

2.9.3 Financial Reporting Process

KPMG has documented the following sub-processes and procedures related to financial reporting:

Accounting Policies:

Based upon KPMG's experience working with Airport personnel, and based upon discussions with the personnel, KPMG notes that employees primarily responsible for financial reporting (Joel Klein, Assistant Director of Finance & Accounting; Regina Reynolds, Accounting Manager) remain up-to-date on applicable accounting standards. To the extent that questions arise regarding appropriate accounting treatment for various items, the Airport contacts its financial consultant, Unison Maximus for assistance. In addition, the Airport often inquires of KPMG regarding recommended sources of information related to new accounting pronouncements.

General Ledger: REGINA REYNOLDS

Regina Reynolds, Accounting Manager, has the overall responsibility for the General Ledger. Regina posts and reviews all General Ledger transactions.

Activity is entered within the General Ledger in one of three methods: (1) routine entries, which are automated within the system, (2) recurring journal entries, which are posted by Regina based upon system prompts, and (3) manual journal entries, which are individually posted by Regina based upon unique activity. Each type of entry will be discussed in further detail below:

Routine Entries: NORMAN LEWIS

The Airport has a LAN-based (local area network) system that was internally developed. This system utilizes a series of Microsoft Access frontends linked to Microsoft Sequel Server databases to facilitate the integration and interface of various system modules. The system is comprised of an Accounts Receivable, Accounts Payable, Materials Management, Contracts Management, and General Ledger.

EMMANUEL KANEE

Kevin Downs, Accountant II, is responsible for billing the Airport's tenants. Information regarding tenants' leases and any related billing instructions are entered into the Accounts Receivable System by the Airport Properties Department. Kevin and Emmanuel Kanee, Accounts Payable/Accounts Receivable Manager then reviews the billing data report from the Accounts Receivable module, confirms all updated changes from the prior month and bills accordingly. Access to the Accounts Receivable module is limited to Phyllis, Kevin, Ganet Desu, Accountant II and Marlene Cento, Accountant II. Billing information is generated via the use of the Accounts Receivable System. The transaction file is updated monthly when items are billed.

Access to the Accounts Payable module is limited to individuals within the purchasing department. Voucher information is entered into the Airport's Accounts Payable system, which facilitates the vouchering process. Based upon inputs of the purchasing department, the system is capable of tracking expenses, accounts payable, and retainage.

NORMAN LEWIS

The Material Management Department enters three types of information into the Airport's Inventory System. This includes (a) receivers, (b) stock transfers, and (c) inventory adjustments.

a) Receivers transactions are created when the Material Management Department receives a stock inventory item via a requisition or small purchase order.

b) Stock transfers are recorded when Airport departments receives supplies from the inventory on hand and such items are removed from the inventory.

c) Inventory represents other inventory adjustments, such as adjustments for physical inventory counts, damaged items, etc. Such adjustments are minimal and only made to true-up actual inventory amounts.

The Contracts Management Module stores information for all contracted services with outside vendors. Invoices received by vendors are tagged to the appropriate contract in the module. The module is capable of tracking the total contract amount, amounts billed to date, and remaining amounts under contracts.

**For the above types of transactions, automatic journal entries are prepared based upon input of the accounts receivable, accounts payable, or materials management departments. Detail supporting each entry is available within the system, and is reconciled to the related entry by Ted Hatfalvi, Accountant II or Rhonda Smith in his absence. If accurate, Ted Hatfalvi posts the entry to the General Ledger once everything is balanced. Thus, there is segregation between the generation of the journal entry and posting to the general ledger.

**After the close of each month, Ted runs an Edit List Report (detail of accounts receivable, accounts payable, and inventory activity). He reconciles this summary report to transaction-level detail. If differences occur, Ted discusses the differences with the responsible department. Once Ted is satisfied that receivables and payables are correct for the month, he post to the general ledger.

Throughout audit testwork, KPMG will perform testwork over specific transactions in order to ensure that routine transactions are accurately reflected in the general ledger.

-There are several payments and deposits that are not run through accounts payable or accounts receivable, such as DEA payments.

-For FY 2018, Ted Hatfalvi, Accountant II, receives a report from the payroll department detailing gross payroll, withholdings, benefits, etc., by department. She uses these totals to record her monthly entries. The payroll department software is not part of the general ledger system and therefore has to be entered in on a monthly basis.

**When Airport bonds are sold, the proceeds are kept by a trustee. In order for the Airport to draw down money from these trustee accounts, they must first spend money on the appropriate activity and then request a draw down from the trustee. All bond draw down requests are prepared and reviewed by Sheeba Mathai, Accountant II, and John Lund, Accounting Supervisor, respectively. The drawdowns are wired from the trustee account to a City of St. Louis account. Regina makes monthly journal entries to record any bond drawdowns. Regina also posts interest earned on the trustee accounts through monthly journal entries.

**There are various payables and receivables that the Airport knows will occur each month, but does not know the actual amount until after month end. In order to record these transactions, Regina will accrue an estimate each month usually based on prior months actual amount incurred. She will also reverse the prior month's estimate and record the actual accrual and any payments or deposits associated with previous accruals. Such accruals are based upon actual amounts at year-end.

In addition to the entries listed above, Regina will make various reclassifications and account adjustments based on the account activity for the month.

While entries are entered by the Accountant I, Regina Reynolds is responsible for posting all entries to the General Ledger. Regina reviews a retained Journal Entry List against all related entries to ensure that all items have been accounted and corrected prior to posting to the General Ledger. On this Journal Entry List, repeating journal entries are pre-numbered, with a preprinted space for Ted or other General Ledger staff to initial once entries have been posted. If an entry is not applicable in a given month, Ted or other General Ledger staff places a line through the initial section or leave it blank. If additional entries are applicable, Ted or other General Ledger staff may add the entry into a section of the Journal Entry List. All manual journal entries have supporting documentation and filed in various journal entry books, which provides an audit trail for such entries. Reconcilements between supporting documentation and corresponding journal entries are reviewed/approved prior to posting into General Ledger by Regina.

Monthly Financial Reporting:

The Airport performs closing procedures on a monthly basis in order to verify financial statement information reconciles to internal supporting documentation, as well as to AIMS (City of St. Louis general ledger) for applicable accounts. Prior to the official close, Regina generates financial statements from the General Ledger System. Regina submits the financial statements to Antonio Strong, Deputy Director of Finance and Administration for review and approval. Antonio will inspect the financial statements, and inquire of Regina as to unusual activity. If the financial statements appear appropriate, Antonio will approve the financial statements and instruct Regina to close the books. Once approved, the financial statements are released to Unison-Maximus, who provides certain financial consulting services to the Airport.

Year End Financial Reporting:

Year-end financial reporting procedures are similar to monthly procedures, with the exception of certain adjustments only posted at year-end. Such adjustments include those for various benefits accruals, interest capitalization, and the annual revenue true up for tenant rates not yet billed, but incurred as of June 30th.

Once the Airport closes its books at year-end, all adjustments will be recorded as on-top entries. All on-top entries are evaluated/reviewed by Regina Reynolds and Joel Klein. All adjustments are then posted to the General Ledger.

Joel Klein, Assistant Director of Finance & Accounting and Regina Reynolds, Accounting Manager prepare the year-end financial statements and all of the footnotes to the financial statements. Antonio Strong, Deputy Director of Finance and Administration, then performs a review of the footnotes and provides any changes to Joel and Regina to incorporate.

In auditing the financial report, KPMG reconciles the trial balance to the financial statements in order to verify that the only differences between the closed book financial statements and the reported financial statements are audit adjustments that have been reviewed.

Capital Contributions & Passenger Facility Charges

Passenger Facility Charges Revenue Process:

KPMG discussed the Airport's Passenger Facility Charge Revenue process with John Lund, Accounting Supervisor. The following represents KPMG's understanding of the process.

