and Testing

We discussed the system of procedures and internal controls with the CFO, Assistant Treasurer and Accountant. We were informed that the CFO has delegated the investment trading to the Assistant Treasurer. Additionally, the CFO has delegated the recording of investment activity in the general ledger to the Finance Department. The Finance Department also prepares monthly reconciliations of investments per the general ledger to the custodian statement. Based on such delegation, there appears to be a proper segregation of duties between initiation of investment activity and recording/reconciliation of the activity in the general ledger.

We reviewed the Investment Procedures Report created by the Assistant Treasurer. This report consists of two sections: Investment Trade Procedures (which are performed by the Assistant Treasurer) and Investment Report Procedures (which are performed by the Finance Department). The Investment Procedures Report provides an adequate description of the job duties and responsibilities surrounding the treasury investment function.

In February 2008, MNAA's former CFO left the organization. In his absence, MNAA's Controller and Cash Manager assumed the responsibilities that he had previously fulfilled. The current CFO began his tenure effective August 11, 2008. The Controller and Cash Manager fulfilled the responsibilities noted above with respect to the Treasury Investment Policy through August 22, 2008, the date on which the Cash Manager resigned. From that date through February 2009, when the Assistant Treasurer started, the Controller and Financial Services Administrator fulfilled the responsibilities noted above with respect to the Treasury Investment Policy. Since February 2009, the Assistant Treasurer has fulfilled these responsibilities.

Recommendations

There are no recommendations relating to these procedures.

3. **Authorized Broker/Dealers**

Background

To become an authorized broker/dealer for MNAA, a firm must meet minimum requirements set forth in the Broker/Dealer Questionnaire and Certification Form and must be approved by the CFO, who shall maintain a list of broker/dealers authorized to provide investment services to MNAA. Broker/dealers will be selected based on their ability to provide necessary services to MNAA and their credit worthiness. Only “primary” dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15c3-1 will be authorized to enter into investment transactions with MNAA. To maintain its position on the list of broker/dealers maintained by the CFO, a broker/dealer must provide annual certification that it continues to comply with the minimum requirements set forth in the Broker/Dealer Questionnaire and Certification Form. The CFO shall conduct an annual review of the broker/dealers used by MNAA and will have this information available for review by the Finance and Administration Committee at the time the CFO presents his or her annual report to the Finance and Administration Committee required under the Treasury Investment Policy.

Observation and Testing

We inquired with MNAA personnel and noted that the broker/dealers files had not been updated since the period ended June 30, 2008. Therefore, the annual review of broker/dealers had not been performed, and we were unable to perform the agreed-upon procedures related to this requirement.

Recommendations

We recommend that MNAA implement procedures to ensure that it performs the required annual review, maintains current files for the broker/dealers, and ensures that broker/dealers are complying with the Treasury Investment Policy.

Management’s Response

Management agrees with this recommendation and will implement procedures to ensure it performs the required annual review of all authorized broker/dealers, that all broker/dealer files are maintained on current basis, and that all broker/dealers are in compliance with the Treasury Investment Policy.

A calendar of all compliance-related tasks required by the Treasury Investment Policy has been prepared to identify all required tasks and help ensure they are performed on a timely basis. This calendar will be merged with the Master Finance Calendar, which is monitored by the CFO and Assistant Treasurer.

The annual review of all authorized broker/dealers will be scheduled to be done each March. All files will be reviewed and any documentation needed to ensure the Broker/Dealer's ongoing compliance with the Policy will be obtained.

The Assistant Treasurer has developed requirements for becoming an authorized broker/dealer, which will be distributed to prospective broker/dealers. We will also consider including these requirements on the MNAA website. Once a new broker/dealer has submitted the required paperwork, the Assistant Treasurer will review the submission and make a recommendation for approval/disapproval to the CFO. The CFO will review the submission and recommendation and make a final decision as to whether the broker/dealer qualifies to be added to the authorized list.

4. Competitive Selection of Investments

Background

It is the policy of MNAA that all securities purchases and sales will be transacted through a registered broker/dealer. To the extent practicable, in the context of executing a securities transaction in a manner most advantageous to MNAA within the guidelines set forth in the Treasury Investment Policy, MNAA shall strive to obtain competitive bids from at least three registered broker/dealers.

Observation and Testing

We discussed the competitive selection of investments with the Assistant Treasurer. The Assistant Treasurer informed us that all investment trades are performed via a competitive bidding process. To test the competitive bidding process, we selected four investment trades from the MNAA Investment Activity Report, which comprised all investment trades made during fiscal year 2009. For each trade, we satisfactorily obtained the bid documentation showing that competitive bids were received.

Recommendations

There are no recommendations relating to these procedures.

5. Safekeeping and Custody - Bank of New York Mellon

Background

MNAA has designated the Bank of New York Mellon ("BNYM") as custodian for all treasury investments. According to the Treasury Investment Policy, BNYM "shall annually provide to MNAA a copy of its most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70)." The SAS 70 report details the controls in place at BNYM. The SAS 70 report also makes specific reference to "user" controls that must be in place at user organizations (MNAA) in order for the internal controls to operate properly at BNYM.

