SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY

AUDIT COMMITTEE
and
SPECIAL BOARD MEETING *

AGENDA

Monday, November 5, 2018
10:00 A.M.

San Diego International Airport
SDCRAA Administration Building -- Third Floor
Board Room
3225 N. Harbor Drive
San Diego, CA 92101

This Agenda contains a brief general description of each item to be considered. If comments are made to the Board without prior notice, or are not listed on the Agenda, no specific answers or responses should be expected at this meeting pursuant to State law.

Staff Reports and documentation relating to each item of business on the Agenda are on file in Board Services and are available for public inspection.

PLEASE COMPLETE A "REQUEST TO SPEAK" FORM PRIOR TO THE COMMENCEMENT OF THE MEETING AND SUBMIT IT TO THE AUTHORITY CLERK. ***PLEASE REVIEW THE POLICY FOR PUBLIC PARTICIPATION IN BOARD AND BOARD COMMITTEE MEETINGS (PUBLIC COMMENT) LOCATED AT THE END OF THE AGENDA.***

***NOTE:** This Committee Meeting also is noticed as a Special Meeting of the Board (1) to foster communication among Board members in compliance with the Brown Act; and (2) to preserve the advisory function of the Committee.

Board members who are not members of this Committee may attend and participate in Committee discussions. Since sometimes, more than a quorum of the Board may be in attendance, to comply with the Brown Act, this Committee meeting also is noticed as a Special Meeting of the Board.

To preserve the proper function of the Committee, only members officially assigned to this Committee are entitled to vote on any item before the Committee. This Committee only has the power to review items and make recommendations to the Board. Accordingly, this Committee cannot, and will not, take any final action that is binding on the Board or the Authority, even if a quorum of the Board is present.

CALL TO ORDER:

PLEDGE OF ALLEGIANCE:

ROLL CALL:

Committee Members: Hollingworth, Lloyd, Robinson (Chair), Schiavoni, Tartre (Vice Chair), Van Sambeek, West

NON-AGENDA PUBLIC COMMENT:

Non-Agenda Public Comment is reserved for members of the public wishing to address the Committee on matters for which another opportunity to speak **is not provided on the Agenda**, and which is within the jurisdiction of the Committee. Please submit a completed speaker slip to the Authority Clerk. ***Each individual speaker is limited to three (3) minutes. Applicants, groups and jurisdictions referring items to the Board for action are limited to five (5) minutes.***

Note: Persons wishing to speak on specific items should reserve their comments until the specific item is taken up by the Board.

NEW BUSINESS:

1. **APPROVAL OF MINUTES:**
RECOMMENDATION: Approve the minutes of the September 10, 2018, regular meeting.

2. **EXTERNAL AUDITOR'S FISCAL YEAR ENDED JUNE 30, 2018, REPORTS: A) AUDITED FINANCIAL STATEMENTS, B) SINGLE AUDIT REPORTS, C) PASSENGER FACILITY CHARGE COMPLIANCE REPORT, D) CUSTOMER FACILITY CHARGE COMPLIANCE REPORT, AND E) LETTER TO THE BOARD:**
RECOMMENDATION: Staff recommends that the Audit Committee forward this item to the Board with a recommendation for acceptance. ***(Requires five (5) affirmative votes of the Audit Committee)***
Presented by: Kathy Kiefer, Senior Director, Finance & Asset Management; David Coleman, CPA, Director, BKD, LLP

3. **REVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) FOR THE FISCAL YEAR ENDED JUNE 30, 2018:**
RECOMMENDATION: Staff recommends that the Audit Committee forward this item to the Board with a recommendation for acceptance.
Presented by: Kathy Kiefer, Senior Director, Finance & Asset Management

4. FISCAL YEAR 2019 FIRST QUARTER ACTIVITIES REPORT AND AUDIT RECOMMENDATIONS ISSUED BY THE OFFICE OF THE CHIEF AUDITOR:
RECOMMENDATION: Staff recommends that the Audit Committee forward this item to the Board with a recommendation for acceptance, and provide, if necessary, direction to staff on audit recommendations.
Presented by: Fred Bolger, Manager, Audit Services

5. SELECTION OF AN INDEPENDENT ASSESSOR TO PERFORM A QUALITY ASSESSMENT REVIEW OF THE OFFICE OF THE CHIEF AUDITOR:
RECOMMENDATION: Provide direction to staff.
Presented by: Lee Parravano, Chief Auditor

NON-AGENDA PUBLIC COMMENT:

COMMITTEE MEMBER COMMENTS:

ADJOURNMENT:

Policy for Public Participation in Board, Airport Land Use Commission (ALUC), and Committee Meetings (Public Comment)

1) Persons wishing to address the Board, ALUC, and Committees shall complete a "Request to Speak" form prior to the initiation of the portion of the agenda containing the item to be addressed (e.g., Public Comment and General Items). Failure to complete a form shall not preclude testimony, if permission to address the Board is granted by the Chair.
2) The Public Comment Section at the beginning of the agenda is limited to eighteen (18) minutes and is reserved for persons wishing to address the Board, ALUC, and Committees on any matter for which another opportunity to speak is not provided on the Agenda, and on matters that are within the jurisdiction of the Board. A second Public Comment period is reserved for general public comment later in the meeting for those who could not be heard during the first Public Comment period.
3) Persons wishing to speak on specific items listed on the agenda will be afforded an opportunity to speak during the presentation of individual items. Persons wishing to speak on specific items should reserve their comments until the specific item is taken up by the Board, ALUC and Committees. Public comment on specific items is limited to twenty (20) minutes – ten (10) minutes for those in favor and ten (10) minutes for those in opposition of an item. Each individual speaker will be allowed three (3) minutes, and applicants and groups will be allowed five (5) minutes.
4) If many persons have indicated a desire to address the Board, ALUC and Committees on the same issue, then the Chair may suggest that these persons consolidate their respective testimonies. Testimony by members of the public on any item shall be limited to **three (3) minutes per individual speaker and five (5) minutes for applicants, groups and referring jurisdictions.**
5) Pursuant to Authority Policy 1.33 (8), recognized groups must register with the Authority Clerk prior to the meeting.
6) After a public hearing or the public comment portion of the meeting has been closed, no person shall address the Board, ALUC, and Committees without first obtaining permission to do so.

Additional Meeting Information

NOTE: This information is available in alternative formats upon request. To request an Agenda in an alternative format, or to request a sign language or oral interpreter, or an Assistive Listening Device (ALD) for the meeting, please telephone the Authority Clerk's Office at (619) 400-2400 at least three (3) working days prior to the meeting to ensure availability.

For your convenience, the agenda is also available to you on our website at www.san.org.

For those planning to attend the Board meeting, parking is available in the public parking lot located directly in front of the Administration Building. Bring your ticket to the third floor receptionist for validation.

You may also reach the Administration Building by using public transit via the San Diego Metropolitan Transit System, Route 992. The MTS bus stop at Terminal 1 is a very short walking distance from the Administration Building. ADA paratransit operations will continue to serve the Administration Building as required by Federal regulation. For MTS route, fare and paratransit information, please call the San Diego MTS at (619) 233-3004 or 511. For other Airport related ground transportation questions, please call (619) 400- 2685.

ITEM 1

DRAFT
SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
AUDIT COMMITEE MEETING
MINUTES
MONDAY, SEPTEMBER 10, 2018
BOARD ROOM

CALL TO ORDER: Chair Robinson called the Audit Committee Meeting to order at 10:00 a.m., on Monday, September 10, 2018, in the Board Room of the San Diego International Airport, Administration Building, 3225 N. Harbor Drive, San Diego, CA 92101.