On November 5, 1990, Congress passed the Aviation Safety and Capacity Expansion Act of 1990. One of the provisions of this Act was the creation of the Passenger Facility Charge (PFC) Program. Under this program, public agencies controlling commercial service airports are permitted to impose a charge on each enplaned passenger (i.e. a passenger whose flight originates in St. Louis). The proceeds from such PFCs are to be used to finance approved, eligible airport-related projects that preserve or enhance the safety, capacity, or security of the national air transportation system, reduce noise or mitigate noise impacts resulting from an airport that is part of this system, or furnish opportunities for enhanced competition between or among air carriers.

On September 30, 1992, the Federal Aviation Administration (FAA) approved Lambert Airport's application to impose a PFC of \$3 per enplaned passenger, effective December 1, 1992. An increase to \$4.50 was later approved. This application (commonly referred to as PFC Application #1) outlined several specific projects for which the PFC proceeds were to be used. The FAA extended the Airport's authority to collect PFC's and approved additional projects through the passage of additional PFC applications. The FAA has also approved various amendments to these applications. Because of these applications and amendments, the Airport has continuously collected PFC's from 1992 through the present.

Collection Process from Airlines:

Per discussion with John Lund, there is no formal process in place to track how much PFC revenue is due from each airline before the Airport receives the check. Instead, the collecting carrier is responsible for tracking the amount to remit to the Airport. Thus, the carrier is responsible for establishing and maintaining records of PFC revenue collected, remitted and refunded, as well as a record of compensation retained. However, the Airport is assured that the amounts reported by the airlines are accurate because the Airport reviews the PFC reports submitted by the airlines on an annual/quarterly basis. On an annual basis, Airlines handling 50,000 passengers throughout the United States are required to have an annual audit of their PFC program. This annual audit must address their schedules and internal controls. The primary factor reviewed by the FAA is the timeliness of payments issued. It is required that payments received in one month be remitted to the Airport by the last day of the following month. For example, PFCs collected in June should be submitted to the Airport by July 31. The reports are reviewed to determine that the collections from the carrier are in agreement with the

Airline's report to the Airport. KPMG notes that, of each \$4.50 PFC charge, the airlines are entitled to retain \$0.11 as a service charge, and must remit \$4.39 to the Airport.

Airlines are required to pay any amounts of PFCs obtained from passengers by the end of the following month regardless of when the passenger actually travels. If a passenger has a refundable ticket and they do not travel, the airline will exclude that amount from the payment following the refund. The refund amount is shown in the airline's quarterly report to the Airport.

According to 14 CFR 158.65, "each air carrier collecting PFC revenues for a public agency must file quarterly reports to the public agency (unless another reporting period is mutually agreed to by the air carrier and public agency). These reports shall state the collecting air carrier and airport involved, the total PFC revenue collected, the total amount of PFC revenue refunded to passengers, and the amount of collection withheld by the collecting carrier for reimbursement of expenses. The report shall include dates and the total amount of remittance for the quarter. The report shall be filed on or before the last day of the calendar month following the end of the calendar quarter or other agreed period."

Per John Lund, PFC reports are received from air carriers on a monthly or quarterly basis, depending on the airline. Sheeba Mathai, Accountant II, performs a reconciliation of the quarterly reports to actual cash deposits.

Anissa Blalock, Accountant I, receives the checks (representing PFC's collected) from the airlines. The checks are coded for the City books and sent on a Receipt Coding Form (RCF) to the Treasurer's Office of the City of St. Louis. Anissa logs the checks into a deposit spreadsheet. The RCF and checks are copied and maintained at the Airport. The City Treasurer receives the RCF, prepares the deposit slip, and makes the deposit at PNC Bank into an interest bearing account. The copies of the RCF and checks are forwarded to Sheeba Mathai, Accountant II, who keeps track of PFC payments by airline by maintaining a payment log in a spreadsheet. Sheeba reconciles the payment log to the airline monthly or quarterly reports.

The PFC bank deposits are reconciled as well as the payment log by Sheeba Mathai on a monthly basis to verify the cash balance as well as the PFC deposits received for the month.

At the end of each month, Regina Reynolds, Accounting Manager, prepares a manual Journal Entry to record the revenue from PFC collections. Regina reconciles the amount of PFC revenue to the amount included in the PFC deposit log as well as the AIMS GL (which includes all the PFC revenue based upon RCFs, as discussed above). Note that the amount posted generally will not include collections on the last day of the month due to timing between recording in AIMS and receipt by the Airport. The Airport records a monthly accrual journal entry for PFC payments received by month-end but not clearing the bank/posted in AIMS until the following month.

Use of Funds:

14 Code of Federal Regulations, Section 158, outlines allowable costs of approved PFC projects. Allowable costs include the reasonable and necessary costs of carrying out approved PFC projects, as well as making payments for debt service on bonds incurred to carry out approved PFC projects.

PFC expenses are not initially paid for using monies retained in the PFC interest-bearing account at PNC Bank. Instead, PFC expenses are initially paid for in a manner consistent with all other Airport expenses.

That is, a voucher is prepared and submitted to the City for payment. Such expenses are then paid for from the Airport's US Bank account, the primary operating account. All expenses are subject to authorization prior to payment. The level of authorization varies by the dollar amount of the expense, and is evidenced via signature on the related payment voucher. For further discussion over this process, refer to the 2.11.PP.1 Process walkthrough.

In conjunction with the preparation of the Airport's internal monthly PFC report, John Lund reviews costs as a result of system queries charged to contracts that may contain allowable PFC expenses. The total expenses are included in quarterly reports that are submitted to the FAA through online entry into the FAA SOAR system, which is accessible to all airlines.

John Lund prepares internal monthly PFC reports. These reports are prepared to ensure that all project expenses are reviewed by Joe Laks, Accounting Manager, or Joel Klein, Assistant Director of Finance and Accounting, for (a) allow ability, (b) eligibility, (c) matching requirements, and (d) the potential for excess project funds. Per inspection of John Lund's Outline of the PFC Process, this report is prepared in a consistent manner as the quarterly reports, which are prepared in the format provided by the FAA in the PFC Handbook.

Other Uses of PFC Funding:

PFC funds may be withdrawn from PNC Bank and invested in secure, high quality investments. Examples of safe investments include treasury bills and certificates of deposit. Investing funds is the responsibility of the City Treasurer.

PFC funding may be used for debt service; this would occur if the Airport issued bonds to secure funding immediately, rather than waiting to collect enough money in PFC's. This is referred to as a PFC-Backed Revenue Bond.

Capital Contributions and Restricted Government Grants Process:

Per discussions with John Lund, Accounting Supervisor, and Joe Laks, Accounting Manager, the Airport is eligible for FAA reimbursement of construction costs incurred by the Airport along with noise mitigation costs and security costs.

The Airport's Grants Department is responsible for updating the FAA on the Airport's project agenda. John Lund prepares and the Deputy Director approves and the Director signs the grant application to the FAA. The FAA makes the ultimate decision as to which Airport capital projects are eligible for grant reimbursement.

Reimbursements for Construction:

Airport grants typically involve only one project per grant agreement. The Grant Reimbursement Request is prepared by John Lund and must include all the required documentation, including title package for land acquisition reimbursements and contractor/vendor invoices for construction reimbursements. The request is signed by the Airport Director. The final grant contract is authorized by the FAA and various City officials.

The Airport's Area Accountants via the Airport's 'Payment System', the cost accounting system of the Airport input FAA reimbursable construction expenses. Expenditure information includes the designated

project number, FAA grant number, vendor invoice number and amount, and FAA cost code and sub cost codes (which determines whether the expenditure is eligible for reimbursement). Not all expenditures are FAA reimbursable. A description of all FAA cost codes and sub-codes and their eligibility for FAA reimbursement is available for use by Airport Accounting and Finance personnel. The Project Number and Grant Number are added later by John Lund, where needed.

The Airport periodically reports (5100 reports) to the FAA. These reports provide a detailed breakdown of the contract costs and the amount for which the Airport is eligible for reimbursement. These reports, based on FAA grant number, are run by John Lund and authorized by the Project Manager and the Airport Director. Construction expenditures incurred by the Airport must be supported with documentation (i.e., vendor vouchers and invoices), and must be available for FAA inspection upon request. All reimbursement request information is compiled by John Lund. John Lund reviews the '5100 report' for reimbursable expenditures that have not been claimed by the Airport.

