

**METROPOLITAN NASHVILLE
AIRPORT AUTHORITY**

AGREED-UPON PROCEDURES

CUSTOMER FACILITY CHARGE PROGRAM

**FOR THE PERIOD
MARCH 1, 2016 TO FEBRUARY 28, 2017**



Independent Accountant's Report on Applying Agreed-Upon Procedures

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

CFC Program

We have performed the procedures enumerated below, which were agreed to by the management of the Metropolitan Nashville Airport Authority ("MNAA" or the "Authority"), solely to assist you in evaluating MNAA's compliance with its Customer Facility Charge ("CFC") Program for the period March 1, 2016 to February 28, 2017. MNAA's management is responsible for compliance with the requirements of the CFC Program. 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 CFC Program. 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 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:

- Stan Van Ostran, Vice President and Chief Financial Officer
- Amy Davis, Controller
- MNAA Finance Staff
- Internal Audit Department
- Wally Jones, Vice President, US Bank National Association;
Trustee under the Bond Indenture



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

MNAA’S CUSTOMER FACILITY CHARGE PROGRAM

On January 1, 2008, MNAA began requiring the rental car companies at Nashville International Airport to charge a CFC. Under MNAA’s CFC Enabling Resolution, CFCs are to be used to pay, or to reimburse the Authority, for costs, fees and expenses associated with the planning, design, construction, financing, maintenance and operation of the Consolidated Rental Car (“CONRAC”) Facility and other costs, fees and expenses that may be paid from CFC proceeds. The CFC amount was initially \$4.00 per rental car transaction-day and was increased to \$4.50 effective January 1, 2010. The \$4.50 per transaction-day fee is collected by the on-airport rental car companies from each of their customers and subsequently remitted to the Authority.

During January 2010, MNAA issued \$66,300,000 in Special Facility Revenue Bonds (MPC CONRAC LLC PROJECT) Series 2010 Bonds (the “Series 2010 Bonds”). The Series 2010 Bonds were issued in order to provide certain financing for the construction of the CONRAC Facility. Under the Series 2010 Bond Indenture, MNAA has pledged CFC proceeds for the payment of and as collateral security for the Series 2010 Bonds.

The various CONRAC agreements, including the Series 2010 Bonds Official Statement, the related Bond Indenture and CONRAC lease agreements, restrict the Authority’s use of CFCs. Generally, the CFCs must be used for payment of principal and interest on the Series 2010 Bonds and to establish certain required bond reserves and other accounts as are necessary to provide for the construction or maintenance of the CONRAC Facility. The required reserves and other accounts are described in the Series 2010 Bond Indenture. Certain of the reserves and accounts are required to be under the control of the Trustee, which is US Bank National Association.

Upon substantial completion of the CONRAC Facility, which occurred in November 2011, the Authority began leasing the CONRAC Facility to the rental car companies through the CONRAC lease agreements.

1. CFC Collections

Background

Under the terms of the CONRAC agreements, the car rental companies are required to collect the CFCs from their customers and remit the CFCs to MNAA on a monthly basis. Remittances of CFCs are made in the form of “Net Rental Payments” as defined in the CONRAC lease agreements. Each rental car company is required to submit monthly CFC Reports detailing the number of transaction days, the CFC rate, and the total collections. The rental car companies must submit the “Rental Car Customer Facility Charge Report Form” to MNAA. In addition, the rental car companies must remit the CFCs collected to the Authority no later than the 20th day of the month following the collection month. Remittance of CFCs is to occur through electronic funds transfer to MNAA’s CFC operating bank account (the “CFC Operating Account”).



Observation and Testing

We selected five months during the period for testing: March 2016, June 2016, September 2016, October 2016, and January 2017. For each of the five months, we reviewed the CFC Reports submitted to MNAA by all rental car companies. No exceptions were noted. Our review included ensuring that 1) the CFC reports were fully completed and submitted to MNAA, 2) the CFCs were calculated using MNAA's approved rate, 3) funds were remitted to MNAA no later than the 20th day of the month following the collection month, and 4) that funds were credited to the appropriate bank account. The results are as follows ("X" indicates that the requirements were satisfied):

	<u>March</u> <u>2016</u>	<u>June</u> <u>2016</u>	<u>September</u> <u>2016</u>	<u>October</u> <u>2016</u>	<u>January</u> <u>2017</u>
Alamo / National	X	X	X	X	X
Advantage	X	X	X	X	X(2)
Avis	X	X	X	X	X
Budget	X	X	X	X	X
Dollar	X	X	X	X	X
Enterprise	X	X	X	X	X
E-Z Rent A Car	X	X	X	X	X
Hertz	X(1)	X	X	X	X
Thrifty	X	X	X	X	X
Payless	X	X	X	X	X
ZipCar	X	X	X	X	X

(1) During our testing for the month of March 2016, we noted that Hertz remitted the CFC funds after the 20th of the following month and further noted that Hertz remitted the related late fees to the BNA Revenue Cash Account instead of the CFC Operating Account. Additionally, the Authority did not appear to have a formal policy regarding the remittance of CFC late fees. As a result, the CFC Operating Account was understated for these CFC late fees. After discovery of the understatement, as a result of these procedures, it was determined by management and communicated to MNAA Finance Staff that CFC late fees should be remitted to the CFC Operating Account. As such, MNAA transferred the funds from the BNA Revenue Cash Account to the CFC Operating Account.