PLEDGE OF ALLEGIANCE: Board Member West led the Pledge of Allegiance.

ROLL CALL:

Present: Committee Members: Hollingworth, Lloyd, Robinson (Chair), Van Sambeek, West

Absent: Committee Members: Schiavoni, Tartre

Also Present: Kimberly J. Becker, President/CEO; Amy Gonzalez, General Counsel; Linda Gehlken, Assistant Authority Clerk I; Martha Morales, Assistant Authority Clerk I

NON-AGENDA PUBLIC COMMENT: None.

NEW BUSINESS:

1. **APPROVAL OF MINUTES:**
RECOMMENDATION: Approve the minutes of the May 14, 2018, regular meeting and the June 25, 2018, special Audit Committee Meeting.

ACTION: Moved by Board Member West and seconded by Board Member Lloyd to approve staff's recommendation. Motion carried unanimously, noting Committee Member Van Sambeek's ABSTENTION, and Board Member Schiavoni and Committee Member Tartre as ABSENT.

2. **FISCAL YEAR 2018 ANNUAL REPORT FROM THE AUDIT COMMITTEE:**
RECOMMENDATION: Staff recommends that the Audit Committee forward this item to the Board with a recommendation for acceptance.

ACTION: Moved by Committee Member Hollingworth and seconded by Board Member West to approve staff's recommendation. Motion carried unanimously, noting Board Member Schiavoni and Committee Member Tartre as ABSENT.

3. FISCAL YEAR 2018 ANNUAL ACTIVITIES REPORT FROM THE OFFICE OF THE CHIEF AUDITOR:

Fred Bolger, Manager, Audit Services, provided a presentation on the Fiscal Year 2018 Annual Activities Report from the Office of the Chief Auditor, which included Audit Activities, Recommendation Follow-up, Fiscal Year 2018 Measure Outcomes, Quality Assessment and Improvement Program, Summary of Ethics Inquiries, and Disclosures.

In response to concern expressed by Board Member West regarding the unmet percentage goal for audits completed in Fiscal Year 2018 and how this would be handled in the future, Mr. Bolger stated that audit reports from one fiscal year requiring to be rolled over into the next fiscal year will be reflected in an amendment to the Fiscal Year 2019 Audit Plan. He also stated that in the amended Plan staff would be more realistic in assessing man-hours allocated for audits and will provide these line items as needed for the revision.

RECOMMENDATION: Staff recommends that the Audit Committee forward this item to the Board with a recommendation for acceptance and provide, if necessary, direction to staff on audit recommendations. ***(Requires five (5) affirmative votes of the Audit Committee.)***

ACTION: Moved by Committee Member Van Sambeek and seconded by Board Member West to approve staff's recommendation. Motion carried unanimously, noting Board Member Schiavoni and Committee Member Tartre as ABSENT.

4. REVISION TO THE FISCAL YEAR 2019 AUDIT PLAN OF THE OFFICE OF THE CHIEF AUDITOR:

Lee Parravano, Chief Auditor, provided a presentation on the revision of the Fiscal Year 2019 Audit Plan of the Office of the Chief Auditor, which included Reasons for Revisions and Audits with Revised Hours.

RECOMMENDATION: Staff recommends that the Audit Committee accept the revised Audit Plan and forward it to the Board for approval. ***(Requires five (5) affirmative votes of the Audit Committee.)***

ACTION: Moved by Committee Member Hollingworth and seconded by Board Member West to approve staff's recommendation. Motion carried unanimously, noting Board Member Schiavoni and Committee Member Tartre as ABSENT.

5. REVISION TO THE CHARTER OF THE AUDIT COMMITTEE:

Lee Parravano, Chief Auditor, provided a presentation on the revision to the Charter of the Audit Committee, which included Background, Reasons for Review and Amending, Significant Additions and Significant Deletions.

RECOMMENDATION: Staff recommends that the Audit Committee accept the proposed revision and forward this item to the Board for approval.

ACTION: Moved by Committee Member Van Sambeek and seconded by Board Member West to approve staff's recommendation. Motion carried unanimously, noting Board Member Schiavoni and Committee Member Tartre as ABSENT.

6. REVISION TO THE CHARTER OF THE OFFICE OF THE CHIEF AUDITOR:
Lee Parravano, Chief Auditor, provided a presentation on the revision to the Charter of the Office of the Chief Auditor, which included Background, Reasons for Review and Amending, Significant Additions, and Significant Deletions.

In response to Committee Member Hollingworth's concern that both positive and negative disclosures would continue under the revised Charter, Mr. Parravano stated that the revision would not alter those requirements. He also stated that OCA staff would put forth greater effort in their audit reports towards including the positive things being performed at the Authority.

Chair Robinson requested that all Committee members be provided a copy of the San Diego International Airport Economic Impact Study report presented at the August 27th Special Board and Executive/Finance Committee meeting, due to the report's many positive statements about SDIA.

RECOMMENDATION: Staff recommends that the Audit Committee accept the proposed revision and forward this item to the Board for approval.

ACTION: Moved by Board Member West and seconded by Committee Member Hollingworth to approve staff's recommendation. Motion carried unanimously, noting Board Member Schiavoni and Committee Member Tartre as ABSENT.

7. REVISION TO POLICIES AND CODES TO REMOVE THE REQUIREMENTS TO PERFORM AUDITS:
Lee Parravano, Chief Auditor, provided a report on proposed revisions to Authority Policies and Codes.

RECOMMENDATION: Information item only.

No action taken.

COMMITTEE MEMBER COMMENTS: None

ADJOURNMENT: The meeting was adjourned at 10:35 a.m.

APPROVED BY A MOTION OF THE AUDIT COMMITTEE OF THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY THIS 5th DAY OF NOVEMBER, 2018.

LEE PARRAVANO
CHIEF AUDITOR

ATTEST:

LINDA GEHLKEN
ASSISTANT AUTHORITY CLERK I

SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY

Item No.
2

AUDIT COMMITTEE

Meeting Date: **NOVEMBER 5, 2018**

Subject:

External Auditor's Fiscal Year Ended June 30, 2018, Reports: A) Audited Financial Statements, B) Single Audit Reports, C) Passenger Facility Charge Compliance Report, D) Customer Facility Charge Compliance Report, and E) Letter to the Board

Recommendation:

Staff recommends that the Audit Committee forward this item to the Board with a recommendation for acceptance.

Background/Justification:

Government auditing standards and generally accepted auditing standards require that, annually, an independent external auditor perform an audit of the San Diego County Regional Airport Authority's (Authority) financial statements.

As per Section 170018 (f) (5) of the *Public Utilities Code,* the Audit Committee is responsible for overseeing the Authority's annual audit by the external auditor and for any internal audits performed.

The Charter of the Audit Committee directs the Audit Committee to review the Comprehensive Annual Financial Report (CAFR) and other external auditor annual reports, and to forward them to the San Diego County Regional Airport Authority Board for approval. The Charter of the Audit Committee encompasses the compliance and regulatory oversight responsibilities of the Audit Committee regarding the engagement of the Authority's external auditor and the disclosure of financial matters.

On May 1, 2014, the Board adopted Resolution No. 2014-0039, approving and authorizing the President/CEO to execute an agreement with BKD, LLP, as the Authority's external auditor for a three-year term with an option for two (2) one-year extensions.