KPMG notes that construction costs for FAA grant funding are on a reimbursement basis. As such, the FAA funds are requested as the Airport incurs project expenditures. If the Airport requests grant funds too early and the FAA funds are received prior to the payment of the voucher, any interest earned by the Airport must be submitted to the FAA. Sheeba Mathai or John Lund is responsible for checking the City Controller's 'warrant system' (equivalent to a check disbursement system) to ensure that the Airport construction expenditure has been paid by the City prior to submitting for reimbursement with the FAA. Per John Lund, the Airport did not request FAA reimbursement prior to the City payment of FAA reimbursable Airport construction expenses during the fiscal year.

Upon costs being incurred and paid, John Lund prepares an Outlay Report and Request for Reimbursement from the FAA. John Lund completes a 'DELPHI Payment System Drawdown Form' (i.e., the Form), which is approved by Joe Laks. Once approved, John logs into the DELPHI system (the Department of Transportation's grant drawdown system) and requests a wire transfer of funds from the FAA for reimbursement.

The voucher log is attached upon completing the DELPHI Drawdown for a backup, John prepares the Letter of Credit Drawdown Checklist and signs off on the checklist. This checklist requires the preparer to certify that all costs are eligible, have been incurred and have supporting documentation, have been paid, etc. The Checklist is then reviewed by Joe Laks. The Airport Accounting and Finance personnel receives a copy of the approved Delphi invoice.

The wire transfer details are sent to the City of St. Louis who forwards them to the Airport. Anissa Blalock receives the wire detail and completes a Receipt Control Form that indicates the grants, the total receipt amount, and the account coding for the City to input into AIMS. Note that once John has submitted a request for reimbursement, he sends a copy of the request to Rhonda Smith and Sheeba Mathai so that they know a reimbursement is coming. This also helps Anissa and Regina with appropriately coding the wire information received from the City. The request helps Sheeba draft the appropriate journal entry to record the grant payment received.

At the end of the month, Regina Reynolds records a journal entry for Grants revenue based upon the detail of receipts received from Rhonda's and Sheeba's drafted journal entries and the AIMS system maintained by the City.

In addition, John Lund maintains a 'Grant Status Summary' that lists the amount of all grants issued to the Airport by the FAA, total reimbursement received, grant cash balance remaining, and project name. At the end of the year, he forwards to the G/L team information about any reimbursement requests submitted before year-end but not paid by the FAA until after year-end. This information is used by Regina Reynolds and her team to record the related revenue and accrue for the grants receivable.

Reconciliation – Reports received from airlines to deposits made

On a monthly or quarterly basis, depending on the airline, the Airport receives a PFC revenue report from each airline. Sheeba Mathai, Accountant II, reconciles the quarterly reports to the cash deposits for the particular quarter under review. Monthly PFC reports arrive with the Airline payment and are therefore not reconciled because it is evident at the time whether or not the payment amount matches the PFC report.

The quarterly reports reconciliation involves matching the PFC revenue for each month on the reports sent from the airlines to the deposits recorded on the Airlines PFC deposits log. Sheeba then reconciles the deposits on the deposits log to the monthly PFC bank statements (control G#2). Note that the deposits log is a report prepared manually by Sheeba. A deposits log is prepared for each airline and includes information such as deposit number, deposit date, deposit amount, passengers, and PFC period (i.e. if the receipts relate to July PFCs, etc.). Management's control over the completeness and accuracy of the report is the PFC bank reconciliation (control G#2 - the reconciliation of the PFC monthly bank statements to the deposits log and G/L).

If a discrepancy is noted between the deposits log and the Airline report, the airline is contacted for resolution.

NOTE: While the Airport performs reconciliations over major airlines and airlines who submit significant PFC revenues to the Airport, periodically, the Airport will receive amounts from a small airline or an airline that does not operate out of Lambert. As these remittances are insignificant, the Airport does not perform a reconciliation over these reports submitted. This is reasonable.

PFC bank reconciliation

All PFC revenue must be deposited into an interest-bearing account. The Airport has established an interest-bearing account for such revenue at PNC Bank. Sheeba Mathai, Accountant II, performs a monthly reconciliation between PFC revenue per the PFC deposits log maintained by Sheeba, the PFC tracking spreadsheets maintained by John Lund and the PFC bank account statements. When performing the reconciliation, Sheeba verifies that all deposits to the PFC account and all transfers from the PFC account are properly reflected on the PFC deposits log and PFC tracking spreadsheets. John has extensive experience working with the PFC program. Both Sheeba and John are knowledgeable about the requirement to deposit all PFC money into an interest-bearing account. Per John, if interest were not earned on the PFC deposits, it would be identified during the reconciliation process.

Sheeba also inspects the PFM monthly statements for investments in the PFC portfolio. Sheeba adds any newly purchased investments to the PFC reconciliation at the cost indicated on the statement. If an

investment was sold/matured, Sheeba takes it off the reconciliation and records the realized gain/loss based on the cost of the investment per the reconciliation and net proceeds per the monthly statement.

Sheeba reconciles the PFC bank account to \$0. Per Sheeba, an error during the reconciliation would arise if amounts reflected on the bank statement (including interest amounts) were not properly reflected in the PFC tracking spreadsheets. In such an instance, Sheeba would work with John Lund, Accounting Supervisor, to identify the source of the error. Depending on the source of the error, either the bank would be contacted or an adjusting entry would be posted.

John Lund reviews the monthly reconciliation. Per inquiry of John, he is essentially re-performing Sheeba's procedures. He ties each item from the PFC deposits log and PFC tracking spreadsheets to the bank statement. He also verifies that bank interest from the PNC bank statement, coupon interest on investments, gains/losses on sales of investments, and PFM corporate account analysis charges based on the PFM investments statement are properly reflected in the spreadsheet tracking interest received to date. John also recalculates the gains/losses on sold/matured investments and agrees the cost of newly purchased investments to the PFM account statement. If John notes any amounts that do not agree to the bank or investment statements, he would consider those exceptions and work with Sheeba to investigate the differences. Per John, the PFC bank account must be reconciled to \$0. Once John is satisfied with the reconciliation, he signs off on the cover page. KPMG notes that John's review of the bank reconciliation is at sufficient level of precision to prevent or detect a material misstatement.

At the end of the fiscal year, Regina Reynolds prepares an on top entry to adjust the G/L PFC accounts (1327 & 1389) to the PFC account 6/30 reconciliation.

Human Resources & Payroll

The need for new employees is first determined at the department level, and then approved by the Airport personnel office. Human Resources can hire new employees only if a position has been added to the budget, or an existing position has become vacant. The City personnel office downtown must give final approval before an employee is hired. The City office must also approve starting wages, wage increases, and incentive bonuses. Employees are set up in the system by payroll. Individual employee files are kept for all Airport employees at the Airport personnel office. All new employees or changes to current employee rates, benefits, etc. are approved by the personnel manager and/or department manager and recorded on a New Hire Form or Employee Status Form.

Department Managers approve each pay periods' timesheets prior to submission of payroll. Per discussion with Joe Laks, a "timekeeper" in each department summarizes employees' time using daily records. These daily records are used strictly to summarize regular hours, overtime hours, sick hours, and shift differential. The Bi-weekly time sheets are approved by each department supervisor and sent to Cassandra Noldon, Payroll Specialist II and Stephanie Walker, Payroll Specialist II, depending on the department. Any deductions in pay and suspensions are handled by the Human Resource department who then would forward the relevant information onto payroll. Once all information has been summarized by the timekeeper in each department they post the time to the Timetracker System (an access database system). Any changes to payroll are documented by Vacation, Overtime/Compensatory, Sick Leave Forms (referred to by payroll as "slips") which are required to be

authorized by the employee and the employee's supervisor. All slips are forwarded to payroll at the end of the pay period to be reviewed and for payroll to verify all slips are appropriately included in the payroll.

