PERFORMANCE AUDIT

of

Orlando Sanford International, Inc. and
Orlando Sanford Domestic, Inc.

Conducted On Behalf of the

Sanford Airport Authority
Sanford, Florida

Infrastructure Management Group, Inc.
Bethesda, MD

April 20, 2005

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1. INTRODUCTION AND EXECUTIVE SUMMARY

1.1 Report Overview

Infrastructure Management Group ("IMG") has conducted this performance audit of Orlando Sanford International, Inc. ("OSI") and Orlando Sanford Domestic, Inc. ("OSD") at the request of the Sanford Airport Authority (the "Authority" or "SAA").

OSI operates the international terminal ("Terminal A" or the "International Terminal") at Orlando Sanford International Airport pursuant to the OSI Project Lease ("OSI Project Lease") and the Operating Agreement both dated December 5, 1995 (the "OSI Agreement"). OSD operates the domestic terminal ("Terminal B" or the "Domestic Terminal") per the OSD Operation and Management Agreement dated January 3, 2000 (the "OSD Agreement"). Both OSI and OSD are subsidiaries of TBI (U.S.) Inc. ("TBI US"), itself a subsidiary of TBI plc, a firm headquartered in the United Kingdom.

In November, 2004, TBI plc was taken over by Albertis and AENA, a Spanish transport and communications company and Spain's national airport authority, respectively. Related to this, TBI US has converted into a limited liability company named TBI (U.S.), LLC and has requested that SAA consent to the assignment of its rights and obligation of TBI US to its parent, TBI US Operations, Inc. and the novation by TBI US Operations of any existing or future obligations under the OSD Project Lease. Furthermore, OSI and OSD will change their reporting from a fiscal year to calendar year effective January 1, 2005. While these events may have an impact on future operation and management of OSI and OSD, they do not directly relate to this management audit, since it primarily covers the fiscal period of 2003 and 2004.

As per the May 21, 2004 engagement letter between IMG and SAA, this performance audit (the "2004 Audit") covers the following four issues for OSI and OSD:

- **Implementation of 2002 Audit Recommendations: Chapter 2** — Have OSI and OSD implemented the recommendations made in the 2002 Audit?
- **Adherence to the Operating Contract: Chapter 3** — Have OSI and OSD continued to adhere to all material aspects of the respective OSI and OSD Agreements?
- **Inter-company Transactions: Chapter 4** — Have OSI and OSD resolved all inter-company transaction inconsistencies and made all transactions with affiliates transparent?
- **Maintenance: Chapter 5** — Are OSI and OSD adhering to the established maintenance procedures?

The financial audit of OSI and OSD included the past two fiscal years: 2003 and 2004, each ending in March 31. Where relevant, IMG has also provided information from 2002. Unless otherwise indicated, all references to 2002, 2003, and 2004 refer to the OSI and OSD fiscal years.

In carrying out this audit, IMG has relied on a variety of data provided by OSI, OSD, the Authority and other published information, which is documented in Appendix C. Certain information provided by OSI was deemed confidential, such as agreements with airlines and agreements with concessionaires, as per agreements between IMG, OSI and OSD and acknowledged by the Authority. These documents were made available to IMG at OSI and OSD's offices only. Nothing contained in those agreements is referenced in this report. IMG received cooperation from OSI and OSD in obtaining data, responding to questions, and being available for interviews.

In this report, the abbreviation "K" is used to denote thousands and "MM" to denote millions.

1.2 Executive Summary

OSI and OSD, with SAA's support, should be commended for achieving increased traffic growth during 2003 and 2004, especially given the trying last two years in the aviation industry. Many U.S. and international airlines and travel companies have been hit hard by a number of adverse events and trends including: continued effects of the 2000/2001 economic recession, 9/11 aftermath, Iraq war, SARS, and fierce competition resulting from the continued emergence of low-cost carriers in the U.S. and, increasingly, in the international aviation markets. Credit must be given to OSI and OSD management for being responsive to airlines and their passengers in meeting their needs by providing them appropriate service, satisfactory facilities, and a competitive business package.

While revenue levels appear to be within the industry norm and relatively consistent with 2002 Audit findings, the treatment and allocation of revenues and expenses between OSI and OSD still raises concerns. OSI and OSD fail to follow the principle that revenues and expenses that are the result of the activities at that respective entity should be allocated to that entity. In spite of implementing some of the 2002 Audit recommendations, including a timecard-based allocation of personnel expenses, OSI is over-allocated certain expenses and revenues. In particular, OSI receives revenues and books expenses for all ground handling activities of international and domestic flights that are processed through OSD. The OSD Agreement indicates that these activities should be on OSD's books, resulting in additional gross revenue fees from OSD due to SAA of up to $60K. Furthermore, not all rent-charging procedures are being followed, nor are they market-based.

This 2004 Audit identified the following financial inconsistencies as indicated in the table below. Further detail can be found in the tables indicated in parenthesis.

Table 1.1: Summary of Misallocated Revenues and Expenses

	2003 Range[1]			2004 Range[1]		
	Low	Middle	High	Low	Middle	High
Rental Underpayments to OSD by TBI US (Table 4.7)	$103,665	$178,430	$253,195	$103,665	$178,430	$253,195
Underallocation of Ground handling Costs to OSD (Table 4.6)	$1,454,129	NA	$2,528,300	$1,424,313	NA	$2,044,046
Total Owed to OSD	**$1,557,794**		**$2,781,495**	**$1,527,978**		**$2,297,241**
Corrected Interest Rate on OSI Related Party Loans (Table 3.13)	$134,641	$134,641	$134,641	$103,956	$103,956	$103,956
OSD Share of Waived Swissport Rent at OSI (Table 4.7)	$25,200	$42,000	$58,800	$25,200	$42,000	$58,800
Total Owed to OSI	**$159,841**	**$176,641**	**$193,441**	**$129,156**	**$145,956**	**$162,756**
More Easily Quantifiable Issues Identified	**$1,717,635**		**$2,974,936**	**$1,657,135**		**$2,459,998**

[1] Ranges based on rent levels of $15, $25, or $35 per square foot

Not all of these inconsistencies are material. Some—such as OSI not paying OSD office space rent since it would not have an effect on OSD's gross revenue fees to SAA for the time being—reflect a lack of attention on maintaining strict separation between the two entities. As discussed in the 2002 Audit, this separation is imperative since each entity has different financial obligations to SAA under their agreements and it is important that OSI and OSD do not create any perception that they are "gaming" the different OSI and OSD agreements.

Finally, the International and Domestic Terminals appear to be maintained at adequate or below adequate levels. Most problems were identified at the ageing International Terminal in visual inspections. In addition, SAA has identified significant lapses in janitorial services in Summer 2004, documenting poorly cleaned rest room facilities throughout the season. Furthermore, OSI's and OSD's maintenance tracking and automation of the maintenance process is still lacking. As traffic at both terminals increases and the International Terminal reaches one-third of its asset life, a computerized maintenance system is essential for the high performing facilities that OSI and OSD aspire to be.

The recommendations resulting from this 2004 Audit are as follows:

Recommendation 1: OSI and OSD should clarify why security fees at OSD are so low, as well as the definition of security related accounts.

Recommendation 2: OSI and OSD should provide consistent trial balance detail for all major accounts. In addition, sub-account detail for accounts containing a variety of expenses should be broken down into sub-categories.

Recommendation 3: OSI and OSD should provide the Authority a breakout of Swissport services performed for international and domestic traffic.

Recommendation 4: OSI and OSD should clarify property and equipment rent costs to ensure that only equipment used at OSI is being reported on OSI's books. The same is true of the other categories listed above.

Recommendation 5: OSI and OSD need to revise the accounting for expenses by each company. This may include setting up separate accounting systems for OSI and OSD, shifting this function from TBI US, and establishing much more rigorous controls for allocating costs. Chapter 4 discusses this issue further and from the standpoint of revenues.

Recommendation 6: OSI should restate its 2003 and 2004 privilege fee calculations using the corrected interest rates. In the future, OSI should state in its annual accounts the LIBOR rate it is using to calculate its privilege fees. Furthermore, it is not clear if this expense should be considered at all, since it is not clear if it was ever approved by SAA.

Recommendation 7: IMG recommends that the Authority request more detailed information pertaining to the insurance purchased by OSI and OSD. The Authority should also consider requesting the services of an insurance specialist to review these policies to determine whether the omitted coverages are necessary or whether other coverage is lacking OSI, OSD and the Authority are currently working very closely already to clarify insurance issues as a result of hurricane losses last year; if this review is not already underway, this is a good time to do it.

Recommendation 8: OSI and OSD should report Swissport activities separately, breaking out activities in detail and by OSI and OSD. Swissport portions of the "Fuel system and aircraft maintenance," "ground handling fees," "passenger services" and other relevant categories should be broken out in the reporting of allowable operating expenses, so that these items are clear. Swissport full-time equivalent staff should be reported on an annual basis, in order to determine the level of resources being provided in each category and by terminal.

Recommendation 9: OSI and OSD need to keep better records of its inter-company charges. Every quarter, it should provide SAA a reconciliation of actual terminal and bridge charges with its own internal data and the official traffic information provided by the FAA Tower, explain any discrepancies, and make immediate adjustments. Furthermore, OSI and OSD need to explain any discrepancies between terminal and bridge charge revenue accounts and amounts reported on the OSD Financials.

Recommendation 10: OSI and OSD should separate all revenues and expenses for ground handling between OSI and OSD and restate OSI and OSD accounts for 2003 and 2004 and potentially earlier as well. This principle should apply to all activities at OSI and OSD.

Recommendation 11: OSI and OSD should recalculate the allocation of TBI US rent based on salary allocations for 2003 and 2004 and adjust its accounts accordingly. In addition, TBI should clarify if all space in the Domestic Terminal has been accounted for and allocated appropriately.

Recommendation 12: OSI and OSD should establish a clear and consistent written policy on charging rent to suppliers who have "cost plus contracts," that SAA should approve. Regardless, all actual and waived costs related to ground handling and any other service have to be allocated in a fair and consistent manner between OSI and OSD and any other TBI US entities.

Recommendation 13: For all of the above rental calculations, the market rent should be used, between $25 and $35 per sq ft. Either OSI and OSD should demonstrate how it derived the market rate, using comparables, or it should use the weighted average of the market rate it charges public and private entities. With SAA's written agreement, OSI and OSD may chose to waive Swissport and AGI rent as long as it is 1) consistent with their operating polices, and 2) their costs are allocated fairly.

Recommendation 14: TBI Airport Management Inc. ("TBI AM") needs to improve on the care and maintenance of OSI and OSD facilities. It needs to establish adequate monitoring, control and reporting systems of the maintenance activities under its responsibility.

Recommendation 15: TBI AM needs to implement as soon as possible its CMMS. This will allow much better tracking and monitoring of work orders than the manual process currently in place. It will allow TBI AM to electronically copy the Authority once a maintenance request has been issued and completed and allow TBI AM to maintain a daily/weekly/monthly repair and maintenance log to be used for tracking purposes as well as future corrective and preventive maintenance. TBI AM will be able to generate semi-monthly maintenance and repair reports to the Authority that will enable better tracking of employee and subcontractor time and cost, better record keeping of all maintenance and repair activities, improved response time by allowing remote access and requests to work orders and reduced down time and maintenance costs.

Recommendation 16: TBI AM needs to provide bi-monthly reports to the Authority that include a summary log of all routine and preventive maintenance activities carried during the period as well as maintenance related complaints and work orders showing response time and activity.

Recommendation 17: Having common maintenance contracts under OSD and OSI could possibly lead to economies of scale but also generates

difficulty in cost allocation. It is recommended that separate maintenance subcontracts be formalized for facilities and equipment located at the Domestic and international Terminals.

2. IMPLEMENTATION OF 2002 AUDIT RECOMMENDATIONS

OSI and OSD have implemented some of the 2002 Audit recommendations, in particular personnel cost allocation and detailed reporting of OSD usage. However, several recommendations to present financial reports in greater detailed have not been fully implemented.

Each recommendation is listed below in italics and the action OSI and OSD has taken is described following. If greater detail is necessary, this discussion occurs in the succeeding chapters.

2002 Audit Recommendation 1: *Where legally possible, the Authority should support OSI in re-negotiating the Dollar agreement to bring it up to a market-level standard.*

OSI representatives have indicated that they have continued to review the Dollar agreement, but have not found a way to bring it up to a market-level standard.

2002 Audit Recommendation 2: *The Authority needs further explanation why the services provided by Swissport were not profitable for OSI in FYE 2002 and 2000. The Authority should support OSI in any re-negotiation of the Swissport contract.*

OSI representatives have indicated that they have requested that Swissport re-negotiate their contract, specifically reducing their costs, yet they were not successful in this. Please see further discussion of Swissport cost issues in Chapters 3, 4 and 5.

2002 Audit Recommendation 3: *While the method of allocating salaries among TBI U.S. organizations may have been adequate in the past for an organization dominated by one major subsidiary, OSI, today this method relies too much on qualitative end-of-the year guess work and raises the appearance of conflict. The Authority should require OSI to implement a more precise personnel cost allocation system, such as one based on timecards.*

See discussion of this in Chapter 4.

2002 Audit Recommendation 4: *A more precise allocation system requires a written methodology for how costs are allocated that can be reviewed and audited by third parties. It also requires employee timesheets to demonstrate time actually worked for each entity, stated guidelines for charging travel expenses among entities, and a more definitive allocation of*

administrative overhead. Furthermore, IMG recommends assessing the space used in the airport by each affiliated entity and charging inter-company rent accordingly.