On November 5, 2018, the Authority's external auditor, BKD, LLP, will present the Fiscal Year Ended June 30, 2018, audited financial statements and reports (Attachments A through E) to the Audit Committee for their review and acceptance.

Fiscal Impact:

Adequate funding for the audit conducted by BKD, LLP, is included in the adopted Fiscal Year 2019 and conceptually approved Fiscal Year 2020 Operating Expense Budgets within the Accounting Department Services – Auditing line item.

Authority Strategies:

This item supports one or more of the Authority Strategies, as follows:

☐ Community Strategy ☒ Customer Strategy ☐ Employee Strategy ☒ Financial Strategy ☒ Operations Strategy

Environmental Review:

A. CEQA: This Board action is not a project that would have a significant effect on the environment as defined by the California Environmental Quality Act ("CEQA"), as amended. 14 Cal. Code Regs. §15378. This Board action is not a "project" subject to CEQA. Cal. Pub. Res. Code §21065.

B. California Coastal Act Review: This Board action is not a "development" as defined by the California Coastal Act. Cal. Pub. Res. Code §30106.

Application of Inclusionary Policies:

Not Applicable

Prepared by:

KATHY KIEFER
SENIOR DIRECTOR, FINANCE & ASSET MANAGEMENT

Attachment A

San Diego County Regional Airport Authority

Financial Statements

For the Fiscal Years Ended

June 30, 2018 and 2017

BKD

CPAs & Advisors

San Diego County Regional Airport Authority

June 30, 2018 and 2017

Contents

BKD
CPAs & Advisors

14241 Dallas Parkway, Suite 1100 | Dallas, TX 75254-2961
972.702.8262 | Fax 972.702.0673 | bkd.com

Independent Auditor's Report

To the Members of the Board
San Diego County Regional Airport Authority
San Diego, CA

We have audited the accompanying financial statements of the San Diego County Regional Airport Authority (Airport Authority) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Airport Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport Authority as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, in 2018, the Airport Authority changed its method of accounting for postemployment benefits other than pensions (OPEB) with the adoption of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension and other postemployment benefit information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BKD, LLP

Dallas, Texas
October 17, 2018

Management's Discussion and Analysis

For The Years Ended June 30, 2018 and 2017

INTRODUCTION

The San Diego County Regional Airport Authority (Airport Authority) was established on January 1, 2002, as an independent agency. On January 1, 2003, the operations and assets of San Diego International Airport (SDIA) transferred from the San Diego Unified Port District (District) to the Airport Authority.

The Airport Authority is a self-sustaining entity receiving most of its revenues through user fees and rents from airline and non-airline business partners operating at SDIA. Since the Airport Authority is not funded by tax revenues, accounts are maintained in an enterprise fund on the accrual basis of accounting. Under accrual accounting, revenues are recognized as soon as they are earned, and expenses are recognized as soon as a liability is incurred, regardless of the timing of related cash inflows and outflows. Users of SDIA's facilities provide most of the revenues to operate, maintain, and acquire necessary services and facilities.

SAN DIEGO INTERNATIONAL AIRPORT

History of Ownership

The public policy decision to transfer responsibility for SDIA from the District to the newly created Airport Authority emanated from recommendations made by the San Diego Regional Efficiency Commission (Commission). The Commission was established to evaluate regional governance in San Diego County and report recommended improvement measures to the California State Legislature.

Because of the significant regional consequences of airport development and operations, the Commission concluded that a regional decision-making process should address the future development of airport facilities in San Diego County. In October 2001, the enabling legislation, Assembly Bill 93 (AB 93) established the composition and jurisdiction of the Airport Authority's governing body in a manner that is designed to reflect the collective interests of the entire San Diego region.

Legislative Background

AB 93 was signed into California State law in October 2001. The Act established the Airport Authority on January 1, 2002, as a local agency of regional government with jurisdiction throughout the County of San Diego. Subsequent legislative changes to AB 93 were introduced and passed in California Senate Bill 1896 (Act). The amendment addresses several points pertaining to the transfer of aviation employees, date of transfer, property leases, property acquisition and purchase of services from the District.

On January 1, 2008, Senate Bill 10 (SB 10), the San Diego County Regional Airport Authority Reform Act, was enacted into law expanding the responsibilities of the Airport Authority. The Airport Authority is vested with five principal responsibilities:

1. Operation of SDIA;
2. Planning and operation of any future airport that could be developed as a supplement or replacement to SDIA;
3. Development of comprehensive airport land use plans for the airports in the county;
4. Serving as the region's Airport Land Use Commission; and
5. In accordance with SB 10, preparing a Regional Aviation Strategic Plan (completed in fiscal year 2011).

In August 2013, Assembly Bill 1058 was signed into law. This bill made minor clarifying and technical changes to the Airport Authority Act.

Airport Activities Highlights (2016 – 2018)

The Airport Authority experienced continued growth during the current and prior two fiscal years. This followed the trend seen at many commercial airports reflecting the gradual improvements in the economy.

The changes in the SDIA's major activities for the three years are as follows:

	FY 2016	FY 2017	**FY 2018**
Enplaned passengers	10,206,222	10,596,483	**11,728,880**
% increase	5.1%	3.8%	**10.7%**
Total passengers	20,397,170	21,140,067	**23,431,340**
% increase	5.1%	3.6%	**10.8%**
Aircraft operations	193,451	201,011	**218,671**
% increase (decrease)	(0.9%)	3.9%	**8.8%**
Freight and mail (in tons)	185,655	188,607	**191,550**
% increase	3.9%	1.6%	**1.6%**
Landed weight (in thousands)	12,048	12,616	**13,781**
% increase	4.6%	4.7%	**9.2%**

Overall, the strong economy is reflected in the FY 2018 Airport Activities results at SDIA. There was a substantial increase in enplaned passengers in fiscal year 2018 of 10.7 percent. Additionally, freight and mail tons increased by 1.6 percent. New airline routes also factored into the sizable increases of aircraft operations and landed weight.

Statement of Revenues, Expenses and Changes in Net Position (in thousands)

The metric 'Changes in Net Position' is an indicator of whether the Airport Authority's overall financial condition has improved or deteriorated during the fiscal year. Net position increased by 4.5 percent in 2016, was followed by a slight 0.9 percent increase in 2017, and was followed by a larger increase of 3.4 percent in 2018. Following is a summary of the statements of revenues, expenses and changes in net position (in thousands):

	FY 2016	FY 2017	**FY 2018**
Operating revenues	$ 233,994	$ 248,847	**$ 265,830**
Operating expenses	(241,429)	(258,954)	**(274,652)**
Nonoperating revenues, net	31,933	15,428	**21,528**
Capital contributions and grants	10,477	1,904	**13,328**
Increase (decrease) in net position	34,975	7,225	**26,034**
Net position, beginning of year	742,741	775,949	**783,174**
Prior-period adjustment GASB 68	(1,767)	-	**717**
Net position, end of year	$ 775,949	$ 783,174	**$ 809,925**

Detailed descriptions of the components of operating revenues and expenses, and nonoperating revenues and expenses are described in the sections that follow. The implementation of GASB 68 and 75 caused prior-period adjustments in fiscal years 2016 and 2018 respectively. The cumulative changes in accounting for pension and postretirement benefit liabilities are reflected in these adjustments.