(2) During our testing for the month of January 2017, we noted that Advantage did not timely remit the monthly CFC report for that month. Per discussion with MNAA Finance, when payment was received from Advantage in February 2017, MNAA realized that they had not received Advantage's January 2017 CFC report and emailed them requesting it. However, at the start of our testing, the report had still not been received from Advantage. The January 2017 CFC report was not received until we requested it for our procedures. The control processes for handling incoming CFC revenue, as taken from the CONRAC Facility Process Overview Memo, are as follows:



The Assistant Manager of Accounting inputs the number of transaction days subject to CFC from each of the rental car companies monthly reports into an excel spreadsheet, Customer Facility Charges Days Reported, for tracking historical monthly statistics for each rental car agency for purpose of monitoring month to month changes in number of days (taking into account seasonal travel) as well as monitoring the month compared to prior year same month data. Any significant fluctuations or unusual numbers reported are communicated by the Assistant Manager of Accounting to the Accountant who is responsible for investigating and contacting rental car companies directly with any questions regarding reported CFC data. The Assistant Manager of Accounting files copies of monthly CFC reports in chronological date order in the finance department.

The Accountant uses the CFC reports for preparing monthly invoices in the ABM database, MNAA's revenue sub-ledger system. By the 20th of the month, the Accountant pulls the number of transaction days subject to CFC from each of the 11 rental car agencies CFC monthly forms and inputs this data in the billing screen in ABM for the respective rental car agency. The \$4.50 transaction per day value is set in the billing screen, so the CFC total dollar amount is automatically generated after the number of transaction days are input by the Accountant. The Accountant compares the generated CFC dollar value to the CFC owed to MNAA per the CFC Report and ensures the amounts agree. After all billings have been entered in ABM, either that same day or within a few days from entering invoices, the Accountant pulls up the online bank statement for SunTrust CFC Operating Account - #1000069742228 and applies wire payments received by MNAA from rental car companies to the related invoice.

Since the Advantage CFC report for January 2017 was not available at the start of our testing, it would appear that the control processes as detailed above are not being followed. Additionally, MNAA Finance did not follow up with Advantage in a timely manner regarding the missing information.

Recommendations

We recommend that MNAA Finance include remittance instructions on invoices for CFC late fees, similar to those included on the monthly CFC Report forms. This will help ensure that CFC late fees are being remitted to the proper bank account.

We also recommend that the control processes related to the CONRAC Facility, as documented, be followed and that a process to follow up with the rental car companies when information is not received be created and implemented.



Management Response

Management concurs in part with the recommendation. MNAA Finance will include remittance instructions on invoices for CFC late fees.

MNAA Finance made repeated attempts on February 3rd and February 16th to request the January CFC report from Advantage. The information received from Advantage only contained the Concession Report and not the CFC report. However, the information on the CFC Report that is used for statistical reporting purposes is the number of rental days. As this statistic is, also, included on the Concession Report, the Revenue Accountant was able to verify the CFC collected amount was correct (by multiplying the number of days by \$4.50), and was able to input the number of rental days into the correct statistical reports. MNAA Finance deemed the approach taken as appropriate steps to get the CFC Report from Advantage.

2. **CFC Debt and Interest Payments**

Background

The Series 2010 Bonds principal maturities and interest rates are described within the Official Statement, dated January 28, 2010. For the period from March 1, 2016 through February 28, 2017, MNAA was required to make the following principal and interest payments on the Series 2010 Bonds:

July 1, 2016 - Principal	\$2,285,000
July 1, 2016 - Interest	\$1,836,529
January 1, 2017 - Interest	\$1,785,505

Observation and Testing

For the principal payment and for each of the interest payments above, we reviewed the payment in the corresponding bank statement. We noted that the payments were made from the appropriate bank accounts under the Bond Indenture. The principal payment was made from the CONRAC Serial Bond Principal Account and the interest payments were made from the CONRAC Bond Interest Account. We also agreed the amount of each payment to the Schedule of Principal and Interest Requirements by Fiscal Year contained in MNAA's fiscal year 2016 Comprehensive Annual Financial Report. We noted that the payments were made timely and accurately.

Recommendations

There are no recommendations relating to these procedures.



