



# County of Allegheny

## Office of the Controller

AIRMALL PITTSBURGH, INC.  
REPORT ON CONTRACT COMPLIANCE PROCEDURES  
FOR THE PERIOD  
JANUARY 1, 2012 THROUGH AUGUST 31, 2013  
*(Non-Audit Service)*

January 3, 2014

**Chelsa Wagner**  
Controller

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**CHELSEA WAGNER**  
CONTROLLER

# COUNTY OF ALLEGHENY

## OFFICE OF THE CONTROLLER

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December 16, 2013

Mr. Bradley D. Penrod  
President and Chief Strategy Officer  
Allegheny County Airport Authority  
Landside Terminal, 4<sup>th</sup> Floor Mezzanine  
P.O. Box 12370  
Pittsburgh, PA 15231-0370

**AIRMALL Pittsburgh, Inc.**  
**Report on Contract Compliance Procedures**  
**For the Period January 1, 2012 through August 31, 2013**

Dear Mr. Penrod:

We have applied contract compliance procedures to the Amended and Restated Master Lease, Development and Concession Agreement (Agreement), through amendment four, between the Allegheny County Airport Authority (Airport Authority) and AIRMALL Pittsburgh, Inc. (AIRMALL). These procedures covered the period January 1, 2012 through August 31, 2013. Our engagement was performed as a non-audit service, and therefore was not conducted in accordance with *Government Auditing Standards*.


Our procedures revealed that AIRMALL is not confirming the annual gross revenue of its subtenants in a manner required by the terms of the Agreement on a consistent basis. AIRMALL is also not consistently estimating its monthly rent payments to the Airport Authority in a way that ensures AIRMALL is within the \$50,000 monthly constraint verbally agreed upon by both parties.

We believe that the implementation of our recommendations will improve AIRMALL's compliance with the Agreement. The results of our procedures are provided in detail in the attached report.

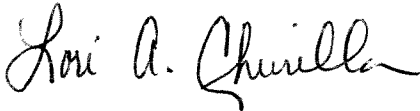
Mr. Bradley Penrod  
December 16, 2013  
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We would like to thank the management and staff of the Airport Authority and AIRMALL for their courtesy and cooperation during the performance of our procedures.

Kind regards,



Chelsa Wagner  
Controller



Lori A. Churilla  
Assistant Deputy Controller, Auditing

cc: Honorable Charles Martoni, President, County Council  
Honorable Nicholas Futules, Vice-President, County Council  
Honorable Rich Fitzgerald, Allegheny County Executive  
Mr. William McKain, County Manager, Allegheny County  
Ms. Jennifer Liptak, Chief of Staff, County Executive  
Mr. Warren Finkel, Budget Director, Allegheny County  
Mr. Joseph Catanese, Director of Constituent Services, County Council  
Mr. Walter Szymanski, Budget Director, County Council  
Mr. David Minnotte, Board Chairman, Airport Authority Board  
Mr. Richard Stanizzo, Audit Committee Chairman, Airport Authority Board  
Mr. James R. Gill, Executive Vice President and Chief Financial Officer, Airport Authority  
Mr. Stephen W. Robinson, Controller, Airport Authority  
Mr. Eric Ruprecht, Director of Business Administration, Airport Authority  
Mr. Jay Kruisselbrink, Vice President, AIRMALL USA, Inc.  
Mr. Kevin Romango, Chief Financial Officer, AIRMALL USA, Inc.

## *Executive Summary*

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### **Purpose of Procedures**

The Allegheny County Controller's Office performed contract compliance procedures for the period January 1, 2012 through August 31, 2013 to ensure that AIRMALL Pittsburgh, Inc. (AIRMALL) was in compliance with the terms of its agreement with the Allegheny County Airport Authority (Airport Authority).

### **Background**

Allegheny County (County) entered into the Master Lease, Development and Concession Agreement with AIRMALL Pittsburgh, Inc. (AIRMALL) (formerly BAA Pittsburgh, Inc.) for the fifteen year period commencing August 1991. The original Agreement was amended and restated effective April 1995 and is known as the Amended and Restated Master Lease, Development and Concession Agreement (Agreement). The first amendment to the Agreement extended the term until December 1999. The second amendment extended the lease term to December 2017 and assigned the responsibility for the administration and enforcement of the Agreement to the Airport Authority. The third amendment to the Agreement established the current rent rate of 59% of AIRMALL gross income to be paid to the Airport Authority. Lastly, the fourth amendment dated December 2012, extended the term of the Agreement to December 2029 and contained provisions related to the ongoing expansion of AIRMALL facilities as well as an increase in rent percentage paid to the Airport Authority effective January 2018.