The timekeeper in each department enters in the payroll information and then sends it onto the payroll department. The payroll clerk looks for authorization before entering the payroll data. Cassandra Noldon or Stephanie Walker prints a payroll summary report that contains the data from all departments. The report is uploaded to the City of St. Louis and a variance report is sent back to Airport Payroll. Payroll keeps all variance reports and bi-weekly time sheets. The variance report lists all information that relates to dollar amounts like overtime, sick time, and comp time, which Airport Payroll verifies against the time sheets from the departments. Discrepancies require a signature from Joe Laks, Accounting Manager, before sending to the City offices. After variances are confirmed and problems resolved, the City issues a payroll register and cuts the payroll checks and direct deposit slips. Next, the City sends the payroll register, pay checks, and direct deposit slips to payroll at the Airport. Cassandra/ Stephanie uses the payroll register to determine that all checks and direct deposit slips have been issued by the City before distributing them to the employees or the designated person from the department, generally the manager.

Payroll – General Ledger's Portion:

After each payroll Ted Hatfalvi, Accountant II, performed a reconciliation of the amount paid and included in the Airport's payroll reports to the amounts included in the G/L at the City. From the payroll reports, Ted prepares worksheets of the FICA, Life insurance, Medical Insurance, Pension, and payroll paid for the period. From the payroll reports received from the City, Ted also includes the Fire Department's payroll. The Fire Department is paid directly by the City but as the services relate to the Airport, Ted has to include these amounts in the reconciliation. Upon completion of the reconciliation, Ted prepares a summary sheet for the entire pay period as well as for each department. This reconciliation is performed for each payroll but no payroll expense entries are booked until the end of the month. At the end of the month, the spreadsheet calculates the necessary accrual for the month (which is reversed in the following month). From the reconciliation spreadsheets, Ted prepares the journal entry for the month. Ted inputs each item into the General Ledger (G/L) and prior to posting the entries, he prints an unposted GL report that details all the entries to be made for the payroll. Ted agrees these amounts to his reconciliation spreadsheets and make any changes before posting. Upon all updated changes, Ted posts the entries. Once the entries are posted, a General Journal Entry Edit List is printed to verify all items were appropriately posted. All accrual items are marked with a reversing code telling the system that the entry is to be automatically reversed in the next month. Regina informally reviews the entries after they have been posted. Regina reviews all of the reconciliations at year-end and verifies the Airport G/L agrees to the City's.

DEPARTMENT 910

(Downtown) Employee benefits lists by department and pay location- life insurance, pension (not for fire), medical.

By department – life premium 47.43 pension 1612, medical 1851.22

Payroll distribution report (downtown): FICA (968.27), GROSS (12465,.75), OVERTIME(809.92), NUMBER OF HOURS (680.50)

PAYROLL register (Airport report): number of employees (7), workers comp (0), on call pay (0), commuter's allowance (846)

Accrued Payroll:

This process is a manual determination performed at each month end and immediately reversed in the next month. The required accrual is manually calculated using the payroll register and the actual days in each month. All accrual items are marked with a reversing code telling the system that the entry is to be automatically reversed in the next month. Jackie informally reviews the entries after they have been posted.

Vacation Policy:

Vacation leave with pay shall be granted to employees paid a bi-weekly rate in competitive positions working fifty percent (50%) time or more. Employees employed before July 18, 2010 completing 5 years of cumulative service, ten (10) years of cumulative service, fifteen (15) years of cumulative service, or twenty (20) years of cumulative service shall have forty (40) hours of vacation added to their existing balance.

With the approval of the appointing authority, an employee may request and receive payment from the appointing authority for forty (40) hours of vacation accrual in lieu of scheduling paid leave provided the full vacation allowance for that year have not been exceeded. This may be done a maximum of once in each calendar year.

The maximum vacation balance for those working an average workweek of forty (40) hours shall be six hundred (600) hours.

When an employee terminates employment after twelve (12) months of continuous employment, the Division will pay the employee for accrued vacation.

Sick Leave:

Employees ceased accruing sick leave beginning July 18, 2010.

An active employee who is a member of the Employees Retirement System, who applies for retirement and immediately retires from active service, shall receive payment for his/her sick leave balance. This payment shall be limited to a maximum of fifty percent (50%) of the value of the employee's sick leave balance.

Medical leave with pay shall be granted to bi-weekly rate employees in permanent competitive positions working fifty percent (50%) time or more. All employees shall accrue three (3) hours of medical leave for each bi-weekly pay period of employment but must complete the entire pay period to accrue the medical leave at the end of said pay period.

Employees shall not receive payment for any medical leave balance and it shall not be used in the calculation of retirement benefits or payments.

Pension Trust:

KPMG notes that St. Louis Lambert International Airport has three retirement Systems that are included in its annual financial report. These Systems are listed below:

Firemen's Retirement System (a single employer pension System)

-Year End: September 30

-Auditor: Hochschild, Bloom & Company LLP

Firefighters' Retirement Plan (a single employer pension System)

-Year End: September 30

-Auditor: Kerber,Eck & Braeckel

Employees' Retirement System (a cost sharing multiple-employer pension System)

-Year End: September 30

-Auditor: Kerber,Eck & Braeckel

A summary of each System is provided below to document our understanding:

Firemen's Retirement System

The Firemen's Retirement System administers a single employer defined benefit pension System providing pension benefits to the City of St. Louis Firemen (members). It provides retirement benefits as well as death and disability benefits. Members can voluntarily retire after a minimum of 20 years of service or attaining age 55. Generally, the benefit is 40% of the two-year average final compensation. However, the applicability of other factors may raise this percentage to a maximum of 75%.

Covered Members contribute 8% of their salary. Upon leaving employment, the Member's contributions are refunded. Terminated Members also receive interest upon termination when the contributions made by the member are refunded.

Firefighters' Retirement Plan

Various City ordinances effectively discontinued the accrual of pension benefits under the Firemen's Retirement System for service performed and compensation paid after February 1, 2013 and established a new plan. The FRP provides retirement income benefits for services rendered after February 1, 2013.

Employees' Retirement System

All other City employees that do not qualify for the first two retirement Systems participate in the Employees' Retirement system. This System is a cost-sharing multiple-employer public defined benefit employees' retirement system for all non-uniformed employees of the City of St. Louis and certain other public entities funded by or providing services to residents of the City of St. Louis. These additional employee groups covered by the System are the employees of the St. Louis Public Library, the Art Museum of St. Louis, the St. Louis Zoological Park, the City of St. Louis Water Division, the Airport

Authority, the City Mental Health Board, the Metropolitan Taxicab Commission, the System, and civilian employees of the police department and police and firemen's retirement systems.

The System became operative April 1, 1960 by municipal ordinance establishing the System under the authority of Senate Bill No. 329 of the 70th General Assembly of the State of Missouri. Responsibility for operation and administration of the System is vested in its Board of Trustees. The Board of Trustees consists of the Comptroller of the City of St. Louis, two members appointed by the Mayor of the City of St. Louis, two members elected by the membership of the System, and one member elected by the retired members of the System.

Net Pension Obligation

Pension obligations and actuarially required contributions generally require a substantial amount of estimating and rely on several assumptions. As the business risk of calculating the estimated net pension obligations and/or any net pension assets is substantial, this activity is outsourced to a third party actuary (third party service organization).

Cash and Investments

Cash Reconciliations:

Reconciliations is a matching process between the Airport's General Ledger and the City of St. Louis Comptroller's Office General Ledger which is performed on a monthly basis by Ted Hatfalvi, Accountant II, Rhonda Smith, Accounting Coordinator, Regina Reynolds, Accounting Manager and Joel Klein, Assistant Director of Finance and Accounting. Rhonda imports General Ledger information per the City of St. Louis Comptroller's office into the Lambert Airport Cash Reconciliation system, which is an Access database that generates various reports in the assistance of the reconciliation process (i.e., the AIMS records not in AP/GL or PMCS report and Outstanding Vouchers Report). To ensure that all cash and investment accounts have been captured in the reconciliation process, Rhonda electronically compares account information (i.e., account number, vendor ID, etc.) per the reconciliation to the Lambert Airport Cash Reconciliation system's listing of the Airport's cash and investment accounts.