See discussion of this in Chapter 4.

2002 Audit Recommendation 5: *IMG recommends that the Authority obtain a detailed report of these inter-company charges, which is described in the following section regarding OSD.*

See discussion of this in Chapter 4.

2002 Audit Recommendation 6: *SAA should require OSI and OSD to implement a more comprehensive set of operations and maintenance systems addressing the shortfalls discussed within this report.*

See discussion of this in Chapter 5.

2002 Audit Recommendation 7: *IMG recommends that the Authority consult with its legal counsel regarding the treatment of such depreciation and other debt service, particularly debt service for operating loans from TBI U.S., as it is unclear whether it can be included in Allowable Operating Expenses per the OSI Agreement.*

See discussion of this in Chapter 3.

2002 Audit Recommendation 8: *IMG recommends revising the format for reporting the calculation of Excess Revenues to include the calculation of reserves and other restrictions on the distribution of a Privilege Fee.*

This was not carried out.

2002 Audit Recommendation 9: *The Authority should request a new format for OSI budget reporting as outlined in Appendix A in which revenues and costs are divided into much greater detail and reconciled with actual results.*

This was not carried out. The OSI budget for 2004 included four revenue and eleven operating expense categories. The suggested format in the 2002 Audit recommended over twenty revenue and fifteen revenue and expense categories. This OSI budget reporting format is included again in this 2004 Audit in Appendix A.

2002 Audit Recommendation 10: *The Authority should request a reconciliation of the budget with actual results in the same format as outlined in Appendix A, at least annually if not monthly, and should agree with OSI on annual budgets prior to the beginning of the fiscal year.*

This was not carried out on a monthly or annual basis. OSI has not provided any indication that SAA has approved budgets prior to the beginning of the fiscal year. As discussed in Chapter 3 and 4, account detail for OSD and OSI is insufficient and account names change from 2003 to 2004, making reconciliation with audited financial accounts very difficult as well following accounts from year to year.

2002 Audit Recommendation 11: *The budget should also contain a separate section that calculates the Excess Revenues and Privilege Fee monthly.*

This was not carried out.

2002 Audit Recommendation 12: *For an accurate calculation of the Authority's share of the Domestic Terminal Revenue, the Authority should request that OSD provide a report of its revenue on a calendar-year basis for past years and in the future.*

OSD prepared a report of its revenue on a calendar-year basis for past years, but not in the future. However, the detail of this information is not easily reconcilable with OSD Financials.

2002 Audit Recommendation 13: *IMG recommends that the Authority formally request annual statements of Domestic Terminal Revenues on a calendar year basis (not on a fiscal year basis) for each year since the Effective Date in the format in Appendix C. Going forward, the Authority should request such revenue information on a monthly basis. In addition, the Authority should formally request the other statistical data and revenues listed above monthly.*

OSD prepared a report of its revenue on a calendar-year basis for past years, but not in the future on a monthly or annual basis. Monthly revenue information has not been provided to SAA. However, SAA does receive OSD monthly statistical information, primarily traffic data.

2002 Audit Recommendation 14: *IMG recommends that the Authority request a quarterly marketing report from OSD.*

This has not been carried out.

2002 Audit Recommendation 15: *IMG recommends that the Authority request from OSD a list of each flight using the domestic terminal facilities with the corresponding charge to OSI on a monthly or quarterly basis.*

OSI and OSD have carried out this recommendation and provided a monthly schedule to IMG as part of the audit. However, this information is not completely accurate as discussed in Chapter 4.

3. ADHERENCE TO THE OPERATING CONTRACT

In general, OSI and OSD have managed the International and Domestic Terminals satisfactorily, meeting passenger, airline and other tenant needs at industry standards. This has been demonstrated by the better than average growth in traffic, and in adequate and high aviation and non-aviation revenues, respectively, although not all traffic growth can be attributed to OSI and OSI management. OSI and OSD expenses are generally satisfactory, although higher than comparable airports, especially when SAA's airfield and non-terminal landside costs are included, appropriate since OSI and OSD are only terminal operations. However, the examination of expenses clearly underscores a point, which Chapter 4 addresses in detail: certain expenses and revenues continue to be mis-allocated improperly, primarily to OSI's accounts.

3.1 Air Carrier Traffic

Total passengers at OSI and OSD have grown 13% over the last two years, after a slight dip in 2003 as shown in Table 3.1. Total passenger composition has, however, changed more dramatically. Domestic passenger growth has been substantial, with an 85% increase from 2002 to 2004, while international passenger growth has stagnated, with a 4% decrease over the same period. Transit passengers have decreased sharply, becoming roughly 0.3% of OSI's and OSD's total passenger traffic.

Reflecting passenger traffic patterns, domestic movements have also dramatically increased by 21% form 2003 to 2004, while international movements have decreased by 12% over the same period. This results in a net increase in movements of 8%.

Table 3.1: OSI and OSD Passenger Traffic Statistics

Fiscal Year End	2002	2003	2004
INTERNATIONAL PASSENGERS			
Deplaned	440,072	389,603	426,142
Enplaned	437,715	389,273	417,049
Total Passengers (PAX)	877,787	778,876	843,191
% of Total Passengers	70%	65%	59%
% Total PAX Change (Year on Year)		-11%	8%
DOMESTIC PASSENGERS			
Deplaned	155,657	171,115	291,108
Enplaned	157,049	176,347	287,738
Total	312,706	347,462	578,846
% of Total Passengers	25%	29%	41%
% Total PAX Change (Year on Year)		11%	67%
TRANSIT			
Deplaned	33,384	31,402	2,406
Enplaned	33,384	31,402	2,406
Total	66,768	62,804	4,812
% of Total Passengers	5%	5%	0%
% Total Increase (Year on Year)		-6%	-92%
MOVEMENTS			
International Movements		3,160	2,795
% of Total Movements		39%	32%
Domestic Movements		4,844	5,866
% of Total Movements		61%	68%
Total Movements		8,004	8,661
% Total Movement Change (Year on Year)			8%
Domestic Movements (ground handled)		2,844	4,080
Domestic Movements (non-ground handled)		2,000	1,786

The growth in air traffic is positive in comparison to other U.S. airports. During this same period of time, overall EPAX in U.S. airports declined in calendar year 2002, did not increase in calendar year 2003, and is forecasted to grow only 5% in calendar year 2004, as Table 3.2 below shows. Over SFB's 2003 and 2004 fiscal years, growth at SFB was -5% and 20%, respectively.

Table 3.2: U.S. Passenger Traffic

	Revenue Passenger Enplanements (Millions)				Revenue Passenger Miles (Billions)			
Calendar Year	Domestic	International	System	Growth	Domestic	International	System	Growth
2001	546.3	53.5	599.9		483.8	182.3	666.1	
2002	485.9	48.4	534.3	-11%	443.2	157.3	600.5	-10%
2003	482.2	50.5	532.7	0%	452.8	154.7	607.5	1%
2004[1]	502.4	55.6	558.0	5%	475.9	172.6	648.5	7%

OSI and OSD and SAA should be commended for achieving this growth, especially given the trying last two years in aviation. Many U.S. and international airlines and travel companies have been hard hit by a number of events and trends, including: continued effects of economic recession, 9/11 aftermath, Iraq war, SARS, and tremendous competition from the de-regulation of the U.S. airline industry recently evidenced by the emergence of low cost-carriers, in the U.S. and increasingly in the international aviation markets. Credit must be given to OSI and OSD management for being responsive to airlines and their passengers in meeting their needs by providing them appropriate service, satisfactory facilities, and a competitive business package. However, not all growth can be attributed to OSI and OSI management, since airlines and passengers choose to travel and choose airport destinations for a variety of reasons.

3.2 Revenue

3.2.1 Air Carrier Traffic and Revenue

Air carrier revenue includes terminal fees, bridge usage fees, landing fee commissions, FIS fees, security screening, and air carrier terminal rents. As shown in Table 3.3, air carrier revenue has grown both at OSI and OSD, but much more dramatically at OSI. In addition, at OSI air carrier revenue per enplaned passenger ("EPAX") has increased to $8.44, which compares very favorable with the $6.31 average for comparison airports[2] in 2002. However, at OSD, although revenues have grown, they have not kept pace with the

[1] Forecasted value.
[2] Comparison airports are those used in the 2002 Audit include 15 airports which: 1) serve a resort community or with a tourist focus, 2) are similar in size to SFB, or 3) compete with SFB by being located in Florida or the southeast. The scope of the 2004 Audit did not include an update of the data used for the comparison airports. Since inflation has been low since 2002 and all airport revenues and expenses are under competitive pressure, it is likely that this data remains valid for this audit.

increase in enplaned passengers resulting in a substantial decrease in revenue per EPAX to $4.11, approximately 35% below the average for comparison airports.

Table 3.3: Air Carrier Revenue

	OSI			OSD		
	2002	**2003**	**2004**	**2002**	**2003**	**2004**
Air Carrier Revenue	$2,507,769	$2,476,337	$3,193,918	$959,987	$834,183	$946,479
SAA Landing Fees	$363,199	$347,263	$324,586	$209,513	$236,777	$236,915
TOTAL	**$2,870,968**	**$2,823,600**	**$3,518,504**	**$1,169,500**	**$1,070,960**	**$1,183,394**
per EPAX	$6.52	$7.25	$8.44	$7.51	$6.07	$4.11
% Change		-1.65%	24.61%		-8.43%	10.50%

It is not clear why revenues have been flat at OSD in actual and unit terms despite the increase in traffic. During this period many airlines, including domestic carrier Pan AM were adversely affected by 9/11 and the related downturn in the airline industry. This may explain part of OSD's performance; allocation issues of revenues and costs to OSD may be another explanation, as discussed below.

3.2.2 Security Fees

Security fees and commissions were almost entirely collected by OSI, as shown in Table 3.4. While OSD did collect Public Safety Commissions, they did not collect any other fees in 2004. These fees are collected by OSI and OSD at 25 cents per enplaned PAX, then remitted to SAA less a 5 percent commission to OSI and OSI.

Total security fee revenues for OSD ranged from less than a cent per EPAX and $3.70 per EPAX at OSI. It may be that OSI collected security fees for OSD flights and incurred all associated costs.

Table 3.4: Security Fees

	OSI		OSD	
	2003	**2004**	**2003**	**2004**
Security Screenings	$187,927	$249,486	$0	$0
Security Fees	$0	$0	$584	$0
FIS fees	$1,247,479	$1,307,511	$0	$0
Public Safety Commission	$5,513	$7,852	$2,137	$977
TOTAL	**$1,440,919**	**$1,564,849**	**$2,721**	**$977**
Per EPAX	$3.70	$3.75	$0.02	$0.00
% Change		8.60%		-64.09%

Recommendation 1: OSI and OSD should clarify why security fees at OSD are so low, as well as the definition of security related accounts.

3.2.3 Terminal Rent

Terminal rent was collected from concessionaires, tour operators, air carriers and rental car businesses by both OSI and OSD. Terminal rent decreased by approximately 20 percent from 2003 to 2004 at OSI, resulting in a small decrease in terminal rent per EPAX; however OSD's terminal rent per EPAX dropped substantially despite a slight increase in actual terminal rent revenue. Both OSI and OSD are earning substantially below the comparison airport averages of $2.63 per EPAX and $10.97 per total terminal sq ft. The 2002 Audit found that this was due to an average tenant rental rate per sq ft of $13.33 at OSI compared to an average rental rate of $40-$45 per sq ft at comparable airports. The 2002 Audit found that significant concession revenues paid by tenants compensated for the rental deficit.

Table 3.5: Terminal Rent

	OSI			OSD		
	2002	**2003**	**2004**	**2002**	**2003**	**2004**
Terminal Rent	$738,082	$734,460	$594,537	$184,951	$196,133	$210,406
per EPAX	$1.68	$1.89	$1.43	$1.19	$1.11	$0.73
per sq ft	$5.47	$5.44	$4.40	$0.84	$0.89	$0.96
Air Carrier Terminal Rent	$65,624	$168,703	$166,511	$59,217	$74,602	$61,509
per EPAX	$0.15	$0.43	$0.40	$0.38	$0.42	$0.21
per sq ft	$0.49	$1.25	$1.23	$0.27	$0.34	$0.28

3.2.4 Concession Revenue

As shown in Table 3.5 below, both OSI and OSD have concession revenue per EPAX that is substantially higher than $1.80 per EPAX, which is the average for comparison airports in 2002. Previously, OSI's advertising revenue was below the 2002 benchmark of $0.13 per EPAX. Since that time OSI has tripled its advertising revenue per EPAX, which is now at $0.21 per EPAX. While there has been some across-the-board-growth for OSI, growth in some areas has been at rates that are different from EPAX growth. Specifically, car rental revenues have declined slightly while retail and arcade revenues have slightly increased. In addition, fuel revenues are beginning to rebound in 2004 after Pan Am began fueling itself from its own fuel farm in 2002.

OSD's concession revenue per EPAX, while still above the comparison airport average, is considerably lower than OSI's. This is understandable due to the tremendous duty free opportunities available to international passengers. Yet it is not clear why OSD's concession revenues have decreased since 2002. It should be noted that a great deal of OSD's terminal activity consists of OSI passengers using OSD gates. These passengers shop primarily at the International Terminal and these revenues remain with OSI.

OSD's car rental revenues per EPAX have held relatively constant, while its advertising and retail and arcade revenues per EPAX have decreased. OSD's total concession revenues have increased by more than 65 percent since 2002; however, this revenue increase is not keeping pace with increased traffic as OSD experienced an 85 percent increase in enplaned passengers over the same period.