Per the terms of the Agreement, AIRMALL is currently required to pay 59% of their gross income to the Airport Authority as rent. AIRMALL makes estimated monthly payments to the Airport Authority based on weekly sales figures, historical tenant sales information and known trends in operations. Rent payments are due to the Authority on or before the 10<sup>th</sup> of each month for that month. The rent due from AIRMALL totaled \$8,375,277 for the period January 1, 2012 through August 31, 2013.

AIRMALL operates to meet the needs of the users of the Pittsburgh International Airport by facilitating the provision of food, beverage and retail services and facilities. Currently AIRMALL is working to complete a \$5 million expansion as outlined in the fourth amendment to the Agreement. Expansion improvements are required to be completed by June 30, 2014 and AIRMALL has announced that at least six new tenants will open for business by the end of 2013.

### **Results in Brief**

Our procedures revealed the following:

#### **Finding #1: Confirmation of Subtenant Revenue Needs to be Improved**

AIRMALL did not obtain adequate documentation to substantiate the annual gross revenues of 5 (21%) of 24 sampled subtenants as required by the terms of the Agreement. Attempts made by AIRMALL to follow up with tenants who do not submit proper substantiation of gross revenue are not always successful, and there are no ramifications against the subtenant if a subtenant should choose not to submit annual gross revenue data. Subtenants pay rent to AIRMALL based

## *Executive Summary*

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on the amount of revenue generated during the calendar year, and AIRMALL in turn pays a portion of this rent, currently 59%, to the Allegheny County Airport Authority. Proper reporting of gross revenue is doubly important as deficiencies in subtenant reporting affect not only the amount of rent due to AIRMALL but to the Airport Authority as well.

**Recommendations:** The Controller's Office recommends that AIRMALL:

- Continue to utilize the services of a professional firm to perform examinations of subtenant gross sales. Emphasis for selection should be placed on those subtenants who have not submitted substantiation of revenue as well as those who submit the lowest level of accepted reporting.
- Consider revising subtenant agreements to include a clause for the potential assessment of penalties when subtenants fail to properly report annual gross revenue.

### **Finding #2: Estimated Rent Payments are not Indicative of Actual Rent Due**

After signing the Amended and Restated Master Lease, Concession and Development Agreement, AIRMALL and the Airport Authority verbally agreed that AIRMALL's estimated monthly rent payment should not differ from the actual monthly rent due by more than \$50,000. While performing our procedures we noted 5 (25%) of 20 months in which the amount of rent was underpaid to the Airport Authority by more than \$50,000 when compared to actual.

**Recommendations:** The Controller's Office recommends that AIRMALL:

- Revise its procedures for estimating monthly rent payments to include any income from the provision of common area maintenance and distribution services.
- Continue to utilize procedures outlined in the Agreement as well as current sales data and knowledge of current operations to further improve the rent estimation process.

## **I. Introduction**

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Allegheny County (County) entered into the Master Lease, Development and Concession Agreement with AIRMALL Pittsburgh, Inc. (AIRMALL) (formerly BAA Pittsburgh, Inc.) for the fifteen year period commencing August 1991. The original Agreement was amended and restated effective April 1995 and is known as the Amended and Restated Master Lease, Development and Concession Agreement (Agreement). The first amendment to the Agreement extended the term until December 1999. The second amendment extended the lease term to December 2017 and assigned the responsibility for the administration and enforcement of the Agreement to the Airport Authority. The third amendment to the Agreement established the current rent rate of 59% of AIRMALL gross income to be paid to the Airport Authority. Lastly, the fourth amendment dated December 2012, extended the term of the Agreement to December 2029 and contained provisions related to the ongoing expansion of AIRMALL facilities as well as an increase in rent percentage paid to the Airport Authority effective January 2018.

Per the terms of the Agreement, AIRMALL is currently required to pay 59% of their gross income to the Airport Authority as rent. AIRMALL makes estimated monthly payments to the Airport Authority based on weekly sales figures, historical tenant sales information and known trends in operations. Rent payments are due to the Authority on or before the 10<sup>th</sup> of each month for that month. Any year end rent underpayment or overpayment will be made after December 31, 2013 when the final annual reports are received from the tenants, and AIRMALL's final Audited Schedule of Gross Income is completed. The rent due from AIRMALL totaled \$8,375,277 for the period January 1, 2012 through August 31, 2013.

