

**METROPOLITAN NASHVILLE
AIRPORT AUTHORITY**

AGREED-UPON PROCEDURES

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

**FOR THE PERIOD
JULY 1, 2010 TO JUNE 30, 2011**

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 the 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, 2010, to June 30, 2011. 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 "operational" investments of MNAA. 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 \$52 million at June 30, 2011. During a portion of fiscal year 2011, approximately \$0.8 million of the treasury investment portfolio was managed by Atlanta Capital, an outside investment management firm. During fiscal year 2011, MNAA management instructed Atlanta Capital to liquidate its remaining holdings. Therefore, as of June 30, 2011, the entire treasury investment portfolio is managed by MNAA personnel.



- Investment Policy - Retirement Plan for Employees: This policy governs the investment assets of the MNAA Retirement Pension Plan for Employees and the MNAA OPEB Trust. The pension and OPEB plans are closed to new participants. The retirement plan assets and the OPEB plan assets are approximately \$23.6 million and \$1.1 million at June 30, 2011, respectively. The retirement plan and OPEB assets are managed by Wells Fargo, as the Investment Manager and Advisor.

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 & CEO
- Stan Van Ostran, Vice President and Chief Financial Officer; Investment Manager as defined by the Treasury Investment Policy
- Monty Burgess, Executive Vice President and Chief Operating Officer; Chairman of MNAA Employee Retirement Fund Committee
- Julie Zwicknagel, Internal Auditor
- Debbie Howard, Assistant Treasurer
- Jami McLeod, Controller
- Janet McReynolds and Angelyse Stanford, Staff Accountants
- Laurie Temple, Vice President and Relationship Manager, Wells Fargo Bank, N.A. Institutional Trust Securities
- Shelley Farmer, Vice President and Senior Investment Manager, 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, and any other person designated by the CFO to execute the investment of MNAA’s funds shall disclose to the President & CEO 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 Financial Interest Disclosure Form prepared by the CFO, Assistant Treasurer, and Controller. We noted that the Financial Interest Disclosure Forms were prepared in accordance with the Treasury Investment Policy and certified compliance with the Policy. The CFO, Assistant Treasurer and Controller confirmed that they did not have any financial interest in a broker/dealer or other financial institution that conducts business with MNAA.

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 Staff Accountants. 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.

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, Administration, and Properties Committee at the time the CFO presents his or her annual report to the Finance, Administration, and Properties Committee required under the Treasury Investment Policy.

Observation and Testing

We obtained a listing of approved broker/dealers as of June 2011. The listing included eight approved broker/dealers. We reviewed MNAA file documentation noting that MNAA maintained documentation for each broker/dealer. From the files, we selected three of the broker/dealers and examined the annual certification documentation to ensure compliance with the Broker/Dealer Questionnaire and Certification Form. The following were the documents reviewed and the results obtained (X indicates that the requirement was satisfied):

	<u>Resume</u>	<u>Registered Dealer</u>	<u>\$10 Million Equity</u>	<u>NASD Member</u>	<u>Registered In TN</u>
Jay Naifeh (1 st Tennessee Financial)	X	X	X	X	X
Marshall Clark (Morgan Keegan)	X	X	X	X	X
Todd Shearer (Fifth Third Securities)	X	X	X	X	X

	<u>5 Yrs. Experience</u>	<u>Focus Report</u>	<u>Provided References</u>	<u>Signed Annual Certification</u>	<u>CFO Approval</u>
Jay Naifeh (1 st Tennessee Financial)	X	X	X	X	X
Marshall Clark (Morgan Keegan)	X	X	X	X	X
Todd Shearer (Fifth Third Securities)	X	X	X	X	X

Recommendations

There are no recommendations relating to these procedures.



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, including re-investments, are performed via a competitive bidding process unless specifically exempt from these requirements in the official statement, bond documents or other action approved by the Finance, Administration, and Properties Committee or the Board of Commissioners.

We reviewed the detail of investment trade for fiscal year 2011. There was one investment trade made during the fiscal year, which was a debt service reserve re-investment. We noted that the trade was re-invested with the same counter-party for the same type of investment. This investment trade was initiated during the prior fiscal year and was tested and reported on in the prior year agreed-upon procedures report, dated October 11, 2010. There were no other investment trades initiated during fiscal year 2011. Proceeds from investment maturities were deposited into cash and cash equivalent funds, as permitted by the Policy.