Typical reconciling items arise due to timing differences between the recording of transactions by the Airport and Comptroller's Office. Other errors may result from account number differences between the Airport and Comptroller's Office. Reconciling items arise when an item is not properly reflected in either the Airport or Comptroller's General Ledger System, or recorded in an incorrect fund or department account. If a reconciling item is found, Rhonda Smith (Accounting Coordinator) will inspect source documents and discuss the issue with either the Airport or Comptroller's General Ledger group to arrive at a resolution. Due to the detailed records kept by both offices, discrepancies can be readily identified and resolved.

The complete cash reconciliation from the Airport through to the Treasurer's bank statement is a multi-step process. Note that this process contains multiple steps as all cash transactions are initiated by the Airport but processed by the Treasurer's Office. The following is a general description of the multi-step process from which the Airport's cash account activity is reconciled to the Treasurer's bank statement:

1. Lambert reconciles between their General Ledger and the City's AIMS system. The starting point for this reconciliation is the AIMS balance, which already takes into account a majority of "normal" reconciling items (e.g., outstanding checks). This is because when a warrant/voucher is drawn, which will pay an outstanding expense of the Airport by the City, the amounts of the warrant/voucher is automatically taken out of the AIMS account balance. Thus, there are minimal reconciling items that exist in this reconciliation process between these two account balances.

2. The City reconciles between the City's AIMS system and the Treasurer's Cash Book, which is a representation of all cash at the City. This reconciliation is where a majority of reconciling items are recorded, including the outstanding checks between the bank account balance and the AIMS balance. Adjustments are identified as "unrecorded transactions." This balance relates to items that clear the bank account on or before 30th of each month, yet have not been recorded within the Cash Book. This represents a reclassification between outstanding checks and the Cash Book balance and would have no net impact on the adjusted balance (i.e., the starting point for the Airport's reconciliations).

3. The Treasurer's office at the City reconciles between the Cash Book and the bank statement. This is primarily a roll-forward of activity from the beginning of the month through the end of the month for the respective accounts. Therefore, there are limited additional reconciling items between the Cash Book and bank statement at month-end.

Investment Reconciliations:

Monthly reconciliations between the Airport's General Ledger and UMB Investment Statements for each bond series (2005-2017) is performed by Regina Reynolds, Accounting Manager and reviewed/approved by Joel Klein, Assistant Director of Finance and Accounting. The monthly UMB investment transactions from the UMB Statements are recorded into the General Ledger. The Accounting Coordinator prepares a journal entry to record interest received and bond receipts based on the investment statements activity. At month close, Ted Hatfalvi, Accountant II or Anissa Blalock, Accountant I, prints off a trial balance report and reconciles all investment statement activity to the trial balance. Controls are in place to ensure that investments are properly recorded in the General Ledger. To evidence reconciliation of amounts, Ted/Anissa places a check mark next to each amount. They also place a checkmark or "ok" next to the respective trial balance ending balance if the ending account balance reconciles to the ending balance per the investment statement. This serves as verification that all amounts were reconciled to one another. Ted/Anissa place all reconciled trial balances in a binder. If an amount does not reconcile, Ted/Anissa sends an email or verbally tells Regina that there is a difference. The unreconciled trial balance go into the binder when corrected. Per inquiry of Ted, Anissa and Regina, all investment accounts are reconciled to \$0.

A typical error during the reconciliation process would be if amounts were improperly keyed into the system or if an adjustment was not reflected in the investment entry (e.g., investment account fees). If such an error occurs, Ted or Anissa documents the error occurring on the preliminary trial balance of investments, sends an email or verbally tells Regina and Regina will post an adjusting entry immediately.

Regina is responsible for all Airport investment accounts. Accordingly, she is aware of all investment accounts that have been established on behalf of the Airport. In performing the monthly reconciliations, she verifies that each Airport account has been properly considered. This ensures completeness of investments in the financial statements.

Journal Entries

Routine Entries:

The Airport has a LAN-based (local area network) system that was internally developed. This system utilizes a series of Microsoft Access frontends linked to Microsoft Sequel Server databases to facilitate the integration and interface of various system modules. The system is comprised of an Accounts Receivable, Accounts Payable, Materials Management, Contracts Management, and General Ledger.

Kevin Downs, Accountant II, is responsible for billing the Airport's tenants. Information regarding tenants' leases and related billing instructions are entered into the Accounts Receivable System by the Airport Properties Department. Kevin and Emmanuel Kanee, Accounts Payable/Accounts Receivable Manager then reviews the billing data report from the Accounts Receivable module, confirms updated changes from the prior month and bills accordingly. Access to the Accounts Receivable module is limited to Phyllis, Accountant II, Kevin, Ganet Desu, Accountant II and Marlene Cento, Accountant II. Billing information is generated via the use of the Accounts Receivable System. The Monthly Transaction File is updated when items are billed.

Phyllis Jones, Accountant II, reviews the vendor invoice cost entries and Emmanuel Kanee, Accounts Payable/Accounts Receivable Manager, performs a second review of vendor invoice cost entries and approves the cost entries for vouchering. Joyce McFarland, Clerical Supervisor, is responsible for the preparation of vouchers payable to vendors for goods and services for FY2018. Access to the Accounts Payable module is limited to individuals within the Accounts Payable & Materials Management departments. Based upon inputs of the accounts Payable department, the system is capable of tracking expenses, accounts payable, and retainage. Cost entry information is entered into the Airport's Accounts Payable system transaction file once Emmanuel has approved them, which facilitates the vouchering process, by Joyce McFarland. Once the vouchers are prepared, they are reviewed/approved by Emmanuel, Joe Laks, Accounting Manager or Joel Klein, Assistant Director of Finance and Accounting, depending on the dollar amount. Vouchers are then copied, released and provided to the Comptrollers Representative, Robin Boyce for final review before transmitting to downtown for payment.

Three types of information are entered into the Airport's inventory tracking system by the Material Management Department. This includes (a) receivers, (b) stock transfers, and (c) inventory.

- a) Receivers are entered when inventory is received by the Department
- b) Stock transfers are recorded when Airport departments requisition supplies or other inventory on hand and such items are removed from the inventory.
- c) Inventory represents other inventory adjustments, such as adjustments for physical inventory counts, damaged items, etc. Such adjustments are minimal and only made to true-up actual inventory amounts.

For the above types of transactions, automatic journal entries are prepared based upon input of the Accounts Receivable, Accounts Payable, or Materials Management Departments. Detail supporting each entry is available within the system, and is reconciled to the related entry by Ted Hatfalvi (Accountant II)/Rhonda Smith (Accounting Coordinator). If accurate, Ted/Rhonda posts the entry to the general ledger. Thus, there is segregation between the generation of the journal entry and posting to the general ledger.

After the close of each month, Ted/Rhonda downloads the monthly transaction files produced by Accounts Receivable (A/R) and Accounts Payable (A/P) and runs an edit list report (detail of accounts receivable, accounts payable, and inventory activity). Ted/Rhonda reconciles this summary report to transaction-level detail. If differences are identified, Ted/Rhonda discusses the differences with the responsible department. After Ted/Rhonda is satisfied that receivables and payables are in balance and correct for the month, he/she approves the posting to the general ledger.

Throughout audit testwork, KPMG will perform testwork over specific transactions in order to ensure that routine transactions are accurately reflected in the General Ledger.

Recurring Journal Entries:

The General Ledger is comprised of approximately 70 Recurring Journal entries. The system prompts Regina Reynolds, Accounting Manager, to enter amounts for journal entries that consistently repeat monthly, such as, depreciation and amortization, bond interest expense, etc. Each is supported with amortization schedules and depreciation calculation information from the Depreciation Solutions System and reviewed by Joel Klein, Assistant Director of Finance and Accounting. If an Recurring Journal entry is not applicable in a given month, Regina may deselect it. If it is deselected, nothing is posted to the General Ledger for that Recurring Journal entry. Monthly, each Recurring Journal Entry is reviewed by Joel Klein to determine if the amount is appropriate, needs to be adjusted, and if the journal entry is needed during that particular month.