Observation and Testing

Upon inquiry of the Assistant Treasurer, we were informed that MNAA had not received or reviewed the SAS 70 report for BNYM. During the agreed-upon procedures, MNAA obtained and reviewed the SAS 70 report. In addition, during the procedures we reviewed the SAS 70 report noting that BNYM received an unqualified opinion and there appeared to be no relevant exceptions or findings. Through our discussions with the Assistant Treasurer, we verified that MNAA has user controls in place to support the internal controls at BNYM.

However, per review of the Certificate of Authorized Persons, which lists MNAA individuals authorized to conduct business with BNYM on MNAA's behalf, we noted that BNYM had not been informed of changes in MNAA personnel. Specifically, MNAA's former CFO remained on the list even though his employment with MNAA terminated in February 2008. MNAA informed BNYM of this change on August 12, 2008. Additionally, there were new personnel that needed to be added to the list of authorized persons during fiscal 2009. As a result of the agreed-upon procedures, MNAA prepared and submitted to BNYM a revised form that includes authorized personnel as of August 27, 2009 to replace terminated employees and include new employees.

Recommendations

We further recommend that MNAA implement a specific procedure to review the BNYM SAS 70 on an annual basis. MNAA should determine the type of opinion rendered in the SAS 70 and should also evaluate the user control section of the report. MNAA staff should document the results of their review of the SAS 70. We further recommend that MNAA improve its control procedures to ensure that BNYM is notified timely of changes in individuals authorized to conduct business with BNYM on MNAA's behalf. As there are BNYM functions in New York as well as in Atlanta, MNAA should ensure that both BNYM locations are informed.

Management's Response

Management agrees with this recommendation and will implement a procedure to ensure the SAS 70 for the custodian(s) is obtained and reviewed on an annual basis. The results of the review, which will include an evaluation of the type of opinion that was rendered and the user control section of the report, will be formally documented. Management will make a determination as to when the custodian's SAS 70 is normally available and will add this review to the Treasury Investment Policy calendar, as well as the Master Finance Calendar.

Management agrees to improve its control procedures to ensure that the custodian is notified on a timely basis when staff changes occur that impact the list of persons authorized to conduct business on MNAA's behalf. Additionally, an annual review of the authorized users list will be performed each March. This activity will be added to the Treasury Investment Policy and the Master Finance Calendar.

6. Safekeeping and Custody - Atlanta Capital

Background

MNAA utilizes the services of Atlanta Capital, an outside investment management firm, to manage approximately \$1 million of the Treasury Investment Portfolio. This portion of the investment portfolio consists primarily of asset - backed and mortgage - backed securities.

Observation and Testing

We discussed with the Assistant Treasurer the impact of utilizing Atlanta Capital on overall compliance with the Treasury Investment Policy. The Policy is very specific on the criteria for broker/dealers and how trades should be processed. The Assistant Treasurer stated that MNAA believes Atlanta Capital is complying with the Treasury Investment Policy. MNAA has an agreement with Atlanta Capital which states that Atlanta Capital will comply with the procedures. Additionally, Atlanta Capital is supposed to certify annually that the brokers/dealers it uses on behalf of MNAA meet or exceed MNAA requirements. All broker/dealers utilized: (i) are currently registered as a dealer under the Securities Exchange Act of 1934, as amended; (ii) currently maintain total equity of not less than \$10 million; (iii) are a member of the Financial Industry Regulatory Authority (FINRA); (iv) are currently registered to sell securities in Tennessee; and (v) have been engaged in the business of effecting transactions in US Treasury and US Agency obligations for at least five consecutive years. Additionally, Atlanta Capital is supposed to certify annually that the portfolio complies with MNAA Treasury Investment Policy No. 3-901 (Revised). The most recent certification received dated June 2008. No certification has been received since that date; and therefore, a new certification needs to be obtained.

Recommendations

We recommend that MNAA implement procedures to ensure that the Atlanta Capital Certification is received in a timely manner on an annual basis. Regular follow-up should be made until the certification is received.

Management's Response

MNAA agrees with this recommendation and will implement specific procedures that ensure the Atlanta Capital Certification is received in a timely manner on an annual basis. This review will be scheduled for March of each year and will be added to the Treasury Investment Policy Calendar, as well as the Master Finance Calendar.

7. Safekeeping and Custody

Background

Per discussion with the Assistant Treasurer and review of the investment portfolio details, approximately \$1 million of MNAA's Treasury Investment Portfolio is managed by Atlanta Capital. The Assistant Treasurer explained that MNAA transferred this portion to Atlanta Capital several years ago for two reasons. First, MNAA wanted to determine if an outside party could manage the funds to receive better rates of return than the MNAA in-house treasury function. Second, Atlanta Capital specializes in asset-backed and mortgage-backed securities. The amount managed by Atlantic Capital was approximately \$10 million at June 30, 2007, and was reduced during fiscal years 2008 and 2009 as MNAA has elected to limit its investments in these types of securities.

Observation and Testing

Through discussion with the Assistant Treasurer, we noted that she reviews the returns earned by Atlanta Capital during her preparation of the quarterly treasury investment reports. The returns on the Atlanta Capital funds are included in the quarterly reports for comparison to the returns earned on the remaining portfolio.