3. **CONRAC Rental Payment Fund and Debt Service Requirement**

Background

In accordance with the Bond Indenture, MNAA is required to establish a CONRAC Rental Payment Fund, to be controlled by the Trustee. CFCs are remitted to MNAA through Net Rental Payments from the rental car companies. The Net Rental Payments are received in the MNAA CFC Operating Account and are required to be transferred to the CONRAC Rental Payment Fund on a monthly basis. Additionally, under the Bond Indenture, the Net Rental Payments in each fiscal year are required to equal at least 125% of the debt service on all CFC bonds outstanding, as defined in the CONRAC agreements.

Under the Bond Indenture, the amounts deposited in the CONRAC Rental Payment Fund are required to be applied to various other funds and accounts in the order specified in the Indenture.

Observation and Testing

We verified, through review of bank statements and a confirmation received directly from the Trustee, that a CONRAC Rental Payment Fund was appropriately established. We selected five months, March 2016, June 2016, September 2016, October 2016, and January 2017, to ensure that the total Net Rental Payments for the respective month were appropriately transferred from the CFC Operating Account to the CONRAC Rental Payment Fund in a timely manner. No exceptions were noted.

We also verified that Net Rental Payments in fiscal year 2016 were equal to 125% of Debt Service on all CFC bonds outstanding. The Net Rental Payments collected were greater than the required 125% of debt service for the year reviewed.

Recommendations

There are no recommendations relating to these procedures.

4. **Administrative Expense**

Background

According to the Flow of Funds in the CONRAC agreements, administrative expenses are the first item to be paid from the CONRAC Rental Payment Fund. Administrative costs include primarily the expenses of MNAA properly attributable to the CONRAC Facility, as well as Trustee fees. On a monthly basis, the MNAA Controller compiles and forwards a detail of CONRAC administrative costs to the Trustee. The Trustee transfers the funds from the CONRAC Rental Payment Fund to the CONRAC Discretionary Account, which is under the control of MNAA. Checks are written on the Discretionary Account to pay the administrative expenses.



Observation and Testing

We obtained a listing of administrative expense transactions for the period March 1, 2016 to February 28, 2017. We judgmentally selected three transactions for testing and analytically tested the monthly management fees and bank fees, which represents approximately 94% of the population. For the three selections, we examined supporting documentation, including invoices or other support to determine if the expenses were reasonable and appropriately attributable to the CONRAC Facility.

During our testing, we noted that one of our selections was a transfer of funds from the CONRAC Discretionary Account to the BNA Revenue Account to reimburse the BNA Revenue Account for a \$7,500 payment made from it that was for an expense related to the CONRAC Facility. However, we noted that the \$7,500 was transferred to the BNA Revenue Account twice and, as a result, the CONRAC Discretionary Account was reimbursed for the \$7,500 by the Trustee twice. Additionally, while reviewing the support for another selection, we noted that there was a \$5,000 payment from the CONRAC Discretionary Account for an administrative expense related to the CONRAC Facility that did not get included on the reimbursement request and, as a result, was not reimbursed by the Trustee. As a result of these two transactions, the BNA Revenue Account was overstated by \$7,500, the CONRAC Discretionary Account was understated by \$5,000, and the CONRAC Rental Payment Fund held by the Trustee was understated by \$2,500.

We noted that MNAA currently charges the CONRAC project a general management fee of \$8,000 a month. This management fee is intended to reimburse MNAA for a portion of certain personnel salaries and benefits. Through discussion with the Chief Financial Officer, we noted that the portion of the salaries and benefits being attributed to the CONRAC Facility has been calculated as a reasonable estimate of the time spent by the personnel in managing the CONRAC Facility. As part of MNAA's annual budget process for fiscal year 2017, MNAA reviewed the management fee being charged to ensure that it was still appropriate and was reflective of the time being spent managing the CONRAC Facility.

Recommendations

We recommend that the administrative expense reimbursement request be reviewed and reconciled to the CONRAC Discretionary Account bank statement by someone independent of the person preparing the request to ensure that it is complete and accurate.

Management Response

Management concurs in part with the recommendation. MNAA Finance plans to evaluate the benefit of including additional staff to the review process as new staff are added to the Department. It should be noted that the errors noted is the first since the inception of the process.



5. **Bond Funds and Debt Payment Schedule**

Background

Section 4.02 of the Bond Indenture created a separate special trust fund, designated as the CONRAC Bond Fund, to be held and administered by the Trustee. The monies on deposit in the CONRAC Bond Fund will be used solely for the payment of principal and interest, and premium if any, due on the Series 2010 Bonds. The monies deposited in the CONRAC Bond Fund shall not be commingled with any other monies of the Trustee.

The CONRAC Bond Fund consists of three bank accounts: 1) CONRAC Bond Interest Account, 2) CONRAC Serial Bond Principal Account, and 3) CONRAC Term Bond Principal Account.