The 2002 Audit discussed that the Dollar contract is below market for the level of compensation to the airport, or in this case, OSI and OSD. OSI and OSD representatives indicated that they have not been able to re-negotiate a more market-based Dollar contract during the audit period.

Table 3.6: Concession Revenue

	OSI			OSD		
	2002	**2003**	**2004**	**2002**	**2003**	**2004**
Car Rental	$1,566,946	$1,165,933	$1,311,363	$786,650	$799,012	$1,454,252
per EPAX	$3.56	$3.00	$3.14	$5.05	$4.53	$5.05
Retail and Arcade	$3,067,463	$2,240,981	$3,064,015	$163,362	$182,478	$209,843
per EPAX	$6.97	$5.76	$7.35	$1.05	$1.03	$0.73
Ground Transportation	$85,720	$74,614	$108,884	$0	$0	$0
Fuel	$31,969	$30,755	$68,038	$0	$0	$0
Vending and telephone	$21,774	$7,624	$12,740	$5,749	$6,983	$1,370
Catering		$361,586	$309,001	$0	$0	$0
Currency	$26,779	$25,793	$8,330	$0	$0	$0
Guest House	$124,859	$115,629	$245,254	$0	$0	$0
Advertising and other	$31,679	$52,235	$88,744	$17,271	$17,972	$13,431
per EPAX	$0.07	$0.13	$0.21	$0.11	$0.10	$0.05
per sq ft	$0.23	$0.39	$0.66	$0.08	$0.08	$0.06
TOTAL	**$4,957,189**	**$4,075,150**	**$5,216,369**	**$973,032**	**$1,006,445**	**$1,678,896**
per EPAX	$11.26	$10.47	$12.51	$6.25	$5.71	$5.83
% Change		-17.79%	28.00%		3.43%	66.81%

3.3 Comparable Airport Expenses

Tables 3.7 and 3.8 compare OSI's and OSD's expenses, incorporating all relevant expenses, including those of the Authority[3] and TBI US[4] that are attributable to OSI and OSD. This comparison has been made using the most recent, 2004 data. It is expected that this analysis would be similar for 2003. It is notable that overall operating expense per EPAX at OSI and OSD is more than twice the average at comparison airports. In Table 3.7, a majority of this discrepancy is found in OSI's personnel costs, and in Table 3.8, a majority is found in OSI's operations costs. In both cases, the expense associated with Swissport[5] services is a large portion of OSI's

[3] As in the 2002 Audit, the Authority's expenses for the fiscal year ending in March 2004 were estimated based on half of the total expense for the Authority's fiscal year ending in September 2003 plus half of the expense for the Authority's fiscal year ending in September 2004. In addition, 15 percent of administrative costs and 5 percent of maintenance costs were attributed to operating the industrial park. The remaining airport-related costs were attributed to OSI (64 percent) and OSD (36 percent) based on each entity's average share of total traffic during 2003 and 2004.
[4] TBI US allocates labor costs between OSI and OSD by department and other TBI US companies.
[5] Roughly 74 percent of Swissport costs were assumed to be labor-related, based on our estimate of the labor cost percentage for specific cost centers.

costs. At least one mitigating factor is that Swissport includes ground handling costs not typically included in the benchmark figures and Swissport provides some services for OSD which have been allocated entirely to OSI. Unfortunately, this is not a complete explanation, since OSI's labor costs exceed the 2002 benchmark before any non-janitorial Swissport costs are included.

In all other categories except for supplies and outside services in Table 3.7, OSI exceeds the average cost at comparison airports; however, Swissport's supply costs were not broken out and therefore this analysis may underreport supply costs. In addition to exceeding the cost per EPAX benchmarks, OSI's cost per sq ft is almost double the 2002 cost per sq ft benchmark.

At OSD, utility, insurance and maintenance costs per EPAX were close to double the 2002 benchmarks. Supply and other costs were low at OSD resulting in an overall cost per EPAX, which is only about 15 percent above the 2002 benchmark. In addition, OSD's cost per sq ft is substantially below the 2002 benchmark.

In all other categories except for outside services and supplies in Table 3.7, OSI exceeds the average cost at comparison airports. Furthermore, in this table, Swissport costs were primarily allocated to personnel costs, and therefore supplies and outside services may be underreported. In addition to exceeding the cost per EPAX benchmarks, OSI's cost per sq ft is almost double the 2002 cost per sq ft benchmark.

At OSD, utility, insurance and maintenance costs per EPAX were close to double the 2002 benchmarks. Supply and other costs were low at OSD resulting in an overall cost per EPAX, which is only about 15% above the 2002 benchmark. In addition, OSD's cost per sq ft is substantially below the 2002 benchmark.

Table 3.7: Airport Operating Expenses by Cost Category

		OSI			OSD			2002 Benchmark	
		Costs	Per EPAX	Per sq ft	Costs	Per EPAX	Per sq ft	Per EPAX	Per sq ft
Personnel	OSI and OSD	$606	$0.00	$0.00	$0	$0.00	$0.00		
	TBI US	$744,000	$1.78	$5.51	$633,265	$2.20	$2.88		
	SAA	$1,718,828	$4.12	$12.73	$957,520	$3.33	$4.35		
	Swissport Janitorial	$431,815	$1.04	$3.20	$0	$0.00	$0.00		
	Total	**$2,895,250**	**$6.94**	**$21.45**	**$1,590,785**	**$5.53**	**$7.23**	**$4.63**	**$18.54**
	Swissport non-Janitorial	$3,948,193	$9.47	$29.25	$0	$0.00	$0.00		
	Total	**$6,843,443**	**$16.41**	**$50.69**	**$1,590,785**	**$5.53**	**$7.23**		
Outside Services	OSI and OSD	$158,045	$0.38	$1.17	$50,465	$0.18	$0.23		
	Swissport	$107,954	$0.26	$0.80	$0	$0.00	$0.00		
	SAA	$450,718	$1.08	$3.34	$251,085	$0.87	$1.14		
	Total	**$716,718**	**$1.72**	**$5.31**	**$301,551**	**$1.05**	**$1.37**	**$1.84**	**$9.45**
Utilities	OSI and OSD	$489,525	$1.17	$3.63	$461,882	$1.61	$2.10		
	SAA	$170,780	$0.41	$1.27	$95,137	$0.33	$0.43		
	Total	**$660,305**	**$1.58**	**$4.89**	**$557,020**	**$1.94**	**$2.53**	**$0.91**	**$3.67**
Maintenance	OSI and OSD	$716,606	$1.72	$5.31	$368,091	$1.28	$1.67		
	SAA	$208,801	$0.50	$1.55	$116,318	$0.40	$0.53		
	Total	**$925,407**	**$2.22**	**$6.85**	**$484,409**	**$1.68**	**$2.20**	**$0.88**	**$3.88**
Supplies	OSI and OSD	$67,803	$0.16	$0.50	$40,054	$0.14	$0.18		
	SAA	$30,898	$0.07	$0.23	$17,213	$0.06	$0.08		
	Total	**$98,701**	**$0.24**	**$0.73**	**$57,266**	**$0.20**	**$0.26**	**$0.63**	**$2.54**
Insurance	OSI and OSD	$492,400	$1.18	$3.65	$52,160	$0.18	$0.24		
	SAA	$123,364	$0.30	$0.91	$68,723	$0.24	$0.31		
	Total	**$615,764**	**$1.48**	**$4.56**	**$120,884**	**$0.42**	**$0.55**	**$0.24**	**$0.92**
Other	OSI and OSD	$452,883	$1.09	$3.35	$148,275	$0.52	$0.67		
	SAA	$127,195	$0.30	$0.94	$70,857	$0.25	$0.32		
	Total	**$580,077**	**$1.39**	**$4.30**	**$219,132**	**$0.76**	**$1.00**	**$1.22**	**$6.00**
TOTAL		**$10,440,415**	**$25.03**	**$77.34**	**$3,331,047**	**$11.58**	**$15.14**	**$10.07**	**$43.68**
without Swissport		**$5,952,453**	**$14.27**	**$44.09**	**$3,331,047**	**$11.58**	**$15.14**	**$10.07**	**$43.68**
without non-Janitorial Swissport		**$6,384,268**	**$15.31**	**$47.29**	**$3,331,047**	**$11.58**	**$15.14**	**$10.07**	**$43.68**

Table 3.8: Airport Operating Expenses by Airport Area

		OSI			OSD			Benchmark	
		Costs	Per EPAX	Per sq ft	Costs	Per EPAX	Per sq ft	Per EPAX	Per sq ft
Operations	OSI and OSD	$591,919	$1.42	$4.38	$32,726	$0.11	$0.15		
	TBI US[6]	$142,255	$0.34	$1.05	$239,746	$0.83	$1.09		
	SAA	$367,712	$0.88	$2.72	$204,844	$0.71	$0.93		
	Total	**$1,101,886**	**$2.64**	**$8.16**	**$477,316**	**$1.66**	**$2.17**	**$1.21**	**$4.95**
	Other Ground Handling	$873,511	$2.09	$6.47	$0	$0.00	$0.00		
	Swissport	$4,057,359	$9.73	$30.05	$0	$0.00	$0.00		
	Total	**$6,032,756**	**$14.47**	**$44.69**	**$954,632**	**$3.32**	**$4.34**		
Maintenance	OSI and OSD	$716,606	$1.72	$5.31	$242,147	$0.84	$1.10		
	TBI US	$132,164	$0.32	$0.98	$77,608	$0.27	$0.35		
	SAA	$208,801	$0.50	$1.55	$116,318	$0.40	$0.53		
	Total	**$1,057,571**	**$2.54**	**$7.83**	**$436,073**	**$1.52**	**$1.98**	**$2.13**	**$9.63**
	Swissport	$976,434	$2.34	$7.23	$0	$0.00	$0.00		
	Total	**$2,034,005**	**$4.88**	**$15.07**	**$436,073**	**$1.52**	**$1.98**		
Janitorial	OSI and OSD	$2,159	$0.01	$0.02	$125,944	$0.44	$0.57		
	TBI US	$0	$0.00	$0.00	$0	$0.00	$0.00		
	SAA	$4,679	$0.01	$0.03	$2,607	$0.01	$0.01		
	Total	**$6,838**	**$0.02**	**$0.05**	**$128,551**	**$0.45**	**$0.58**		
	Swissport	$539,769	$1.29	$4.00	$0	$0.00	$0.00		
	Total	**$546,607**	**$1.31**	**$4.05**	**$128,551**	**$0.45**	**$0.58**	**$0.92**	**$4.93**
Admin and Overhead	OSI and OSD	$711,903	$1.71	$5.27	$113,653	$0.39	$0.52		
	TBI US	$379,858	$0.91	$2.81	$249,291	$0.87	$1.13		
	SAA	$1,200,477	$2.88	$8.89	$668,759	$2.32	$3.04		
	Total	**$2,292,239**	**$5.50**	**$16.98**	**$1,031,703**	**$3.59**	**$4.69**	**$3.07**	**$13.82**
	Swissport	$342,615	$0.82	$2.54	$0	$0.00	$0.00		
	Total	**$2,634,854**	**$6.32**	**$19.52**	**$1,031,703**	**$3.59**	**$4.69**		
ARFF (SAA)	Total	**$401,122**	**$0.96**	**$2.97**	**$223,456**	**$0.78**	**$1.02**	**$1.03**	**$4.15**
TOTAL		**$11,649,345**	**$27.93**	**$86.29**	**$2,774,415**	**$9.64**	**$12.61**		
without Swissport		**$5,733,168**	**$13.75**	**$42.47**	**$2,774,415**	**$9.64**	**$12.61**		
without non-Janitorial Swissport		**$6,272,937**	**$15.04**	**$46.47**	**$2,774,415**	**$9.64**	**$12.61**	**$10.14**	**$44.77**

In Table 3.8 above, most OSI costs also exceed the 2002 benchmarks. Since Swissport provides all janitorial services, its inclusion is essential in this category. There, too, OSI exceeds the 2002 benchmark. OSI exceeds

[6] TBI US allocated costs to OSD.

the 2002 benchmark most noticeably in the operations area, where a majority of Swissport costs are incurred. Again, we note that Swissport operations costs include those associated with ground handling which is not included in the benchmark; however, ground handling costs alone do not account for the disparity between OSI costs and the benchmark, since when they are removed, OSI's costs are over two times higher.

OSD again performs better than OSI as Table 3.8 shows; however, for the same reasons mentioned above, there is concern that OSD's reported costs may not represent total Domestic Terminal operating expenses. In order to more fully understand how costs are allocated and shared between OSI and OSD, the Authority should request that OSI and OSD provide further sub account grouping in its general ledger so that particular costs can be more closely examined. For example, $90K worth of Swissport janitorial expenses incurred by OSI on behalf of OSD are booked in OSI's "shop supplies" account in 2004. Instead these expenses should be recorded in a sub-account for "janitorial services," under a major account, which contains all costs related to services performed at OSD. In OSD's janitorial service account $125K is paid from OSD to OSI for Swissport janitorial services. In this case, additional sub accounts in OSI's accounting system should break out expenses accrued for OSD.

The breakdown of accounts listed in the general ledger into sub-accounts was carried out in calendar year 2003. However, the 2003 calendar year general ledger had sub-account headings, but lacked account numbers, and therefore provided no capability to tie these sub-accounts to larger accounts.

Recommendation 2: OSI and OSD should provide consistent trial balance detail for all major accounts. In addition, sub-account detail for accounts containing a variety of expenses should be broken down into sub-categories.