AIRMALL operates to meet the needs of the users of the Pittsburgh International Airport by facilitating the provision of food, beverage and retail services and facilities. AIRMALL tenants are required to operate utilizing a street pricing approach to ensure users of the Airport are charged a comparable off-Airport price for goods or services purchased while at the Airport. As of September 2013, AIRMALL tenants operated approximately 68 units within the Airport, including units on both the airside and landside terminals.

Currently AIRMALL is working to complete a \$5 million expansion as outlined in the fourth amendment to the Agreement. Expansion improvements are required to be completed by June 30, 2014 and AIRMALL has announced that at least six new tenants will open for business by the end of 2013. As of October 28, 2013 AIRMALL has committed to spend \$2,788,531 on the expansion. If no additional funds are expended, AIRMALL would be required to pay the Authority 77% on the remaining amount of \$2,211,469, or \$1,702,831. Reasons for the cost savings vary but include unexpected utility cost savings due to the ability to tap into existing infrastructure as well as the timing of expiring leases such that AIRMALL did not have to pay to buyout any leases within the planned expansion areas.

## **II. Scope and Methodology**

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We have applied contract compliance procedures to the Amended and Restated Master Lease, Development and Concession Agreement (Agreement), through amendment four, between the Allegheny County Airport Authority (Airport Authority) and AIRMALL Pittsburgh, Inc. (AIRMALL). These procedures covered the period January 1, 2012 through August 31, 2013.

Specifically, we performed the following procedures:

- Interviewed AIRMALL personnel to gain an understanding of the processes and internal controls in place to ensure compliance with the provisions of the Agreement.
- Reviewed the minutes of the Allegheny County Airport Authority Board meetings for the period from January 1, 2012 through August 31, 2013.
- Examined records of AIRMALL Pittsburgh and the Airport Authority that were relevant to the administration of the Agreement to determine compliance with the Agreement.
- Verified that AIRMALL Pittsburgh submitted the required reports to the Airport Authority for the engagement period under review.
- Analyzed the processes that AIRMALL Pittsburgh uses to determine and pay monthly rents and evaluated the processes for compliance with the Agreement.
- Applied procedures on a test basis to determine whether gross income was calculated correctly for the engagement period under review.
- Tested on a limited basis AIRMALL Pittsburgh's compliance with applicable laws and regulations and other provisions of the Agreement.

We performed these procedures during October 2013. We provided a draft copy of this report to the Vice President of AIRMALL USA, Inc. for response. His response begins on page 12.



### **III. Findings and Recommendations**

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#### ***Finding #1***

#### **Confirmation of Subtenant Revenue Needs to be Improved**

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Section 4.10 of the Amended and Restated Master Lease, Concession and Development Agreement (Agreement) and Section 4.08 of the fourth amendment to the Agreement dictate that AIRMALL Pittsburgh, Inc. (AIRMALL) require each of its subtenants to substantiate its annual gross concession revenue in one of the following three ways: (1) provide an annual report prepared in accordance with Generally Accepted Accounting Principles (GAAP) and accompanied by the opinion of an independent certified public accountant, (2) provide certified audited revenue statements, or (3) provide certified statements of gross concession revenue signed by a senior officer of the subtenant.

We selected a sample of 25 subtenants to verify that AIRMALL had obtained one of the aforementioned items to substantiate 2012 gross revenue. Due to the nature of its operations we noted one (4%) of the 25 subtenants selected was not required by the terms of their sublease to submit any such reporting of gross revenue. Our procedures revealed that AIRMALL did not obtain adequate documentation to substantiate 2012 gross revenue as required by the above sections of the Agreement for 5 (21%) of the 24 sampled subtenants that were required to report gross revenue.

We noted one instance in which AIRMALL received exported computer sales data from a representative of the subtenant. This data does not satisfy any of the three requirements per the Agreement. For the remaining four instances of noncompliance that we noted, AIRMALL did not receive any documentation from the subtenant substantiating 2012 gross revenue. Two of the four tenants who did not submit any documentation were partial tenants in 2012.

Attempts made by AIRMALL to follow up with tenants who do not submit proper substantiation of gross revenue are not always successful, and there are no ramifications against the subtenant if a subtenant should choose not to submit any annual gross revenue data. While AIRMALL receives monthly sales data from all of its subtenants, this monthly data is not subject to audit by an independent CPA nor does it undergo an overall annual review by a senior officer of the subtenant. By relying solely on monthly revenue data, potential adjustments may be overlooked by both the subtenant and AIRMALL.

