



OFFICE OF THE AUDITOR

**DEPARTMENT OF AVIATION
UNITED PARCEL SERVICE, INC.
REVENUE AND CONTRACT COMPLIANCE AUDIT
JANUARY 2005**

*Dennis J. Gallagher
Auditor*



City and County of Denver

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Dennis J. Gallagher
Auditor

January 11, 2005

Ms. Vicki Braunagel, Co-Manager
Mr. Turner West, Co-Manager
Department of Aviation
City and County of Denver

Mr. J. Peter Levermore
Airport Property Manager
1400 North Hurstbourne Parkway
Airport Properties
Louisville, Kentucky 40223

Dear Ms. Braunagel, Mr. West, and Mr. Levermore:

Attached is the Auditor's Office Internal Audit Division's Report of their revenue and contract compliance audit of United Parcel Service, Inc. Airfield Use and Cargo Facilities Lease Agreement Dated July 12, 2000, for operations at Denver International Airport. The audit was for the year ended December 31, 2003. The purpose of our audit was to determine whether United Parcel Service, Inc. and the City and County of Denver complied with the terms of the agreement and whether internal controls in place were adequate under the circumstances.

The Internal Audit Division found instances of non-compliance with certain sections of the contract as described in their report. The issues related to the findings in our audit and the dollar amounts involved are significant and deserve your particular attention. Moreover, I must tell you, that I am very distressed at the response from the Airport (as well as that of United Parcel Service) to our recommendations and the refusal to comply with the terms of the contract, airport regulations, and our recommendations. To dismiss our recommendations as unnecessary by suggesting that the findings are based on 'administrative' or 'clerical' error is imprudent.

The fact is, that United Parcel Service, Co., chartered in Delaware, is a different company than United Parcel Service, Inc, chartered in Ohio – they are not one in the same company. No amount of argument concerning 'matters of form not of substance' will change that fact. This is not a matter of splitting hairs on this point; they are legally two separate companies and I believe that should any legal dispute have arisen involving the two companies they would be viewed by a court as separate with the legal obligations of one company not binding on the other.

United Parcel Service, Co. of Delaware does not have a contract with Denver International Airport, and as such is a 'non-signatory' company. As a non-signatory company, per Airport regulations, it must pay for the air operations it is conducting at Denver International Airport at the higher non-signatory rate. To allow them to do otherwise is not only imprudent, as I have suggested, but possibly a violation of FAA regulations.

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

United Parcel Service
January 11, 2005
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I ask you to recall a recent audit of ABX, Airborne Express in which the issues were similar. ABX was a party to a Use and Lease agreement with the Airport. But, because of a merger and lease assignment, ABX subsequently became an independent, separate company, no longer a party to the original agreement. However, it continued to conduct air operations in conjunction with ground operations conducted by Airborne Express (the same operating structure being employed by the two companies cited in our current audit). In the case of the ABX audit, we found that ABX, too, was a non-signatory company and we recommended retroactively assessing landing fees at the higher, non-signatory rate. Both ABX and the Airport agreed with the recommendation regarding the issue of non-signatory status and the retroactive adjustment to the landing fee assessment.

There is no material difference between these two cases. In both there are two separate companies, one doing air operations, one doing ground operations; the ground operations company being a signatory company, the air operations company not.

I have chosen to highlight the above finding, but there are others in the audit report as well and I stress to you the importance of those also and the inadequateness of the response of the company and the Airport regarding them.

I encourage you to revisit the Airport's position with regard to these findings and bring this situation into compliance by following all of our recommendations.

If you have any questions, please call Michael Clark, Director of Internal Audit at 720-913-5029.

Sincerely,



Dennis J. Gallagher
Auditor

DJG/kh

cc: Honorable John W. Hickenlooper, Mayor
Honorable Members of City Council
Members of Audit Committee
Cole Finegan, City Attorney
John Bennett, City Council Staff Director
Stan Koniz, Assistant Deputy Manager of Aviation/Finance
Pete Gingras, Assistant Deputy Manager of Aviation/Properties
Sharon Shannon, Audit Supervisor of Aviation

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Auditor

INTERNAL AUDITOR'S REPORT

We have completed a revenue and contract compliance audit of the Airfield Use and Cargo Facilities Lease Agreement (Contract) dated July 12, 2000, and its amendment dated March 17, 2003, between United Parcel Service, Inc. (UPSI), and the City and County of Denver. Our audit was for the year ended December 31, 2003. The purpose of this audit was to determine whether the accompanying Schedule of Amounts Due and Paid for the year ended December 31, 2003 is presented in accordance with the Contract. We also determined whether UPSI, and the Department of Aviation complied with various other terms and conditions of the contract, City rules and regulations, and whether accounting and administrative internal controls in place were adequate under the circumstances. This audit was included in the Auditor's Office Internal Audit Division's 2004 Annual Audit Plan, and is authorized pursuant to the City and County of Denver Charter, Article V, Part 2, §5.2.1.