3.4 Personnel and Personnel Costs

Over the last two years, personnel costs attributable to OSI incurred by OSI, TBI US, or SAA have remained relatively constant, as shown in Table 3.9, under the "non-Swissport Personnel" expense line. The 16% increase in total personnel cost between 2003 and 2004 is largely due to a 21% increase in Swissport operations personnel costs. During the same period OSI and SAA operations personnel costs rose 8% and traffic increased 8%.

Operations personnel cost was also the fastest growing cost for personnel costs attributable to OSD with a 20% increase compared to a 10% increase for all personnel costs from 2003 to 2004. Over the same period OSD traffic increased 67%, resulting in a decreasing personnel cost per EPAX.

Table 3.9: Salaries and Wages

	OSI			OSD	
	2002	**2003**	**2004**	**2003**	**2004**
Accounting & Administration	$347,358	$350,388	$350,015	$244,820	$233,555
Marketing	$77,582	$83,961	$89,723	$65,234	$66,620
SAA Admin	$445,128	$517,726	$592,158	$288,413	$329,878
Swissport	$245,480	$247,867	$274,092	$0	$0
Total Admin	**$1,115,548**	**$1,199,942**	**$1,305,988**	**$598,467**	**$630,053**
Maintenance	$217,428	$118,858	$132,164	$79,239	$77,608
SAA Maintenance	$329,700	$373,301	$418,899	$207,957	$233,359
Swissport	$958,835	$949,076	$1,115,319	$0	$0
Total Maint.	**$1,505,963**	**$1,441,235**	**$1,666,382**	**$287,196**	**$310,967**
Operations	$336,793	$139,483	$142,255	$190,339	$239,746
SAA Operations	$253,485	$275,374	$306,649	$153,405	$170,827
Swissport	$2,685,155	$2,281,369	$2,766,740	$0	$0
Ground Handling[7]	$0	$145,643	$611,458	$0	$0
Total Ops	**$3,275,433**	**$2,696,226**	**$3,215,645**	**$343,744**	**$410,573**
SAA ARFF	**$333,770**	**$361,592**	**$401,122**	**$201,435**	**$223,456**
TOTAL	**$6,230,713**	**$5,698,995**	**$6,589,137**	**$1,430,842**	**$1,575,049**
per EPAX	$14.16	$14.64	$15.80	$8.11	$5.47
% Change		-8.53%	15.62%		10.08%
without non-Janitorial Swissport	$2,894,496	$2,617,543	$2,864,801	$1,430,842	$1,575,049
per EPAX	$6.58	$6.72	$6.87	$8.11	$5.47
% Change		-9.57%	9.45%		10.08%
without Swissport	$2,341,244	$2,220,683	$2,432,985	$1,430,842	$1,575,049
per EPAX	$5.32	$5.70	$5.83	$8.11	$5.47
% Change		-5.15%	9.56%		10.08%

[7] Ground handling expenses were provided by AGI and Royal Support Services to OSD but were recorded on OSI's books.

3.5 Contract Services

Approximately 50% of OSI's operating expenses are paid to its subcontractor, Swissport. Swissport performs ground handling, aircraft maintenance, fuel services, and other passenger services for the airlines. The airlines contract directly with OSI and pay OSI for these services. In turn, OSI pays Swissport its costs plus a mark-up. A similar arrangement is used with AGI and Royal Support for domestic ground handling.

As shown below, contracted service costs grew by 19% from 2003 to 2004. Over the same time period OSI's traffic increased 8%. The cost growth is not proportional to OSI's traffic growth, which could mean that Swissport provided additional services in 2004 as compared with 2003. It is also possible that Swissport is performing services for the Domestic Terminal, which had much more dramatic traffic growth over the same period. Please see a discussion of this issue in Chapter 4.

Recommendation 3: OSI and OSD should provide the Authority with a breakout of Swissport services performed for international and domestic traffic.

Table 3.10: OSI Contracted Expenses

	OSI			OSD	
	2002	**2003**	**2004**	**2003**	**2004**
Accounting & Administration	$347,358	$350,388	$350,015	$244,820	$233,555
Marketing	$77,582	$83,961	$89,723	$65,234	$66,620
SAA Admin	$445,128	$517,726	$592,158	$288,413	$329,878
Swissport	$245,480	$247,867	$274,092	$0	$0
Total Admin	**$1,115,548**	**$1,199,942**	**$1,305,988**	**$598,467**	**$630,053**
Maintenance	$217,428	$118,858	$132,164	$79,239	$77,608
SAA Maintenance	$329,700	$373,301	$418,899	$207,957	$233,359
Swissport	$958,835	$949,076	$1,115,319	$0	$0
Total Maint.	**$1,505,963**	**$1,441,235**	**$1,666,382**	**$287,196**	**$310,967**
Operations	$336,793	$139,483	$142,255	$190,339	$239,746
SAA Operations	$253,485	$275,374	$306,649	$153,405	$170,827
Swissport	$2,685,155	$2,281,369	$2,766,740	$0	$0
Ground Handling	$0	$145,643	$611,458	$0	$0
Total Ops	**$3,275,433**	**$2,696,226**	**$3,215,645**	**$343,744**	**$410,573**
SAA ARFF	**$333,770**	**$361,592**	**$401,122**	**$201,435**	**$223,456**
TOTAL	**$6,230,713**	**$5,698,995**	**$6,589,137**	**$1,430,842**	**$1,575,049**
per EPAX	$14.16	$14.64	$15.80	$8.11	$5.47
% Change		-8.53%	15.62%		10.08%
without non-Janitorial Swissport	$2,894,496	$2,617,543	$2,864,801	$1,430,842	$1,575,049
per EPAX	$6.58	$6.72	$6.87	$8.11	$5.47
% Change		-9.57%	9.45%		10.08%
without Swissport	$2,341,244	$2,220,683	$2,432,985	$1,430,842	$1,575,049
per EPAX	$5.32	$5.70	$5.83	$8.11	$5.47
% Change		-5.15%	9.56%		10.08%

As in 2002, OSI is not making a profit on contracted services. In fact, OSI is losing 70% more on these services in 2004 than in 2002, as shown in Table 3.11. The 2002 Audit recommended that the Authority require further explanation why the services provided by Swissport were not profitable for 2000 and 2002. OSI and OSD representatives informed us that they have had discussions with Swissport on their cost levels, yet were not able to reach an acceptable agreement.

Table 3.11: Passenger Services

	OSI		
	2002	**2003**	**2004**
Passenger Service Revenue	$6,517,823	$6,307,749	$7,742,795
per EPAX	$14.81	$16.20	$18.57
Less:			
Passenger services	$1,805,848	$1,284,217	$2,319,001
Ground handling	$3,030,611	$3,288,137	$3,562,659
Aircraft fuel and maintenance	$1,699,394	$1,696,867	$1,966,500
Swissport operations	$134,885	$137,841	$154,988
Total Expense	$6,670,738	$6,407,062	$8,003,148
per EPAX	$15.16	$16.46	$19.19
Profit (Loss)	**$(152,915)**	**$(99,313)**	**$(260,353)**
% Change		**-35.05%**	**162.15%**

3.6 Selected Cost Comparison

Several selected costs across OSI and OSD were examined in order to see more clearly how the two companies are incurring these costs. Table 3.12 illustrates items reviewed which were of particular interest. The two right hand columns indicate the factor by which OSI's costs exceeded OSD's costs in that area for each year reviewed.

Over 2003 and 2004 SFB had an average of twice as many international passengers as domestic passengers. While this information does mitigate some of the discrepancies between the costs incurred by OSI and OSD, more information is needed to explain why OSI is incurring such a high proportion of certain costs. In particular, OSI spends more than 500 times more than OSD on property and equipment rent, even though OSI has less square footage than OSD and only twice as many passengers. As seen in Table 3.12, OSD incurs no land expense and only minimal building or machinery expense.

Table 3.12: Selected Costs

	OSI		OSD		OSI and OSD Cost Ratio	
	2003	**2004**	**2003**	**2004**	**2003**	**2004**
Office Supplies	$76,950	$53,794	$9,416	$3,841	8	14
Shop Supplies[8]	$5,739,265	$7,381,608	$101,757	$32,706	56	226
Swissport	$4,959,502	$5,916,177	$0	$0	n/a	n/a
Other	$779,763	$1,465,431	$101,757	$32,706	8	45
Property and Equipment Rent	$1,186,856	$631,225	$438	$1,174	2,708	538
Land	$109,545	$107,192	$0	$0	n/a	n/a
Buildings	$274,165	$275,377	$0	$905	n/a	304
Machinery	$803,146	$248,657	$438	$270	1,833	922
Legal	$474,030	$63,547	$1,461	$6,450	324	10
Postage	$18,106	$7,664	$559	$246	32	31
non-Swissport Total	*$2,535,706*	*$2,221,661*	*$113,631*	*$44,417*	*22*	*50*
Total	**$7,495,208**	**$8,137,838**	**$113,631**	**$44,417**	**66**	**183**

Recommendation 4: OSI and OSD should clarify property and equipment rent costs to ensure that only equipment used at OSI is being reported on OSI's books. The same is true of the other categories listed above.

The 2002 Audit noted that OSI's legal costs were significant largely due to the Jett Aire lawsuit. During 2003 to 2004, legal costs have dropped considerably, and are more in line with budgeted amounts.

In another area, OSI accounts report a payment of $73K to a carrier as an incentive to expand service that uses OSD facilities. Clearly most if not all of these expenses should be allocated to OSD.

Even in small categories, such as office supplies and postage, OSI spends 14 and 31 times more for these items, respectively, than OSD, even though its traffic is less than twice as high. Finally, in all categories for these selected costs, OSI's costs are an order of magnitude larger. Even allowing for the fact that OSI involves international charter flights, all with ground handling requirements that would necessitate greater management and operational resources, it is unlikely that these costs would be so much higher than those of OSD, which is fundamentally in the same business. This has

[8] This account includes expenses for services performed by AGI and Royal Support Services, in the amounts of $837,511 and $37,400, respectively, which are related to ground handling services performed at OSD.

been a pattern throughout this chapter: OSI costs are almost always higher, sometimes significantly, on an actual and a unit basis than the comparable OSD costs. Besides the differences in international/domestic operations, some of these differences may be explained by the lack of account detail. However, even when good general ledger detail was available, many of these differences were still apparent. All of this would indicate that the accounting of expenses is not accurate between OSI and OSD, with a general tendency to overbook OSD expenses on OSI's accounts.

Recommendation 5: OSI and OSD need to revise the accounting for expenses by each company. This may include setting up separate accounting systems for OSI and OSD, shifting this function from this TBI US, and establishing much more rigorous controls for allocating costs. Chapter 4 discusses this issue further and from the standpoint of revenues.

3.11 TBI Loan

OSI deducted "Other debt service" of $543,861 and $484,258 in 2003 and 2004, respectively. This reflects debt service related to capital expenditures of approximately $5.7MM of loaned funds provided on various dates from June 1997 to June 2001. As discussed in the 2002 Audit, it is unclear if this constitutes a "Separate Agreement" as defined in the OSI Agreement.[9]

If SAA legal counsel advises SAA that this does not constitute a Separate Agreement, then OSI may be required to exclude these charges from the privilege fee calculation.

Even if the debt service is eligible for inclusion in the privilege fee calculation, it appears that the interest rates applied have not been appropriate. In the OSI 2003 and 2004 financials, OSI reportedly charges a rate of LIBOR (tenor not stated, but sixth-month is assumed, since the interest is semi-annual) plus a margin of 5.50%.[10] Over the last two years,

[9] The definition of Separate Agreement can be found on page 7 of the OSI Project Lease, with reference to the definition of Financial Documents on page 5 on page 5 of the OSI Project Lease.

[10] The 2002 Audit commented as follows on the 5.50% margin on page 17: "OSI has received an opinion from PricewaterhouseCoopers that the LIBOR + 5.5% rate is market-based. IMG has not independently talked to financial market representatives to determine whether indeed this is the case. The TBI US loan is subordinate to the outstanding OSI municipal bonds, which were priced at interest rates reflecting subordinated municipal bond debt, which may be, in part, the justification for the TBI US rate."
"Based on IMG's experience, IMG does not believe that TBI US is in any way subsidizing OSI with this rate. On the contrary, this is a rate that is typical for subordinated loans and other debt instruments of unrated and below investment grade companies, common to "high yield" or "junk" bonds."

LIBOR, as most interest rates, has dropped from over 2% to 1.25%. As estimated in Table 3.13, OSI has used a LIBOR interest rate as high as 4% for LIBOR in 2003 and around 3% in 2004. During those periods, the average LIBOR rate was 1.70% and 1.19%, respectively. In 2004, even OSI uses a lower LIBOR rate of 1.25% for other accrued debt that is not included in the privilege fee calculations.

As Table 3.13 estimates, the privilege fee calculations would have been $135K and $104K more positive in 2003 and 2004, respectively, if correct interest rates were applied. Nevertheless, this would not have been large enough to reduce the revenue deficits in either of those years. Furthermore, if all interest charges are excluded, the privilege fee calculation would still remain negative.

Table 3.13: Interest Rates on TBI US-OSI Loans

Approximate Loan Amount:	$5,683,779			
	6-Mos. LIBOR[1]	Margin	Interest Rate	Interest
Interest in 2003 Financials	4.07%	5.50%	9.57%	$543,861
Corrected Interest Rate	1.70%	5.50%	7.20%	$409,220
Difference				$134,641
Interest in 2004 Financials	3.02%	5.50%	8.52%	$484,258
Corrected Interest Rate	1.19%	5.50%	6.69%	$380,302
Difference				$103,956

[1]LIBOR rates in Financials are estimated based on 5.50% spread and reported interest.