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 service organization controls under Statement of Auditing Standards No. 70 (“SAS 70”), as replaced by AICPA Statement on Standards for Attestation Engagements 16 (“SSAE 16”). The MNAA will review the service organization controls report to ensure that: (i) internal controls are in place and operating effectively at BNYM and (ii) the MNAA has the required user controls as defined by the service organization controls report. The results of the annual review of the service organization controls report, and particularly the review of the user control section of the report, will be documented and maintained in a file. In addition, the CFO and/or Assistant Treasurer shall perform an annual review of the list of persons authorized to conduct business on behalf of MNAA with BNYM to ensure that BNYM was notified of any changes on a timely basis. This review will be documented and maintained in the file.

Observation and Testing

Upon inquiry of the Assistant Treasurer and per review of the confirmation signed by both the CFO and the Assistant Treasurer, we noted that MNAA received and reviewed the SAS 70/SSAE 16 report for BNYM for the period July 1, 2010 through June 30, 2011. The confirmation also documented that, based MNAA’s review of the BNYM service organization controls report, management believes that the proper internal controls are in place and operating effectively. In addition, during our procedures we reviewed the service organization controls report noting that BNYM received an unqualified opinion and there appeared to be no relevant exceptions or findings. Furthermore, we verified, through discussions with the Assistant Treasurer, that MNAA has user controls in place to support the internal controls at BNYM.

We reviewed the Incumbency Certificate, which lists the MNAA individuals authorized to conduct business with BNYM on MNAA’s behalf, noting that the Certificate is complete and accurate as of June 30, 2011. We also inquired of the Assistant Treasurer and CFO regarding updates to the Incumbency Certificate subsequent to June 30, 2011 for changes in certain MNAA Finance Department functions. We were informed that the Assistant Treasurer has communicated the Finance Department personnel changes to BNYM.



Recommendations

As a matter of clerical accuracy, we recommend that the wording in the Treasury Policy be updated to reflect the replacement of SAS 70 by SSAE 16 effective for periods ending after June 15, 2011.

Management Response

Management concurs with this recommendation and will propose an amendment to the Treasury Policy to request an SSAE 16 in lieu of SAS 70 for fiscal years after June 30, 2011.

6. Safekeeping and Custody - Atlanta Capital

Background

Prior to February 11, 2011, MNAA utilized the services of Atlanta Capital, an outside investment management firm, to manage approximately \$0.5 to \$0.8 million of the Treasury Investment Portfolio. This portion of the investment portfolio consists primarily of asset - backed and mortgage - backed securities. On February 11, 2011, MNAA instructed Atlanta Capital to sell the last investment in the portfolio and closed the account.

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 complied 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).

We reviewed the most recent Atlanta Capital certification received, dated June 2010, noting that the certification was in compliance with the Treasury Investment Policy. MNAA personnel did not obtain a new certification in June 2011, as MNAA no longer intends to use Atlanta Capital as an investment manager.

Recommendations

There are no recommendations relating to these procedures.



7. **Safekeeping and Custody**

Background

Per discussion with the Assistant Treasurer and review of the investment portfolio details, approximately \$0.5 to 0.8 million of MNAA's Treasury Investment Portfolio was managed by Atlanta Capital prior to February 11, 2011. The Assistant Treasurer explained that MNAA transferred assets 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 Atlanta Capital was approximately \$10 million at June 30, 2007. This balance was reduced during fiscal years 2008 through 2010 and was fully liquidated on February 11, 2011 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 reviewed the returns earned by Atlanta Capital during her preparation of the quarterly treasury investment reports during the period Atlanta Capital held assets on behalf of MNAA. 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 these procedures.

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 one investment trade from the MNAA Investment Activity Report, which comprised all investment trades made in fiscal year 2011. For the trade, we examined the safekeeping receipt issued by BNYM. Therefore, the investment was received by BNYM. We also examined the month-end BNYM statements for the one trade 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 2011. We also noted that MNAA has received the required monthly statements from BNYM.

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 one investment trade during the period from the Investment Activity Report as provided by the Assistant Treasurer. For the investment trade, 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 the investment was permitted under the Treasury Investment Policy. Additionally, we noted that the investment's credit-rating and the maturity period at the time of trade were within the limits established by the Treasury Investment Policy.