- CONRAC Bond Interest Account - Funds in this account shall be disbursed by the Trustee solely for the purpose of paying interest on the Bonds. Each month, the CONRAC Bond Interest Account should be credited with an amount equal to 1/12 of the bond interest due for the year.
- CONRAC Serial Bond Principal Account - Funds in this account shall be disbursed solely for the purpose of paying principal on the Series 2010 Bonds. Each month, this account should be credited with 1/12 of the bond principal payments due for the year.
- CONRAC Term Bond Principal Account - Funds in this account shall be disbursed solely for the purpose of paying principal on “term bonds.” The funds credited to the CONRAC Term Bond Principal Account for the purpose of providing for the retirement of the term bonds shall be applied to the redemption of such bonds on each date on which such an installment for bonds is due. The term bonds become due starting on July 1, 2025; therefore, the Term Bond Principal Account is not currently being used.

Observation and Testing

We discussed the bond interest and principal payments with the Controller, noting that she has instructed the Trustee to make monthly deposits into both bank accounts according to the debt service schedule.

Through review of general ledger detail, bank account statements, and confirmation with the Trustee, we verified that both the Bond Interest and Bond Serial Principal Accounts have been credited with the appropriate amounts on a monthly basis. The balances in each account at February 28, 2017, contain the appropriate expected balances necessary to fund the next upcoming respective principal and interest payments.

Recommendations

There are no recommendations related to these procedures.



6. **CONRAC Bond Reserve Fund**

Background

Section 4.03 of the Indenture created a separate special trust fund of the Authority designated as the CONRAC Bond Reserve Fund, to be held and administered by the Trustee. The CONRAC Bond Reserve Fund is to contain an amount equal to 10% of the par value of the bonds outstanding and shall be disbursed by the Trustee solely for the purpose of paying principal and interest on outstanding bonds when there are insufficient funds in the CONRAC Bond Fund. As five principal payments have been made on the Bonds as of February 28, 2017, the Bond Reserve Fund requirement is \$5,669,500.

Observation and Testing

We noted that the Bond Reserve Fund was initially funded upon closing of the Series 2010 Bonds with an amount equal to the reserve requirement of \$6,630,000. Through confirmation with the Trustee and review of the bank statement, the Bond Reserve Fund balance totaled \$5,673,610 at February 28, 2017, which exceeds the current required amount. The Bond Reserve Funds were held by the Trustee.

Recommendations

There are no recommendations relating to these procedures.

7. **CONRAC Coverage Fund**

Background

Section 4.04 of the Indenture created the CONRAC Coverage Fund, to be held and administered by the Trustee. The CONRAC Coverage Fund is required to contain an amount equal to 25% of the maximum annual net debt service on all Series 2010 Bonds outstanding. The funds deposited in the CONRAC Coverage Fund should not be commingled with any other funds of the Trustee. The current Coverage Fund requirement is \$1,519,338, which is calculated as 25% of the maximum annual debt service of \$6,077,352, to be reached in fiscal year 2019.

Observations and Testing

We verified, through independent confirmation with the Trustee and review of bank statements, that the CONRAC Coverage Fund has been established. We noted that the Coverage Fund was initially funded upon closing of the Series 2010 Bonds with an amount equal to the requirement of \$1,519,338. We recalculated the amount of the Coverage Fund requirement based on maximum debt service without exception. Through confirmation with the Trustee and review of the bank statement, the Coverage Fund balance totaled \$1,519,338 at February 28, 2017. The CONRAC Coverage Fund is held by the Trustee.



Recommendations

There are no recommendations related to these procedures.

8. **CONRAC Construction Accounts**

Background

Section 3.01 of the Bond Indenture authorized the creation of the CONRAC Construction Fund, to be held and administered by MNAA. The CONRAC Construction Fund consists of separate bank accounts designated as the CONRAC Construction Account and the CONRAC Construction Interest Account. Funds in the CONRAC Construction Account are to be disbursed for the cost of constructing and equipping the CONRAC Facility. Funds in the CONRAC Construction Interest Account shall be used to make Bond Interest Payments during the construction period.

In accordance with Section 3.01, proceeds from the sale of the Series 2010 Bond, and revenue previously collected from CFCs, were deposited in the CONRAC Construction Fund and related accounts to be used for construction and related interest in the construction period.

Section 3.03(b) of the Indenture states that all monies remaining in the Construction Fund, after final completion and after payment or provisions for payment of all construction related items provided for in the Indenture, be paid to the Trustee for deposit into the CONRAC Rental Payment Fund.

Section 3.04 of the Indenture requires that the Construction Interest Account make the payments of bond interest until all funds have been used in the Construction Interest Account.

