



OFFICE OF THE AUDITOR

**DEPARTMENT OF AVIATION
FRONTIER AIRLINES, INC.
REVENUE AND CONTRACT COMPLIANCE AUDIT
JANUARY 2008**

*Dennis J. Gallagher
Auditor*



City and County of Denver

201 West Colfax Ave., Dept. 705 • Denver, Colorado 80202 • 720-913-5000, FAX 720-913-5247
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Dennis J. Gallagher
Auditor

January 25, 2008

Mr. Turner West, Manager
Department of Aviation
City and County of Denver

Mr. Sean Menke
President and CEO
Frontier Airlines, Inc.
7001 Tower Road
Denver, CO 80249-7312

Dear Mr. West and Mr. Menke:

Attached is the Auditor's Office Audit Services Division's revenue and contract compliance audit of Frontier Airlines, Inc. for operations at Denver International Airport. The audit was for the year ended December 31, 2006. The purpose of the audit was to determine whether Frontier Airlines, Inc. and the City and County of Denver complied with the terms and conditions of the contracts and whether internal controls in place were adequate.

We found that Frontier Airlines and the City and County of Denver were in compliance with the terms and conditions of the contracts.

If you have any questions, please call Kip Memmott, Director of Audit Services, at 720-913-5029.

Sincerely,

A handwritten signature in cursive script that reads "Dennis J. Gallagher".

Dennis J. Gallagher
Auditor

DJG/kh

cc: Honorable John Hickenlooper, Mayor
Honorable Members of City Council
Members of Audit Committee
Kelly Brough, Chief of Staff
Claude Pumilia, Chief Financial Officer
Chris Henderson, Chief Operating Officer
David Fine, City Attorney
Lauri Dannemiller, Executive Staff Director, City Council
Beth Machann, Controller

The prudent stewardship of Denver's finances, resources and financial records! We are also committed to improving accountability, efficiency, effectiveness and performance in city government. We will scrupulously protect the taxpayer's interests and work collaboratively with all concerned to improve our city and its government

Mr. Turner West and Mr. Sean Menke
January 25, 2008
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Cheryl Cohen-Vader, Chief Deputy Manager of Aviation
Stan Koniz, Deputy Manager of Aviation for Business and Technologies
Patrick Heck, Deputy Manager of Aviation for Revenue and Business Development
Pete Gingras, Assistant Deputy Manager of Aviation/Properties
Laura Trujillo, Co-Assistant Deputy Manager of Aviation/Finance
Amy Weston, Co-Assistant Deputy Manager of Aviation/Finance
Sharon Shannon, Audit Supervisor, Department of Aviation
Joan Osterman, Director of Properties and Facilities, Frontier Airlines
Elissa Potucek, Controller/Treasurer, Frontier Airlines

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AUDITOR'S REPORT

We have completed a revenue and contract compliance audit of the Airport Use and Facilities Lease Agreement dated October 2, 2000, the Supplemental Baggage System Agreement dated March 10, 1997, the Air Cargo Facilities Agreement dated August 10, 2000, and the Ground Service Equipment Support Facilities Agreement dated July 5, 2005 between Frontier Airlines, Inc. and the City and County of Denver, as well as the Denver Municipal Airport System Rules and Regulations Schedule of Fees and Charges. The purpose of this audit was to determine whether the accompanying Schedule of Amounts Due and Paid for the year ended December 31, 2006, is fairly presented in accordance with the contract provisions and with Denver Municipal Airport System Rules and Regulations, and that the City and County of Denver and Frontier Airlines, Inc. complied with other terms and conditions as required. We also completed a review of the Passenger Facility Charges (PFC) Due and Paid for the year ended December 31, 2006. The purpose of this review was to report any concerns to the Department of Aviation.

This audit was included in the Auditor's Office Audit Services Division's 2007 Annual Audit Plan, and authorized pursuant to the City and County of Denver Charter, Article V, Section 1, *General Powers of the Auditor*. We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Amounts Due and Paid is free of material misstatement. An audit includes examining, on a test basis, evidence supporting revenue amounts and disclosures in the schedules.

The audit found that the Schedules of Amounts Due and Paid by Frontier Airlines, Inc. are free of material misstatement and there were no significant reportable conditions.

We extend our appreciation to all personnel who assisted and cooperated with us during the course of our examination.

Audit Services Division

A handwritten signature in black ink, appearing to read "K. Memmott".