Subtenants pay rent to AIRMALL based on the amount of revenue generated during the calendar year. AIRMALL in turn pays a portion of this rent, currently 59%, to the Allegheny County Airport Authority. Substantiating gross revenue in one of the three ways specified in the applicable sections of the Agreement noted above reduces any uncertainty regarding the amount of rent due to AIRMALL from its subtenants. Proper reporting of gross revenue is doubly important as deficiencies in subtenant reporting affect not only the amount of rent due to AIRMALL but to the Airport Authority as well.

### **III. Findings and Recommendations**

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#### **RECOMMENDATIONS**

The Controller's Office recommends that AIRMALL:

- Continue to utilize the services of a professional firm to perform examinations of subtenant gross sales. Emphasis for selection should be placed on those subtenants who have not submitted substantiation of revenue as well as those who submit the lowest level of accepted reporting.
- Consider revising subtenant agreements to include a clause for the potential assessment of penalties when subtenants fail to properly report annual gross revenue.

### **III. Findings and Recommendations**

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#### ***Finding #2***

#### **Estimated Rent Payments are not Indicative of Actual Rent Due**

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Section 4.01 of the Amended and Restated Master Lease, Concession and Development Agreement (Agreement) and the fourth amendment to the Agreement state that AIRMALL Pittsburgh, Inc. (AIRMALL) shall estimate its monthly payments of rent to the Allegheny County Airport Authority (Airport Authority) based on the actual gross income achieved for such month from the prior lease year, with appropriate adjustments agreed to by the Airport Authority and AIRMALL.

At some point after the Agreement was entered into, management of the Airport Authority and AIRMALL verbally agreed that AIRMALL's estimated monthly rent payment should not differ from the actual monthly rent due by more than \$50,000. After frequent underpayments of rent by AIRMALL, this verbal agreement originated as an attempt to avoid the appearance that the Authority was providing interest-free financing of AIRMALL's operations.

While performing our procedures, we discussed with AIRMALL personnel their process for estimating monthly rent payments to the Airport Authority. Rent payments are due to the Airport Authority on or before the 10<sup>th</sup> of each month. AIRMALL uses approximately one week's worth of current sales data, historical sales data and knowledge of current trends to estimate its monthly gross income and ultimately the amount of rent due to the Authority. We were provided with an annual rent schedule detailing 2012 and 2013 (through August) rent payments made to the Airport Authority and noted 5 (25%) of 20 months in which the amount of rent was underpaid by more than \$50,000 when compared to actual. See Schedule on page 11.

For most of AIRMALL's subtenants, the number of enplanements is the driving sales force from month to month. However due to the unpredictable trends surrounding enplanements each month, it can be difficult to easily predict the amount of gross income expected to be earned. Because the amount of rent paid to the Airport Authority is dependent on AIRMALL's gross income, trying to stay within the monthly \$50,000 constraint can be difficult if AIRMALL cannot accurately estimate its own monthly income. Through discussions with AIRMALL personnel, we learned that the monthly net revenue/loss from the provision of common area maintenance and distribution services is not included in AIRMALL's monthly estimate of gross income and is therefore not included in the estimated rent payment made to the Authority. The inclusion of this revenue may result in monthly estimates that more accurately reflect gross income.

Underpayments of rent could give the appearance that the Airport Authority may be supporting AIRMALL's operations on a month to month basis. While we noted AIRMALL received a credit of final rent due in 2012, estimated monthly payments should more closely reflect actual rent due, thereby ensuring that AIRMALL is paying its monthly obligations to the Airport Authority in a timely manner.

### **III. Findings and Recommendations**

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#### **RECOMMENDATIONS**

The Controller's Office recommends that AIRMALL:

- Revise its procedures for estimating monthly rent payments to include any income from the provision of common area maintenance and distribution services.
- Continue to utilize procedures outlined in the Agreement as well as current sales data and knowledge of current operations to further improve estimates of gross income.