Recommendations

There are no recommendations relating to this testing.

8. Safekeeping and Custody

Background

All investment securities purchased by MNAA or held as collateral on either deposits or investments shall be held in third-party safekeeping at a financial institution, acting solely as agent of MNAA (to be designated as the "Custodian") qualified to act in this capacity. As a means to limit custodial risk, all trades of marketable securities will be executed on the basis of delivery vs. payment and will avoid the physical delivery securities (bearer form) to ensure that securities are deposited with a Custodian prior to the release of MNAA funds. In addition, the Custodian shall insure all securities are held in the account of MNAA. All securities held for MNAA will be held free and clear of liens. Each Custodian shall issue a safekeeping receipt to MNAA listing the specific instrument, rate, maturity, and other pertinent information. On a monthly basis, each Custodian will also provide reports, which list all securities held for MNAA, the book value of holdings and the market value as of month-end.

Observation and Testing

We discussed safekeeping and custody of investments with the Assistant Treasurer. We were informed that MNAA uses BNYM as its sole custodian for all Treasury Investments. Additionally, the Assistant Treasurer stated that all investment trades are performed on a delivery vs. payment basis.

To test safekeeping and custody, we selected four investment trades from the MNAA Investment Activity Report. For each trade, we examined the safekeeping receipt issued by BNYM. Therefore, the investments were received by BNYM. We also examined the month-end BNYM statements for each of the four trades noting proper inclusion. The BNYM statements included the book and market value of holdings as required by the Treasury Investment Policy. For trades made by MNAA, we examined the correspondence from MNAA to BNYM indicating that the trade was to be made on the delivery vs. payment basis. There were no trades performed by Atlanta Capital during fiscal year 2009.

Recommendations

There are no recommendations relating to these procedures.

9. Authorized Investments

Background

The Treasury Investment Policy specifies the types of permitted investments. The Treasury Investment Policy further states the required minimum credit-rating of each type of investment at the time of purchase as well as the maximum maturity period of each investment.

Observation and Testing

We selected the four investment trades during the period from the Investment Activity Report as provided by the Assistant Treasurer. For each of the investment trades, we examined the Bloomberg trade ticket and broker/dealer correspondence. Based on the CUSIP number of the security, we performed independent internet research to confirm the type of security, credit-rating, and maturity. Based on this research, we noted that each investment was permitted under the Treasury Investment Policy. Additionally, we noted that each investment's credit-rating at the time of trade and the maturity period were within the limits established by the Treasury Investment Policy.

During the procedures regarding authorized investments, we reviewed the quarterly Treasury Performance Reports. We noted that certain investments on the quarterly Treasury Performance Reports had been downgraded to levels below those required by the Treasury Investment Policy. Specifically, two investments were below the minimum credit rating for three quarters and one was below in the fourth quarter as further described in the chart below:

<u>Quarter Ending</u>	<u>Number of Investments Below Required Rating</u>	<u>Total Market Value</u>
September 3, 2008	2	\$4,996,811
December 31, 2008	2	5,125,329
March 31, 2009	2	5,088,879
June 30, 2009	1	433,871

As of October 2009, all of the investment matured; therefore, the amounts are no longer at risk.

Recommendations

We recommend that MNAA continue to monitor ratings of investments held. Additionally, we recommend that MNAA modify the Treasury Investment Policy to require prompt communication to the Finance and Administration Committee of any investment downgrades. Such communication should include management's evaluation of the downgraded securities and its plan to ensure that reasonable recovery of invested amounts is maintained.

Management's Response

Management will continue to monitor ratings of all investments held on a monthly basis. When rating changes occur, printouts of the ratings sheets (source: Bloomberg) will be maintained in the files.

Management will request a change to the Treasury Investment Policy to notify the Finance and Administration Committee of any investment rating downgrades. The communication will include management's evaluation of the downgraded security and its recommended plan-of-action with regard to the investment. Additionally, investment reports will be modified to include a section that reports all rating changes during the reported period.

10. Asset Allocation

Background

The MNAA's portfolio may be allocated among the following categories of investments (book value at the time of acquisition):

<u>Asset Category</u>	<u>Range</u>
US Treasury Obligations	0 - 100%
US 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%

Observation and Testing

We discussed the process of maintaining proper investment allocation with the Assistant Treasurer. The Assistant Treasurer informed us that she reviews asset allocation prior to initiating each investment trade. The allocation calculations are prepared informally. We selected the four investment trades performed by MNAA and reviewed the asset limit allocation calculations. We noted that the calculations appear to have been performed prior to the initiation of the trades.

At each quarter-end, the Assistant Treasurer performs a formal analysis of asset allocation utilizing the Treasury Portfolio Report. This report details the type, maturity, credit rating, book value, and other information for each investment in the portfolio. The report is used to calculate how much of the portfolio is in each of the permitted investment categories. The Assistant Treasurer explained that she manually reviews the percentage in each category to ensure compliance with the Treasury Investment Policy.