Recommendations

There are no recommendations relating to these procedures.



10. Asset Allocation

Background

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%
Cash Equivalents	0 - 100%

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 investment trade performed by MNAA during the period and reviewed the asset limit allocation calculations. We noted that the calculations appear to have been performed prior to the trade.

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 detail of all cash, cash equivalents and investments comprising the portfolio at each quarter end. We then recalculated the asset limits and allocation according to the portfolio detail. We noted that the allocation between asset categories was within the limits established by the Treasury Investment Policy. MNAA was invested in US Agency obligations, cash and cash equivalents and CMO/mortgage-backed securities during fiscal year 2011.



During the procedures, we noted that more than 90% of the portfolio is held in cash and cash equivalents at June 30, 2011. The cash and cash equivalents are held by SunTrust Bank and 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

There are no recommendations relating to these procedures.

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 unless otherwise specified by the CFO.

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

Through review of the CFO's signed statement, we noted that the CFO established the duration target for the portfolio not to exceed three years unless otherwise directed by the CFO.

For the investment trade made during fiscal year 2011, we noted that the investment did not exceed the maturity stated in the Policy.



In order to test the concentration of credit risk, we inspected the detail of the cash, cash equivalents and investments comprising the portfolio at each quarter end. We compared MNAA's actual investments listed to the allowable percentages noted above. No exceptions were noted. At June 30, 2011, MNAA is invested in US Agency obligations and cash and cash equivalents, which are collateralized by the State of Tennessee Bank Collateral Pool or by the financial institution.

Recommendations

There are no recommendations relating to these procedures.

12. Reporting Requirements

Background

The CFO shall prepare and submit to the President & CEO and the Finance, Administration, and Properties 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, Administration, and Properties 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;
- ending and average balances; and
- a special section highlighting downgraded securities.

The CFO's annual report to the President & CEO and Finance, Administration, and Properties 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 & CEO and Finance, Administration, and Properties 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 Treasury Portfolio Reports for each of the quarters ending September 30, 2010, December 31, 2010, March 31, 2011, and June 30, 2011, and the CFO's annual report for fiscal year 2011. We reviewed the reports, noting that they contained the elements required by the Treasury Investment Policy. We noted that the reports for the quarters ended September 30, 2010 and December 31, 2010 were submitted 100 and 119 days after quarter end, respectively.

Additionally, through review of the June 30, 2011 report, we noted that the totals for the respective investment funds and the total of the portfolio did not agree with the underlying BNYM investment statements. Specifically, the PFC and Capital funds were reported on the Treasury Portfolio Report as \$9,150,751 and \$12,241,090, respectively. The actual PFC and Capital funds on the BNYM statements were \$7,817,250 and \$2,550,922, respectively. The differences were caused by clerical inaccuracies in entering the data.

Recommendations

The Treasury Investment Policy does not state a deadline for the quarterly reports to be submitted. However, to ensure timeliness of the information, we recommend that all reports be submitted to the President & CEO and Finance, Administration, and Properties Committee within a reasonable period of time after the information needed to complete the reports is available to the Authority. This time period should be established by management upon consultation with the President & CEO and Finance, Administration, and Properties Committee.

Additionally, we recommend that MNAA institute review procedures to ensure that the information submitted to the President & CEO and Finance, Administration, and Properties Committee agrees to the investment portfolios reports downloaded from the treasury system and BNYM statements. A clerical review of the information should be performed by someone independent of the preparer. This review should ensure that all required data elements and asset balances are accurately presented.

To further strengthen the information in the quarterly reports, we also recommend that the total of the cash equivalents and investments on the asset allocation schedule agree with the total of the portfolio detail by fund schedule. This will aid in review of the reports.



Management Response

The Treasury Investment Policy does not reference a deadline for submitting reports, but management concurs the quarterly report should be presented in a timely manner and 60 days is normally a realistic deadline. During FY11, MNAA did not receive all the required statements needed to prepare the report in a timely manner, which contributed to some of the delay in reporting. Due to the low volume of treasury transactions during the period and other work priorities, Treasury staff did not make completion of the reports a high priority.