Observation and Testing

We verified, through review of the respective bank statements, discussions with management, and review of general ledger detail, that the CONRAC Construction Fund, Construction Account and Construction Interest Account have been established and were under the control of MNAA. Through review of the bank statement detail, the Construction Fund, Construction Account and Construction Interest Account were funded as outlined in the Bond Indenture.

During the period March 1, 2016 through February 28, 2017, there were no expenditures paid out of these accounts.



Through review of the bank statements, we noted that as of February 28, 2017, the construction related accounts had remaining balances as follows:

• CONRAC Construction Fund	\$20,796
• CONRAC Construction Account	\$19,950
• CONRAC Construction Interest Account	\$10,762

According to the Bond Indenture, the remaining funds in the construction related accounts should be transferred to the CONRAC Rental Payment Account after completion of the CONRAC Facility. Through discussions with the Chief Financial Officer and Controller, we noted that the CONRAC Facility became operational in November 2011, but certain components have not yet been fully “accepted” as complete by MNAA. MNAA has one outstanding issue listing with the contractor and still holds contract retainage monies on the CONRAC Facility. MNAA’s Development and Engineering department will advise when the contract is complete and ready to be closed.

According to the Chief Financial Officer, MNAA will, at the point the construction contract is considered closed, review the amounts remaining in the construction accounts and determine the amounts to be transferred to the CONRAC Rental Payment Account.

Recommendations

There are no recommendations relating to these procedures.

9. **Subordinate Obligations**

Background

The Bond Indenture allows MNAA to issue other bonds, notes, certificates, warrants or other indebtedness so long as any such indebtedness is subordinate to the Series 2010 Bonds. If such subordinate obligations are issued, CFC proceeds must be utilized to establish any required debt service or reserve funds.

Observation and Testing

Through discussion with the Chief Financial Officer and Controller, we noted that no subordinate obligations have been issued with respect to the CONRAC project. Accordingly, there is currently no requirement for funds to be set-aside for debt service or reserves relating to subordinate obligations.

Recommendations

There are no recommendations relating to these procedures.



10. **CONRAC Operation and Maintenance Reserve Fund**

Background

Section 4.05 of the Indenture created the CONRAC Operation and Maintenance Reserve Fund (“O&M Reserve Fund”), to be held and administered by the Trustee. The CONRAC O&M Reserve Fund is required to be funded in an amount equal to the Operation Reserve Requirement. The initial Operating Reserve Requirement is \$187,500 and is to be subsequently adjusted to the amount as determined by Ricondo & Associates, the Airport Consultant. To fund the required amount, MNAA is to make 12 monthly deposits into the O&M Reserve Fund starting with the date of substantial completion, October 1, 2011.

Ricondo & Associates issued their CONRAC Reserve Analysis Report in December 2011. In the report, Ricondo & Associates recommended that the Operational Reserve Requirement be three months of anticipated facility operating and maintenance cost.

Observation and Testing

We verified, through independent confirmation with the Trustee and review of bank statements, that the CONRAC O&M Reserve Fund has been established. Based on the testwork, we noted that the O&M Reserve Fund had been credited with the appropriate amount of \$781,000 for the entire period.

MNAA obtained an update to the Ricondo & Associates report in January 2014, which established a new recommended O&M Reserve amount. In the Ricondo report, the updated O&M Reserve Requirement was \$710,597, which was less than the current balance of the O&M Reserve Fund. Therefore, no further deposits to the O&M Reserve Fund were needed, as the O&M Reserve Requirement outlined in the Indenture had been surpassed. During April 2015, MNAA received an updated Ricondo report. This report updated O&M Reserve Requirement to \$692,330, which continued to be less than the current balance of the O&M Reserve Fund. During December 2015, MNAA received an updated Ricondo report. This report updated the O&M Reserve Requirement to \$915,098, which was more than the current balance of the O&M Reserve Fund.

In the December 2015 Ricondo & Associates report, they noted that no further deposits to the O&M Reserve Fund were needed. However, based on the fiscal year 2016 budget, it appeared that MNAA would need at least \$915,098 in the O&M Reserve Fund to cover expenses. Despite the inconsistencies in the Ricondo report, MNAA management agreed to deposit the difference of \$134,098 into the O&M Reserve Fund to ensure that the reserve covers the budgeted amount for expenses for fiscal year 2016. We recommended that MNAA contact Ricondo & Associates in order to clarify their recommendations.



We verified, through independent confirmation with the Trustee and review of bank statements, that during the period of March 1, 2016 through February 28, 2017 the CONRAC O&M Reserve Fund had been funded the additional \$134,098, as recommended. As of February 28, 2017, the balance of the O&M Reserve Fund totaled \$915,098, which meets the O&M Reserve Requirement per the December 2015 Ricondo & Associates report. MNAA management has opted to obtain a new report from the Airport Consultant every other year.

Recommendations

We recommend that MNAA management make their own estimate of the Operational Reserve Requirement (three months reimbursable O&M costs) for the years when a new Airport Consultant's Report is not obtained to ensure the balance of the O&M Reserve Fund meets the requirements of the Indenture.