Manual Journal Entries:

In addition to the above, Regina Reynolds, Rhonda Smith and other Accounting staff prepares or reviews approximately 100 standard journal entries per month. An Accountant I enters journal entries from a blue journal entry sheet (prepared by Rhonda Smith, Ted Hatfalvi, Regina Reynolds, Joel Klein, or other Accounting Personnel). Such entries include the following:

- There are several payments and deposits that are not run through accounts payable or accounts receivable, such as DEA payments.

- For FY2018 Ted Hatfalvi, Accountant II receives a report from the Payroll Department detailing gross payroll, withholdings, benefits, etc., by department. The Payroll Department software is not part of the General Ledger System and therefore the payroll has to be entered on a monthly basis. A payroll spreadsheet is uploaded into the General Ledger, which automatically creates the Payroll Journal entries. Once posted, a General Ledger (GL) Edit List is printed to confirm totals along with a GL Trial Balance Report for Acct 1003 and Acct 2104. The G/L Edit List and the Trial Balance Reports are given to Anissa Blalock, Accountant I to create a manual journal entry, which covers the Payroll Clearing.

-When Airport bonds are sold, proceeds are kept by a trustee. In order for the Airport to draw down money from these trustee accounts, they must first spend money on the appropriate activity and then request a draw down from the trustee. All bond draw down requests are prepared by Sheeba Mathai, Accountant II, and reviewed by John Lund, Accounting Supervisor. The drawdowns are wired from the trustee account to a City of St. Louis account. Regina Reynolds makes monthly journal entries to record any bond drawdowns. Regina also posts interest earned on the trustee accounts through monthly journal entries.

-There are various payables and receivables that the Airport knows will occur each month, but does not know the actual amount until after month end. In order to record these transactions, Regina Reynolds will accrue an estimate each month usually based on prior months actual amount incurred. Regina will also reverse the prior month's estimate and record the actual accrual and any payments or deposits associated with previous accruals. Such accruals are based upon actual amounts at year-end.

-Regina Reynolds adjusts the Construction in Progress schedules monthly and receives various reports and emails for items placed in service. Regina also receives notification from the Engineering Department regarding the status of the projects (i.e., determination of completion of the project, estimated completion dates, etc.). Items that require additional information are researched/forwarded to the Engineering Department for status information and percentage of completion. Regina makes a journal entry to reclassify construction projects placed in service. Rhonda Smith reviews the Accounts Payable detail for the month and determines whether equipment purchases need to be reclassified. Joel Klein, Assistant Director of Finance and Accounting reviews Regina's journal entries, on a monthly basis.

In addition to the entries listed above, Joel Klein and Regina Reynolds will make various reclassifications and account adjustments based on the account activity for the month.

While entries are entered by an Accountant I, Regina Reynolds is responsible for posting all entries to the General Ledger. Regina assures herself that all entries have been posted per review of a Journal Entry List that is retained. On this Journal Entry List, repeating journal entries are pre-numbered, with a preprinted space for Ted or other General Ledger staff to initial once entries have been posted. If an entry is not applicable in a given month, Ted or other general ledger staff places a line through the initial section or leave it blank. If additional entries are applicable, Ted or other General Ledger staff may add the entry into a section of the Journal Entry List. All manual entries are filed with supporting documentation in a journal entries book, which provides an audit trail for such entries. Supporting documentation is reconciled to journal entries prior to being posted by Regina.

Capital Assets

Capital Assets and Depreciation Process:

Oversight and Management of Airport Facilities:

The Airport is governed by an Airport Commission, which is responsible for the planning, development, and management of the Airport. The Airport Commission is comprised of the Director of Airport (who serves as chairperson), the City of St. Louis Comptroller, the President of the City's Board of Alderman,

six additional members appointed by the Mayor, five members appointed by the St. Louis County Executive, one member appointed by St. Charles County and one member appointed by St. Clair County, Illinois. The Commission meets once per month, and addresses significant facility issues, such as approving contracts and projects and determining the Airport's budget.

The chief executive officer of the Airport is the Director of Airports, who is appointed by the Mayor for a term that runs concurrently with the Mayor's term of office. The current Director of the Airport is Rhonda Hamm-Niebruegge. Directly underneath the Director of the Airport is the Deputy Director of the Airport who oversees the operational and maintenance aspects of the Airport. The departments reporting to the Deputy Director are as follows:

Dept #	Department Name	Function
70	Autoshop	Maintenance and procurement of Airport vehicles
71	Field Maintenance	Maintenance of airfields and roads
72	Building Maintenance	Maintenance of building facilities
73	Electrical Maintenance	Maintenance of electrical facilities
75	Landscaping	Landscaping for St. Louis Lambert International Airport
76	Custodial	General maintenance of Airport facilities
77	Climate control	Monitor air ventilation, heating and air conditioning systems
78	Materials Management	Handling of inventory and supplies
82	Engineering	Management of construction projects
84	Fire Department	24 hour response team specially trained in aircraft firefighting
85	Police	Security
86	Operations Center	Serve as the communication center on the airfield
88	Information Technology	Maintenance of Airport information systems
89	Air Service Development	Air Service Development
90	Contract Management	Management of contracts with vendors/lessees
91	Plan & Development	Airport planning and development
92	Director	Department of the Director of the Airport
93	P/R	Public Relations
94	Legal	Legal department
95	Property Management	Management of Airport properties

96	Safety	Employee related safety
97	Finance	Finance & Accounting
98	Operations & Maintenance	Management of operations and maintenance departments and facilities inspections
99	Personnel	HR Department

Each department of the Airport has an operating budget. The budget is developed by each department on an annual basis and is reviewed and approved by the Commission. As part of the Airport's rate setting process (discussed in the R workpapers), the airlines also review the Airport's annual budget. Once the budget has been reached, each department receives a copy to reference throughout the year.

Additionally, the Airport prepares strategic plans. Each year, both a one and five-year plan are developed. The one-year plan focuses on departmental needs and is developed by the individual departments. This plan identifies specific improvement and/or changes expected to be made within the next fiscal year. Management uses this plan to monitor and evaluate the performance of each department on a quarterly basis. The five-year plan is developed by the Project Team, which is made up of the Deputy Director of Airports, Assistant Director Planning & Development, and the Assistant Director Engineering. This plan focuses on the overall Airport goals and expectations for the next five years.

Acquisition and capitalization of capital assets:

KPMG discussed the following with Regina Reynolds, Accounting Manager, noting that capital assets are purchased by the Airport via the procurement process. The Airport's capital assets are divided into four categories: Land, Pavings, Buildings and Facilities, and Equipment. The Airport capitalizes equipment (over a threshold of \$10,000) as these items are purchased. In addition Regina Reynolds, Accounting Manager will aggregate individual purchases of less than \$10,000 if these individual purchases relate to one another (individual items such as desktop computers are not aggregated, but larger items such as multiple small payments for one server are aggregated).

Regina Reynolds makes this determination upon her conversations with Mike Bernich, Autoshop Supervisor. Regina reviews the expense position of the General Ledger on a monthly basis to ensure that appropriate items are capitalized. Initially, all costs associated with these projects are placed in a "Construction in Progress" account. On a monthly basis, Regina refers to the Engineering Department monthly reports to determine which of the projects have been completed. If a project is determined to be at least 95% completed, the cost of the project is moved from Construction in Progress to the appropriate capital asset category (Pavings or Buildings and Facilities). Additionally, Regina Reynolds/Joel Klein, performs an interest capitalization calculation each year to determine whether the interest on debt incurred in conjunction with these projects should also be capitalized.

The Airport depreciates its capital assets using the straight-line method over the following useful lives: Pavings are depreciated over 18 – 30 years, Buildings and Facilities are depreciated over 20 – 25 years and Equipment is depreciated over 2 – 20 years. Mike Bernich, Autoshop Supervisor, determines the precise useful life for each specific equipment item. Engineering determines life for non-equipment

items. Depreciation is computed monthly, meaning that an asset acquired in September would be depreciated over the remaining nine months of the fiscal year (October through June).