**Analysis of AIRMALL Pittsburgh, Inc. Rent Activity  
For the Period January 1, 2012 through August 31, 2013**

	Minimum Base & Percentage Rents	Net Revenues from CAM <sup>1</sup> & Distribution Services	Gross Income	County Share of Gross Income (59%)	Actual Remittances by AIRMALL	Overpayment / (Underpayment)
<b><u>2012</u></b>						
January	609,158	(584)	608,574	359,058	440,000	80,942
February	604,122	4,512	608,634	359,094	330,000	(29,094)
March	668,078	19,305	687,383	405,556	320,000	(85,556)
April	639,884	454	640,338	377,799	386,580 <sup>2</sup>	8,781
May	687,694	(1,327)	686,367	404,957	400,000	(4,957)
June	722,583	11,672	734,255	433,210	460,000	26,790
July	715,108	12,098	727,206	429,051	380,000	(49,051)
August	720,584	5,357	725,941	428,305	425,000	(3,305)
September	715,833	18,778	734,611	433,421	380,000	(53,421)
October	722,578	10,426	733,004	432,472	520,000	87,528
November	740,076	14,554	754,630	445,232	435,000	(10,232)
December	763,944	8,776	772,720	455,905	410,000	(45,905)
Adjustments	(101,998)	(77,178)	(179,176)	(105,714)	-	105,714
<b>2012 TOTALS</b>	<b>8,207,644</b>	<b>26,843</b>	<b>8,234,487</b>	<b>4,858,348</b>	<b>4,886,580</b>	<b>28,232</b> <sup>2</sup>
<b><u>2013</u></b>						
January	600,189	13,985	614,174	362,363	430,000	67,637
February	607,769	16,434	624,203	368,280	330,000	(38,280)
March	698,773	16,689	715,462	422,123	350,000	(72,123)
April	783,905	7,556	791,461	466,962	350,000	(116,962)
May	844,972	7,282	852,254	502,830	478,232 <sup>2</sup>	(24,598)
June	906,397	22,323	928,720	547,945	550,000	2,055
July	707,615	4,407	712,022	420,093	625,000	204,907
August	702,338	20,094	722,432	426,235	350,000	(76,235)
<b>2013 Estimates</b> <sup>3</sup>	<b>5,851,958</b>	<b>108,770</b>	<b>5,960,728</b>	<b>3,516,829</b>	<b>3,463,232</b>	<b>(53,597)</b> <sup>4</sup>
<b>Total</b>	<b>14,059,602</b>	<b>135,613</b>	<b>14,195,215</b>	<b>8,375,177</b>	<b>8,349,812</b>	<b>(25,365)</b>

<sup>1</sup> Common Area Maintenance

<sup>2</sup> The April 2012 and May 2013 payments include application of the prior year credits totaling \$41,580 and \$28,232 respectively.

<sup>3</sup> Final year end reports will not be prepared until after December 2013. Amounts are based on monthly reporting only.

<sup>4</sup> Any year end underpayment or overpayment will be made after December 31, 2013 when the final annual reports are received from the tenants, and AIRMALL's final Audited Schedule of Gross Income is completed.



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December 30, 2013

Ms. Chelsa Wagner  
Controller  
Allegheny County Controller's Office  
436 Grant Street  
Room 219 Courthouse  
Pittsburgh, PA 15219

Dear Ms. Wagner:

We received a draft of your Report on Contract Compliance Procedures for 2012 for AIRMALL Pittsburgh, Inc. (AIRMALL). Thank you for sending this to us in advance and giving us the opportunity to review the report prior to our meeting. We have read through the report and would like to provide additional insight and feedback to the findings detailed in the report.

**Finding #1 Confirmation of Subtenant Revenue Needs to be Improved**

It was noted that AIRMALL does not obtain adequate documentation to substantiate subtenant revenues. Near the end of each calendar year, reminders are mailed to all subtenants reminding them of the upcoming report requirement. Such reminders are mailed monthly through February. As subtenant report deadlines pass, if a report is not submitted, AIRMALL follows up with telephone calls to all applicable subtenants.

AIRMALL makes every effort to obtain an annual report prepared by an independent CPA from every subtenant as required in Section 4.10. In some instances reports whether they be compilation reports or otherwise, if they are prepared by an independent CPA and follow GAAP guidelines, we will accept said report as an alternative for the audit report. The last report accepted is a certified statement of sales signed by an officer of the company. All of these reports are in agreement with the requirement in 4.10.

While it is noted that 21% of the 24 sampled subtenants did not provide proper documentation as required in Section 4.10, on a percentage of sales basis, 83% or \$45.1mil of total sales reported in 2012 were substantiated by a report prepared by an independent auditor/CPA.

Additionally every effort is made to work with ACDBE and local subtenants to alleviate the costs associated with an independent audit while still complying with the Master Lease Agreement.