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 the amounts and disclosures in the schedule.

Our conclusion from the audit was that UPSI did not comply with the requirement to maintain a valid corporate performance bond, or an irrevocable letter of credit, at the level required by section 6.01 of the Contract; United Parcel Service, Co. (UPSC) was using the Denver International Airport airfield area and cargo facilities without being signatory to a minimum five year Use and Lease Agreement, and as a consequence owes the City \$275,381 in additional landing fees for the year ended December 31, 2003; UPSC was not in compliance with the performance bond requirements of the airport rules and regulations during the year ended December 31, 2003; and UPSI did not provide a sublease, or assignment agreement as required by section 3.03 of the Contract. We did not identify any other significant reportable conditions.

We extend our appreciation to the personnel who assisted and cooperated with us during the audit.

Internal Audit Division

A handwritten signature in black ink that reads "Michael Clark".

Michael Clark, CPA
Director of Internal Audit

Staff: Dick Wibbens, CPA, Audit Manager
Stan Wilmer, CPA, Audit Supervisor
Andrew Martinez Jr., CPA, Lead Auditor

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UNITED PARCEL SERVICE, INC.
EXECUTIVE SUMMARY
FOR THE YEAR ENDED DECEMBER 31, 2003

This summary highlights the findings of the revenue and contract compliance audit, as described in the Findings, Recommendations, and Responses section beginning on page 8. The Findings, Recommendations, and Responses section also includes the responses of the Department of Aviation, United Parcel Service, Inc., and United Parcel Service, Co. to our findings.

1. Performance Bond

United Parcel Service, Inc.

United Parcel Service, Inc. (UPSI) is not in compliance with Section 6.01 of the Contract that requires “a valid corporate performance bond, or an irrevocable letter of credit, in an amount equal to one-half the annual rental and other charges payable hereunder.” The performance bond maintained was less than the amount required by the contract.

United Parcel Service, Co.

United Parcel Service, Co. (UPSC) was not in compliance with the performance bond requirement of the Denver Municipal Airport System Rules and Regulations (DMASR&R) Section 120-16b. UPSC did not maintain the required bond for the year ended December 31, 2003.

2. Balance Due City and County of Denver

During the year ended December 31, 2003, UPSC was using the Denver International Airport airfield area and cargo facilities without being signatory to a minimum five year Use and Lease Agreement, and as a consequence, in accordance with DMASR&R Section 120-01(B) is classified as a non signatory air carrier and owes the City \$275,381 in landing fees.

3. Subletting and Assignment Arrangement

UPSI was not in compliance with Section 3.03(B) of the Airline Cargo Facilities Lease Agreement which provides that no interests or rights under the contract may be transferred except as provided under Section 3.03. UPSI was also not in compliance with its primary liability under Section 303(A) for its sublessee or assignee to maintain insurance for Bodily Injury and Property Damage in the amount of \$200,000,000, in accordance with Section 6.03 of the Contract.

**UNITED PARCEL SERVICE, INC.
BACKGROUND, SCOPE, OBJECTIVE, AND METHODOLOGY
FOR THE YEAR ENDED DECEMBER 31, 2003**

Background

United Parcel Service, Inc. (a Delaware corporation) is the sole shareholder of United Parcel Service of America, Inc. (a Delaware corporation). United Parcel Service of America, Inc. is the parent company and sole shareholder of UPS Worldwide Forwarding, Inc. (a Delaware corporation) and United Parcel Service, Co. (a Delaware corporation). UPS Worldwide Forwarding, Inc. is the sole shareholder of United Parcel Service, Inc. (an Ohio corporation).

The two companies that operate at Denver International Airport (DIA) are United Parcel Service, Inc. (an Ohio corporation) (UPSI) and United Parcel Service, Co. (a Delaware corporation) (UPSC). UPSI handles all the ground operations and UPSC handles the air operations.