Kip R. Memmott, CGAP, CICA
Director of Audit Services

Date: January 25, 2008

Staff: Dick Wibbens, CPA, Audit Manager
Marcus Richardson, CICA, Internal Audit Supervisor
Traci Napue, CICA, Senior Internal Auditor

To promote open, accountable, efficient and effective government by performing impartial reviews and other audit services that provide objective and useful information to improve decision making by management and the people. We will monitor and report on recommendations and progress towards their implementation.

FRONTIER AIRLINES, INC.
BACKGROUND, SCOPE, OBJECTIVE, AND METHODOLOGY
FOR THE YEAR ENDED DECEMBER 31, 2006

Background

Frontier Airlines, Inc. is a Denver based airline that provides transportation, via aircraft, of persons, property, cargo, etc. at Denver International Airport. Frontier is required to pay various space rents, landing fees, baggage fees, gate fees, ground facilities fees, passenger facility charges and various other fees and charges. Frontier has entered into the following contracts with the City and County of Denver at Denver International Airport:

- Contract # AC 0Y009 – Use and Lease Agreement – executed October 2, 2000
- First Amendment to Contract #AC0Y009 – Use and Lease Agreement – executed June 20, 2006
- Contract # AC 64002 – Supplemental Baggage System – executed March 10, 1997
- Contract # AC 05018 – Air Cargo Facilities Lease Agreement – executed August 10, 2000
- Contract #AR45011 – Ground Service Equipment (GSE) Support Facilities Lease Agreement – executed July 5, 2005

In addition to the contracts listed above, we utilized portions of the Denver Municipal Airport System Rules and Regulations, primarily the Schedule of Fees and Charges, as well as portions of the Federal Aviation Administration’s Code of Federal Regulations Part 158 Passenger Facility Charges, to perform this audit.

Scope

Our audit of Frontier Airlines, Inc. at Denver International Airport (fund 73800/org 6000000) was for the year ended December 31, 2006. The scope of our work included determining compliance with the contracts between the City and County of Denver and Frontier Airlines, Inc., as well as compliance with airport rules and regulations as stated above.

Additionally, we reviewed the unaudited PFC reports submitted by Frontier Airlines for the year ended December 31, 2006 to determine if the PFC amounts and compensation withheld were calculated properly.

Objective

The objective of our audit was to determine whether Frontier paid the City the correct amounts for landing fees, space rent, various baggage system fees, baggage claim fees, ground rent, air cargo fees, and various other charges in accordance with the aforementioned contracts and the Denver Municipal Airport System Rules and Regulations. Additional objectives included determining whether Frontier Airlines, Inc. and the Department of Aviation complied with other

terms and conditions of the contracts, as well as other City rules and regulations as we considered necessary in the circumstances.

The objective of our review of Frontier's PFC Report was to determine if the independent auditor concluded that the report was fairly presented, and the correct formula was utilized to calculate PFC amounts and compensation withheld.

Methodology

To meet our audit objectives, the following evidence gathering and analysis techniques were utilized but not limited to:

- Review of contracts, rules and regulations;
- Interviews and discussions with the management and staff of Frontier Airlines and the Department of Aviation;
- Confirmation of receipts;
- Verification and recalculation of rates, fees, and charges;
- Review and verification of audit source documents;
- Verification of evidence of insurance and bonding; and
- Review and recalculation of Frontier's monthly and quarterly PFC reports.

FRONTIER AIRLINES, INC.
SCHEDULE OF AMOUNTS DUE AND PAID
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Amount Due</u>	<u>Amount Paid</u>	<u>Balance Due</u>
	<u>(Note 1)</u>	<u>(Note 2)</u>	
Landing Fees	\$20,675,844	\$20,675,844	-
Ground Rent	10,644	10,644	-
Joint Use Parking	1,363	1,363	-
Ramp Area	1,843,983	1,843,983	-
Concourse A Preferential Holdrooms	2,176,507	2,176,507	-
Baggage Spine System	254,648	254,648	-
AGTS Transit System	4,336,644	4,336,644	-
Airline Space Rent	3,247,421	3,247,421	-
Cargo Building Rent	50,002	50,002	-
Joint Use Allocation	1,053,998	1,053,998	-
Tenant Finishes	1,506,341	1,506,341	-
Non-Preferential Use Fees	1,492,947	1,492,947	-
Baggage Claim	3,032,888	3,032,888	-
Back-up Alternative Baggage System	2,144,234	2,144,234	-
Baggage Maintenance Fees	1,123,044	1,123,044	-
RAC-GSE Building	50,503	50,503	-
RAC-GSE Ground Rent	53,526	53,526	-
Cargo Shuttle Bus	1,053	1,053	-
Cargo Monthly Utilities	14,459	14,459	-
Passenger Facility Charges	<u>20,977,911</u>	<u>20,977,911</u>	-
Total	<u>\$64,047,960</u>	<u>\$64,047,960</u>	<u>\$ -</u>