Fixed Asset System:

Per discussion with Regina Reynolds, all capital assets are also recorded in Fixed Asset System. The capital assets details are entered into Fixed Asset System by Regina/Rhonda. The Fixed Asset System documents the following regarding each asset: the General Ledger assigns an account number that includes (an asset number, a depreciation number, and an accumulated depreciation number), in addition the acquisition date is inputted, description of asset, dollar amount, and useful life of asset. The Fixed Asset System is reconciled to the General Ledger on a monthly basis by Regina/Rhonda. Additionally, the Fixed Asset System is utilized by Regina Reynolds to calculate depreciation and prepare monthly depreciation entry. Regina inputs the depreciation amounts calculated by the Fixed Asset System into the account numbers assigned by the system, Regina/Rhonda is informed by a letter from David Kulinski from Operations & Maintenance as to what equipment to add and Mike Bernich, Autoshop Supervisor informs her to what equipment to delete into the system.

Disposal of capital assets:

Mike Bernich along with department heads determines when to dispose of capital assets. Additionally, Mike also formulates a 5-year program detailing what new vehicles/equipment the Maintenance Department hopes to receive in the next five years, to replace any vehicles/equipment scheduled to retired. This program is based on the age of the present equipment on hand, the future needs of the Airport, and the requirements of the FAA on certain equipment, such as fire trucks. The five-year program does not dictate if the department will actually receive the equipment. The equipment/vehicles will only be purchased if there is sufficient funding in the Airport's budget.

Once the decision has been made to dispose of a capital asset, the asset will either be traded into a dealer or if this does not occur the City of St. Louis has the option to buy the capital asset. If St. Louis City has no desire to purchase the capital asset the asset will be auctioned off. The City uses an appraiser to assess the dollar value of the assets that are to be purchased.

Maintenance of Capital Assets:

The Airport must maintain its capital assets as prescribed by the FAA maintenance program. The Maintenance Department maintains a detailed file for each vehicle and piece of equipment that includes the item's date of acquisition, and repair and maintenance history. Additionally, a preventive maintenance schedule is developed for each item (e.g. for oil changes, tune ups) and is maintained in the file. On a monthly basis, the mileage associated with each vehicle is submitted to the Maintenance Department to determine if maintenance is necessary. Additionally, all vehicles are inspected annually to determine whether any additional repairs are necessary.

In order to complete vehicle and equipment repairs, the Maintenance Department often must request parts from the storeroom. The Maintenance Department submits a requisition to the storeroom. The requisition is filled out by the mechanic and a manager or foreman II's signature is required. The Parts Department does maintain a small warehouse for fast moving parts. The supplies were drawn from the Materials Management storeroom. Both storerooms are secured and locked, and thus inaccessible to non-employees. The Maintenance Department is also located in a fenced area on the Airport grounds.

A security guard is posted 24 hours a day at the department's entrance, and each employee must display an airport picture I.D. This area is now on high security as a result of the September 11th terrorist attacks. Employees must have the appropriate color of badge to enter this area.

Debt Management

Compliance with Bond Indenture:

The Airport must comply with various debt covenants. The Airport's bond trustee (UMB Bank), Regina Reynolds, Accounting Manager, and Joel Klein, Assistant Director of Finance and Accounting, continuously monitor the Airport's compliance with these covenants.

Monitoring Debt:

Airport debt issuances are underwritten by various underwriters, dependent on the bond series. When bonds are issued, the underwriters provide the Airport with a bond amortization schedule.

UMB Bank serves as the Airport's bond trustee. On an annual basis, UMB provides a Debt Service Payment Schedule (the Statement) to the City Comptroller's office. The City forwards a copy of the Statement to the Airport's accounting department.

Regina Reynolds/Joel Klein performs a reconciliation between the debt service payments made to UMB and the Debt Service Payment Schedule. Following this reconciliation, Regina prepares the debt service journal entries. The entries are included in the general ledger binders, along with payment support from the bank. Once entries are made, Rhonda indicates so on the Journal Entry List, which is retained in the front of each month's journal entry binder. This list has a place for all debt issuances entries, and thus serves as Regina/Joel's method for ensuring that all debt entries have been made.

At the end of the fiscal year, Regina/Joel utilizes information from the general ledger to ensure that all information is captured correctly and performs the debt roll-forward for the footnote.

Procurement

KPMG discussed the Expenditure process with Airport management:

All services rendered or goods purchased by the Airport are subject to the procurement process. This process begins with the preparation of the annual budget, which takes place between December and March for the upcoming fiscal year. Each department projects the supplies and equipment that will be needed for the year and prepares a budget. The budget specifically lists each piece of equipment and the price. A budget line item is established for supplies, which is determined by comparison of prior years. Each department negotiates its budget with a finance department committee made up of the

Deputy Director of Finance and Administration, Assistant Director of Finance and Accounting and Deputy Director over the Department, who ultimately approves each department's budget before the fiscal year begins.

The Airport has different procurement procedures for supplies under and over \$500, for materials or labor/service under and over \$5,000 as follows:

Items Under \$500/\$5,000:

An employee must obtain a quote from a vendor for materials that are not under contract. Department managers are familiar with the current vendor list in the accounts payable system and thus are able to select vendors that the Airport regularly uses. When a quote is received, a request is sent to the Materials Management Department for review and approval. The department manager will complete an internal purchase order and forward the purchase order number to the employee requesting the materials. The internal purchase orders are completed online as they are requested by the requesting department.

Once authorization to make the purchase has been received, the employee orders the item or purchases it directly. If the item is ordered, the purchase order number is given to the vendor so that materials management will correctly identify the item when received. If an employee purchases the item directly, the vendor is required to send an invoice to the accounts payable department and the receipt/shipping papers are forwarded to materials management so that they may record the item as received.

Items Over \$500/\$5,000:

The department manager reviews employee requests for purchases and verifies that the items requested are within the budget. A requisition is sent to the materials department for approval. The Materials Management Department creates an external purchase order and enters it into the Comptroller's office main database. The City of St. Louis Comptroller's office generates a purchase requisition and forwards it to the Airport for approval. Authorized signers on the purchase requisition are the accounts payable manager or the finance director. Once approved within the system electronically, the purchase order is verified by the Comptroller's office and sent to the supply division. The supply division then starts the bid process for all non-contract items, and notifies the contractor to order contract items.

Once the item ordered is received, the materials management records the item as received and scans any receiving documents into the system. Both the PO and receiving information/documents are viewable by the Accounts payable department when invoices are received.

The Airport does not require a contract nor PO for the payment of utility invoices. Rather these invoices are forwarded to the applicable department head. The department head reviews each invoice for reasonableness and signs the invoice indicating that the invoice is approved for payment. The utility bills are paid through Direct Pay.

The Accounts Payable Department enters an invoice into the accounts payable system upon receipt from a vendor. The invoice is matched electronically with the receiving information, which the Materials Department entered into the system. The Accounts Payable Department matches the PO, receiving report, and invoice electronically.

Once processing is complete (i.e., the three-way match is performed and the invoice is entered into the system by the A/P clerk), the clerk saves the information. Once the invoice is saved into the Accounts Payable module by the A/P clerk, the invoice is then grouped with the other invoices ready for payment and released for Manager approval. The review accountant checks the invoices and the review report for accuracy and completeness and then gives the invoices and the review report to the Manager for approval. After the review has taken place, the Accounting Manager will electronically approve the invoices for payment. Without the Accounting Manager's approval, the system will not process the invoice further.

After the invoice has been approved for payment, the Airport issues a voucher, which must be authorized for payment by accounting managers.

Revenue

Aviation, Concessions, and Parking Revenue Process:

A primary source of the Airport's revenue is derived from rates charged to tenants of the Airport, including airlines and concessionaires. Tenants are charged a rate per square foot of occupied space within terminals, concourses, cargo area and hangars. Some concessionaires have agreements with their rent being the greater of the percentage of revenue or set rate. Additionally, airlines are charged a rate per thousand pounds of landed weight for airplane traffic.