UPSI and the City and County of Denver (City) entered into an Airfield Use and Cargo Facilities Lease Agreement (Contract) dated July 12, 2000.

United Parcel Service, Inc. (a Delaware corporation) is a major air cargo carrier transporting property, cargo and mail over a network of routes throughout the United States and abroad.

UPSI and UPSC generate approximately 13.5% of the total DIA cargo and support facilities revenue. Revenue paid by UPSI and UPSC to the City is determined in accordance with the contract dated July 12, 2000, and its First Amendatory Agreement dated March 17, 2003, and the Denver Municipal Airport System Rules and Regulations (DMASR&R).

The Contract details the airfield area facilities and the space exclusively used by UPSI at Denver International Airport. The rental rate fees and other charges are established in accordance with the cost-accounting concepts and ratemaking procedures established and adopted by the Manager of Aviation.

Scope

Our audit of UPSI at Denver International Airport (PeopleSoft fund 73800/org 6000000) was for the year ended December 31, 2003. Procedures performed included determining compliance with the contract between the City and UPSI as listed above and with the DMASR&R.

Objectives

The objective of our audit was to determine whether UPSI paid the City the correct amounts for landing fees, facilities ground rent, ramp and apron rent, building rent, cargo shuttle bus, deicing charges, and utilities in accordance with the contract stated above and the DMASR&R. Additional objectives included determining whether UPSI and the Department of Aviation complied with other terms and conditions of the contract, as well as other City rules and regulations, as we considered necessary in the circumstances.

Methodology

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

- Review of internal controls
- Verification of landed weight
- Verification of rates charged
- Verification of evidence of receipts
- Confirmation of receipts
- Recalculation of financial transactions
- Discussions with management and staff
- Verification of evidence of insurance and bonding
- Onsite physical inspections

**UNITED PARCEL SERVICE, INC
FINDINGS, RECOMMENDATIONS, AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2003**

1. Performance Bond

United Parcel Service, Inc.

During this audit period, we determined that United Parcel Service, Inc. (UPSI) was not in compliance with Section 6.01 of the Contract to maintain a valid corporate performance bond, or an irrevocable letter of credit, in an amount equal to one-half the annual rental and other charges payable in accordance with the Contract. During the audit period UPSI maintained a performance bond in the amount of \$600,870. To comply with the contract a performance bond should have been in force for an amount of approximately \$755,764.

United Parcel Service, Co.

United Parcel Service, Co. (UPSC) was not in compliance with the performance bond requirement of the Denver Municipal Airport System Rules and Regulations (DMASR&R) Section 120-16b. UPSC did not maintain the required bond for the year ended December 31, 2003 in the amount of approximately \$798,533.

Recommendation

We recommend that the Department of Aviation enforce and UPSI comply with Section 6.01 of the Contract and maintain the performance bond in the amount required. We further recommend that the Department of Aviation enforce and UPSC comply with DMASR&R Section 120-16b and maintain the performance bond required.

United Parcel Service Response

“This item relates somewhat to item 2 (*see finding 2*). Due to administrative error of inadvertently using the incorrect company entity (identified in item 2), the performance bond should ultimately only be required from United Parcel Service, Co. There will no longer be a bond required from United Parcel Service, Inc., once the lease addendum is made (again, see item 2). The amount was originally calculated based on what was half the annual rent in 2000. We did not figure landing fees into the calculation, as is similar to some other airports methodology, and this had never been adjusted or corrected since that time. As a result of your discovery we have, as of November 2004, adjusted the performance bond amount to \$1,700,000 which reflects more than half of the combined total of annual rents of \$1,574,613, annual landing fees of about \$1,450,000, approximate annual deicing/reclaim fees of \$200,000, and other misc. fees estimated at \$30,000. Since the correction to the agreement indicated above has not yet been issued, we have first adjusted the amount to the existing performance bond that exists in United Parcel Service, Inc.’s name. Once the agreement is modified to reflect United Parcel Service, Co., we will make the name change to the performance bond.”

Department of Aviation Response

“The Department of Aviation acknowledges that the performance bond amount was incorrect in 2003; however, we have a current performance bond in the amount of \$1,700,000.

“Please see the response to Finding #2. The City will correct the error and the replacement agreement will be with United Parcel Service, Inc. (Delaware). The performance bond will be changed over to this company.”