In order to test the asset limits and allocation according to the Treasury Investment Policy, we inspected the quarterly Treasury Portfolio Reports covering the period July 1, 2008 to June 30, 2009. We agreed the four items selected for trade testing to the Treasury Portfolio Reports. We then recalculated the asset limits and allocation on the Treasury Portfolio Reports. We noted that the allocation between asset categories was within the limits established by the Treasury Investment Policy.

During the procedures, we noted that over 80% of the portfolio is held in cash and cash equivalents at June 30, 2009. The cash and cash equivalents are held by SunTrust Bank and in the BNYM - Morgan Stanley Government Advantage Fund. We discussed with management the large allocation to cash and cash equivalents, and we were informed that the allocation was made due to the fact that (1) MNAA could earn better returns on cash and cash equivalents than on other investments, and (2) MNAA needed highly liquid investments to fund ongoing construction projects and operational needs.

Recommendations

During the procedures, we noted that the calculations of asset allocation appear to have been performed prior to the initiation of the trades. However, the allocation calculations are prepared informally. We recommend that the allocation calculation process be formalized in order to properly document the review.

Management's Response

Management will implement a procedure to formally document the allocation calculations prior to an investment trade. The calculations will be maintained in the files for subsequent review.

11. Investment Maturities

Background

The maximum maturity of investments is the following (except as limited by a referenced resolution with respect to a specific fund or account):

Commercial Paper	270 days
Repurchase Agreements	180 days
Certificates of Deposit, Time Deposits, and Bankers Acceptances	365 days
All other corporate debt	5 years
All other investments	10 years

To control the volatility of the portfolio and limit exposure to interest rate risk, the CFO will determine a duration target for the portfolio, which typically will not exceed three years.

To limit the concentration of credit risk, no more than 10% of MNAA'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 MNAA's portfolio may be invested in the securities of any single issuer with a maturity greater than one year except that 100% of MNAA's portfolio may be invested in US Treasury Obligations and US Agency Instruments.

Observation and Testing

We noted that the CFO established the duration target for the portfolio to be one year.

In order to test the concentration of credit risk, we inspected the quarterly Treasury Portfolio Reports covering the period July 1, 2008 to June 30, 2009 and compared MNAA's actual investments listed to the allowable percentages noted above without exception.

Recommendations

There are no recommendations relating to these procedures.

12. Reporting Requirements

Background

The CFO shall prepare and submit to the President and the Finance and Administration Committee quarterly and annual reports that summarize MNAA's portfolio activity during the applicable period. In addition to other information deemed relevant by the CFO or requested by the Finance and Administration Committee, each report should include the following for the applicable period to evaluate the success of the investment program:

- a listing of the existing portfolio in terms of investment securities, maturities, return and other features deemed relevant;
- the book and market value of each holding;
- summary of transactions executed during the period;
- summary statistics on portfolio composition, duration, yield and credit quality;
- total investment earnings;
- portfolio performance compared to applicable benchmarks; and
- ending and average balances.

The CFO's annual report to the Finance and Administration Committee shall include a discussion of the investment strategies employed, portfolio results, the general economic outlook, portfolio diversification and maturity structure, potential risks to the MNAA's assets, and the target rate of return for the MNAA investment portfolio. In the event that extraordinary circumstances affect market or investment conditions, the CFO also shall discuss the effect of such extraordinary circumstances upon market or investment conditions in the applicable quarterly report.

In the event a restatement is required for previously published staff reports, the CFO will include the revised report in the next quarterly package provided to the President and Finance and Administration Committee to ensure those charged with governance have been notified of the restatement and the nature of the change(s).

Observation and Testing

We obtained the reports for each of the quarters ending September 30, 2008, December 31, 2008, March 31, 2009, and June 30, 2009 and noted that each report contained the elements required by the Treasury Investment Policy. However, we noted that the reports were not prepared until September 3, 2009, which is outside the time frame customary for such reports.

The CFO's annual report to the President and the Finance and Administration Committee as of June 30, 2009 was completed on December 15, 2009.

We did not note any of the published staff reports for the period that were restated.

Recommendations

We recommend that MNAA institute procedures to ensure that reports required by the Treasury Investment Policy are prepared and furnished to the President and Finance and Administration Committee on a timely basis. Such procedures should include timeframes for completion of the reports as well as communication to the President and Finance and Administration Committee.

Management's Response

Management agrees with this recommendation and will implement a procedure to ensure reports required by the Treasury Investment Policy are prepared and furnished to the President and Finance and Administration Committee on a timely basis. The dates for report completion and distribution will be added to the Treasury Investment Policy calendar, as well as to the Master Finance Calendar.

OTHER MATTERS

During our procedures surrounding the Treasury Investment Policy, we noted one other matter we wish to bring to your attention. We do not consider the matter to be a finding; rather, it is an observation of which we were not sure you were aware.

As mentioned in our previous reports, we noted that MNAA converted to a new treasury management system. Per discussion with the Cash Manager in the prior period, the conversion went smoothly except for one remaining custom report, the Quarterly Investment Review Report, which is still not generated correctly by the software vendor. The vendor has not yet provided to MNAA a satisfactory report. Once completed, this report will facilitate easier preparation of the quarterly and annual treasury investment reports provided to the President and Finance and Administration Committee. We continue to believe the vendor's pace in completing this report needs to be accelerated.