Recommendation 6: OSI should restate its 2003 and 2004 privilege fee calculations using the corrected interest rates. In the future, OSI should state in its annual accounts the LIBOR rate it is using to calculate its privilege fees. Furthermore, it is not clear if this expense should be considered at all, since it is not clear if it was approved by SAA.

3.13 Insurance

OSI and OSD are contractually obliged to maintain specific insurance coverage related to their operation of the terminals at the Orlando Sanford Airport. The required coverage is clearly outlined in their agreements with

the SAA[11]. A review of the insurance requirements described in these agreements and the insurance certificates for both OSI and OSD indicates the following:

OSD and OSI have three different types of coverage with identical limits:

- general liability, comprised of commercial general liability and contractual coverage
- automobile liability and
- workers compensation and employers' liability coverage.

Typically, commercial general liability coverage includes bodily injury, property damage, personal injury, advertising injury, and injury resulting from products or completed operations. A majority of OSI's and OSD's contractual insurance obligations are met through these three types of coverage; however, there are several additional requirements that are not referenced on the insurance certificates, specifically:

- flood and earthquake
- business interruption
- directors' and officers' liability and
- crime (OSD only).

Some of these types of coverage, particularly business interruption and directors' and officers' liability, may sometimes be incorporated into business owners' packages along with commercial general liability policies; however, we would expect that the limits of any additional coverage would be clearly delineated on insurance certificates.

Recommendation 7: IMG recommends that the Authority request more detailed information pertaining to the insurance purchased by OSI and OSD, in light of the above-referenced omissions. The Authority should also consider requesting the services of an insurance specialist to review these policies to determine whether the omitted coverages are necessary or whether other coverage is lacking. OSI, OSD and the Authority are currently working very closely already to clarify insurance issues as a result of hurricane losses last year; if this review is not already underway, this is a good time to do it.

3.14 Privilege Fee

Per the OSI Agreement, OSI is required to pay to the Authority an annual Privilege Fee, which is equal to 25% of the Excess Revenues of OSI for all fiscal years after 1998. To date, the Authority has not received any Privilege Fee pursuant to the Agreement, as OSI has not reported any Excess Revenues. Excess Revenues are defined as Gross Revenue less Allowable

[11] December 20, 1999 Agreement for the Operation and Management of the Orlando Sanford Airport Domestic Terminal, page 38 and December 15, 1995 Project Lease Number 94-42 between the Sanford Airport Authority and Central Florida Terminals, Inc., page 38.

Operating Expenses, which are delineated in the OSI Agreement. OSI has submitted the following calculation of Excess Revenue to the Authority in Table 3.14 with a supporting review and affirmation of the calculation by PriceWaterhouseCoopers LLP.

Table 3.14: OSI Excess Revenue (in Millions)

	2002	2003	2004
Gross Revenues	**$12,213**	**$11,117**	**$13,554**
Allowable Operating Expenses:			
Fuel System & Aircraft Maintenance	$1,699	$1,697	$1,967
Ground Handling Fees	$3,031	$3,288	$3,563
Passenger Services	$1,806	$1,284	$2,319
Facility Costs	$0	$1,961	$2,111
Office Expense	$2,986	$1,084	$1,388
Professional Services	$0	$615	$158
Depreciation	$287	$253	$324
Taxes and licenses	$113	$89	$52
Management Fee	$889	$0	$0
Bad debt	$0	$102	($68)
Salaries and wages	$147	$0	$0
Total Allowable Operating Expenses	**$10,958**	**$10,373**	**$11,813**
Revenue Bond Debt Service	$3,862	$3,864	$3,864
Other Debt Service	$501	$544	$484
Excess Revenue (Deficit)	**($3,108)**	**($3,663)**	**($2,607)**

While the Excess Deficit in 2004 has decreased, it still is at a relatively high level of $2.6 million. While air traffic and OSD and OSI is increasing, given the current OSI costs and the priority of debt service payments, it is unlikely that SAA will receive a privilege fee in the foreseeable future.

4. INTER-COMPANY TRANSACTIONS

OSI and OSD have made progress in resolving some inter-company transaction inconsistencies, especially in setting up a timecard allocation procedure. However, allocation is still not appropriate. In particular, OSI receives revenues and books expenses for all ground handling activities of international and domestic flights that are processed through OSD and carried out by subcontractors, Swissport, Royal Support and AGI. The OSD Agreement states these activities should be recorded in OSD's accounts, resulting in 2004 in additional gross revenue fees from OSD due to SAA. Furthermore, OSI and OSD are not receiving all rents they are obligated from other TBI US companies, market-rate rents are not being charged of TBI US companies, and some inter-company rent payments have not been made. While not all of these inconsistencies are material, several are and reflect a lack of attention in maintaining strict separation between OSI and OSD. As discussed in the 2002 Audit, this separation is imperative since each entity has different financial obligations to SAA under their agreements and it is important that OSI and OSD do not create any perception that they are "gaming" the different OSI and OSD agreements.

4.1 Allocation Methodologies

Since the 2002 Audit, TBI US has developed and implemented two operating procedures for:

- Personnel Cost Allocation
- Charging and/or Allocating MIS and Administrative Expenses

among its subsidiaries, including OSI and OSD. During two four-week periods in fiscal years 2003 and 2004, all TBI US employees were required to fill out timesheets. The time periods were chosen to represent peak and non-peak seasons (March and August) of OSI's and OSD's operations. The allocations for each year were then used to allocate time personnel expenses for 2003 and 2004.

For MIS and administrative expenses, TBI US directs employees to charge the specific entity when it can be clearly identified. If this is not possible, TBI US allocates the costs by the above personnel allocations. This includes such costs as for travel, uniforms, payroll processing fees, cell phone, and office space and utilities.

Under this method, as shown in Table 4.1, OSI and OSD are allocated 32% and 27% of the total payroll costs in fiscal 2004, respectively, and slightly less in 2003.

Table 4.1: OSI and OSD Staff Costs By Department

	OSI		OSD	
	2004	**2003**	**2004**	**2003**
G&A and Finance	$350,015	$350,388	$233,555	$244,820
Building Maintenance and Janitorial	$132,164	$118,858	$77,608	$79,239
Marketing/ Guest House	$89,723	$83,961	$66,620	$65,234
Operations	$142,255	$139,483	$159,420	$190,339
MIS/IT	$29,843	$38,219	$15,736	$14,258
Parking	-	-	$80,326	-
TOTAL	**$ 744,000**	**$ 730,909**	**$ 633,265**	**$ 593,890**
% increase	1.80%		6.60%	
Percent of Total TBI US Personnel Costs				
G&A and Finance	25%	24%	17%	17%
Building Maintenance and Janitorial	63%	60%	37%	40%
Marketing/ Guest House	57%	53%	42%	41%
Operations	44%	41%	49%	56%
MIS/IT	19%	21%	10%	8%
Parking	0%	0%	128%	0%
TOTAL	**32%**	**31%**	**27%**	**25%**

From 2003 to 2003, OSI's payroll costs increased by 1.8%, while OSD's by 6.6%. However, taking out parking activities at OSD, OSD's payroll would have decreased by 7.4%.

During this period, OSI's fulltime equivalent employees ("FTE") stayed essentially the same from 16.3 to 15.9, from 2003 to 2004, respectively. OSD's increased from 12.0 to 18.0; however all of that increase was as a result of increased parking FTEs.

The lack of growth in OSD's FTEs in comparison to OSI and compared to OSD's robust traffic growth is surprising. IMG has found that personnel costs do, in general, rise with traffic levels, above a fixed level of employees. Based on the most recent Association of American Airport Executives (AAAE) 2003 *Rates and Charges Survey*, airports add an additional

employee for every 15,221 enplaned passengers ("EPAX).[12] Thus, with 111,391 additional EPAX, OSD should have added around 7.3 more employees, whereas OSI would have added less than 2 employees. In some sense, the fact that OSD did add 6 FTEs makes this in line with patterns at other airports and in working with any type of industry comparisons, one must be very careful in making clear conclusions. Nevertheless, the lack of any employment growth to serve a 67% increase in traffic within the Domestic Terminal itself raises concerns about 1) whether the allocation method is materially accurate, and 2) if OSD is providing an adequate level of service. This further underscores the findings in Chapter 3.

4.2 Swissport Reporting and Janitorial Allocation

Complicating this analysis is the fact that Swissport carries out so much labor-intensive work at OSI and, to an extent, at OSD. As Table 3.9 above indicates, payments to Swissport grew from $4.96MM to $5.92MM from 2003 to 2004, or an increase of 19%. Of this, janitorial services increased from $500K to $540K or 9%. Swissport invoices are not broken down between OSI and OSD, yet based on general ledger entries in 2004, OSD is paying $10,000 per month to OSI for janitorial services performed by Swissport, or 23% of the total in 2004. It was assumed that a similar arrangement was in place for the provision of janitorial services during 2003; however, if such an arrangement were in place, OSD would have paid only 12% of the total in 2003.

The trial balance information for the Swissport contract is not well described as discussed in Chapter 3. Swissport costs are labeled under "Shop Supplies" at least in OSI, as Table 4.2 shows. For many of these services, this is inaccurately labeled, since much of what Swissport provides is operational support that primarily consists of labor. It should rather be categorized as "Repairs and Maintenance" or "Professional & O/S Services." OSI, for example only reported $2K of janitor services in 2004, even though most janitorial services of an estimated $380K were part of the Swissport contract, labeled "Shop Supplies." OSD, on the other hand, reported $60K of janitorial services in 2003 and then showed a jump to $126K in 2004. However "Shop Supplies" declined from $102K to $33K during the same period. Given how janitorial services for OSI are included in "Shop Supplies," it is likely that OSD's janitorial services are a combination of "Shop Supplies" and "Janitorial Service" categories. When these are totaled in Table 4.2, OSD these costs actually decreased by 1% over this time period.

[12] "Do You Have Enough Staff?—Update, Part I," Sasha Page, *Airports* Magazine, November/December 2004.

Table 4.2: Expenditures for Supplies, Janitorial Service

	OSI		OSD	
	2003	2004	2003	2004
Shop Supplies	$5,739,265	$7,381,607	$101,757	$32,706
Janitor Service	$0	$2,159	$59,037	$125,944
TOTAL	$5,739,265	$7,383,766	$160,794	$158,650
% Change		29%		-1%

The reporting of Swissport's services and the handling janitorial services raises several issues:

- Swissport payments are not well reported and incorrectly categorized, for janitorial services as well as for other categories which involve high levels of labor, including ramp operations, operations, security, passenger services, domestic duty manager, aircraft maintenance, fueling.

- Janitorial services are not appropriately reported as evidenced by the discrepancy between OSI and OSD. This is especially relevant since SAA and its customers have complained several times to OSI and OSD about poor cleaning services.

- Related to this, OSD does not appear to be spending enough on janitorial services. OSD received only 23% of the janitorial budget in 2004 and 12%[13] in 2003, but OSD's facilities are 65% larger than OSI's (135,000 square feet versus 220,000 square feet). While OSD has less traffic than OSD officially (41% of the total SAA traffic in 2004), it is clear that *actual* passenger activity at OSD, i.e. OSI carriers using OSD, is much higher. For instance, bridge fees from OSI carriers were $490K in 2004, whereas bridge use from OSD carriers was $31K, or 15 times higher, with the ratio similar in 2003. Even if OSD carriers may use bridges somewhat less and OSD has fewer passengers per flight, it is likely that the Domestic Terminal usage is higher than reported.

Recommendation 8: OSI and OSD should report Swissport activities separately, breaking out activities in detail and by OSI and OSD. Swissport portions of the "Fuel system and aircraft maintenance," "ground handling fees," "passenger services" and other relevant categories should be broken out in the reporting of allowable operating expenses, so that these items are clear. Swissport full-time equivalent staff should be reported on an annual

[13] This percentage assumes that Swissport performed janitorial services for OSD during 2003.

basis, in order to determine the level of resources being provided in each category and by terminal.

4.3 Traffic Allocation and OSD Usage Fees

The way that traffic is categorized at OSI and OSD is complex and confusing. OSI and OSD categorize traffic as follows:

- OSI Handled—international flights that are handled at OSI gates
- OSI Using OSD—international flights that are handled at OSD's flexible domestic/international gates
- OSD Non-Scheduled—domestic non-scheduled flights that are handled at OSD
- OSD Scheduled—domestic scheduled flights that are handled at OSD.

OSI pays OSD a gate usage fee for: 1) OSI Using OSD, and 2) OSD Non-Scheduled flights. During 2003 and 2004, all traffic at OSD was in these two categories, with the exception of Pan Am's domestic service.

As discussed above, OSI and OSD provided detailed monthly lists of each flight using OSD with the corresponding charge to OSI (the "Monthly Lists"), an implementation of the 2002 Audit report. For 2003, OSI and OSD broke down the fees into payments to OSI Using OSD and OSD Non-Scheduled flights. For 2004, it combined these two categories. In both instances, OSI pays for the usage of OSD for these two categories of traffic. This would imply that OSD has little traffic of its own; it simply is contracting most of its facilities to OSI. This is despite the case that OSD reported 176,347 and 291,108 enplaned passengers ("EPAX") in 2003 and 2004, respectively, or 29% and 41% of Sanford's total EPAX during those years.

For instance, in August 2003, Trans Meridian used OSD's bridges 62 times. These movements are classified as "domestic" in the traffic summary information provided by OSI ("PAX Summary Sheet"). However, this is categorized in the Monthly List as "OSI Flights Using OSD Terminals" and these terminal and bridge fees were ostensibly paid by OSI to OSD and the expenses and revenues related to ground handling these flights are on OSI's accounts. Not only is this confusing, but there is the potential that some of these flights are mis-classified.