2. Balance Due City and County of Denver

The Airfield Use and Cargo Facilities Lease Agreement (Contract) is between the City and UPSI. UPSI is referred to as the “airline” or “lessee.” Section 1.03 of the contract states “The airline shall be entitled to use the Airfield Area and Cargo facilities ...” DMASR&R 120.01(B) states that “To be classified as a Signatory Air Carrier, a cargo carrier (not a combination passenger/cargo carrier), shall be signatory to a minimum five (5) year Use and Lease Agreement ...”

Additionally, Sec.5-13(a) of the Denver Municipal Code states “It shall be unlawful for any person to use Denver Municipal Airport System as a base or terminal for commercial aviation activities; or for any person to conduct any business or concession upon Denver Municipal Airport System or upon any land acquired by the city for use in connection with the airport or roadways or other facilities used or operated in connection with the airport system, or for any person to sell, offer for sale or furnish any commodity, article facility or service upon the Denver Municipal Airport System, without first obtaining a written permit from the manager of aviation issued pursuant to the rules and regulations for the operation, management and control of the airport, or alternatively receiving a written contract from the manager of aviation.” UPSC does not have a contract with the City and is therefore operating unlawfully at DIA.

UPSC is using the DIA airfield area and cargo facilities without authorization and without a 5 year Use and Lease Agreement and therefore is classified as a non signatory air carrier and is required to pay landing fees at the rate specified by the DMASR&R for non signatory air carriers. This results in additional landing fees due DIA for the year ended December 31, 2003 in the amount of approximately \$275,381.

Recommendation

We recommend the Department of Aviation Contract Section review the Airfield Use and Cargo Facilities Lease Agreement between the City and UPSI and make the necessary changes to conform to the actual use of the airfield area and cargo facilities operated by the United Parcel Services’ companies at DIA. The Contract Section should issue a written permit from the manager of aviation pursuant to the rules and regulations for the operation, management and control of the airport, and section 5-13(a) of the Denver Municipal Code, or alternatively prepare a written contract permitting UPSC to use the airport facilities. We further recommend that UPSC be invoiced \$275,381 for underpayment of landing fees for the year ended December 31, 2003 and determine if additional amounts are due for the period subsequent to December 31, 2003 and any interest due on all amounts owed.

United Parcel Service Response

“UPS does not feel the assessment here is appropriate. Please refer to our letter to Denver International Airport (DIA) dated September 10, 2004. UPS is a rather large company that, due to its size has many sister companies that make up the corporate structure of the company. These entities are interrelated and all fall under UPS of America, Inc. The implication that UPS has been intentionally operating under the veil of another entity and thereby conspired to defraud the City of appropriate fees is inaccurate. The premise seems to disregard some of the basic facts. UPS is a financially sound company that has been participating for years at both Stapleton and now at DIA as a signatory carrier. We have been operating and paying our bills per the basic terms of the signatory agreement for years. The fact that a sister company entity had been incorrectly identified (a technicality) does not change the basic principal and understanding that UPS has been, and will continue to be, a signatory carrier operating at DIA. We have significant presence within the community with numerous facilities in the community area, as well as the region. We continually strive to be a good corporate citizen. It is for these reasons that we believe the recommendation is not appropriate.

“We are prepared to amend the agreement to correctly identify United Parcel Service, Co. rather than United Parcel Service, Inc. We also agree that the agreement language should be reviewed and adjusted to ensure that it reflects acceptable intended use.”

Department of Aviation Response

“United Parcel Service (‘UPS’) has established and maintained a strong presence and commitment in Denver at DIA and the former Stapleton Airport. UPS, one of our premier cargo companies with an 18% market share of DIA’S cargo and substantial leased properties, has been a signatory airline at DIA since opening in 1995.

“In this audit the auditor found that the current Agreement is with an affiliate UPS company. We have determined that this is a clerical error. The auditor also concludes that UPS is operating as a non signatory airline and recommends assessing the amount of \$275,381 in additional landing fees for 2003. This is an issue, not of substance, but of form. The intent of both parties to DIA’s agreement with UPS has always been that UPS is a signatory cargo airline. We do not intend to bill UPS for the non-signatory landing fees.

“Accordingly, we will simply correct the clerical error by issuing a replacement agreement.”