FINANCIAL HIGHLIGHTS

Operating Revenues (in thousands)

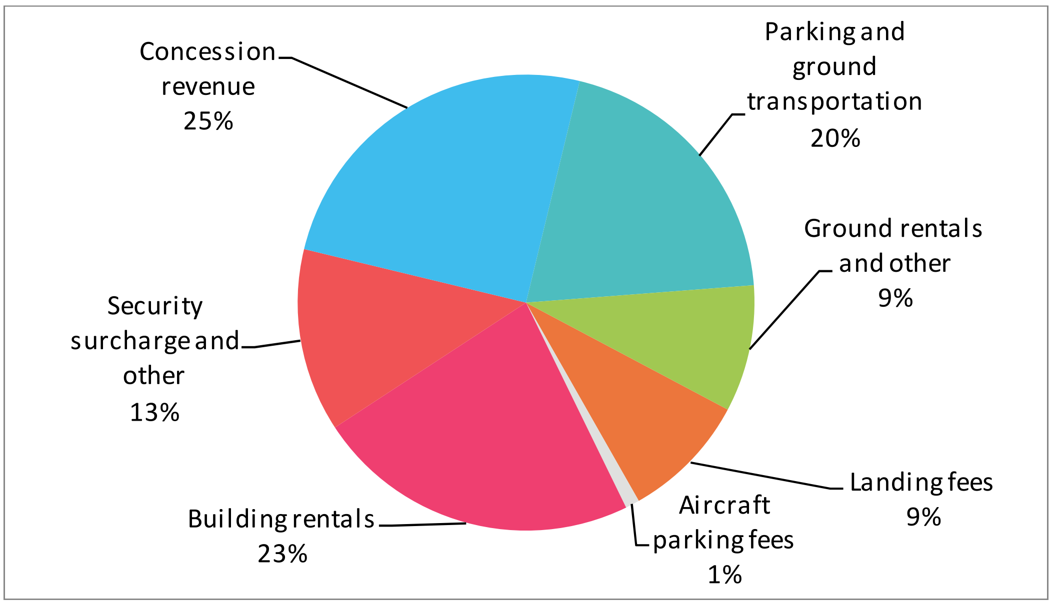
	FY 2017	**FY 2018**	From 2017 to 2018 Increase (Decrease)	From 2017 to 2018 % Change
Airline revenue:				
Landing fees	$ 24,612	**$ 23,900**	$ (712)	(2.9%)
Aircraft parking fees	2,927	**3,236**	309	10.6%
Building rentals	56,575	**62,241**	5,666	10.0%
Security surcharge	29,468	**32,303**	2,835	9.6%
Other aviation revenue	2,799	**1,477**	(1,322)	(47.2%)
Total airline revenue	116,381	**123,157**	6,776	5.8%
Concession revenue	61,256	**65,610**	4,354	7.1%
Parking and ground transportation revenue	49,407	**53,254**	3,847	7.8%
Ground rentals	20,053	**22,109**	2,056	10.3%
Other operating revenue	1,750	**1,701**	(49)	(2.8%)
Total operating revenue	$ 248,847	**$ 265,831**	$ 16,984	6.8%

	FY 2016	FY 2017	From 2016 to 2017 Increase (Decrease)	From 2016 to 2017 % Change
Airline revenue:				
Landing fees	$ 23,985	$ 24,612	$ 627	2.6%
Aircraft parking fees	2,701	2,927	226	8.4%
Building rentals	51,273	56,575	5,302	10.3%
Security surcharge	29,223	29,468	245	0.8%
Other aviation revenue	5,023	2,799	(2,224)	(44.3%)
Total airline revenue	112,205	116,381	4,176	3.7%
Concession revenue	56,274	61,256	4,982	8.9%
Parking and ground transportation revenue	48,106	49,407	1,301	2.7%
Ground rentals	16,226	20,053	3,827	23.6%
Other operating revenue	1,183	1,750	567	47.9%
Total operating revenue	$ 233,994	$ 248,847	$ 14,853	6.3%

Fiscal year 2018 compared to 2017: Total airline revenues increased by $6.8 million, or 5.8 percent, primarily due to an increased cost recovery for the airlines which was higher in fiscal year 2018, compared to 2017. Landing fees decreased by $712 thousand or 2.9 percent due to airfield-related cost savings. Aircraft parking fees increased by $309 thousand or 10.6 percent due to additional overnight aircraft parking positions. Building rentals increased by $5.7 million or 10.0 percent due to increased cost recovery from airline rents. Security surcharge increased by $2.8 million or 9.6 percent, primarily due to increased terminal security charges. Other aviation revenue decreased by $1.3 million or 47.2 percent, mostly due to common use cost recovery charges. Concession revenue increased by $4.4 million or 7.1 percent, reflecting increased enplanements. Parking and ground transportation increased by $3.8 million or 7.8 percent, due to higher enplanements and higher trip fees from transportation network companies. Ground and non-airline terminal rentals increased by $2.1 million or 10.3 percent. This increase was primarily due to fuel facility rentals, and scheduled rent increases.

Fiscal year 2017 compared to 2016*:* Total airline revenues increased by $4.2 million, or 3.7 percent, primarily due to an increased cost recovery from the airlines which was higher in fiscal year 2017, compared to 2016. Landing fees increased by $627 thousand or 2.6 percent due to increased airfield operating costs and new capital projects. Aircraft parking fees increased by $226 thousand or 8.4 percent, due to increased airfield-related costs. Building rentals increased by $5.3 million or 10.3 percent due to higher terminal maintenance costs and changes in rentable square footage. Security surcharge increased slightly by $245 thousand or .8 percent, partially due to increased security checkpoint expenses and increased security equipment costs. Concession revenue increased by $5.0 million or 8.9 percent, reflecting higher sales per enplaned passenger. Parking and ground transportation increased by $1.3 million or 2.7 percent, due to higher enplanements, valet parking revenue, and permits. Ground non-airline terminal rentals increased by $3.8 million or 23.6 percent, due in part to new non-tenant agreements and increased Fixed Base Operator rents. Other operating revenue increased by $567 thousand or 47.8 percent, primarily due to higher landing fees at the Fixed Base Operator, and higher fees for miscellaneous services.

San Diego County Regional Airport Authority
Fiscal Year Ended June 30, 2018
Operating Revenues



Operating Expenses (in thousands)

	FY 2017	FY 2018	From 2017 to 2018 Increase (Decrease)	% Change
Salaries and benefits	$ 46,874	**$ 47,866**	$ 992	2.1%
Contractual services	44,372	**45,249**	877	2.0%
Safety and security	28,422	**30,733**	2,311	8.1%
Space rental	10,190	**10,190**	-	0.0%
Utilities	10,736	**12,509**	1,773	16.5%
Maintenance	14,270	**12,603**	(1,667)	(11.7%)
Equipment and systems	506	**598**	92	18.2%
Materials and supplies	611	**656**	45	7.4%
Insurance	956	**1,098**	142	14.9%
Employee development and support	1,347	**1,248**	(99)	(7.3%)
Business development	2,347	**3,246**	899	38.3%
Equipment rentals and repairs	3,095	**3,124**	29	0.9%
Total operating expenses before depreciation	163,726	**169,120**	5,394	3.3%
Depreciation	95,229	**105,532**	10,303	10.8%
Total operating expense	$ 258,955	**$ 274,652**	15,697	6.1%