Treasury staff have been advised to be proactive in obtaining required statements and, if necessary, use alternative reports (i.e., online reports, etc.) so that reports may be completed timely. Treasury staff were also reminded that the treasury reports are to be considered a high priority and should make every effort to provide the reports within 60 days of the quarter end date. If for any reason this deadline is unattainable, they are to advise the CFO the reason for the delay so he may communicate this to the President & CEO and the Finance, Administration, and Properties Committee.

Management concurs and previously adopted a review process intended to detect and prevent clerical errors. However, these reviews focused on text within the report and as focused on graphs and charts. Management will amend our review process to ensure that all information in the report is subject to a review by person(s) independent of those who prepare the report and includes graphs and tables subject to a “cut & paste.” Management also concurs and will adopt the recommendation that the total of the cash equivalents and investments on the asset allocation schedule agree with the total of the portfolio detail by fund schedule.

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 2009 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.

MNAA also maintains another post-employment benefit plan (“OPEB”), and has established and OPEB Trust effective June 2009, for the purpose of funding the plan. As further described below, the Pension Committee serves as the Investment Committee of the OPEB Trust.



Observation and Testing

We obtained the Retirement Plan and OPEB Trust Agreements from management and reviewed them for consistency with the Retirement Investment Policy. No exceptions were noted.

Through discussions with the CFO and Assistant Treasurer, we noted that MNAA has informally designated the Pension Committee to serve as the Investment Committee of the OPEB Trust. Additionally, MNAA has informally designated the Investment Policy - Retirement Plan for Employees to govern the investment assets of the OPEB Trust. However, the Retirement Investment Policy has not been formally updated to address the OPEB Trust, and there is no separate investment policy for the OPEB Trust.

As the Retirement Investment Policy has been informally designated to cover the OPEB investment assets, the remainder of this report refers to both the Pension and OPEB assets collectively as the "Plan".

Recommendations

We recommend that the Retirement Investment Policy be updated to address the OPEB Trust and to formalize the current structure used by MNAA. We note that this recommendation is simply to formalize the structure that is already in place. This will help to ensure that, as the OPEB assets increase, they are formally governed by official policy of MNAA.

Management Response

Management concurs with this recommendation. The MNAA Retirement Committee has directed that the Retirement Investment Policy be the basis for managing all investments of the OPEB Trust. While we believe this is appropriate, we concur that the Board should formally document and approve the Retirement Investment Policy as the basis for directing investment decisions for the OPEB Trust. Management will propose changes to the Retirement Investment Policy that make this intent clear and present them to the Board for approval.



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. 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 has executed a written agreement with Wells Fargo Bank, N.A. ("Wells Fargo"). We reviewed the agreement between MNAA and Wells Fargo noting that Wells Fargo agrees to comply with the Retirement Investment Policy.

We noted that MNAA entered into an additional agreement with Wells Fargo during fiscal year 2011 to govern the activity with respect to OPEB investment assets.

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 the Assistant Treasurer, we noted that Wells Fargo is both the Investment Advisor as well as the Investment Manager. We obtained information from Wells Fargo's website and independently tested the eligibility requirements for Wells Fargo noting no instances of non-eligibility.

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

Wells Fargo complies with the Policy as they serve, as both the Investment Advisor and Investment Manager and they have not contracted with any other investment managers with respect to the Retirement Investment Policy. In its agreement with MNAA, Well Fargo agrees to the roles and responsibilities as outlined in the Policy, and as described above.

Recommendations

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

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. In addition, Wells Fargo has acknowledged that it intends to comply with the Retirement Investment Policy and that it is qualified to serve as the Investment Manager.

During the procedures, we noted no investments of the Plan's assets that constitute 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

There are no recommendations relating to these procedures.

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. The Policy was amended effective September 22, 2010. We reviewed minutes of the Pension Committee and Board of Commissioners noting that all changes to the Policy were fully discussed and approved prior to the amendments to the Policy.



Recommendations

There are no recommendations relating to these procedures.

8. Basic Investment Premises

Background

Because the Plan is a defined benefit 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. We noted that the Pension Committee works with Wells Fargo on a routine basis to address investment strategies and related returns for both Pension and OPEB investments.

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 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. The Pension Committee's review and discussion of the investment results will be documented in the Pension Committee meeting minutes.



Observation and Testing

Quarterly performance reports are generated by the Investment Advisor, which reviews each investment fund'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 meeting minutes. We noted timely discussion and documentation of the Pension Committee's review of investment returns.