Auditor’s Response

The Auditor’s Office did not imply that United Parcel Service, Co. has been intentionally operating under the veil of another entity and thereby conspiring to defraud the City of appropriate fees. The Auditor’s Office is reporting the fact that two separate legal entities, namely; United Parcel Service, Inc. (UPSI), and United Parcel Service, Co. (UPSC), are operating at Denver International Airport (DIA). UPSI has the legal contract to operate at DIA, under the terms of such contract. UPSC, a separate legal entity, was operating aircraft at DIA without a contract with the City and County of Denver, Department of Aviation, and in accordance with the Denver Municipal Airport System Rules and Regulations (DMASR&R),

Section 5-13(a) was operating unlawfully at DIA. Furthermore, under the DMASR&R Section 120.01(B) airlines operating at DIA without a five year contract are considered non-signatory air carriers and are required to pay landing fees at the non-signatory rate.

3. Subletting, and Assignment Arrangement

UPSI has an operating agreement with Key Lime Air – Cargo (Key Lime) whereby Key Lime provides feeder air cargo service for UPSI. Key Lime uses small aircraft (approximately 19) to provide this service. The maximum landing weight of these aircraft ranges from 7,000 lbs. to 15,500 lbs. Key Lime parks its aircraft on space leased by UPSI. Key Lime does not have a contract with DIA and pays landing fees at the non signatory rate. Discussions with the Department of Aviation indicated that Key Lime has Bodily Injury and Property Damage insurance in the amount of \$10,000,000. UPSI does not have a written agreement with Key Lime for any subletting and assignment arrangements.

Section 3.03 of the Contract with UPSI provides that “No interests or rights under this Lease may be transferred except as provided under this Section 3.03. Lessee may sublet, assign or otherwise transfer the Demised Premises, in whole or in part, to another company, or use the Demised Premises for the handling by Lessee’s personnel of air transportation operations of other companies, subject however, to each of the following conditions:

- (A) No sublease, assignment, ground handling agreement or other transfer shall relieve Lessee from primary liability for any of its obligations hereunder, and Lessee shall continue to remain primarily liable for the payment of rentals, fees and charges applicable to such premises and facilities hereunder;
- (B) Lessee shall provide written notice to the City and a copy of the proposed sublease, assignment, ground handling agreement or other transfer not less than thirty (30) days prior to the effective date of such arrangement.”

UPSI was not in compliance with Section 3.03(B) of the Contract. UPSI was also not in compliance with its primary liability under Section 3.03(A) for its sublessee or assignee to maintain insurance for Bodily Injury and Property Damage in the amount of \$200,000,000 in accordance with Section 6.03 of the Contract.

Recommendation

We recommend that the Department of Aviation require UPSI to comply with section 3.03(B) of the contract and provide written notice to the City and a copy of the sublease or assignment of demised premises with KeyLime. We also recommend that the Department of Aviation, in accordance with section 3.03(A) of the contract, require UPSI to comply with its primary liability for its sublessee or assignee to maintain insurance for Bodily Injury and Property Damage in the amount of \$200,000,000 in accordance with section 6.03 of the Contract.

United Parcel Service Response

“We do not agree with this issue as we believe we have not sublet or assigned our space to anyone. UPS has merely hired an aircraft operator, in this case Colorado based Key Lime, to shuttle our packages to and from pre-established locations. Essentially this is nothing more than a ‘wet lease’ of aircraft. Key Lime is not a ground handler nor are they providing any ground handling equipment. They are not subleasing or subletting any space. “With regard to insurance, we agree that the aircraft operator under contract should be required to maintain adequate insurance amounts as required by DIA. It is assumed that DIA establishes the coverage amounts based on what is considered to be fair and reasonable. As long as this is the case, required insurance coverage should be met.”

Department of Aviation Response

“DIA is currently surveying other airports to determine best practices with regard to cargo feeder airlines. We plan to document a policy in Airport Rules and Regulations.”

Auditor’s Response

Key Lime Air – Cargo parks its aircraft on space leased by United Parcel Service, Inc. (UPSI) The Auditor’s Office is of the opinion that this constitutes an assignment of space by UPSI to Key Lime Air and under terms of their contract with the City must provide written notice not less than 30 days prior to the effective date of such arrangement. No other space is leased to Key Lime Air by DIA. Key Lime Air separately pays landing fees to DIA as a non-signatory air carrier.