We have included this comment for informational purposes only. Management is aware of the issue and is working with the vendor toward resolution. This report has been outstanding from the vendor for the past several years.

PROCEDURE 3-903 (REVISED) INVESTMENT POLICY - RETIREMENT PLAN FOR EMPLOYEES

1. Trust Agreement

Background

MNAA has maintained the Retirement Plan since 1989 to provide retirement benefits for participants and beneficiaries in accordance with the provisions of the Plan. The Employee Retirement Fund Committee (also called the “Pension Committee”) of the MNAA administers the Plan on behalf of the MNAA and serves as the “Retirement Committee” under the Plan and as the “Investment Committee” under the 2006 Amended and Restated Trust Agreement (the “Trust Agreement”), by and between MNAA and the Trustee under the Plan (the “Trustee”). By its adoption of the Retirement Investment Policy, MNAA reaffirms the appointment of the Pension Committee as the “Retirement Committee” under the Plan and as the “Investment Committee” under the Trust Agreement.

Observation and Testing

We obtained the Trust Agreement from management and reviewed it for consistency with the Retirement Investment Policy.

Recommendations

There are no recommendations relating to these procedures.

2. Investment Advisor Agreement

Background

The Pension Committee shall retain an Investment Advisor to advise the Pension Committee with respect to the investment of the Plan’s assets and the selection of the Investment Managers under the Trust Agreement and the Plan. The retention of the Investment Advisor by the Pension Committee must be accomplished by the execution of a written agreement by and between such Investment Advisor and MNAA pursuant to which such Investment Advisor agrees to comply with the Retirement Investment Policy, as it may be amended from time to time, and other instructions and directives from the Pension Committee and to perform the duties and obligations as set forth therein.

Observation and Testing

The Pension Committee executed a written agreement with Alexander Key, a division of SunTrust Investment Services, Inc. Alexander Key serves as the Investment Advisor in accordance with the Retirement Investment Policy. We reviewed the agreement between MNAA and Alexander Key noting that Alexander Key agrees to comply with the Retirement Investment Policy. The relationship with Alexander Key was terminated and replaced with a new Investment Advisor, Wells Fargo Bank, N.A. (“Wells Fargo”), effective May 1, 2009. We reviewed the agreement between MNAA and Wells Fargo noting that Wells Fargo agrees to comply with the Retirement Investment Policy.

Recommendations

There are no recommendations relating to these procedures.

3. Monitoring and Rebalancing

Background

The Investment Advisor will be responsible for coordinating, on a quarterly or other periodic basis designated by the Pension Committee, any rebalancing of the Plan’s assets necessary to cause such asset allocation to be in accordance with the terms of the Retirement Investment Policy, monitoring investment performance, determining adherence to the Retirement Investment Policy by the Trustee and each Investment Manager, assisting in drafting statements of objectives and performance measurement standards, advising the Pension Committee of pertinent information affecting the Plan’s assets, and recommending changes to the investment strategy for the Plan’s assets. In monitoring and rebalancing the Plan’s assets as provided by the Retirement Investment Policy, the Advisor shall have the responsibility, on behalf of the Pension Committee, to adjust the allocation of the Plan’s assets on a quarterly basis among Investment Managers approved by the Pension Committee so long as such allocation complies with the asset allocation guidelines set forth in the Retirement Investment Policy.

Observation and Testing

We obtained Pension Committee minutes and performance reports for the period covered under our procedures and reviewed them for content. The meetings and performance reports contained information such as investment performance and allocation, investment strategy and pertinent information related to Plan assets.

Recommendations

There are no recommendations relating to these procedures.

4. **Investment Manager Qualifications**

Background

Based on its evaluation of investment objectives, assets under management, fees, regulatory, compliance, expertise and performance analysis, the Investment Advisor will recommend to the Pension Committee that it retain the services of one or more Investment Managers to manage such portion(s) of the Plan's assets as the Pension Committee shall designate. Each Investment Manager must have a minimum of \$500,000,000 of assets under management and a minimum of five years in business and must comply with the eligibility requirements of the Trust Agreement for appointment as an Investment Manager.

Observation and Testing

Based on information obtained from each Investment Manager's website, we independently tested the eligibility requirements of each Investment Manager. The results of our testing indicated no instances of non-eligible Investment Managers.

Recommendations

There are no recommendations relating to these procedures.

5. **Investment Manager Agreements**

Background

Each Investment Manager must enter into a written agreement with the Investment Advisor, or a third party used by the Investment Advisor, that designates such Investment Manager as a fiduciary with respect to the Plan's assets under its management, specifies the duties and responsibilities of such Investment Manager and otherwise complies with the requirements of the Trust Agreement, and includes the following requirements in addition to other provisions deemed necessary or advisable by the Pension Committee and/or the Investment Advisor from time to time:

- Each Investment Manager shall promptly disclose to the Investment Advisor and the Pension Committee all commissions and other fees and expenses paid, and any consideration received from a party other than the Plan, with regard to the management of any of the Plan's assets;

- In placing transaction orders on behalf of the Plan, each Investment Manager shall use its best efforts to obtain the best execution of orders. Each Investment Manager must adhere to its portfolio manager investment guidelines that such Investment Manager presented to the Pension Committee and the Investment Advisor at the time it was retained as an Investment Manager. The Pension Committee must grant its prior written approval to any changes to an Investment Manager's portfolio manager investment guidelines after such Investment Manager commences the investment of any of the Plan's assets;
- No Investment Manager may assign or delegate any of its duties to another party without the prior written consent of the Investment Advisor and the Pension Committee. An Investment Manager shall promptly notify the Investment Advisor and Pension Committee of any change in ownership or control of its organization or change in any key personnel or other personnel that are regularly involved in such Investment Manager's investment activities on behalf of the Plan.

