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By Walter L. Morgan

An audit of the accounts of an airport does not offer any special difficulties to the professional accountant experienced in other fields of endeavor. Certain phases of audit procedure which would not appear in the average audit will confront him, but these peculiarities can be readily learned. In an engagement of this character the principal difficulty in the path of the accountant is liable to be a misfit or inadequate set of books and an inferior classification of accounts. If the airport has not a proper accounting system, the first duty of the auditor is to suggest such refinements and improvements as may be necessary to bring it into accord with standard practice.

The airport is a relatively new development, a virgin industry, an enterprise with little experience and precedent to guide it. Consequently, an auditor can be of great service to airport managers if he will provide the records which will assist them in their problems. Proper records are necessary to interpret the results of experiments, to ascertain the causes of weak operating departments and to reduce expenses to a minimum.

Balance-sheet

Assets. Bank balances and cash working funds should be verified as in the usual audit. The larger airports have recently had such large cash resources on hand awaiting completion of construction programmes that they have gone into the call-money market. Call loans can easily be verified by independent certification. The accounts receivable of an airport are rather different from those found in the usual enterprise and will be composed principally of items billed to others for use of its facilities, for repairs to and for sales of airplanes, etc. Amounts due from rentals of hangars and other facilities, percentages of flying revenues and other concessions can be verified by reference to contracts in force and the standard-rate schedules maintained by the airport. The amounts due for repairs, sales, etc., are verified as in usual audit procedure. The specific items comprehended in this subject are discussed later in detail under verification of income.

The verification of inventories, investments and prepaid expenses offers no particular problems different from those found in the usual audit engagement.

By far the largest item in any airport balance-sheet is the investment in its facilities—land, improvements to field, buildings, equipment, etc. The auditor should devote particular attention to the verification of these items. Many airports today are burdened with excessive construction costs. By reason of rapid changes in the industry many items which are no longer used or useful property will appear as assets. Depreciation and more particularly obsolescence are at high rates. The auditor should not only check the book costs of the fixed assets by the construction budget, contracts and invoices, but should see that a standard property ledger is installed to reflect the true cost of each general unit of property. He should then ascertain that the necessary rate of depreciation and obsolescence is applied against it. Superseded, abandoned or obsolete property items should be written off and all other fixed assets properly amortized over their useful life. The present tendency is to develop the airport as a recreation center as well as a flying field, with swimming pools, restaurants, refreshment stands, parks, stores and other income-producing units. Consequently, the accountant will find his experience in the audit of such independent enterprises helpful in his airport engagements. A sound classification of fixed-property accounts might include the following:

Land and leaseholds (classified by sections)

Improvements to field:
- Grading and clearing
- Fertilizing
- Seeding and development of sod
- Landscaping and hedges
- Drains and catch basins
- Roads
- Sidewalks and curbs
- Runways, take-off strips
- Approaches to runways
- Aprons and taxi strips
- Fencing
- Power lines
- Lighting
- Parking space

Buildings:
- Hangars
- Administration buildings

Ticket and waiting room
Repair shops
Garage
Showrooms and stores
Gasoline and pump house
Public toilets
Refreshment stands
Restaurant
Transformer house
Central heating plant
Lean-to
Roadhouse
Swimming pool, parks, etc.
Gas and oil storage structures

Equipment (to be classified in detail):
Hangar
Administration building
Swimming pool
Shop equipment
Furniture and fixtures
Fire extinguishers
Ambulance
Trucks and autos and tractors
Water and sprinkler system
Underground conduits
Booths
Weather equipment
Grass cutters and rollers
Field lighting equipment
Gas and oil equipment
Traffic-control system
Telephone and telegraph system, etc.

General:
Architect fees
Engineering fees
Superintendence
Interest during construction
Miscellaneous.

Liabilities. The liabilities of an airport are similar in nature to those which one would expect to find in the ordinary course of business and their audit does not offer any special difficulties. Current liabilities include accounts payable, possible notes payable, accrued wages, taxes, interest, etc. Bonds or mortgages payable are often outstanding on account of the large investment required in land and airport improvements. The capital stock can be verified by reference to the stubs of the stock certificates or, if there is a registrar or transfer agent, by certification.

Income

An airport enjoys various sources of income which are uncommon to other forms of business; consequently, the audit will involve certain matters of audit procedure which may be of interest. The following is a general classification of revenue accounts of an airport which indicates the nature and sources of income which may be expected:

Admissions and rentals:
  Admissions—flying field (doubtful as revenue producer)
  Parking—flying field
  Admissions—special air-meets
  Rentals of hangars
  Rentals from field storage
  Rentals of showrooms
  Rentals of space in administration building
  Rentals of bunks and sleeping quarters
  Locker rentals
Income from flying activities:
  Income from commercial privileges (airport percentage):
    (A) Passenger hopping
    (B) Scenic trips
    (C) Student instruction
    (D) Chartered and special trips
    (E) Photographic flying
  Landing fees and passenger tolls (represent charges on lines not paying commercial privileges)
  Income from flood-lighting of field
Repairs and sales:
  Repairs of airplanes
  Servicing and maintenance of airplanes
  Profit on sale of airplanes
  Profit on sale of airplane equipment
  Profit on sale of parts
Concessions:
  (A) Gas and oil—automobiles
  (B) Refreshment and tobacco stands
  (C) Restaurant
  (D) Shoe shines, vending machines, etc.
Swimming-pool department:
  (A) Bathing charges
  (B) Parking
  (C) Refreshments, etc.
Flying-club department:
  (A) Membership dues
  (B) Dances and entertainments
Advertising income (classify by divisions)

Financial income:
- (A) Interest and dividends from investments
- (B) Interest on call loans and saving accounts
- (C) Interest on regular bank accounts
- (D) Purchase discount.