	FY 2016	FY 2017	From 2016 to 2017 Increase (Decrease)	% Change
Salaries and benefits	$ 42,025	$ 46,874	$ 4,849	11.5%
Contractual services	38,215	44,372	6,157	16.1%
Safety and security	28,721	28,422	(299)	(1.0%)
Space rental	10,367	10,190	(177)	(1.7%)
Utilities	11,480	10,736	(744)	(6.5%)
Maintenance	14,122	14,270	148	1.0%
Equipment and systems	708	506	(202)	(28.5%)
Materials and supplies	536	611	75	14.0%
Insurance	950	956	6	0.6%
Employee development and support	1,242	1,347	105	8.5%
Business development	2,390	2,347	(43)	(1.8%)
Equipment rentals and repairs	2,852	3,095	243	8.5%
Total operating expenses before depreciation	153,608	163,726	10,118	6.6%
Depreciation	87,821	95,229	7,408	8.4%
Total operating expense	$ 241,429	$ 258,955	$ 17,526	7.3%

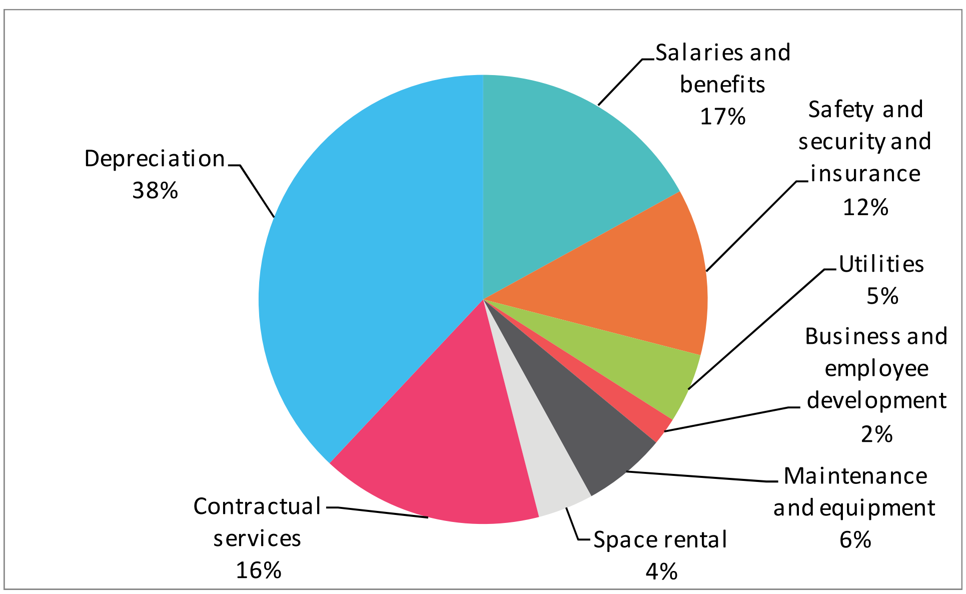
Fiscal year 2018 compared to 2017: Total fiscal year 2018 operating expenses increased by $15.7 million or 6.1 percent. Salaries and benefits increased by $992 thousand or 2.1 percent, due to planned wage and benefit increases. Contractual services increased by $877 thousand or 2.0 percent, mainly due to higher expenses in custodial services. Safety and security increased by $2.3 million or 8.1 percent due higher law enforcement and emergency services costs. Utilities increased by $1.8 million or 16.5 percent, due to higher usage as a result of the increase in total passengers. Equipment and systems increased by $92 thousand or 18.2 percent, mainly due to additional computer equipment and licenses. Insurance increased by $142 thousand or 14.9 percent, primarily due to higher coverage costs of various policies. Business development increased by $899 thousand or 38.3 percent, mainly due to community outreach. Depreciation increased by $10.3 million or 10.8 percent, due to the Parking Plaza and international passenger area (FIS) being placed in service.

Offsetting this increase in operating expenses was the following decrease: Maintenance expenses decreased $1.7 million, or 11.7 percent, due in part to lower electrical and HVAC maintenance contract costs.

Fiscal year 2017 compared to 2016: Total fiscal year 2017 operating expenses increased by $17.5 million or 7.3 percent. Salaries and benefits increased by $4.8 million or 11.5 percent, due to a GASB 68 valuation adjustment and planned wage and benefit increases. Contractual services increased by $6.2 million or 16.1 percent, mainly due to higher expenses in parking, noise monitoring, and a full year of Rental Car Center bussing. Maintenance expenses increased $148 thousand, or 1.0 percent, due to slightly higher major maintenance projects. Materials and supplies increased $75 thousand or 14.0 percent, partly due to higher maintenance and safety expenditures. Employee development and support increased by $105 thousand or 8.5 percent, due to higher recruitment and training expenses. Depreciation increased by $7.4 million or 8.5 percent, due to a full year of depreciation for the Rental Car Center. Equipment rentals and repairs increased by $243 thousand or 8.5 percent, mainly due to higher maintenance contract and computer licensing expenses.

Offsetting this increase in operating expenses were the following decreases: Safety and security decreased by $299 thousand or 1.0 percent due to an estimate recorded in fiscal year 2016 pertaining to expenses incurred in 2015. Space rental decreased by $177 thousand or 1.7 percent, due to the termination of the taxi hold lot lease. Utilities decreased by $744 thousand or 6.5 percent, mainly due to lower rates and usage, as well as state energy credits. Equipment and systems decreased by $202 thousand or 28.5 percent, due to lower office movement and reconfiguration expenses.

San Diego County Regional Airport Authority
Fiscal Year Ended June 30, 2018
Operating Expenses



Nonoperating Revenues (Expenses) (in thousands)

	FY 2017	**FY 2018**	From 2017 to 2018 Increase (Decrease)	% Change
Passenger facility charges	$ 42,200	**$ 46,953**	$ 4,753	11.3%
Customer facility charges	36,528	**41,037**	4,509	12.3%
Quieter Home Program, net	(785)	**(2,747)**	(1,962)	(249.9%)
Joint studies program	-	**(114)**	(114)	0.0%
Interest income	8,134	**13,374**	5,240	64.4%
Interest expense, net	(53,528)	**(63,745)**	(10,217)	(19.1%)
Other nonoperating income (expenses)	(17,121)	**(13,230)**	3,891	22.7%
Nonoperating revenues, net	$ 15,428	**$ 21,528**	$ 6,100	39.5%

	FY 2016	FY 2017	From 2016 to 2017 Increase (Decrease)	% Change
Passenger facility charges	$ 40,258	$ 42,200	$ 1,942	4.8%
Customer facility charges	33,208	36,528	3,320	10.0%
Quieter Home Program, net	(3,698)	(785)	2,913	78.8%
Joint studies program	(101)	-	101	100.0%
Interest income	5,999	8,134	2,135	35.6%
Interest expense, net	(45,979)	(53,528)	(7,549)	(16.4%)
Other nonoperating income (expenses)	2,246	(17,121)	(19,367)	(862.3%)
Nonoperating revenues, net	$ 31,933	$ 15,428	$ (16,505)	(51.7%)

Passenger Facility Charges (PFCs) were established by Congress in 1990 as part of the Aviation Safety and Capacity Expansion Act of 1990. The Airport Authority collects a $4.50 PFC from revenue enplaned passengers to pay for the cost to design and construct eligible Airport capital projects or to repay debt service issued to build such projects. PFCs are collected by the air carriers when passengers purchase their tickets and are remitted to the Airport Authority the month following collection less a $0.11 administration fee.

Customer Facility Charges (CFCs) are authorized under Section 1936 of the California Civil Code and approved by legislation under Senate Bill 1510. The revenues collected have been used to plan and construct a consolidated rental car facility and related ground transportation system. The rental car agencies remit to the Airport Authority collection of the fee monthly. In January 2017, the fee was increased from $7.50 to $9.00 per day, up to five days for rental car transactions. This fee applies to transactions that originated at the RCC. For car rental transactions of non-RCC tenants, the CFC rate was increased from $2.17 to $2.42 per day, up to five days for rental car transactions.