Categorizing all domestic traffic as the business of OSI has understandable reasons: 1) most of the carriers are non-scheduled airlines, charters, whose business needs are similar to the international charters that began at OSI, 2) OSI ground handles many of these domestic charters, 3) some of these charters have both U.S. and international flights connecting at Sanford.

Since there are financial implications of OSI assuming this domestic traffic, especially for separate ground handling costs, as discussed below, this

categorization cannot be overlooked. As discussed below, this treatment of traffic as well as other related issues underscores the challenge of keeping OSD and OSI's businesses separate in order to comply with the terminals' respective agreements and to ensure that SAA receives its appropriate lease and excess revenue payments.

IMG compared the Monthly Lists with OSD internal revenue budget report "Revenue Report" and OSD audited financial statements "OSD Financials") financials for 2003 as shown in Table 4.4. While the Monthly Lists reported OSI to OSD payments of $231,325, the Revenue Reports showed $745,970 and OSD Financials $1,052,856. When non-ground handled domestic movements are added to the Monthly Lists of 2,000 and 1,786 movements for 2003 and 2004, respectively, at $250 per movement (4200 per terminal charge and $50 per bridge fee), the Monthly Lists and OSD Internal Revenue Report reconcile approximately. This, in turn, roughly reconciles with the OSD Financials.

Table 4.4: OSI Terminal and Bridge Use Payments to OSD As Reported In Various Documents, 2003

Monthly Lists Reporting OSI Terminal and Bridge Use of OSD						
OSI using OSD			OSD Non-Scheduled			TOTAL
Terminal	Bridge	TOTAL	Terminal	Bridge	TOTAL	OSI to OSD
$97,325	$18,000	$115,325	$115,550	$33,650	$149,200	$264,525

OSD Internal Revenue Report			
Terminal	Bridge (OSI)	Bridge (OSD)	TOTAL
$516,195	$132,465	$100,600	$749,260

OSD Financials		
Terminal Rents	Terminal Usage Fees	TOTAL
$196,126	$856,730	$1,052,856

Note: OSD Financials "Terminal Rents" includes rents from non-airlines, such as rental companies.

This is not the case with the 2004 data, whereby expected total terminal and bridge fees for OSD would be $1,110K ($663K OSI payments and $447K non-ground handled payments) compared to $879K that is reported on the OSD Internal Revenue Report or $913K in the OSD Financials.

Table 4.5: OSI Terminal and Bridge Use Payments to OSD As Reported In Various Documents, 2004

Monthly Lists Reporting OSI Terminal and Bridge Use of OSD						
OSI using OSD			OSD Non-Scheduled			TOTAL
Terminal	Bridge	TOTAL	Terminal	Bridge	TOTAL	OSI to OSD
$547,250	$116,150	$663,400	$0	$0	$0	$663,400

OSD Internal Revenue Report			
Terminal	Bridge (OSI)	Bridge (OSD)	TOTAL
$663,400	$169,350	$46,400	$879,150

OSD Financials		
Terminal Rents	Terminal Usage Fees	TOTAL
$210,088	$913,228	$1,123,316

Note: OSD Financials "Terminal Rents" includes rents from non-airlines, such as rental companies.

Recommendation 9: OSI and OSD need to keep better records of their inter-company charges. Every quarter, it should provide SAA a reconciliation of actual terminal and bridge charges with its own internal data and the official traffic information provided by the FAA Tower, explain any discrepancies, and make immediate adjustments. Furthermore, OSI and OSD need to explain any discrepancies between terminal and bridge charge revenue accounts and amounts reported on the OSD Financials. Lastly, OSD Non-Scheduled flights must be tracked separately from OSI

4.4 Allocation of Ground Handling Charges

4.4.1 Passenger-Related Handling

As discussed above in 4.2, Swissport's costs are not well-reported in OSI's and OSD's financials; more importantly, it is not clear how much of Swissport's activities, and hence costs, should be allocated to OSI and OSD.

As with OSD usage fees discussed in 4.3, it is OSI and OSD policy that OSI bills all charter airlines that use Swissport's ground handling services, even those international charter flights that use OSD's gates. Furthermore, domestic charters that use OSD gates are billed by OSI for the services provided by Royal Support since November 2003, by AGI, a subsidiary of TBI US. Yet unlike the usage fees, OSI does not invoice OSD for this activity taking place on OSD's facilities; all ground handling expenses and revenues, regardless if the flight is international or domestic or whether it used the International or Domestic Terminal are billed to OSI's accounts.

The 1999 agreement between OSD and SAA[14] ("OSD Agreement") clearly states that "the revenues derived from such provision of Aeronautical Services by the Contractor shall be included in Domestic Terminal Revenues." Aeronautical Services include ground handling and catering.[15] Furthermore, economic theory and good business practice would hold that all activities that occur at one facility should be accounted at that facility. While it is unusual for U.S. airport terminals to offer ground handling services at all (although not in Europe or elsewhere), ground handling activities have clearly been contemplated for OSI and OSD. There may be efficiencies of having one company provide these services to both OSI and OSD (which apparently has not been the case given two contracts for these services to Swissport and AGI) and some efficiencies in having one company handling invoicing. There is, however, little other business reason to book these activities in one company.

IMG developed an estimate of the ground handling charges that should be allocated to OSD. While the Royal Support and AGI ground handling charges can be clearly allocated to OSD since they service domestic airlines flying domestic flights, Swissport does not break up its activities by ground handling that takes place at OSD for international flights. One allocation method is to take the proportion of OSI Using OSD flights to total international movements and apply this to the relevant Swissport ground handling charges. Another method would be to take the proportion of OSI Using OSD EPAX to total international EPAX. IMG used the former method, although the latter method may be valid as well, since ground handling is both a function of number of movements and passengers handled (i.e. activity levels increase with the number of bags handled, etc.).

To derive OSI Using OSD movements, IMG used the monthly bridge fees data in the Monthly Lists, equating one bridge fee payment with one movement as shown in Table 4.5 below. From this data, the movements of Southeast and Vacation Express/Trans Meridian were subtracted since much of this traffic is domestic and the Royal Support and AGI handling fees

[14] "Agreement For the Operation and Management of the Orlando Sanford Airport Domestic Terminal between Sanford Airport Authority and Orlando Sanford Domestic, Inc." December 1999.

[15] OSD Agreement, Section 2.8, page 15-16: "Provision of Aeronautical Services. The Contractor shall have the right and responsibility itself (or through entities with which it may subcontract) to provide to any carrier utilizing the Domestic Terminal any and all Aeronautical Services (including but not limited ground handling and catering) and on such terms as the Contractor in its sole discretion deems appropriate. Such arrangements shall be solely between the Contractor and the air carriers and shall not be subject to review by the Authority. In providing such Aeronautical Services, the Contractor shall (and shall cause its subcontractors to) comply with all Legal Requirements applicable to the provision of Aeronautical Services. The revenues derived from such provision o f Aeronautical Services by the Contractor shall be included in Domestic Terminal Revenues, and Contractor shall pay no consideration except as set forth in Section 5.2.2 ("Consideration due to Authority") for the right set forth in this Section 2.8 ("Provision of Aeronautical Services"). . . . . "

are associated with this traffic. Dividing OSI Using OSD movements by total international movements yields a proportion factor that can be applied to Swissport costs. It should be noted that since the recording of bridge fees may not be always accurate and not fully correspond with one movement, this proportion factor may not be completely accurate, but it provides a reasonable estimate.

Table 4.5: Estimate of Number of OSI Movements Handled at OSD And Proportion of Total International Movements

	Monthly List	Southeast Airlines	Vacation Express	Net	PAX Summary	Percent
		Bridge Fees (Nr.)			Total Int'l Movements	
Apr-02	62	0	0	62	245	25%
May-02	83	0	3	80	362	22%
Jun-02	61	0	0	61	389	16%
Jul-02	55	0	0	55	461	12%
Aug-02	98	0	0	98	473	21%
Sep-02	113	0	0	113	355	32%
Oct-02	86	0	0	86	358	24%
Nov-02	89	0	0	89	184	48%
Dec-02	84	0	1	83	144	58%
Jan-03	96	0	0	96	82	117%
Feb-03	93	0	0	93	52	179%
Mar-03	102	0	0	102	55	185%
TOTAL				**1018**	**3160**	**32%**
Apr-03	128	0	0	128	179	72%
May-03	119	73	0	46	262	18%
Jun-03	121	71	8	42	248	17%
Jul-03	178	71	51	56	350	16%
Aug-03	209	82	62	65	373	17%
Sep-03	208	63	89	56	334	17%
Oct-03	231	90	75	66	352	19%
Nov-03	221	91	90	40	157	25%
Dec-03	209	87	93	29	104	28%
Jan-04	218	95	98	25	129	19%
Feb-04	239	100	99	40	133	30%
Mar-04	242	103	97	42	174	24%
TOTAL				**635**	**2795**	**23%**

The total ground handling expenses incurred by OSI during the audit period were then identified, based on both Swissport invoices for ground handling related services and by the reported ground handling services reported on the OSI Financials as shown in Table 4.6 below. The two sources provide minimum and maximum amounts from which the allocation should be calculated. Using the proportion of international traffic handled at OSD for 2003 and 2004, this table calculates the expenses that should have been allocated to OSD based on movements. The Royal Support and AGI charges for domestic handling activities were added to these amounts.

Table 4.6: OSI and OSD Ground Handling Charges and Estimate of Appropriate Allocations

	2003 Reporting[1]	OSI	OSD	2004	OSI	OSD
Allocation Based on EPAX:		68%	32%		77%	23%
Allocation of Swissport Ground handling-related Expenses						
Ramp Operations	$1,984,777	$1,345,377	$639,400	$2,296,567	$1,774,807	$521,760
Operations	$137,841	$93,435	$44,406	$154,988	$119,776	$35,212
Security	NA	NA	NA	NA	NA	NA
Passenger Services	$977,190	$662,386	$314,804	$1,275,966	$986,077	$289,889
Domestic Duty Manager	NA	NA	NA	NA	NA	NA
Guest House Services	NA	NA	NA	NA	NA	NA
Janitorial	NA	NA	NA	NA	NA	NA
Aircraft Maintenance	$788,880	$534,741	$254,139	$976,434	$754,597	$221,837
Fueling	$250,434	$169,756	$80,678	$300,010	$231,850	$68,160
Airport Operations	$0	$0	$0	$15,978	$12,348	$3,630
Overhead/Admin (Mgmt)	$258,583	$175,280	$83,303	$290,713	$224,665	$66,047
TOTAL	$4,397,705	$2,980,976	$1,416,729	$5,310,656	$4,104,120	$1,206,535
Royal Support/AGI			$37,400			$837,511
TOTAL	**$4,397,705**	**$2,980,976**	**$1,454,129**	**$5,310,656**	**$4,104,120**	**$2,044,046**
Allocation of Total Reported Ground handling Related Fees (Incl. Swissport Expenses)						
Fuel system & aircraft maint.	$1,966,500	$1,332,988	$633,512	$1,696,867	$1,311,353	$385,514
Ground handling fees	$3,562,659	$2,414,942	$1,147,717	$3,288,137	$2,541,101	$747,036
Passenger fees	$2,319,001	$1,571,930	$747,071	$1,284,217	$992,454	$291,763
TOTAL	**$7,848,160**	**$5,319,860**	**$2,528,300**	**$6,269,221**	**$4,844,908**	**$1,424,313**

[1] Based on Swissport's invoices (above) or OSI 2003 and 2004 Financials (below).

The result shows that $1.5MM to $2.5MM should have been allocated to OSD in 2003 and $1.4MM to $2.0MM in 2004 from OSI. These amounts are material for both OSI and OSD. In addition, the corresponding revenues should have been allocated as well. Identifying the revenues associated with ground handling is challenging since OSI offers its services to each airline in a unique package, making it difficult to calculate ground handling revenues by airline, let alone between revenue categories. Also, Chapter 3 indicates that OSI is probably losing money from ground handling. Furthermore, airline-specific revenue information is subject to confidentiality restrictions as per the terms of the 2004 Audit (see Introduction). To avoid this complexity and the confidentiality issue, we assume that allocated revenue should be the same as the allocated cost.

For OSD, the increased revenues would not result in any change to OSD's payments in 2003, since the total reported revenues would increase to between $3.7MM and $4.8MM. However, in 2004, total revenues would increase to between $5.0MM and $5.6MM, thereby exceeding the $5,000,000 threshold. According to the OSI Agreement, OSD must pay SAA 10% of Gross Revenues above $5 million from $5 million to $10 million, plus 7.5% of Gross Revenues from $10 million to $15 million, plus a further 5% of Gross Revenues above $15 million. This would result in a payment of up to $60K in 2004.

For OSI, this would reduce revenues and expenses by a commensurate amount. While OSI's internal auditors would need to restate the 2003 and 2004 accounts, it is unlikely that this will have an effect on the privilege fee calculation. With substantial debt service to be paid to its bondholders, OSI privilege fees are unlikely to be paid to SAA in the near future.

Recommendation 10: OSI and OSD should separate all revenues and expenses for ground handling between OSI and OSD and restate OSI and OSD accounts for 2003 and 2004 and potentially earlier as well. This principle should apply to all activities at OSI and OSD.