Observation and Testing

The executed agreements between Advisorport, a third party used by the Investment Advisor until May 1, 2009, and the individual Investment Managers were considered confidential information by Advisorport and were not provided to MNAA. Therefore, we were unable to review the agreements in effect prior to May 1, 2009, for the required elements. After May 1, 2009, Wells Fargo serves as both Investment Advisor and Investment Manager and has not contracted with any other investment managers with respect to the Retirement Investment Policy.

MNAA did not technically comply with the Retirement Investment Policy through May 1, 2009. However, as the relationship with the Investment Advisor that used Advisorport was terminated during the period, the non-compliance should not be repeated in the future. The new relationship with Wells Fargo complies with the Policy.

Recommendations

As a result of the new relationship with Wells Fargo, there are no recommendations relating to these procedures.

6. Investment Manager Acknowledgement

Background

Each Investment Manager must provide to the Investment Advisor a written acknowledgement that it is qualified to serve as an Investment Manager under the terms of the Trust Agreement, and must comply with the Retirement Investment Policy, as it may be amended from time to time, and all applicable laws, including, without limitation, federal and state securities laws. Upon request, the Investment Advisor shall promptly provide such acknowledgement to the Pension Committee. No Investment Manager shall make, or direct the making of, any investment of any of the Plan's assets that constitutes a prohibited transaction within the meaning of the Internal Revenue Code or that is not permitted by the terms of the Trust Agreement of the Plan.

Observation and Testing

We obtained the Investment Manager files maintained by MNAA and inspected the documentation contained therein. We noted that none of the files maintained under the agreement with Advisorport had been updated since the prior period. In the prior period, we noted that each file contained a signed acknowledgment of the *intent to comply* with MNAA's Retirement Investment Policy. However, we noted that the forms excluded language demonstrating the respective Investment Manager's acknowledgement that it is *qualified to serve* as an Investment Manager under the terms of the Trust Agreement. Since May 1, 2009, Wells Fargo serves as both Investment Advisor and Investment Manager and has not contracted with any other investment managers with respect to the Retirement Investment Policy. However, Wells Fargo has not acknowledged that it intends to comply with the Retirement Investment Policy and that it is qualified to serve as Investment Manager.

During the procedures we noted no investments of the Plan's assets that constitutes a prohibited transaction within the meaning of the Internal Revenue Code or that is not permitted by the terms of the Trust Agreement of the Plan.

Recommendations

MNAA did not comply with the Policy through May 1, 2009 as there was no current documentation of each Investment Manager's acknowledgement of intent to comply and qualifications to serve. Since the relationship with the Investment Advisor that used outside investment managers was terminated during the period, it may not be feasible to correct the non-compliance. Under new agreement with Wells Fargo, we recommend that MNAA obtains timely the acknowledgement of Wells Fargo's intent to comply and qualification to serve. This acknowledgement should be updated on an annual basis.

Management's Response

Management agrees with this recommendation and implemented procedures to ensure the timely acknowledgement of Wells Fargo's intent to comply and qualification to serve. Wells Fargo has since provided us acknowledgement of its intent to comply and qualifications to serve as an Investment Advisor/Manager. Management has added this compliance task to the Retirement Plan calendar and to the Master Finance calendar. Compliance review will be conducted in March annually.

7. Modifications to Policy

Background

The Pension Committee may change the Retirement Investment Policy from time to time with the Board of Commissioner's approval. All modifications to the Retirement Investment Policy shall be in writing and must be approved by the Board of Commissioners.

Observation and Testing

We obtained the most recent Retirement Investment Policy amendment during the period covered under these procedures noting that the Retirement Investment Policy was approved by the Board of Commissioners.

Recommendations

There are no recommendations relating to these procedures.

8. Basic Investment Premises

Background

Because the Plan is a defined benefit pension plan, a long term investment horizon is warranted. Moderate short-term fluctuations in the market value of the Plan's assets should not influence the investment structure under normal circumstances. The investment of the Plan's assets will focus primarily upon total growth of capital and secondarily upon preserving capital and protecting against negative results. Returns under the Plan should be achieved without undue investment risk.

Observation and Testing

Per review of the investment policies, procedures and current fund allocation limitations as defined by the Retirement Investment Policy, the investment strategy appears to focus on funds with the potential to generate an average to high rate of return.

Recommendations

There are no recommendations relating to these procedures.

9. Review of Investment Returns

Background

The Pension Committee shall review the quarterly investment results of the Plan's assets within a reasonable period of time after the end of each quarter.