Quieter Home Program includes sound attenuation construction improvements at all eligible single-family and multifamily dwellings with six or fewer units located in the Year 2000 65 dB Community Noise Equivalent Level contour. The project is eligible for the Airport Improvement Program (AIP). From inception through the end of fiscal year 2018, the Airport Authority has spent $201.5 million and received reimbursement for $162.2 million.

Interest income is derived from interest earned by the Airport Authority on investments and notes receivable from the District.

Interest expense includes interest paid and accrued on the Bonds, Variable Debt, and Lease Interest. This is netted with the capitalization of bond interest to the construction in progress assets that the bond and variable debt finances. The capitalized interest in fiscal years ended June 30, 2018 and 2017 was $7.2 million and $4.8 million, respectively. The bond premium amortization from all four bond series is also netted with interest expense. The 2010 Series C Bonds were issued as Build America Bonds and, as such, the Airport Authority receives a cash subsidy from the U.S. Treasury equal to 32.7 percent of the interest payable. The interest subsidy for the fiscal years ended June 30, 2018 and 2017 was $4.7 million.

Other nonoperating income (expense) includes proceeds and expenses for legal settlements, gain (loss) on the sale of assets, unrealized gain (loss) on investments, and other miscellaneous revenue and expenses.

Fiscal year 2018 compared to 2017: Nonoperating revenues (net) increased by $6.1 million or 39.5 percent. Passenger facility charges increased by $4.8 million or 11.3 percent, due to a 10.7 percent increase in enplaned passengers. Customer facility charges increased by $4.5 million or 12.3 percent, due to a corresponding increase in rental car transactions and a full year receiving the increased daily fee previously discussed. Interest income increased by $5.2 million or 64.4 percent, due to an increase in dollars invested from the Series 2017 bond issuance as well as improved market performance compared to fiscal year 2017. Other nonoperating expense increased by $3.9 million or 22.7 percent, primarily due to a loss on fixed asset disposal resulting from the new Parking Plaza.

The increase in nonoperating income was offset by a Quieter Home Program expenses (net) increase of $2.0 million or 250.1 percent, due to higher sound attenuation activity. Interest expense (net) was higher by $10.2 million or 19.1 percent, due to the SE 2017 bond issuance.

Fiscal year 2017 compared to 2016: Nonoperating revenues (net) decreased by $16.5 million or 51.7 percent. Passenger facility charges increased by $1.9 million or 4.8 percent, due to a 3.8 percent increase in enplaned passengers. Customer facility charges increased by $3.3 million or 10.0 percent, due to a corresponding increase in rental car transactions and increase in fee effective January 1, 2017. Quieter Home Program expenses (net) decreased by 2.9 million or 78.8 percent, due to lower sound attenuation activity. Interest income increased by $2.1 million or 35.6 percent, due to an increase in dollars invested as well as improved market performance compared to fiscal year 2016.

Offsetting the nonoperating income was a higher net interest expense of $7.5 million or 16.4 percent, due to lower capitalized interest. Other nonoperating expense increased by $19.4 million or 862.3 percent, primarily due to a loss on fixed asset disposal resulting from the new Federal Inspection Station project.

Capital Grant Contributions (in thousands)

			From 2017 to 2018	
	FY 2017	**FY 2018**	Increase (Decrease)	% Change
Federal grants	$ 1,904	**$ 13,328**	$ 11,424	600.0%

			From 2016 to 2017	
	FY 2016	FY 2017	Increase (Decrease)	% Change
Federal grants	$ 10,477	$ 1,904	$ (8,573)	(81.8%)

Capital Grant Contributions are comprised of Airport Improvement Project (AIP) entitlement and discretionary grants through the Federal Aviation Administration (FAA) and other Federal and state organizations. These funds are recognized as revenue as the work is completed on the eligible projects. In fiscal year 2018 capital grant contributions increased by $11.4 million or 600.0 percent compared to fiscal year 2017. Additionally in fiscal year 2017, capital grant contributions decreased by $8.6 million or 81.8 percent, compared to fiscal year 2016. This was due to the completion of the Runway 9 displaced threshold, Northside taxiway bypass, and storm drain trunk projects.

Variances from year to year relate to the amount of work completed on eligible projects during the fiscal year. In fiscal year 2018, the grant fund increase is primarily due to airfield projects.

Assets, Liabilities and Net Position (in thousands)

The statements of net position present the financial position of the Airport Authority as of a period in time. The statements include all assets, deferred outflows, liabilities, deferred inflows and net position of the Airport Authority. A summary comparison of the Airport Authority's assets, liabilities and net position at June 30, 2016, 2017 and 2018, is as follows:

	FY 2016	FY 2017	**FY 2018**
Assets and Deferred Outflows of Resources			
Current assets	$ 169,078	$ 191,307	**$ 223,610**
Capital assets, net	1,551,007	1,544,909	**1,704,141**
Noncurrent assets	491,362	494,040	**643,474**
Total assets	2,211,447	2,230,256	**2,571,225**
Deferred outflows of resources	4,260	20,246	**24,196**
Total assets and deferred outflows of resources	2,215,707	2,250,502	**2,595,421**
Liabilities and Deferred Inflows of Resources			
Current liabilities	103,136	104,422	**145,942**
Long-term liabilities	1,334,816	1,361,090	**1,635,326**
Total liabilities	1,437,952	1,465,512	**1,781,268**
Deferred inflows of resources	1,807	1,815	**4,228**
Total liabilities and deferred inflows of resources	1,439,759	1,467,327	**1,785,496**
Net Position			
Net investment in capital assets	310,339	263,952	**281,703**
Restricted	214,533	225,088	**244,188**
Unrestricted	251,076	294,133	**284,034**
Total net position	$ 775,948	$ 783,173	**$ 809,925**

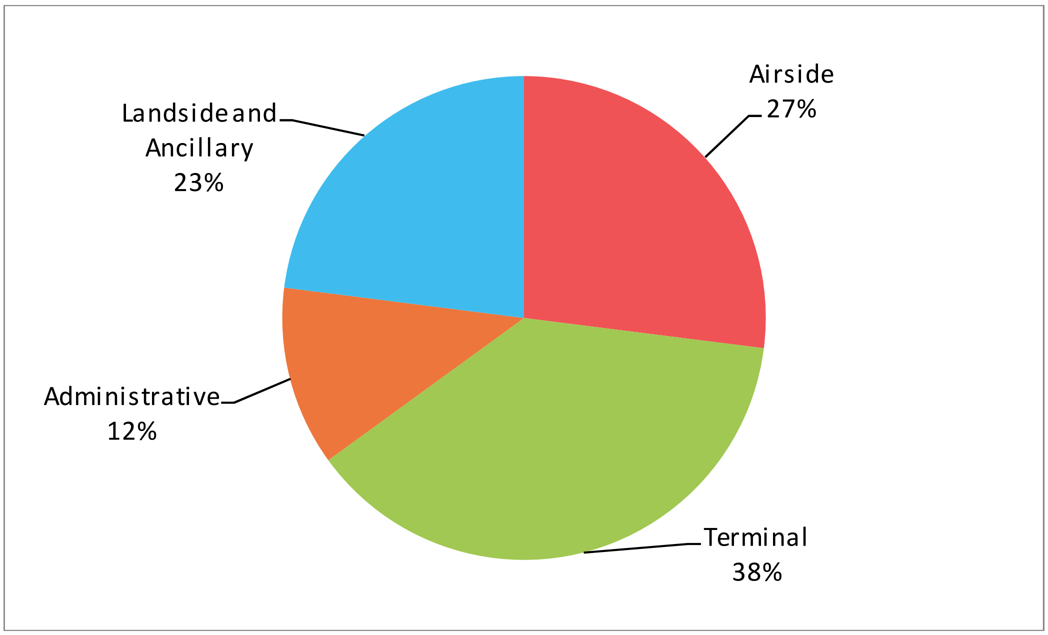
As of June 30, 2018, the Airport Authority's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $809.9 million. This reflects a $26.8 million increase in net position from June 30, 2017. The Airport Authority uses the capital assets to provide services to its passengers and other users of SDIA; consequently, these assets cannot be sold or otherwise liquidated. Although the Airport Authority's investment in its capital assets is reported net of related debt, it is noted that the funds required to repay this debt must be provided annually from operations. The unrestricted net position of $284 million as of June 30, 2018, may be used to meet any of the Airport Authority's ongoing obligations. As of June 30, 2018, 2017 and 2016, management has designated unrestricted funds in the amount of $39.3 million, $25.8 million, and $31.3 million, respectively, for capital contract commitments funded by Airport Authority cash, earthquake insurance and operating contingency.