4.4.2 Cargo Handling

On a related issue, TBI Cargo, a subsidiary of TBI provides cargo-related services at the Airport, primarily to international flights. SAA rents space to TBI Cargo in one of the Authority's warehouses. Otherwise, neither SAA, OSI, nor OSD receives any compensation for TBI Cargo's activities. In the OSI Operating Agreement, the definition of Aeronautical Revenues includes "ground handling services related to cargo, shippers and for the handling of mail." [16]

The OSD definition of aeronautical services does not explicitly mention cargo handling, but its reference to "all aeronautical ground handling" can clearly be interpreted as referring to cargo handling: "Aeronautical Services means any activity conducted on Airport property that makes the operation of an aircraft possible or that contributes to or is required for the safe operation of aircraft and all aeronautical ground handling, provisioning and support services that may be needed by an air carrier to turn around an aircraft in commercial service."[17]

There are no cargo revenues or expenses associated with cargo handling on the OSI accounts. As the OSI Operating Agreement clearly states, revenues from all services "relating to the Premises" of OSI should be considered Gross Revenues.[18]

OSI and OSD have stated to IMG that all cargo ground handling activities are carried out by Swissport as part of the overall handling of international flights. The Swissport accounts do not break down the revenues and expenses associated with that activity. TBI Cargo concentrates on breaking

[16] OSI Operating Agreement, 1.A., page 2. "'Aeronautical Services' shall mean all aeronautical ground handling services required for an Airline to turnaround an aircraft in commercial service and to provide or cause the provisioning of all required services authorized in the Lease for their passengers, cargo, shippers and for the handling of mail and other property of such Airline or as defined in FAA regulations."
[17] OSD Operating Agreement, 1.4, p. 2.
[18] OSI Operating Agreement, Section D., p. 23.

down freight and storing it in the facility it rents from SAA. TBI Cargo invoices each airline separately for those activities.

Currently, overall cargo is relatively limited at SFB to 6,975,696 tons per year in 2004. If cargo grows, it could be useful for budget planning to know what portion of ground handling revenues and costs are driven by cargo. In the interest of minimizing reporting costs, IMG has not made this an explicit recommendation in this audit.

4.5 Allocation of Rent

4.5.1 Allocation Among TBI USA Companies

TBI companies share common office space in the Domestic Terminal including TBI US, TBI Airport Management ("TBI AM"), TBI Cargo, OSI, OSD and AGI. The 7,150 sq ft includes 21 offices, an open cubicle area, two conference rooms, a reception area, two restrooms, kitchen and hallways.

As a result of its cost allocation policy established since the 2002 Audit, TBI US has allocated the 815 sq ft of administration space among the above five companies, excluding TBI US, based on 2003 and 2004 payroll allocations for accounting staff utilizing the cubicle area. As indicated in Table 4.7, 75% of this area is allocated to non-OSD accounts. No allocation has been made for the rest of the office area. Therefore, TBI US pays OSD $8,483 for rent for these TBI US companies. Based on the OSD Agreement, OSD does not pay itself rent for the space it utilizes.

As the headquarters of TBI US, the other non-cubicle areas of these offices are used for non-OSI and non-OSD purposes. For instance, several TBI US executives allocated less than 60% of the payroll costs to OSI and OSD activities, as would be expected of an organization that has contracts throughout the US, North and South America. In addition, administrative staff using the cubicles also uses the hallways, reception areas, restrooms, and kitchen; it is likely that they use conference space and interact with other TBI US staff occupying other offices.

For all staff, TBI US allocates 57% and 59% of its salary costs in 2003 and 2004, respectively, to OSI and OSD activities, based on its timecard allocation system. Applying the average of this, 58%, to the total non-cubicle square footage, yields 2,692 sq ft of non-OSI and non-OSD office space as indicated in Table 4.7. Using the rental rate that OSI and OSD have used for the cubicle areas, $15 per square foot, TBI US would owe OSD $40K in 2003 and 2004. However, as discussed in 4.5.4, using more market-based rates, TBI US would owe OSD more.

Furthermore, on a tour of OSI and OSD facilities in February, 2005, IMG learned that TBI US companies and Swissport have been using space on the back of the first floor of the Domestic Terminal. This includes:

- storage space for TBI US company records
- storage space for Swissport supplies
- assembly area and storage space for AGI
- storage space for SAA, used in par for the assembly of new security equipment.

Each of these storage areas and/or rooms amount to several hundred square feet to several thousand square feet.

OSD did not report these spaces as being occupied by these tenants nor the size of these spaces. Based on a rough estimate of the number of 25 foot by 25 foot building squares that were occupied, this space is likely to be 10,000 square feet or more. At a rate of $15 per square foot, OSD could be owed over $150,000 per year. This underpayment to OSD has not been included in Table 4.7 until further clarification is available on the circumstances of this space.

Table 4.7: Rent Allocations

Row	Tenant/Use	Allocation	Square Feet	Annual Rent at Various Monthly Rental Rates		
				$15	$25	$35
			754			
1 Cubicle Area	OSI	17%				
	Cargo	1%				
	TBI AM	14%				
	AGI	60%				
	Total Non-OSD	75%	566	$8,483[3]	$14,138	$19,793
	Difference with $15 monthly rate			NA	-$70,696	-$65,041
			6,396			
2 Non-Cubicle Area	OSD	26%	1,667			
	OSI Payment to OSD	32%	2,037	$30,555	$50,925	$71,295
	Other TBI US	74%	4,729	$70,935	$118,225	$165,515
3 AGI Space	AGI		145	$2,175	$3,625	$5,075
TOTAL underpayment to OSD (Rows 1-3)				$103,665	$102,080	$176,845
Swissport Space[2]	**OSD Share of Waived Swissport Rent owed to OSI**	24%	1,680	$25,200	$42,000	$58,800

[1]Based on proportion of OSI/OSD salary cost to total TBI salary cost.
[2]Calculated as the proportion of international traffic handled by Swissport in 2004 at OSI times 7,000 sq ft.
[3]Amount TBI US pays OSD currently.

Recommendation 11: OSI and OSD should recalculate the allocation of TBI US rent based on salary allocations for 2003 and 2004 and adjust its accounts accordingly. In addition, TBI should clarify if all space in the Domestic Terminal has been accounted for and allocated appropriately.

4.5.2 Allocation Between OSI and OSD

OSD's trial balance accounts do not show as receivables these rent amounts from OSI in Table 4.7. OSI and OSD representatives told IMG that the OSI rent amounts are not paid to OSD at this point in time, since OSD's gross revenues are below the $5MM threshold required before any payment is required to SAA above the annual minimum. Based on its staff allocation proportion of 32% of total TBI US salary costs in 2004, this would amount to between $31K and $71K that OSI should be paying OSD for rent each year.

4.5.3 AGI and Swissport Rent Policies

AGI uses 145 sq ft of OSD space for its ground handling operations, yet does not pay rent for this space. OSI's and OSD's policy on this is that like Swissport, AGI would simply charge a 15% profit mark-up on this cost that would be passed on to OSI and OSD. While this is an understandable business argument, it raises several issues:

- OSI and OSD charged Royal Support, the firm that ground handled domestic charters before AGI won the contract, a market-level rent. The different treatment of an outside and a related company, AGI, raises concerns about the related party conflicts.

- As discussed above, this further raises issues about ground handling allocation. Rental revenue has been waived at OSD for ground handling services that OSI is invoicing yet the activities occur at OSD.

- While it is in OSI's, OSD's and SAA's interest to keep Swissport's costs as low as possible, Swissport's waived rental benefits have not been properly allocated between OSI and OSD. With approximately 7,000 sq ft of space in OSI rent-free, 24% of this lost rental revenue should be allocated to OSD in 2003 and 2004, respectively, based on the allocations in Table 4.6

<u>Recommendation 12:</u> OSI and OSD should establish a clear and consistent written policy on charging rent to suppliers who have "cost plus contracts," that SAA should approve. Regardless, all actual and waived costs related to ground handling and any other service has to be allocated in a fair and consistent manner between OSI and OSD and any other TBI US entities.

4.5.4 Rental Rates

In addition to rent allocation, the rental rates used in the allocations do not appear appropriate market-based. For the cubicle allocation, TBI US used a rate of $15 per sq ft. This appears to be below the market rate that OSI and OSD charge for comparable office space to both private companies and government agencies, between $25 to $35 per sq ft. As Table 4.7 shows, TBI US would owe OSD between $77K and $111K in both 2003 and 2004

based on $25 and $35 per sq ft respectively, compared to $43K each year at the $15 per sq ft rate.

Recommendation 13: For all of the above rental calculations, a market rent should be used, of between $25 and $35 per sq ft. Either OSI and OSD should demonstrate how it derived the market rate, or it should use the weighted average of the market rate it charges public and private entities at OSI and OSD. With SAA's written agreement, OSI and OSD may chose to waive Swissport's and AGI's rent as long as it is 1) consistent with their operating polices, and 2) their costs are allocated fairly.

5. MAINTENANCE

This chapter reviews the compliance of OSI and OSD with their obligations regarding maintenance of facilities, equipment and systems under their control. Additional comments are made regarding the procedures and systems OSI and OSD have in place for the monitoring, control and reporting of routine and preventive maintenance and on corrective actions taken to respond to issues raised in IMG's 2002 Audit.

In general, OSI and OSD maintained their respective facilities at adequate or below adequate levels. As the older of the two facilities, the International Terminal is showing its age due to a lack of care and in, certain cases, inadequate maintenance and/or replacement of ageing materials, fixtures and equipment. Carpets are worn out, flooring is discolored, fixtures are chipped and equipment is dirty. The Domestic Terminal, on the other hand, appears to be in good condition, with few issues identified through visual inspection. In addition, SAA has identified significant lapses in janitorial services in Summer 2004, documenting poorly cleaned rest room facilities throughout the season. Furthermore, OSI's and OSD's maintenance tracking and automation of the maintenance process (a computerized maintenance management system ("CMMS")) is still lacking. As traffic in both terminals increases and the International Terminal reaches one-third of its asset life, OSI will need to improve on its care and maintenance systems and procedures. A CMMS will be an essential tool to help monitor and control the maintenance process and activities of OSI and OSD.

5.1 Facility Review

On behalf of OSI and OSD, TBI AM is responsible for the maintenance and operation of the following facilities at SFB:

- Terminal A: Building and equipment
- Terminal B: Building and equipment
- Welcome Center: Building and equipment
- Short-term, Economy, and Value-pay public parking lots.

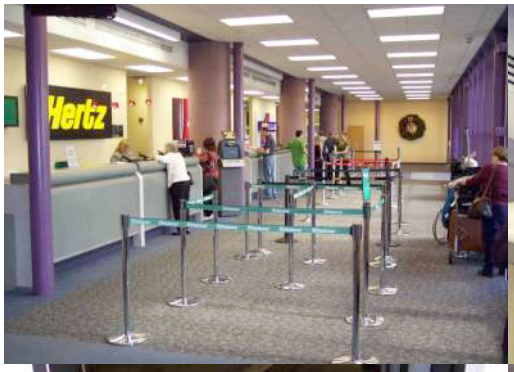
Two full-time facility management workers, one part-time grounds keeper, and a number of specialized maintenance personnel under contract with TBI AM maintain all facilities and equipment under the direction of TBI AM's Facility Maintenance Manager ("FMM"). A list of maintenance subcontractors and the type and frequency of work they perform on behalf of TBI AM is included in Appendix B.

A visual inspection in October 2004 of the facilities and equipment under TBI AM's control showed an International Terminal Building with some signs of aging and lack of care. These included: worn out and stained carpets, chipped fixtures, dirty walls and air vents for example as shown below:

- Overgrown planting areas and debris at economy parking lot:

- Spider webs, mold and debris on walls and ceilings at entrances to terminals:

The Domestic Terminal, with few exceptions, is in adequate condition with some exceptions as described below. Equipment associated with these facilities (air conditioning, light fixtures, toilets, escalators, elevators, etc.) appeared clean and operated adequately. The exterior of the Domestic Terminal and the Economy Lot require greater maintenance attention. The following pictures illustrate some of these deficiencies:



SAA identified significant janitorial deficiencies in the Summer 2004 in the OSD restrooms. SAA officials received complaints about poor restroom cleanliness and documented these repeatedly including in a number of photographs. IMG has reviewed these photographs and decided not to display them in this report because of their graphic content.

In IMG's visual inspection of OSD restrooms in October 2004, these janitorial deficiencies were not evident. This may be because OSD has taken positive measures to ensure that cleanliness is maintained at a much higher level; it may also be that it is easier to maintain such facilities during the off-season. In addition, SAA believes that OSD cut janitorial resources during 2004 (part of Swissport's budget) and the OSD restroom problem was clear evidence of that; due to SAA's repeated complaints, OSD may have restored such resources.

While IMG has not audited OSD or OSI's facilities in Fiscal Year 2005 (i.e. April 2004 to present), the poor janitorial services SAA documented in Summer 2004 point to a theme discussed in Chapters 3 and 4 that relate to 2003 and 2004 janitorial issues: the lack of clarity over the level of janitorial resources at OSD and OSI and the management of the Swissport contract.

Recommendation 14: TBI AM needs to improve on the care and maintenance of OSI and OSD facilities. It needs to establish adequate monitoring, control and reporting systems of the maintenance activities under its responsibility.

5.2 Maintenance Tracking and Preventative Maintenance

From discussions held with TBI AM staff and information provided it is apparent that some of the recommendations made in the 2002 Audit have been implemented in some form by the maintenance division as follows:

- Maintenance and procedures manual detailing service standards and procedures
- A repair and maintenance program incorporating preventive maintenance schedule for all major equipment under the responsibility of TBI AM (See Appendix C).
- An asset an service management system that will allow TBI AM reduce operating costs and maintain assets to their full useful life
- A repair and maintenance reporting system of all requests and work orders issued by maintenance.