To aid with substantiating sales reported by subtenants, AIRMALL contracts a management consulting firm, Freed and Associates ("Freed"), to conduct a retail

Baltimore/Washington  
International Thurgood  
Marshall Airport

Boston Logan  
International Airport

Cleveland Hopkins  
International Airport

subtenant sales examination of a select number of subtenants. The sales examination is a thorough process to review the procedures in place by the subtenant to ensure they are in compliance with accounting and reporting of gross sales as required in their sublease agreement. The examination includes a site visit by Freed to the office or location where each subtenant's records are kept and a review of the three most recent calendar years of records and accounting procedures is completed. Freed's examination includes but is not limited to: a) review of subtenant on-site inspection checklist; b) review of subtenant reports and internal controls for sales, cash receipts and inventory; c) review of daily cash register tapes, bank statements, sales journals, general ledgers, sales tax returns, financial statements and tax returns.

Five to seven subtenants are chosen each year. A number of factors are taken into consideration when choosing subtenants (i.e. whether or not a proper report under GAAP guidelines was submitted and unusual fluctuations in sales from month to month and/or year to year). Subtenants are selected on a rotating basis with the ultimate goal to have all tenants reviewed at least once while a tenant of the airport.

Finally, section 4.10 requires the submission of an annual report from AIRMALL that is accompanied by the opinion of an independent Certified Public Accountant. AIRMALL has consistently utilized large regional and international CPA firms in the public accounting industry, PricewaterhouseCoopers LLP ("PWC") and most recently, McGladrey LLP, to complete a sales and revenue audit of AIRMALL Pittsburgh. As part of their audit procedures, the firm directly confirms reported sales from each and every subtenant. Should there be any discrepancy in what was reported by the subtenant during the year to what is reported in the confirmation letter, additional testing procedures are conducted by the auditor. Given the extensive review and comprehensive testing procedures conducted by the auditor of each and every subtenant's reported sales and corresponding revenues, AIRMALL has complete confidence in the final audit report submitted to the ACAA.

### **Finding #2 Underpayment of Rent**

To properly discuss this issue one needs to understand the entire 4.01(B) section that states, "Beginning on January 1, 1995, Lessee shall pay County Rent as provided herein. Monthly payments of rent shall be estimated based on the actual Gross Income achieved for such month from the prior Lease Year, with appropriate adjustments agreed to by the landlord and lessee at the annual meetings and quarterly meetings."

Throughout the years this landlord/lessee relationship remains strong and is not limited to quarterly or annual meetings, but rather participates in weekly, if not daily communications between the parties. As a result of this relationship and in accordance with having a realistic and verifiable matching of revenues and expenses it was mutually agreed that the appropriate adjustment to this section be based

upon the actual result of the decreased enplanements and the fact that US Airways would no longer be using the Pittsburgh airport as a hub.

AIRMALL with the agreement by the ACAA changed the methodology of estimating the monthly rent expense to one that would be more accurate and reduce the risk of a large year end adjustment. The first step of this process is to determine the percentage of revenues to sales for the actual sales reported in the prior month, by sales category. The ratio is then used to estimate the current month's revenues by applying it to the subtenants' sales reported each week in the current month. The estimated revenues are used to calculate the current month's rent.

The next step is to review the year to date actual revenues and calculate the year to date rent expense. The year to date actual rent expense is added to the current month's estimated rent expense. It was also agreed with by the ACAA that AIRMALL would never be more than \$50,000 under or overpaid during the year in rent expense. Although this is not deducted from the payment, this estimated amount is to reflect the operating results and to avoid large swings.

The adjustment for net revenues generated from common area maintenance and distribution services has always been included at year end. This too is a practice that has been accepted by the ACAA. Taking that into consideration, AIRMALL's actual year end adjustment (additional rent due) from gross revenues was an overpayment of just under \$9,000 for 2012.

Lastly, because the final audit report is due to the ACAA within 90 days after year end, it is impractical to obtain the required year end reports from all subtenants prior to the conclusion of PWC's field work. Instances may occur when the subtenant report is received by AIRMALL prior to submission of the final audit report from PWC and findings in the subtenant's report generate a revenue adjustment. However, no adjustments are made to the audited revenues unless there is a material discrepancy. Rather, the adjusted revenues are included in the following year's revenues as a prior year adjustment which is an appropriate GAAP rule allowing the accounting for cut off. Otherwise a year end would never be able to be properly closed.

Sincerely,



Jay Kruisselbrink  
Vice President



Kevin Romango  
Chief Financial Officer, CPA