Establishment of User Rates:

User rates are established based upon the Airport's estimated costs, as follows:

- At the beginning of the year, the Airport completes the budget. The finalized budget is used to determine the change in the rates for the air carriers. Airport Staff determines how these costs should be spread among the Airport's various cost centers, including the airfield, terminals, cargo areas, hangars, etc.. Costs directly attributable to a specific cost center are allocated entirely to that center (i.e., airfield snow removal is completely allocated to the airfield cost center). Administrative costs, such as Airport administrative staff salaries, are allocated to each cost as the same percentage as the direct costs.
- Annually, the Airport staff performs a thorough review of estimated costs, including operation and maintenance costs (i.e., personal services, supplies, and materials), capitalized equipment costs, interest expense, and the cost of capital improvement projects. KPMG notes that within the use agreement with the airlines, a Capital Improvements plan is set forth. The amounts included in the agreement are used to determine the appropriate rate to charge throughout the year. This review occurs in conjunction with the budgeting process and assists in the establishment of user rates, as virtually all costs (excluding those paid/reimbursed through grants/PFC revenues) of the Airport are passed along to the airlines and concessionaires via user rates.
- Once the estimated costs are determined and the budget has been authorized, information is uploaded into the Rates and Charges Model. This model is an Excel spreadsheet configured to allocate rates based on the allocations determined by the Airport staff. Once the rates have been determined, the General Ledger Accounting Coordinator prepares a report entitled Calculation of Airline Rates and

Charges. Once authorized, the report is distributed to the Signatory Airlines. A meeting/conference call is held with representatives of all signatory airlines, at which rates are discussed and pending questions are answered. Following the meeting, the user rates are made effective.

Year-End Settlement Process:

As stated previously, user rates are based upon estimates established at the beginning of the year. At year-end, the General Ledger Accounting Coordinator prepares reconciliation between the Airport's estimated costs billed to tenants based upon Setting's rates and the Airport's actual costs. The Airlines are billed for the difference between budgeted and actual costs (referred to as true-up costs). The difference is manually posted manually at year-end in the "true-up" account as revenue (account number 4199, 4299, 4198 and 4298) and receivable by Rhonda after the true up calculation is reviewed, and settled with the Airport's tenants the following fiscal year. The finalized billings for the true-up are usually not sent to the airline carriers until around December of the following year (following the audit). Airlines have approximately 6 months to pay off the true-up billing.

Billing of Airlines and Concessionaires:

The billing rates data for each tenant and airline are maintained and updated at the Properties Department based on User Agreements and contracts data. The Properties Department representatives, Ryan Stoffel, Justin Jackson and Rochelle Pruitt, enter the data to the AR System. The Accounting Department receives a detailed report from each airline every month. The report contains information such as number of landed weights, arrivals, departures, passenger statistics, and cargo information.

As noted previously, airlines are charged a rate per thousand pounds of landed weight for airplane traffic. Landed weight information is obtained from each airline on a monthly basis. This information is then entered into the Accounts Receivable System by Kevin Downs, Accountant II. Billing reports are automatically generated based upon rate information within the Accounts Receivable System. If all bills appear reasonable, Kevin posts the billing to A/R and revenue. The printed invoices are then mailed to the customers.

Airlines and concessionaires within terminals, concourses, cargo area and hangars are charged a rate per square foot of occupied space or a percentage of revenue with a minimum rental amount depending on the individual agreement. Information regarding square footage for concessionaires is obtained by the Properties Department. Billing instructions for tenants are then entered into the Accounts Receivable System by the Properties Department. The Accounts Receivable System is automatically configured to generate billings depending upon information entered by the Properties Department. Kevin Downs is able to generate invoices for terminal, concourse, cargo area, and hangar fees.

Receipt of Payments for Airlines and Concessionaires:

The mailroom receives checks remitted by the Airport's tenants and forwards to Anissa Blaylock, Accountant I. Anissa prepares the bank deposit, and forwards it to the City of St. Louis Treasury Department for deposit. Anissa forwards a copy of the remittance advice for each tenant with detail to an Accounting Clerk, who inputs the advices into the accounts receivable system. The Accounting Clerk prints off a summary report, and reconciles information per the report to total remittance information. The deposit information then forwarded to Emmanuel Kanee, Accounts Receivable/Accounts Payable Manager, who posts payment information to customer accounts. Emmanuel reconciles total payments

posted and the outstanding receivables balance to ensure proper recording of all payments in the system.

On a monthly basis, Kevin Downs performs a roll forward of the receivables balance, verifying that the prior month's receivable balance plus billings less collections equals the outstanding receivables balance, per the system. This is an informal documented process except for at year-end when Emmanuel Kanee, Accounts Receivable/Accounts Payable Manager prepares a formal reconciliation.

Additionally, bank accounts are reconciled monthly by the City's Treasurers department, thus ensuring deposits were properly posted.

Receipt of Miscellaneous Payments:

The utilization of the Cashier Window is for the collection of money, employee badges or fingerprints, payments and other miscellaneous receipts. (Badges are updated annually and fingerprinting is done for new employees only.)

When an employee pays for one of the services above, he or she is given a pre-numbered receipt. The receipts and cash collected are stored in a locked safe at the end of the day. Regina Reynolds, Rhonda Smith, and Ted Hatfalvi are the only Airport employees with access to the safe. Ted/Anissa checks the amount put into the safe at the end of each night and records it on a daily cash log. The following morning, Anissa/Ted collects the money from the safe, fills out receipts(s) which goes with deposit backup for that day. Deposit goes into a locked deposit bag in a secured office for Brinks pick up. Brinks picks up previous day's collection and signs pick up log and the cycle is repeated. . Processes are in place to verify window cash to the log (spreadsheet) and the actual receipt that is prepared which breakouts what has been collected for daily window cash. Receipts that are prepared are included with the cash being transmitted to downtown, included as part of the window cash log as well as part of the backup detail which is used as detail to be keyed into the Billing Management System. Tapes are also ran for window cash/checks to ensure the balancing between the receipts and the log. Tapes must be compared to what's being keyed in the Billing Management System for accuracy and balance matching. Random reviews are done by Regina to ensure the Airports Deposit# on downtown's RCF is recorded onto the US Bank wire transfer sheet from the bank to ensure proper recording of deposit information.

The average amount of cash collected each day is minimal (approximately \$500, on average). This money is recorded in the General Ledger as miscellaneous revenue.

Year End Cutoff Procedures:

In order to achieve a proper year-end cutoff, the Airport closes the Accounts Receivable Ledger on June 30th of each fiscal year. Airlines and concessionaires are billed on the 20th of each month for terminal and concourse usage for the upcoming month, which is due that upcoming month. The Accounts Receivable System is configured to ensure proper cutoff. When charges are entered into the Accounts Receivable System, a month code is entered. Although July terminal and concourse usage is billed on June 20th, the month code instructs the system to wait until July to apply this charge to the Accounts Receivable trial balance, thus ensuring that the cutoff is achieved.

Airfield usage and electricity is billed for the previous month's usage. As part of the closing process, the Airport records an accrual for airfield usage and electricity costs incurred by airlines but not yet billed at June 30th. The Airport also records an accrual for the portion of the prior year's settlement not yet billed to the tenants, and an estimate of the current year's settlement, which will ultimately be billed to the airlines. Once these adjustments are posted, Emmanuel Kanee, Accounts Receivable/Accounts Payable Manager prepares his year-end Accounts Receivable reconciliation to ensure that the Accounts Receivable balance reported on the General Ledger for June 30th is accurate.

Accounts Receivable Process:

Accounts Receivable is largely a function of the true-up process, which results in unbilled revenues, plus June billings that were not paid.

Accounts Receivable Reconciliation:

On a monthly basis, a roll forward of the receivables balance is performed verifying that the prior month's receivables balance plus billings less collections equals the outstanding receivables balance, per the system. This is an informally documented process except for at year-end when the Accounts Receivable/Accounts Payable Manager prepares a formal reconciliation.

Airfield usage and electricity is billed for the previous month's usage. As part of the closing process, the Airport records an accrual for airfield usage and electricity costs incurred by airlines but not yet billed at June 30th. The Airport also records an accrual for the portion of the prior year's settlement not yet billed to the tenants, and an estimate of the current year's settlement, which ultimately will be billed to the Airlines. Once these adjustments are posted, the Accounts Receivable/Accounts Payable Manager prepares a year-end accounts receivable reconciliation to ensure that the accounts receivable balance reported on the general ledger for June 30th is accurate.