Management Response

Management concurs in part with the recommendation. The process that was followed for FY2017 has not changed since the origination of the CFC Bond issue. MNAA Finance agrees that an annual estimate of the Operational Reserve Requirement is a good idea and MNAA Finance will contact the Consultant to determine whether the report can be provided annually based on the existing agreement.

11. CONRAC Renewal and Replacement Fund

Background

Section 4.06 of the Indenture created the CONRAC Renewal and Replacement Fund ("R&R Fund"), to be held and administered by the Trustee. The CONRAC R&R Fund is to be funded with an amount equal to the R&R Requirement, as defined. The initial R&R Requirement is \$3,000,000 and was subsequently adjusted to the amount as determined by Ricondo & Associates. MNAA is required to fund the R&R Requirement on a monthly basis over a sixty-month period, commencing October 1, 2011.

Ricondo & Associates issued their initial CONRAC Reserve Analysis Report in December 2011. The R&R requirement is defined as an amount necessary to provide for payment of emergency non-recurring capital costs related to the CONRAC Facility. As stated in the Ricondo & Associates 2011 report, an amount equal to 5% of the total costs related to the development and construction should be sufficient to satisfy the R&R Requirement. Based on the total cost for the design and construction of the CONRAC Facility of \$67,100,000, Ricondo & Associates recommended that MNAA hold \$3,351,566 in this fund. This required a deposit of \$55,860 per month over the sixty-month period.



In January 2014, MNAA received an updated Ricondo report. In the updated report, Ricondo suggested funding the required amount of \$3,351,566 by June 30, 2016. In order to reach this level, MNAA would need to deposit \$60,514 per month (\$726,169 per year) for fiscal years 2014, 2015, and 2016. During April 2015 and December 2015, MNAA received updated Ricondo reports with no changes to the suggested funding amounts.

Observation and Testing

We verified, through independent confirmation with the Trustee and review of bank statements, that the CONRAC R&R Fund has been established. Detail of the deposits into the R&R Fund for the period March 1, 2016 through February 28, 2017 is as follows:

<u>Dated Funded</u>	<u>R&R Reserve Fund</u>
Beginning Balance	\$3,109,510
Deposits:	
March 1, 2016	60,514
April 1, 2016	60,514
May 2, 2016	60,514
June 1, 2016	<u>60,514</u>
Ending Balance	<u>\$3,351,566</u>

Based on the testwork, we noted that the R&R Fund has been credited with the appropriate amount as of February 28, 2017. We verified that MNAA deposited \$60,514 per month from March 2016 through June 2016. As recommended in the updated Ricondo report, MNAA funded the required amount of \$3,351,566 by June 30, 2016.

Recommendations

There are no recommendations relating to these procedures.

12. CONRAC Discretionary Fund

Background

Section 4.07 of the Bond Indenture created the CONRAC Discretionary Fund, to be held and administered by the Trustee. The Indenture also creates two separate accounts within the CONRAC Discretionary Fund. These accounts are the CONRAC Major Maintenance Account and the CONRAC Discretionary Account. Funds on deposit in the CONRAC Discretionary Fund should be dispersed in the following order of priority:

- a. To make any deposits to the CONRAC Major Maintenance Account;
- b. Redeem any Bonds or Subordinate Obligations as determined by MNAA; and
- c. Deposit into the CONRAC Discretionary Account.



The CONRAC Major Maintenance Account is to be funded in an amount to meet the Major Maintenance Requirement, which is defined as the amount estimated to be necessary to make major maintenance repairs and replacements. The initial Major Maintenance Requirement was \$3,000,000 and was subsequently adjusted to the amount as determined by Ricondo & Associates. MNAA is required to fund the Major Maintenance Requirement on a monthly basis over a sixty-month period, commencing October 1, 2011.

Ricondo & Associates issued their CONRAC Reserve Analysis Report in December 2011. According to the Ricondo & Associates report, an amount equal to 5% of the total costs related to the development and construction should be sufficient to satisfy the Major Maintenance Requirement. Based on the total cost for the design and construction of the Consolidated Rental Car Facility of \$67,100,000, Ricondo & Associates recommended that MNAA hold \$3,351,566 in this fund. This required a deposit of \$55,860 per month over a sixty-month period.

In January 2014, MNAA received an updated Ricondo report. In the updated report, Ricondo suggested funding the required amount of \$3,351,566 by June 30, 2016. In order to reach this level, MNAA would need to deposit \$60,514 per month (\$726,169 per year) for fiscal years 2014, 2015, and 2016. During April 2015 and December 2015, MNAA received updated Ricondo reports with no changes to the suggested funding amounts.