UNITED PARCEL SERVICE, INC.
SCHEDULE OF AMOUNTS DUE AND PAID
FOR THE YEAR ENDED DECEMBER 31, 2003

	Amount Due (Note 1)	Amount Paid (Note 2)	Balance Due
Landing Fees	\$1,653,008	\$1,377,627	\$275,381
Facilities Ground Rent	417,230	417,230	-
Ramp and Apron Rent	274,975	274,975	-
Building Rent	539,795	539,795	-
Shuttle Bus	7,221	7,221	-
Deicing	173,266	173,266	-
Utility Charges	136,073	136,073	-
Interest Charges	54	54	-
Total	<u>\$3,201,622</u>	<u>\$2,926,241</u>	<u>\$275,381</u>

The accompanying notes are an integral part of this schedule.

Note 1 Amounts Due – Amounts due include balances of United Parcel Service, Inc. (UPSI) and United Parcel Service, Co. (UPSC) (See finding no. 2). Landing fees, facilities ground rent, ramp and apron rent, and building rent, are established from time to time by the City and County of Denver (City) in accordance with cost-accounting concepts and ratemaking procedures established and adopted by the Manager of Aviation. As required by Section 2.05 of the Airfield Use and Cargo Facilities Lease Agreement (Contract), the City’s independent auditors annually prepare a final audit. Leigh Fisher Associates, an airport consultant company, uses this audit to determine the actual fees for the revenue-producing cost centers at the airport due each year. This determination was done in Leigh Fisher Associate’s Year-End Settlement of Rentals, Fees, and Charges for 2003 (Final Report) dated July 12, 2004. We obtained the actual rates from this report to determine the amounts for landing fees, facilities ground rent, ramp and apron rent, and building rent in the accompanying schedule. Specific revenue components were as follows.

- Landing Fees – The actual annual landing fee for the year ended December 31, 2003 was \$3.219, and \$3.863, per 1,000 pounds of landed weight for signatory and non signatory carriers, respectively. There were 427,908,174 pounds of landed weight for UPSC in 2003. The number of reported landings by UPSC was verified, on a test basis, through records maintained by the DIA Airport Noise and Operations Monitoring System.
- Space Rent – The revenue-producing cost centers of UPSI and the actual fees and applicable space as listed in the Final Report are as follows:

Cargo facilities ground rent	719,333.6	sq. feet	*\$0.58 per sq. foot
Apron rent	387,456	sq. feet	*\$0.69 per sq. foot
Cargo building rent	60,375	sq. feet	*\$8.94 per sq. foot
Ground service equipment paving	62,815	sq feet	*\$0.14 per sq. foot

*These rates are rounded.

The remaining revenue components are based on contract requirements and/or the Denver Municipal Airport System Rules and Regulations. The specifics are as follows:

- Cargo Shuttle Bus – Total cost to be allocated is \$100,000. Twenty percent of cost is allocated equally among 19 tenants. The remaining 80% of cost is allocated based on percentage of passenger usage. Percentage of passenger usage of United Parcel Service, Inc. is 7.71%.
- Deicing Charges – According to Sections 200.02 and 200.06 of the DMASR&R, UPSC is to pay monthly estimated deicing charges based on the estimated amount of glycol usage. The estimated deicing costs and glycol usage are reconciled with the actual deicing costs and glycol used within 90 days of the close of each fiscal year ending June 30. Deicing charges are stated at actual cost of \$98,482 through June30, 2003 and estimated cost of \$74,784 for the six months ended December 31, 2003.

- Utility Charges – UPSI pays for gas and electricity used in accordance with the Contract Section 3.01. UPSI pays an estimated monthly charge for utilities, which is reconciled at year end to actual. The amount included in the accompanying schedule of amounts due and paid is actual utility usage for the year ended December 31, 2003.
- Interest Charges – Section 8.09 of the Contract provides that any payment not made when due shall accrue interest at the rate of 18% per annum commencing five days after such due date. Interest amounts shown in the schedule of amounts due and paid are exclusive of authorized interest charges on unpaid amounts identified as due and unassessed in the schedule.

Note 2 Amounts Paid – Amounts paid include balances of both UPSI and UPSC. All amounts paid in the schedule of amounts due and paid were compiled from the Department of Aviation's cash receipts records. Amounts paid include those billed and due during the audit period and collected in the ordinary course of business whether or not within the audit period.