The extent to which an auditor should verify the income depends entirely on the internal control and the adequacy of the accounting system. It is presumed that the system will comprehend numbered tickets, duplicate repair and sales invoices, gas and oil and flying reports, etc.

Admissions, parking income and bathing charges should be verified by reference to canceled numbered tickets. The rental income can be audited by examining contracts in force, rate schedules, etc.

The income from commercial privileges represents the airport's percentage of the revenue from flying activities. This revenue is classified for statistical purposes into passenger hopping, scenic trips, student instruction, special trips, photographic flying, etc. Usually airplane and flying companies, after applying for commercial privilege, guarantee to pay the airport a certain minimum for the privilege of operating from the airport. In addition to this minimum they pay a certain percentage of their gross revenue. The auditor can verify this revenue by checking the individual daily and monthly plane records. The daily plane record is posted from the daily flying report and reflects the daily minimum rate, the daily percentage of flying revenue, ground storage and flood-lighting charges. The total of this card forms the basis for the monthly charge for commercial privileges and is then posted to the monthly summary record.

Landing fees and passenger tolls can be tested by reference to daily operation reports.

The profit from repairing and sales of airplanes, equipment, etc., can be verified by checking purchases, material consumed and labor and apportioned overhead on one hand and duplicate sales invoices on the other.

Income from sales of gasoline and oil should be checked to daily gas and oil reports. Purchases to be applied against such income may be tested. Revenue from concessions and advertising income can readily be audited by reference to concession contracts, supported by the necessary amount of detail checking.

Expenses

The expenses of an airport should be classified in great detail by departments in order that the management may be guided in its endeavors to keep its operating costs and overhead at a minimum. The accounts which one may ordinarily expect in an airport include the following:

A—Field division:
- Superintendence
- Wages
- Light and power
- Maintenance, supplies, water, etc.
- Depreciation of lighting equipment
- Depreciation of field equipment
- Miscellaneous
- Operation gas and oil services—wages
- Operation gas and oil services—expenses

B—Hangar division:
- Wages
- Light, heat, power
- Insurance
- Maintenance
- Depreciation of hangars
- Miscellaneous
- Taxes

C—Repair shops:
- Superintendence
- Wages
- Materials and parts (classified in such detail as may be necessary)
- Light, heat and power
- Maintenance of equipment
- Depreciation of equipment
- Depreciation of buildings
- Insurance
- Shop expense
- Miscellaneous

D—Operation of administration building:
- Salaries
- Maintenance
- Supplies and expenses
- Depreciation administration building
- Depreciation administration building—equipment
- Heating
- Light, power and water
- Insurance
- Miscellaneous
- Taxes

E—Sales divisions (used if sales are not put out on a concession):
- Salaries
- Commissions
- Traveling and entertaining
- Advertising
- Sales-office expenses (postage, telephone, supplies, etc.)
- Depreciation of ships
- Maintenance of ships
- Operation of ships
- Bad debts
- Insurance
- Miscellaneous selling expenses, etc.

F—Swimming-pool division:
- Superintendence
- Wages
- Cost of water
- Light and power
- Filtration material
- Laundry expense
- Advertising
- Depreciation of building
- Depreciation of equipment
- Maintenance
- Suits, towels, etc.—replacements
- Miscellaneous
- Sundry supplies
- Taxes

G—Parking division:
- Wages of parking employees
- Maintenance of parking space
- Taxes

H—Flying-club division (classify in such detail as may be required):

I—Field office:
- Clerical salaries
- Stationery, printing and postage
- Telegraph and telephone
- Miscellaneous

J—General and administrative expenses:
- Salary of officers
- Salaries—executive office
- Executive office expenses
- Rent
- Telegraph and telephone
- Stationery, postage and printing
- Office supplies and expenses
- Depreciation of furniture and fixtures
- Advertising—general public magazines

Advertising—newspapers
Advertising—trade journals
Advertising—direct by mail, etc.
Promotion—publicity
Promotion—meets and races
Promotion—miscellaneous
Legal and professional services
Taxes—income and corporate state taxes
Compensation insurance and bonding premiums
Miscellaneous

The audit of these items does not offer any peculiar problems. Salaries and wages may be verified by reference to properly approved wage schedules. The ordinary light, power, maintenance and operating expenses can be verified by proper test checks of paid invoices. Depreciation charges should be checked to the property ledger and discussed with the management to ascertain their adequacy. Amortization of taxes, insurance and depreciation can be readily verified during the audit of their respective prepaid and accrued accounts.

To my knowledge little information is available on the subject of airport accounting or the audit of airport accounts. This article merely indicates some of the more important considerations of this subject.