The CONRAC Discretionary Account was funded upon issuance of the Series 2010 Bonds, as provided in Section 3.01 of the Indenture. The initial deposit totaled \$3,950,000. After the initial funding, MNAA has no further obligations to make any deposits to this account. The MNAA may direct the Trustee to deposit additional monies into the CONRAC Discretionary Account if MNAA determines that the CONRAC Discretionary Account balance is not sufficient to pay expenses associated with the CONRAC Facility or related administrative costs. The CONRAC Discretionary Account is controlled by MNAA. Monies in this fund may be used for any purpose in connection with the CONRAC Facility.



Observation and Testing

We verified, through independent confirmation with the Trustee and review of bank statements, that the CONRAC Major Maintenance Account has been established. Detail of the deposits into the Major Maintenance account for the period March 1, 2016 through February 28, 2017 is as follows:

<u>Dated Funded</u>	<u>MM Fund</u>
Beginning Balance	\$3,109,510
Deposits:	
March 1, 2016	60,514
April 1, 2016	60,514
May 2, 2016	60,514
June 1, 2016	60,514
Ending Balance	<u>\$3,351,566</u>

Based on the testwork, we noted that the Major Maintenance Fund has been credited with the appropriate amount as of February 28, 2017. We verified that MNAA deposited \$60,514 per month from March 2016 through June 2016. As recommended in the updated Ricondo report, MNAA funded the required amount of \$3,351,566 by June 30, 2016.

Through review of the bank statement, we noted that the CONRAC Discretionary Account was established and was funded with \$3,950,000, which complied with Section 3.01 of the Indenture. Through discussion with the Controller and review of the bank statements of this account, we determined that this account is used to pay for administrative costs associated with the CONRAC Facility. The Discretionary Account is reimbursed for administrative expenses by the CONRAC Rental Payment Fund. The account balance of the Discretionary Account as of February 28, 2017, is \$3,294,675.

Recommendations

There are no recommendations relating to these procedures.

13. **CONRAC Excess CFC Fund**

Background

Section 4.07 of the Bond Indenture created the CONRAC Excess CFC Fund, to be held and administered by MNAA. The Trustee will deposit into the CONRAC Excess CFC Fund all remaining Net Rent Payments on deposit in the CONRAC Rental Payment Fund after making all required deposits in the various funds. Monies on deposit in the CONRAC Excess CFC Fund can be applied for the following purposes and in the following order of priority:



- a. To make up any deficiencies in any fund or account established under the Indenture, including the CONRAC Construction Fund in the event such monies are required to complete the CONRAC Facility.
- b. To transfer to MNAA, no later than thirty days prior to the commencement of each Agreement Year, an amount equal to the Ground Rent, as defined in the CONRAC agreements.
- c. For any lawful purposes as determined by MNAA.

Observation and Testing

We verified, through review of the bank statement and general ledger detail, that the Excess CFC Account had been established and is under control of MNAA. We discussed the Excess CFC Account with the Controller. Commencing in June 2011, excess funds in the CONRAC Rental Payment Fund are transferred to the Excess CFC Account on a monthly basis. As of February 28, 2017, the CONRAC Excess CFC Account had a balance of \$23,477,681.

Recommendations

There are no recommendations related to these procedures.

14. **CONRAC Land/Ground Rent Payments**

Background

The CONRAC lease agreements specify that Ground Rent be paid, in effect, from MPC CONRAC LLC to MNAA for each Agreement Year. Ground Rent is defined as the Value of the Land, which is specified as \$250,000 for the first Agreement Year, \$500,000 for the second Agreement Year, and a product of the CONRAC Facility square footage multiplied by the per square-foot value as defined in the CONRAC lease agreements for all subsequent Agreement Years. MNAA has determined that the first Agreement Year begins upon the opening date of the CONRAC Facility, November 1, 2011.

Ground Rent is to be paid using Excess CFC Funds. If there are not Excess CFC Funds sufficient to pay Ground Rent, then "Land Rent" may be charged to the rental car companies for the deficiency. Land Rent is each rental car company's pro-rata share of any deficiency between the amount of Ground Rent and Excess CFC Funds.

Observation and Testing

We discussed Ground Rent with the Chief Financial Officer and Controller. We also reviewed the general ledger accounts and bank statements and determined that a Ground Rent Payment account has been established.



During June 2012, the Chief Financial Officer and Controller reviewed the available funds in the Excess CFC account as well as the projected excess CFC collections in the Airport Consultant's Reserve Analysis Report. As a result of this review, MNAA determined that there are currently sufficient excess CFCs and that excess CFCs should be sufficient to fund the Ground Rent Payments on a prospective basis.

The Ground Rent Payment for the second Agreement Year totaled \$500,000 and was being paid on a monthly basis (\$41,667) from the Excess CFC Fund. Through review of the bank statement and general ledger detail, we noted that from November 2012 through October 2013, MNAA made deposits totaling \$500,000, which fully funded the Ground Rent Payment for the second Agreement Year using excess CFCs.