The Investment Advisor will regularly (i) review each Investment Manager's investment performance and monitor the Plan's assets to ensure that the Plan's assets are invested only in investments permitted under the Retirement Investment Policy, as amended from time to time, (ii) calculate total return rates on market value, and (iii) make comparisons of rates with appropriate market indices. Each Advisor shall report the results of its review to the Pension Committee not less than quarterly.

Observation and Testing

Quarterly performance reports are generated by the Investment Advisor which reviews each Investment Manager's performance, calculates total return rates on market value and makes comparisons of rates with appropriate market indices. These reports are presented to the Pension Committee on a quarterly basis as we noted in our review of the quarterly Pension Committee minutes. Per review of the Investment Advisor file and inquiry with MNAA personnel, we noted that the Investment Advisor, SunTrust, did not prepare the required report for the quarter ended March 31, 2009. MNAA had initiated a change in Investment Advisors and was unable to compel SunTrust to prepare the required report following the change. The new Investment Advisor and Investment Manager, Wells Fargo, prepared the required report as of June 30, 2009.

MNAA did not technically comply with the policy for the 3rd quarter of fiscal June 2009; however, the finding resulted from the change in Investment Advisors. MNAA does not believe that there will be any future non-compliance with Wells Fargo.

Recommendations

As a result of the new relationship with Wells Fargo, there are no recommendations relating to these procedures.

10. Investment Objectives

Background

According to the Retirement Investment Policy, the Plan's total return and the return of the individual funds are expected to achieve an annualized rate of return that exceeds the rate of return produced by suitable indices as defined in the Retirement Investment Policy.

Observation and Testing

The Retirement Investment Policy outlines certain investment objectives, most notably annualized rates of return for each investment fund. Per discussion with the Assistant Treasurer, the Pension Committee reviews the annualized rate of return of each fund on a quarterly basis and over a trailing three-year period. Based on this review and other considerations, any necessary investment strategy changes are made.

We reviewed the Pension Performance reports prepared by MNAA for the quarters ended December 31, 2008 and June 30, 2009. We noted on the December report that the Plan's annualized rate of return on three of the eight funds were below the rate of return targets set by the Retirement Policy. None of the rate of return targets was met according to the June report. The June report was prepared by the new Investment Advisor, Wells Fargo, which included results from May 1, 2009 through June 30, 2009. These results cannot be compared to the rate of return targets that reflect results from a different period (April 1, 2009 to June 30, 2009).

Recommendations

We recommend that the Pension Committee continue the current practice of reviewing the investments returns achieved by the funds on a quarterly basis and over a trailing three-year period. The review should focus on quarters or periods where investment returns fall below the respective suitable indices. Discussion and analysis of investment returns should be documented in the Pension Committee meeting minutes.

Management's Response

Management agrees with recommendation and will implement procedures to ensure the Pension Committee continues the current practice of reviewing the investment returns achieved by the funds on a quarterly basis and over a trailing three-year period. Discussion and analysis of investment returns will be documented in the Pension Committee meeting minutes.

11. Asset Allocation

Background

The asset allocation category ranges for the Plan's investments are as follows:

<u>Asset Category</u>	<u>Range</u>
Large Cap Equity	0 - 50%
Domestic Fixed Income	0 - 40%
Small Cap Equity	0 - 50%
International	0 - 25%
Hedge Fund Strategy	0 - 15%
Cash Equivalents	0 - 10%

Upon recommendation of the Investment Advisor, the Pension Committee shall review the appropriate asset allocation ranges and targets for the Plan's assets. For the Hedge Fund Strategy, the Chairman of the Pension Committee or his designee will be consulted before a money manager is appointed. Asset Allocation targets for the Plan's assets are established in the latest version of the assets allocation study. Not less than annually, the Investment Advisor shall prepare and present to the Pension Committee an asset allocation study that describes the goals, risk tolerances and acceptable investments for the Plan.

Observation and Testing

We inspected the performance reports for the quarters ended September 30, 2008, December 31, 2008 and June 30, 2009 and noted that each included the required elements. We also verified that asset allocations were within limits for each quarter during the period, except for International investments for the quarter ended December 31, 2008, which at 31% exceeded the maximum of 25% permitted by the Retirement Investment Policy. The asset allocations were affected by the severe volatility in the U.S. market during the quarter ended December 31, 2008. There was no report prepared for the quarter ended March 31, 2009.

Recommendations

We recommend that the Pension Committee be timely informed when market changes result in asset allocations that exceed approved ranges, so that it can determine whether to maintain the investment structure or reallocate investments. This will help to ensure that the allocations are appropriately addressed, and will help to avoid liquidating strong investment positions in volatile markets solely to comply with the Retirement Investment Policy. The Pension Committee's discussions and decisions should be documented.

Management's Response

Management agrees with this recommendation and will implement procedures that ensure the Pension Committee will be informed in a timely manner when market changes result in asset allocations that exceed approved ranges. An analysis will be prepared and presented to the committee, so that the committee can determine whether to maintain the current investment structure or to reallocate investments. The Pension Committee's discussions and decisions will be documented in the meeting minutes.