Although TBI AM has implemented the above recommendations the effectiveness of the procedures is still in the very early stages. A computerized asset maintenance management system ("CMMS") that will allow much better tracking systems of maintenance work orders and reporting system does not exist. TBI AM presented a preliminary CMMS that is to be fully implemented in the next months. IMG was unable to verify the reporting and tracking capabilities of this system.

IMG reviewed a sample of actual maintenance work orders executed for both OSI and OSD. Content of the forms reviewed was adequate although the format can be improved for better tracking of the process.

IMG also reviewed the content of the "Terminal Maintenance Manual." The manual, though basic, includes the minimum maintenance standards and required process and procedures.

Recommendation 15: TBI AM needs to implement as soon as possible its CMMS. This will allow much better tracking and monitoring of work orders than the manual process currently in place. It will allow TBI AM to

electronically copy the Authority once a maintenance request has been issued and completed and allow TBI AM to maintain a daily/weekly/monthly repair and maintenance log to be used for tracking purposes as well as future corrective and preventive maintenance. TBI AM will be able to generate semi-monthly maintenance and repair reports to the Authority that will keep it informed, better track employee and subcontractor time and cost, better record keeping of all maintenance and repair activities, improve response time by allowing remote access and requests to work orders, and reduce down times and maintenance costs.

Recommendation 16: TBI AM needs to provide bi-monthly reports to the Authority that include a summary log of all routine and preventive maintenance activities carried during the period as well as maintenance related complains and work orders showing response time and activity.

5.3 Contract Management and Cost Allocation

As Appendix B shows, TBI AM utilizes a number of vendors to maintain key equipment such as elevators and HVAC. Many of the contracts with these vendors are with one company, usually OSI. It is not clear if the charges of these vendors are allocated by OSI and OSD and if this is an explanation of the high level of equipment charges in OSI's accounts compared to OSD.

Recommendation 17: Having common maintenance contracts under OSD and OSI could possibly lead to economies of scale but also generates difficulty in cost allocation. It is recommended that separate maintenance subcontracts be formalized for facilities and equipment located at the Domestic and international Terminals.

The Preventive Maintenance Matrix provided in the Terminal Maintenance Manual only included equipment under OSD, though verbally it was stated that the same preventive maintenance matrix and systems are in place for OSI. The OSI Matrix needs to be included in the Manual as well.

APPENDIX A

OSI Budget Reporting Format

REVENUE

Air Carrier Charges / Passenger Service Income
- Ramp service fee
- Fuel system operations
- Terminal fees
- Federal Inspection Services fees
- Security screening (if applicable)
- Domestic terminal handling charges (OSD)
- Landing fee commission
- DCS system charges
- Public safety commission
- Other passenger services income
- Less: Air carrier contract credits, rebates or discounts
- Subtotal

Airport Tenant Income (by tenant)
- Tenant 1
- Tenant 2, etc.
- Subtotal

Rental Car Income (by concessionnaire)
- Concessionnaire 1
- Concessionnaire 2, etc.
- Subtotal

Guest House Revenue

Concession Income (by concessionaire)
- Concessionaire 1
- Concessionaire 2, etc.
- Transportation
- Games
- Fuel
- Vending
- Telephone
- Currency
- Advertising
- Other
- Subtotal

Total Gross Revenues

Cost of Sales
- Fuel system fees and costs

Aircraft maintenance costs
Equipment leases
Subtotal

Ground handling fees
Ground handling equipment rental
Operations support
Other (Swissport admin, etc)
Subtotal

Passenger services
Federal Inspection Services
Security (if applicable)
Subtotal

Total Cost of Sales

Airport Costs

Facilities:
Repairs and maintenance (includes maintenance supplies)
Janitorial
International garbage
Utilities
Operations support
Automobiles
Police
Rent
Other
Subtotal

Insurance

Marketing and Public Relations - provide separate marketing budget
(include political and charitable contributions, or show contributions as a separate line item)

Travel and Entertainment (provide separate schedule for substantial costs not included in marketing budget)

Office Expenses:
Supplies
Computer
Telephone
Postage and freight
Dues and subscriptions
Other
Subtotal

Salaries and Wages:
- *Accounting staff*
- *Administrative staff*
- *Marketing staff*
- *IT staff*
- *Maintenance staff*
- *Operations staff*
- *Other staff*
- Subtotal

Other Staff Costs:
- *Employee benefits*
- *Payroll taxes*
- *401(k) contributions*
- *Temporary staff*
- *Other*
- Subtotal

Professional Services:
- *Legal*
- *Accounting*
- *Consulting*
- *Other*
- Subtotal

Taxes and Licenses
Bad Debt Expense
Depreciation
Miscellaneous (include bank charges, etc.)

Total Airport Costs

Operating Profit (Gross Revenues less Cost of Sales less Total Airport Costs)

Interest receivable: restricted investments
Interest receivable: bank
Interest payable: building loan / O&M
Interest payable: bonds
Net Interest Expense

Profit Before Taxes and Privilege Fee

APPENDIX B

Summary of OSI and OSD Service Contracts

SYSTEM/EQUIPMENT	LOCATION	SCOPE OF WORK	FREQUENCY	PROVIDER	TERM	RENEWAL	Annual Cost
Fire Detection	Terminals A & B	Service call 100% test/inspect and test	See matrix	Simplex Grinne	1Yr	Auto	$7,100
Fire Suppression	Terminals A & B	Inspect/test Sprinkler heads valves alarm devices water supply flow test deluge trip back-flow	 See matrix See matrix See matrix See matrix See matrix See matrix See matrix	Wiginton	1yr	Auto	2K
Elevator/Escalators	Terminals A & B Welcome Cn	Clean/check pressure relief and leakage test per ANSI code	See matrix See matrix	Kone Kone	Open Open	Auto Auto	$1,200
HVAC	Terminals A & B	Inspect/clean	See matrix	JPI Mechanica	1 Yr	6-Apr	20,000
Emergency Gen **Onan** **Cat**	Terminals A B	3 inspections PM/oil change	See matrix See matrix	Ringhaver	Open	Auto	$3,000
Boarding Bridges	Gates 6-12 gates 1-5	Inspec/test lubrication	See matrix See matrix	Aero	1 yr	6-Apr	$18,000
Interior landscaping	Terminals A B	water/replace as needed	See matrix	 Flower Garden Interscape	 Open Open	 Auto Auto	 $5,000
Grease Traps	Terminals A B (2)	Pump/remove non-haz waste	See matrix	Brownies Environmental	Open	Auto	$1,200
Pest Control	**Terminal** A B	Spray and trap bird control	See matrix See matrix See matrix	Ecolab			$1,200 2,000

APPENDIX C

OSI and OSD Preventative Maintenance Program

				Preventative Maintenance Schedule			
Item/System	***Manufacture***	***Contract/Venc***	***Warantee Status***	***Monthly***	***Quarterly***	***Semi-annual***	***Annual***
HVAC							
Chillers	Carrier Model # 30GTN210-K620FZ	JPI Mech. Serv	1 year	Test and Visual inspect entire unit		Clean condens	Check sub cooling, Tighten elec. Connect-ions
Chiller water pı	Taco Model # TA1230B3N1A260	JPI Mech. Serv	N/A	Visual and ope ating checks	Lubricate all bearings	Visually check alignment and	Clean pump strainers, Tighten elec. Connect-ions
Airhandler Unit	Carrier Model # 39T6YUAA-X-KEQ-AB		N/A	Visual and ope ating checks	Lubricate all be rings check bel	Check alignme belts and filters	Clean entire unit(coils, air fins ect.) tighten elec.connections
Split units	Temtrol Model # WF-RD17		N/A	Visual and oper-ating checks		Clean condens Filter replacem	Tighten elec. Connect-ions
UPS	Liebert 40KVA	Emerson Powe	N/A		Battery checks Water, voltage		load test of batterys
Emergency Ge	Caterpillar 35[	Ringhaver	N/A		Visual checks Performance evaluation		Oil & all filters change Lubricate bearings
Freight Elevatc	Schindler Model MPH	KONE	N/A		Test and visua Inspect entire unit	Lubricat all mo	Pressure relief test Leakage test on unit
Escalator	Schindler Model SWE	KONE	N/A		Test and visua Inspect entire unit	Lubricat all mo	Pressure relief test Leakage test on unit
Pubilc Elevatoı	Schindler Model MPH	KONE	N/A		Test and visua Inspect entire unit	Lubricat all mo	Pressure relief test Leakage test on unit
Conveyors	Stearns model Maxiclaim II OS Transitread	OSD Maintena	N/A	Visual and ope ating checks	Lubricat rollers Motors, bearin	Check alignme drive chain & s Tighen all faste	Change oil in speed reducers check V-belts condition & tension Tighen elec. Connect-ions
Fire Alarm	Simplex	OSD Terminal	N/A	Alarm panel checks		50% sensor check	
Fire Suppressi	Simplex	Wigginton	N/A		Phased sprinkler head checks	Pump and flow switch checks	
Access Contro	Simplex			card reader audits			
CCTV	Simplex			camera audits			
Boarding Bridges							
PBB 6	FMC Jetway	ero bridge Worl	N/A	Safety feature checks, full operations che fluid checks and replentish	Monthly check plus ball screw drive motor rollers	Monthly and qu check plus drai replentish chec columns, brake canopy operation and lube	Same as mos, qtr semi plus remove drive chains lube/clean lube drive motor bearing
PBB 7	FMC Jetway	ero bridge Worl	N/A				
PBB 8	FMC Jetway	ero bridge Worl	N/A				
PBB 9	FMC Jetway	ero bridge Worl	N/A				
PBB 10	FMC Jetway	ero bridge Worl	N/A				
PBB 11	FMC Jetway	ero bridge Worl	N/A				
PBB 12	FMC Jetway	ero bridge Worl	N/A				
Pest Control		ECOLAB		Sprays facility for ants & roac	Baits rat & mouse traps outside of term.		
Envoironment	1-1050g greas	Brownies	N/A	Pump-out			
Waste remova	trap						
Interior Foilag	Plants and urn	Interscape	Replace damaged or dying	Weekly water	Replace as needed		

APPENDIX D

SOURCES OF INFORMATION

The following documents and sources of information were used for this report:

Executed Contracts:

Project Lease Number 94-42 between the Sanford Airport Authority and Central Florida Terminals, Inc., dated December 5, 1995

Operating Agreement Number 94-45 between the Sanford Airport Authority and Central Florida Terminals, Inc. dated December 5, 1995

First Amendment to Operating Agreement Number 94-45 between Sanford Airport Authority and Central Florida Terminals, Inc. dated May 19, 1997

Resolution No. 97-02 of the Sanford Airport Authority approving Certain Amendments to the Operating Agreement, Indenture of Trust and Loan Agreement, dated May 19, 1997

Agreement for the Operation and Management of the Orlando Sanford Airport Domestic Terminal between Sanford Airport Authority and Orlando Sanford Domestic, Inc. (signed but not dated)

Audited Financial Statements:

OSI audited financial statements for the fiscal years ending:
3/31/03
3/31/04

OSI Excess Revenue calculation and cover letter to the Authority for the fiscal years ending: 3/31/03 and 3/31/04

TBI UK, Ltd. Annual report and accounts for the fiscal years ending: 3/31/03 and 3/31/04

Accounting System Records:

OSI detailed income statements for the fiscal years ending: 3/31/03 and 3/31/04

OSI trial balances for the fiscal years ending: 3/31/03 and 3/31/04

OSI concession income by vendor for the fiscal years ending: 3/31/03 and 3/31/04

OSI terminal rent by tenant for the fiscal years ending: 3/31/03 and 3/31/04

OSI revenue per air carrier for the fiscal years ending: 3/31/03 and 3/31/04

OSD revenue by category for the fiscal years ending: 3/31/03 and 3/31/04

OSD trial balances for the fiscal years ending: 3/31/03 and 3/31/04

OSD concession income by concessionaire for the fiscal years ending: 3/31/03 and 3/31/04

OSD terminal rent by tenant for the fiscal year ending: 3/31/03 and 3/31/04

OSD revenue per air carrier for the fiscal years ending: 3/31/03 and 3/31/04

OSI and OSD salaries and group management fee by employee function for the fiscal years ending: 3/31/03 and 3/31/04

Equipment purchases from FF&E account

Detail of OSI depreciation charges

Other:

OSI annual budgets with cover letter to the Authority for the fiscal years ending 3/31/03 and 3/31/04 and marketing budgets without cover letters for the fiscal years ending 3/31/03 and 3/31/04

OSI marketing budgets for the fiscal years ending: 3/31/03 and 3/31/04

OSI/OSD Marketing Plan for fiscal year 2003/04

OSI rent roll with terms of tenant leases

OSD rent roll with terms of tenant leases

Passenger counts per month

Square footage per terminal

Standard Airline Operating Agreement for Airline Users of Orlando Sanford Airport dated 1/7/02

Sanford Airport Authority Comprehensive Annual Budget for fiscal years ending 9/31/03 and 9/31/04.

OSI Schedule of Handling Charges Effective 4/1/01

List of current employees by department and allocation of salaries to OSI and OSD for the fiscal year ending 3/31/03 and 3/31/04

Schedule of OSI reserve requirements for the fiscal years ending 3/31/03 and 3/31/04

Letter to Caroline Price, TBI plc, from Susan Flowers, SAA, dated 4/25/97

OSI's agreements with airlines and agreements with concessionaires are considered confidential information of OSI, and they were made available to IMG at OSI's offices only. Nothing contained in those agreements is referenced in this report.