Capital Program

The Capital Program is a rolling five-year program that provides critical improvements and asset additions. The program includes capital projects that address federal security requirements, airfield security, environmental remediation, terminal upgrades and development. Funding sources for the projects include the Federal Aviation Administration's Airport Improvement Program, Transportation Security Agency grants, Passenger Facility Charges, Customer Facility Charges, airport operating revenues, airport revenue bonds, special facility bonds, and short-term borrowing using commercial paper/revolving lines of credit.

The current Capital Program, which includes projects through 2023, consists of $300.7 million for airside projects, $258.9 million for landside and ancillary projects, $415.9 million for terminal projects, and $127.8 million for administrative projects.

Capital Program Projects by Type



Additional information of the Airport Authority's capital assets can be found in *Note 4* to the financial statements.

Capital Financing and Debt Management

On October 5, 2010, the Airport Authority issued $572.6 million of Subordinate Airport Revenue Bonds Series 2010 A, B and C (Series 2010 Bonds). The bonds are rated A/A2/A by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively. The Subordinate Series 2010 Bonds were issued to finance certain capital improvements at SDIA, fund a portion of the interest accruing on the Subordinate Series 2010 Bonds, refund $142.2 million of the Airport Authority's outstanding commercial paper notes, fund the subordinate bond reserve fund and pay the costs of issuance of the Subordinate Series 2010 Bonds.

The Series 2010 A and B bonds were structured as serial and term bonds that bear interest at rates ranging from 2.00 percent to 5.00 percent and mature in fiscal years 2012 to 2041. The Series 2010 C Bonds were issued as Build America Bonds and include a cash subsidy payment from the U.S. Treasury; currently, 32.69 percent of interest payable. The interest rate on the Series 2010 C Bonds, net of subsidy, is 4.46 percent and the bonds mature in fiscal year 2041.

The Subordinate Series 2010 Bonds are special obligations of the Airport Authority, payable from and secured by (a) a pledge of subordinate net revenues, which include certain income and revenue received by the Airport Authority from the operation of the airport system, less all amounts that are required to pay the operation and maintenance expenses of the airport system and all amounts necessary to pay debt service on and fund the reserves for the senior bonds; and (b) certain funds and accounts held by the subordinate trustee under the subordinate indenture. The Subordinate Series 2010 Bonds were issued with a pledge of and lien on subordinate net revenues on parity with the Airport Authority's subordinate commercial paper notes. As of June 30, 2018, the principal balance on the subordinate Series 2010 Bonds was $537.0 million.

On January 30, 2013, the Airport Authority issued $379.6 million of Senior Airport Revenue Bonds Series 2013 A and B (Series 2013 Bonds). The Series 2013 Bonds are rated A+/A1/A+ by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively. The Senior Series 2013 Bonds were issued to finance certain capital improvements at SDIA, fund a portion of the interest accrued on the senior Series 2013 Bonds, fund the senior reserve fund, and pay the costs of issuance of the Senior Series 2013 Bonds.

The Series 2013 Bonds were structured as serial and term bonds that bear interest at rates ranging from 3.00 percent to 5.00 percent and mature in fiscal years 2016 to 2044. The bonds were issued at a premium of $55.9 million, which is being amortized over the life of the bonds. Interest on the Senior Series 2013 Bonds is payable semiannually on January 1 and July 1 of each year. Interest expense for the fiscal year ended June 30, 2018, amounted to $18.26 million, including accrued interest of $9.48 million. The principal balance on the Series 2013 Bonds as of June 30, 2018 was $373.3 million.

The Senior Series 2013 Bonds are special obligations of the Airport Authority, payable solely from and secured by (a) a pledge of net revenues, which include certain income and revenue received by the Airport Authority from the operation of the airport system, less all amounts that are required to pay the operation and maintenance expenses of the airport system (b) certain funds and accounts held by the senior trustee under the senior indenture.

As senior lien bonds, the Series 2013 Bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 125 percent times the senior debt service for that year. In addition, the Series 2013 Bonds require the Airport Authority to maintain a reserve account with the bond trustee and to reserve certain amounts in the Airport Authority's books, as shown in *Note 2*.

On February 19, 2014, the Airport Authority issued $305,285,000 of Series A and B Senior Special Facilities Revenue Bonds (Series 2014 Bonds). The Series 2014 Bonds were issued to finance a portion of the costs of the development and construction of a consolidated rental car facility and related improvements at SDIA, fund a portion of the interest on the Series 2014 Bonds, fund deposits to the senior reserve fund, the rolling coverage fund and pay the costs of issuance of the Series 2014 Bonds.

The Series 2014 A Bonds were structured as tax-exempt non-AMT term bonds that bear interest at 5.00 percent. The Series 2014 B Bonds were structured as federally taxable bonds that bear interest at rates ranging from 2.54 percent to 5.59 percent and mature in fiscal years 2019 to 2045. As of June 30, 2018, the principal balance on the Series 2014 Bonds was $305.3 million.

The Series 2014 Bonds are special limited obligations of the Airport Authority, payable solely from and secured by a pledge of the Trust Estate, which includes, among other things, Customer Facility Charges collected from the rental car companies operating at the Airport and remitted to the Trustee. No revenues of the Airport Authority other than the Customer Facility Charges and the Bond Funding Supplemental Consideration (as defined in the Indenture), are pledged to the payment of the Series 2014 Bonds.

On August 3, 2017, the Airport Authority issued $291,210,000 of Series A and B Subordinate Airport Revenue Bonds (Series 2017 Bonds). The Series 2017 Bonds were issued to finance certain capital improvements at SDIA including the Parking Plaza and the FIS facility, fund a portion of the interest accruing on the subordinate Series 2017 Bonds, refund $32,550,000 of the Airport Authority's outstanding variable rate debt, which was issued during 2017, fund the subordinate reserve fund and pay the costs of issuance of the subordinate Series 2017 Bonds. The Series 2017 Bonds are structured as serial and term bonds that bear interest at rates ranging from 4.00 percent to 5.00 percent and mature in fiscal years 2019 to 2048. The bonds were issued at a premium of $48,423,688, which is being amortized over the life of the bonds. Interest on the senior Series 2017 Bonds is payable semiannually on January 1 and July 1, of each year. Interest expense for the fiscal year ended June 30, 2018, amounted to $13.2 million, including accrued interest of $7.27 million. As of June 30, 2018, the principal balance on the Series 2017 was $291.2 million.