12. Compliance

Background

Neither the Pension Committee, the Investment Advisor nor any designee of the Pension Committee nor any Investment Manager shall undertake any actions with respect to the investment of the Plan's assets that do not comply with the provisions of the Plan and the Trust Agreement. Each Investment Manager and the Investment Advisor must acknowledge, in writing, its receipt of and intent to comply with the Retirement Investment Policy.

Observation and Testing

As previously noted, we inquired with MNAA personnel and noted that the Investment Managers files had not been updated since the period ended June 30, 2008. As such, we were unable to perform the agreed-upon procedures related to this requirement.

Recommendations

We recommend that MNAA implement procedures to ensure that it maintains current files for the Investment Managers and ensure that Investment Managers are complying with the Retirement Investment Policy. With the change to Wells Fargo, it will be a simpler process of updating and maintaining current files.

Management's Response

Management agrees with this recommendation and will implement procedures and update the investment policy to reflect a new process for ensuring the files are maintained as needed for the Investment Managers. The Assistant Treasurer will work with Wells Fargo to ensure proper procedures are developed. Once a new process is developed, this activity will be added to the Retirement Investment Policy calendar and the Master Finance calendar to help ensure these procedures are performed in a timely manner.

13. Reporting Requirements

Background

Reporting Requirements of the Retirement Investment Policy include the following:

- Monthly reporting: Within 15 days after the end of each month, the Investment Advisor shall supply monthly account statements to the MNAA Finance Department.
- Quarterly Reporting: Within 45 days after the end of each calendar quarter, the Investment Advisor shall provide to the Pension Committee a report reviewing the investment performance and investment strategy of the Plan.

Within a reasonable period after quarter-end of MNAA, the Pension Committee shall prepare and submit to the President, the Finance and Administration Committee, and the Board of Commissioners a report that summarizes the investment results of assets held in the Plan for such preceding quarter.

- Annual reporting: Within 60 days after its fiscal year end, each Investment Manager shall provide a copy of its Form ADV, parts I and II, to the Pension Committee.

Upon request of the Pension Committee of MNAA, the Investment Advisor shall provide a copy of its Form ADV, parts I and II, to the Pension Committee.

Observation and Testing

We obtained and reviewed the monthly and quarterly reports submitted by the Investment Advisor to MNAA, except as noted below. We also obtained and reviewed the summary investment report prepared by the Pension Committee and submitted to the President and Finance and Administration Committee. We reviewed the reports noting that they contain the required elements. Finally, we obtained MNAA's files for each Investment Manager and inspected each of the documents therein.

We could not determine if the monthly reports were remitted by SunTrust within the proper timeframe. The monthly information was typically mailed to MNAA by SunTrust and the information was not time stamped. Wells Fargo remitted the monthly reports electronically and such reports were remitted timely.

The Investment Advisor, SunTrust, did not prepare the required report for the quarter ended March 31, 2009. In addition, Wells Fargo, MNAA's new Investment Advisor, was two days late in submitting its first report, which covered the two months ended June 30, 2009.

None of the quarterly staff reports were prepared timely; they were prepared and made available for our review on September 4, 2009.

MNAA did not have Form ADV Part I on file for three out of nine Investment Managers. There were no ADV Part II forms on file. We realize that the Investment Managers were under the agreement with SunTrust, which ended May 1, 2009. MNAA was technically out of compliance through May 1, 2009. However, this non-compliance item should not be repeated, considering the change in investment advisors.

Finally, MNAA did not have on file Form ADV, parts I and II, for Wells Fargo, the Investment Advisor and Manager. However, we received satisfactory documentation that Wells Fargo is exempt from registration. Wells Fargo's International Trust Services Group is part of a nationally chartered bank, and as such, they are regulated by Bank Examiners from the Office of Comptroller of Currency and exempt from filing Form ADV I and II.

Recommendations

We recommend that MNAA institute procedures to ensure that all reports required by the Policy are received from the Investment Advisor on a timely basis. Additionally, procedures should be implemented to ensure that quarterly staff reports are prepared and communicated timely to all parties.

As Wells Fargo is exempt from filing Form ADV, we recommend MNAA modify the Retirement Investment Policy to require MNAA to obtain and review Wells Fargo's SAS 70. The SAS 70 report should be read and analyzed by MNAA staff in order to determine that the proper controls and procedures are in place and operating effectively regarding the Plan's assets.

Management's Response

Management agrees with this recommendation and will modify the Retirement Investment Policy to require that MNAA obtain Wells Fargo's SAS 70, to review and analyze it and to document the review. The policy will be revised to eliminate the requirement for the Form ADV. Management has since obtained and reviewed the SAS70 report from Wells Fargo. Management noted no reportable issues in the SAS70 report.

* * * * *

MNAA's responses to the findings identified by us in performing these agreed-upon procedures are described above. We did not audit MNAA's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Commissioners, the Audit Committee, the Finance and Administration Committee, the Pension Committee, and management of Metropolitan Nashville Airport Authority and is not intended to be and should not be used by anyone other than these specified parties.

Creselin & Associates, P.C.

Nashville, Tennessee
February 2, 2010