Recommendations

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 the benchmark expected 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. Wells Fargo prepares the analysis of the actual and benchmark rates of return for review by the Pension Committee. Based on this review and other considerations, any necessary investment strategy changes are made.

We reviewed the Pension performance reports prepared for MNAA for the quarters ended December 31, 2010 and June 30, 2011. We noted on the December report that the Plan's rate of return on one of the seven funds was below the rate of return targets set by the Retirement Policy and on the June report that the Plan's rate of return on two of the seven funds were below the rate of return targets set by the Retirement Policy. We noted that the actual investment returns were not significantly below the targets. The actual and benchmark returns were detailed on the quarterly performance report, which were discussed, by Wells Fargo and the Pension Committee. The Pension Committee minutes documented the review. Accordingly, it appears that Wells Fargo and the Pension Committee are addressing investment returns, including those that are below benchmark.



We also reviewed the OPEB Trust performance reports prepared for MNAA for the quarters ended March 31, 2011 and June 30, 2011. We noted on the March and June reports that the Plan's rate of return on two of the seven funds were below the rate of return targets set by the Retirement Policy. We noted that the actual investment returns were not significantly below the targets. The actual and benchmark returns were detailed on the quarterly performance report, which were discussed, by Wells Fargo and the Pension Committee. The Pension Committee minutes documented the review. Accordingly, it appears that Wells Fargo and the Pension Committee are addressing investment returns, including those that are below benchmark.

Recommendations

There are no recommendations relating to these procedures.

11. Asset Allocation

Background

As of June 30, 2011, the asset allocation category ranges for the Plan's investments are as follows:

<u>Asset Category</u>	<u>Minimum %</u>	<u>Neutral %</u>	<u>Maximum %</u>
Stock			
Domestic Large Cap	0.00%	39.00%	60.00%
Domestic Small Cap	0.00%	9.75%	20.00%
Foreign Equity	0.00%	16.25%	28.00%
Aggregate Stock	0.00%	65.00%	80.00%
Fixed Income	0.00%	32.00%	50.00%
Cash Equivalents	0.00%	3.00%	100.00%

Upon recommendation of the Investment Advisor, the Pension Committee shall review the appropriate asset allocation ranges and targets for the Plan's assets. 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. The Investment Advisor will notify management when market changes result in asset allocations exceeding approved ranges on a timely basis. The Advisor will prepare an analysis that will be presented to the Pension Committee, so that the Committee can make a determination on whether or not to rebalance the investment allocation. The Pension Committee's discussions and decisions will be documented in the Pension Committee meeting minutes.



Observation and Testing

We received the Pension Committee minutes noting that Wells Fargo prepared an analysis of the overall investment allocation targets. Wells Fargo made several recommendations for changes to the allocation, which were considered and accepted by the Pension Committee. The Pension Committee minutes documented Wells Fargo's recommendations, and the Committee's consideration and approval. Additionally, the MNAA Board of Commissioners approved the allocation in its review and acceptance of the amendments to the Policy on September 22, 2010.

We inspected the performance reports for the quarters ended September 30, 2010, December 31, 2010, March 31, 2011, and June 30, 2011, and noted that each included the required elements regarding asset allocation. We also verified that asset allocations were within limits for each quarter during the period, except for Small Cap Equity investments for all four quarters.

The Small Cap Equity asset allocations exceeded the maximum of 20% permitted by the Retirement Investment Policy as follows:

<u>Quarter</u>	<u>Asset Allocation Per Report</u>	<u>Maximum Allocation Per Policy</u>	<u>Difference</u>
September 30, 2010	20.69%	20.00%	0.69%
September 30, 2010 - OPEB (1)	N/A	N/A	N/A
December 31, 2010	20.84%	20.00%	0.84%
December 31, 2010 - OPEB	21.17%	20.00%	1.17%
March 31, 2011	20.32%	20.00%	0.32%
March 31, 2011 - OPEB	20.72%	20.00%	0.72%
June 30, 2011	20.39%	20.00%	0.39%
June 30, 2011 - OPEB	20.39%	20.00%	0.39%

(1) There were no OPEB investments during the quarter ended September 30, 2010.