The accompanying notes are an integral part of this schedule.

Note 1. Amounts Due – According to Exhibit F of the Airport Use and Facilities Lease Agreement, the revenue-producing cost centers at Denver International Airport include landing fees, terminal complex space rent (includes concourse areas), airline tenant finishes and equipment, joint use facilities, baggage system costs, concourse ramp areas, and cargo areas. Detailed information for each cost center is listed below:

Landing Fees – The estimated annual landing fee rate for January through August was \$3.225 per 1000 pounds of landed weight and \$2.80 per 1000 pounds of landed weight for September – December for signatory carriers. Total landed weight for 2006 was 6,725,134,901. The number of reported landings by Frontier Airlines was verified, on a test basis, through the Mega Data Pulse Report records obtained from DIA Finance Office.

Ground Rent and Joint Use Parking – Per Department of Aviation billing invoices, Frontier had 15,034 sq. ft. of space in 2006. The annual rate per sq. ft. for Ground Rent was \$.708. Joint Use Parking is based on a percentage of the ground rent charges.

Ramp Area – The annual rate per rented lineal foot (LNFT) was \$754.14. Frontier had 2372.8 Rentable Linear Feet from January 1, 2006 – June 30, 2006 and 2503.5 Rentable Linear Feet from July 1, 2006 – December 12, 2006. A pro-rated amount of \$5,276 was due for December 13-31, 2006.

Concourse A Preferential Holdrooms – Per Department of Aviation billing invoices, the annual rate per square foot \$82.20. Frontier had 25,695.6 sq. ft. for January 1 – June 30 and 27,212.80 sq. ft. for July 1– December 31, 2006.

Baggage Spine System – These charges are based on a percentage of the domestic originating and destination (O&D) passengers. Per Department of Aviation Billing invoices, Frontier's O&D percentage for the Baggage Spine System was 55% for 2006. The estimated rate for 2006 was 38,583 per month.

Automatic Guideway Transit System (AGTS) – These charges are based on the number of domestic originating and destination (O&D) passengers. Per Department of Aviation Billing invoices, Frontier's O&D percentage for the AGTS System was 17.8% for January – September and 21.1% for October – December. The estimated rate for 2006 was 1,940,333 per month.

Airline Space Rent – This category consists of the following revenue-producing cost centers:

Baggage Service Office – 760.6 sq. ft. at the annual rate of \$82.20 per sq. ft.
Commuter Gates – Three (3) gates at a rate of 16,449 per gate
Concourse A Offices – 6,204.2 sq. ft. at the annual rate of \$82.20 per sq. ft.
Concourse A Basement Space – 903 sq. ft. at the annual rate of \$41.10 per sq. ft.
Concourse A Operations – January – July = 21,421.1 sq. ft.; July – September = 21,506 sq. ft. and October – December = 21,746.10 sq. ft. at the annual rate of \$82.20 per sq. ft.
Terminal Ticket Counter – 2,136 sq. ft. at the annual rate of \$82.20 per sq. ft.
Terminal Ticket Office – 1,233.6 sq. ft. at the annual rate of \$82.20 per sq. ft.

Cargo Building Rent – Frontier had 5,119 sq. ft. of space per Department of Aviation billing invoices with an annual rate per sq. ft. of \$9.768.

Joint Use Allocation – Frontier is required to pay their pro-rata share of the joint use spaces utilized on Concourse A. Per the Department of Aviation billing invoices, Frontier's percentages for 2006 were 15.3% for January – July, 15.7% for August – October, and 15.8% for November – December, based on a rate of 564,083. There were also various pro-rated adjustments made in the amount of \$5,931 during 2006.

Tenant Finishes – This category consists of the following revenue-producing cost centers:

Terminal Tenant Finish – 4,130.2 sq. ft. at an annual rate of \$47.47 per sq. ft.