The Ground Rent Payment for the third Agreement Year totaled \$1,281,473, which represented a product of the CONRAC Facility square footage (625,109) multiplied by the per square-foot value (\$2.05) as adjusted for the percentage increase in the Consumer Price Index during the most recent preceding period of twelve months, as defined in the CONRAC lease agreement for all subsequent Agreement Years. Through review of the bank statement and general ledger detail, we noted that from November 2013 through October 2014, MNAA made deposits totaling \$1,281,473, which fully funded the Ground Rental Payment for the third Agreement Year using excess CFCs.

The Ground Rent Payment for the fourth Agreement Year totaled \$1,308,030, which represented a product of the CONRAC Facility square footage (625,109) multiplied by the per square-foot value (\$2.09) as adjusted for the percentage increase in the Consumer Price Index during the most recent preceding period of twelve months, as defined in the CONRAC lease agreements for all subsequent Agreement Years. The monthly amount to be deposited for the fourth Agreement Year increased from \$106,789 a month to \$109,003 a month to reflect the required amount of \$1,308,030. Through review of the bank statement and general ledger detail, we noted that from November 2014 through October 2015, MNAA made deposits totaling \$1,308,030, which fully funded the Ground Rental Payment for the fourth Agreement Year using CFCs.

The Ground Rent Payment for the fifth Agreement Year totaled \$1,309,656, which represented a product of the CONRAC facility square footage (625,109) multiplied by the per square foot value \$(2.095) as adjusted for the percentage increase in the Consumer Price Index during the most recent preceding period of twelve months, as defined in the CONRAC lease agreements for all subsequent Agreement Years. The monthly amount to be deposited for the fifth Agreement Year increased from \$109,003 to \$109,138. Through review of the bank statement and general ledger detail, we noted that from November 2015 through October 2016, MNAA made deposits totaling \$1,309,656, which fully funded the Ground Rental Payment for the fifth agreement year using excess CFCs.



The Ground Rent Payment for the sixth Agreement year totals \$1,325,823, which represents a product of the CONRAC Facility square footage (625,109) multiplied by the per square-foot value (\$2.12) as adjusted for the percentage increase in the Consumer Price Index during the most recent preceding period of twelve months, as defined in the CONRAC lease agreements for all subsequent Agreement Years. The monthly amount to be deposited for the sixth Agreement Years increased from \$109,138 to \$110,485. Through review of the bank statement and general ledger detail, we noted that from November 2016 through February 2017, MNAA has made deposits totaling \$441,941, related to the sixth Agreement Year using excess CFC funds. Accordingly, MNAA has funded the Ground Rent Payment for the first through fifth Agreement Years, and MNAA has begun funding Ground Rent on a monthly basis for the sixth Agreement Year.

Recommendations

There are no recommendations relating to these procedures.

15. **Contingency Payments**

Background

If CFC funds are insufficient to meet the requirements of the various obligations and accounts, MNAA may charge a contingent rent to the rental car companies. The amounts collected in contingent rent shall be used to make-up any deficiencies in any of the CONRAC funds or accounts.

Observation and Testing

Through discussion with the Chief Financial Officer and Controller, we noted that no contingent rent has been charged to the rental car companies as of and for the year ended February 28, 2017. The CFCs collections through Net Rental Payments have been sufficient to fund the CONRAC accounts and reserves to date, as evidenced by the Excess CFC Fund.

Additionally, in the CONRAC Reserve Analysis report, issued in December 2011, Ricondo & Associates has projected that CFC collections alone will be sufficient to meet the requirements of the Bond Indenture.

Recommendations

There are no recommendations relating to these procedures.



16. **Internal Controls**

Background

The MNAA Finance Department performs the accounting functions for all CONRAC - related activities, including both MNAA-controlled bank accounts and Trustee-controlled bank accounts. Accordingly, there should be proper segregation of duties and review of the internal controls in place surrounding the CFC program.

Observation and Testing

We gained an understanding of the MNAA Finance Department's roles and responsibilities surrounding CFC program transactions. We discussed the flow of transactions processed for the CFC program as well as the individuals responsible with the Chief Financial Officer and Controller. Specifically, we gained an understanding of the transactions processed between various rental car agencies and MNAA, invoicing for related administrative costs, wiring monies from MNAA's SunTrust bank accounts to the Trustee's US Bank accounts, uploading data from MNAA's investment system ("SunGard"), entering transactions into detail general ledger and reconciling Trustee accounts.

In these functions, the internal controls appear to be designed to allow for both segregation of duties as well as review of work performed.

Recommendations

There are no recommendations relating to these procedures.

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This report is intended solely for the information and use of the Board of Commissioners, the Audit 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, PLLC

Nashville, Tennessee
May 24, 2017