The differences are not considered significant. Based on discussion with Wells Fargo, we noted that Wells Fargo performs a rebalancing of the portfolio mid-month. Therefore, at any month or quarter end, the allocation may exceed the limit due to investment earnings. The excess is reallocated in the subsequent months' rebalancing. Wells Fargo made a presentation to the Pension Committee for all four quarters noted above and discussed the portfolios in detail as documented in the meeting minutes. Therefore, Wells Fargo informed the committee of the allocation and rebalancing in a timely manner.

Recommendations

As the differences in the Small Cap Equity allocation were not significant and were discussed by Wells Fargo in the portfolio review, there are no recommendations relating to these procedures.



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 Agreements. Each Investment Manager and the Investment Advisor must acknowledge, in writing, its receipt of and intent to comply with the Retirement Investment Policy. An annual compliance review of the Investment Advisor and Investment Managers will be performed by the CFO and/or Assistant Treasurer each year to ensure all files are being properly maintained.

Observation and Testing

We reviewed a copy of the statement prepared by Wells Fargo stating their intent to comply and determined that the required communication was included as outlined in the Retirement Investment Policy. We further noted that the CFO and Assistant Treasurer performed the required annual compliance review.

Recommendations

There are no recommendations relating to these procedures.

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 & CEO, the Finance, Administration, and Properties 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: Annually, the Investment Advisor and Investment Managers will provide the Pension Committee a copy of their most recent ADV - Parts 1 and 2 and SAS 70, if available (SAS 70 has been replaced by SSAE 16 after June 15, 2011). A review of these documents will be performed and the results will be documented by the CFO and/or Assistant Treasurer. A report will be made to the Pension Committee of the findings of the review.

Observation and Testing

We obtained and reviewed the monthly and quarterly reports submitted by the Investment Advisor to MNAA noting that they were remitted electronically and were received within the required timeframes. We also obtained and reviewed the summary investment report prepared by the Pension Committee and submitted to the President & CEO and Finance, Administration, and Properties Committee. We reviewed the reports noting that they contain the required elements and that two of the four quarterly reports were submitted timely. We noted that the reports for the quarters ended September 30, 2010 and December 31, 2010 were submitted 100 and 118 days after quarter end, respectively.

We obtained clarification regarding the Investment Advisor and Investment Manager's ADV – Parts 1 and 2 as well as the SAS 70 for the Investment Advisor and the Investment Manager. We received satisfactory documentation that Wells Fargo is exempt from registration of Form ADV - Parts 1 and 2. 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 – Parts 1 and 2.

Upon inquiry of the Assistant Treasurer and through review of the confirmation signed by both the CFO and the Assistant Treasurer, we noted that MNAA received and reviewed the SAS 70 report for Wells Fargo, dated September 30, 2010. The confirmation also documented that based on MNAA's review of the Wells Fargo SAS 70, the proper internal controls are in place and operating effectively. Additionally, during our procedures, we reviewed the SAS 70 report noting that Wells Fargo received an unqualified opinion and there appeared to be no relevant exceptions or findings. Furthermore, we verified, through discussion with the Assistant Treasurer, that MNAA has user controls in place to support the internal controls at Wells Fargo.

Based on review of the Wells Fargo Authorized Signers Form, which lists the MNAA individuals authorized to conduct business with Wells Fargo on MNAA's behalf, we noted that the list is complete and accurate as of June 30, 2011.



Recommendations

The Retirement Investment Policy does not state a deadline for the quarterly reports to be submitted. However, to ensure timeliness of the information, we recommend that all reports be submitted to the President & CEO and Finance, Administration, and Properties Committee within a reasonable period of time after the information needed to complete the reports is available to the Authority. This time period should be established by management upon consultation with the President & CEO and Finance and Administration Committee.

Additionally, we recommend that the wording of the Retirement Investment Policy be updated to reflect the replacement of SAS 70 with SSAE 16 for periods ending after June 15, 2011.

Management's Response

The Retirement Investment Policy does not reference a deadline for submitting reports, but management concurs the quarterly report should be presented in a timely manner and 60 days is normally a realistic deadline.

Management concurs with this recommendation and will propose an amendment to the Retirement Investment Policy to request an SSAE 16 in lieu of SAS 70 for fiscal years after June 30, 2011.

* * * * *

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, Administration, and Properties 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.

Crosslin & Associates, P.C.

Nashville, Tennessee
October 14, 2011