Concourse A Tenant Finish – 48,195.4 sq. ft. for January – June, 49,797.5 sq. ft. for July – October, 50,037.6 sq. ft. for November – December, at an annual rate of \$26.29 per sq. ft.

Cargo Tenant Finish – 5,119 sq. ft. at an annual rate of \$3.23 per sq. ft.

Non-Preferential Use Fees – Rates were obtained from Section 120.05 of the Denver Municipal Airport System Rules and Regulations, Schedule of Fees and Charges and the amounts due were obtained from the monthly billing invoices. This category consists of the following revenue-producing cost centers:

Concourse A Non-Preferential Gate Usage – Calculated at a rate of \$1.0425 per 1,000 pounds of maximum gross allowable landing weight for each deplaning/enplaning aircraft operation.

Concourse A Ramp Charges - Calculated at a rate of \$1.251 per 1,000 pounds of maximum gross allowable landing weight for each deplaning/enplaning aircraft operation.

Remain Overnight Charges (RONS) – \$150 per night

Federal Inspection Fees – \$5.20 per each international arriving passenger

Customs Gate Usage - \$2.75 per each arriving or departing passenger, including domestic and international passengers.

Baggage Claim – The airline is required to pay a fee for the use of the baggage claim facilities, based on the number of Deplaned Domestic Destination Passengers (DDP). For January – September the requirement was 18%, and for October – December the requirement was 20.9% based on a rate of 1,349,750.

Back-up Alternative Baggage System - This category consists of the following revenue-producing cost centers:

Conventional Baggage Space – This allocation is based on a percentage of space rented in the terminal. According to Department of Aviation Billing Invoices, Frontier’s Percentage of Terminal Space was 7.5% of 915,000 for each month during 2006.

Conventional Baggage Equipment – This cost allocation is based on the number of baggage carousels utilized by each the airline. Frontier’s percentage of baggage carousel costs was 19.5% of 549,083 for each month during 2006.

Interline Baggage Transfer Area - All airlines occupying space in the interline baggage transfer area in the terminal, shall pay a charge for their respective linear feet of shelving area based on their respective number of shelving units. Per Department of Aviation Billing Invoices, Frontier had one shelving unit at an annual rate of \$35,880 per unit.

Baggage Maintenance Fees - This category consists of the following revenue-producing cost centers:

Conventional Baggage System Operation and Maintenance (O&M) – According to section 9.01 of the supplemental baggage system agreement, these amounts are for inbound and outbound costs based on the number of origination and destination passengers. The Department of Aviation prepares an annual reconciliation of budgeted versus actual amounts. The amounts due were obtained from the reconciliation report prepared by the Department of Aviation.

Horizon Conventional Baggage System Operation and Maintenance (O&M) – Horizon Airlines operates Jet Express for Frontier Airlines. Amounts are for inbound and outbound costs based on the number of origination and destination passengers. The amounts due were obtained from the reconciliation report prepared by the Department of Aviation.

RAC GSE Building – This is the Ground Service Equipment Facility (GSE) located in the Rent-A-Car (RAC) space formerly occupied by National Car Rental. The square footage and rates for the space were 9,735.4 sq. ft. at .429 per sq. ft. for January – September and .442 per sq. ft. for October – December.

RAC Ground Rent – This is for the Ground Service Equipment Facility’s (GSE) Ground Rent. The facility is located in the Rent-A-Car (RAC) space formerly occupied by National Car Rental, and was billed 61,102.6 sq. ft. at a rate of .70 per sq. ft. from January – September and .90 per sq. ft. for October – December.

Cargo Shuttle Bus and Cargo Monthly Utilities – These charges are related to the operation and maintenance of the Cargo Building, totaling \$1,053 and \$14,459, respectively.

Passenger Facility Charges – The airline is required to pay a Passenger Facility Charge (PFC) of \$4.50 per enplaned passenger in accordance with 14 CFR Part 158.5. Part 158.53(a) entitles

the carrier to retain \$0.11 in compensation for each PFC remitted to the City, with the balance due the City. Airlines are allowed to retain compensation for all PFC amounts collected, including those for tickets that have been refunded.

Note 2. **Amounts Paid** – All amounts paid in the schedule of amounts due and paid were compiled from the Department of Aviation’s cash receipts records.