On September 5, 2014, the Airport Authority replaced its commercial paper program with a $125,000,000 Revolving Line of Credit, issued by US Bank, which was used to refund the outstanding Series B and Series C commercial paper balances. The revolving line of credit is a three year agreement that was extended through June 29, 2020. As of June 30, 2018, the Airport Authority's outstanding debt under this agreement consists of $14.8 million of Series B (AMT) and $5.4 million Series C (taxable).

The revolving line of credit is payable solely from and secured by a pledge of subordinate net revenues. Subordinate net revenues are generally defined as all revenues and other cash receipts of the Airport Authority's airport operations remaining after Senior Lien payments have been deposited by the Trustee in accordance with the Senior Lien Trust Indenture.

Additional information of the Airport Authority's long-term debt can be found in *Note 5* to the financial statements.

The SDIA's PFC program was established in 1994, and currently authorizes the imposition of a $4.50 fee on enplaning passengers. There are currently four active applications which provide authority to impose and use PFC revenue through November 1, 2037.

FAA entitlement and discretionary grants are awarded on a federal fiscal year running October 1 through September 30. The Airport Authority has received approximately $25.4 million in grant awards for the federal fiscal year ended September 30, 2018, as compared to $24.7 million for 2017. Grant awards are recognized as nonoperating revenue or capital contributions as eligible expenses are incurred.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Airport Authority's finances. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the Accounting Department, P.O. Box 82776, San Diego, CA 92138. The Accounting Department can also be reached at (619) 400-2807. A copy of the financial report is available at www.san.org.

Statements of Net Position
June 30, 2018 and 2017

Assets and Deferred Outflows of Resources	**2018**	2017
Current Assets		
Unrestricted:		
Cash and cash equivalents (*Note 2*)	**$ 7,243,688**	$ 10,743,557
Investments (*Notes 2 and 11*)	**85,690,254**	97,353,685
Tenant lease receivables, net	**10,837,699**	9,321,940
Grants receivable	**10,955,228**	3,354,396
Note receivable, current portion (*Note 3*)	**1,903,323**	1,801,694
Other current assets	**7,329,052**	4,433,986
Total unrestricted current assets	**123,959,244**	127,009,258
Restricted cash, cash equivalents and investments with trustees (*Notes 2 and 5*)	**99,650,564**	64,297,770
Total current assets	**223,609,808**	191,307,028
Noncurrent Assets		
Restricted assets (*Notes 2 and 5*):		
Restricted cash, cash equivalents and investments not with trustees	**191,304,621**	175,907,551
Restricted investments with trustees	**228,598,834**	97,763,717
Passenger facility charges receivable (*Note 1*)	**6,635,273**	6,155,618
Customer facility charges receivable (*Note 1*)	**4,097,757**	3,717,575
Other restricted assets	**5,310,167**	2,791,385
Total restricted assets	**435,946,652**	286,335,846
Other noncurrent assets:		
Investments, noncurrent (*Note 2*)	**136,796,912**	148,319,754
Note receivable, long-term portion (*Note 3*)	**31,338,762**	33,242,085
Cash and cash equivalents designated for specific capital projects and other commitments (*Notes 2 and 11*)	**39,294,169**	25,792,246
Net OPEB asset (*Note 9*)	**97,418**	-
Other noncurrent assets	**-**	349,943
Total other noncurrent assets	**207,527,261**	207,704,028
Capital assets (*Note 4*):		
Land, land improvements and nondepreciable assets	**135,086,591**	111,041,142
Buildings and structures	**1,692,102,858**	1,431,417,373
Machinery and equipment	**112,464,061**	98,289,644
Runways, roads and parking lots	**646,939,284**	626,871,756
Construction in progress	**110,520,198**	171,498,031
	2,697,112,992	2,439,117,946
Less accumulated depreciation	**(992,971,931)**	(894,209,246)
Capital assets, net	**1,704,141,061**	1,544,908,700
Total noncurrent assets	**2,347,614,974**	2,038,948,574
Total assets	**2,571,224,782**	2,230,255,602
Deferred pension outflows *(Notes 6 and 7)*	**23,113,159**	20,245,534
Deferred OPEB outflows *(Note 9)*	**1,082,904**	-
Total deferred outflows of resources	**24,196,063**	20,245,534
Total assets and deferred outflows of resources	**$ 2,595,420,845**	$ 2,250,501,136

See Notes to Financial Statements.

Statements of Net Position, Continued
June 30, 2018 and 2017

Liabilities, Deferred Inflows of Resources and Net Position	**2018**	2017
Current Liabilities		
Payable from unrestricted assets:		
Accounts payable	**$ 2,589,715**	$ 7,195,303
Accrued liabilities	**28,508,254**	20,756,128
Compensated absences, current portion (*Note 5*)	**3,093,379**	3,217,748
Other current liabilities	**11,777,067**	8,656,783
Long-term debt, current portion (*Note 5*)	**323,514**	298,449
Total payable from unrestricted assets	**46,291,929**	40,124,411
Payable from restricted assets:		
Accounts payable	**51,585**	1,135,312
Accrued liabilities	**37,247,974**	18,873,753
Long-term debt, current portion (*Note 5*)	**22,650,000**	11,585,000
Accrued interest on bonds and commercial paper (*Note 5*)	**39,701,005**	32,703,705
Total payable from restricted assets	**99,650,564**	64,297,770
Total current liabilities	**145,942,493**	104,422,181
Long-Term Liabilities		
Compensated absences, net of current portion (*Note 5*)	**183,209**	13,278
Other noncurrent liabilities	**626,423**	806,360
Long-term debt, net of current portion (*Note 5*)	**1,614,294,048**	1,342,159,363
Net pension liability (*Notes 6 and 7*)	**20,222,458**	18,111,482
Total long-term liabilities	**1,635,326,138**	1,361,090,483
Total liabilities	**1,781,268,631**	1,465,512,664
Deferred inflows of resources		
Deferred pension inflows *(Notes 6 and 7)*	**3,685,838**	1,815,440
Deferred OPEB inflows *(Note 9)*	**541,669**	-
Total deferred inflows of resources	**4,227,507**	1,815,440
Total liabilities and deferred inflows of resources	**1,785,496,138**	1,467,328,104
Net Position		
Net investment in capital assets (*Note 1*)	**281,703,129**	263,951,847
Restricted:		
Debt Service	**84,852,323**	83,274,140
Construction	**135,691,506**	121,177,898
OPEB	**97,418**	-
Operation and maintenance expenses	**14,236,540**	13,844,912
Small business bond guarantee	**4,000,000**	4,000,000
OCIP loss reserve	**5,310,166**	2,791,385
Total restricted net position	**244,187,953**	225,088,335
Unrestricted net position	**284,033,625**	294,132,850
Total net position	**$ 809,924,707**	$ 783,173,032

See Notes to Financial Statements.

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2018 and 2017

	2018	2017
Operating revenues:		
Airline revenue:		
Landing fees	$ 23,900,414	$ 24,612,412
Aircraft parking fees	3,235,788	2,926,972
Building rentals (*Note 12*)	62,241,252	56,574,914
Security surcharge	32,303,267	29,468,089
Other aviation revenue	1,476,479	2,799,070
Concession revenue	65,609,858	61,255,811
Parking and ground transportation revenue	53,254,030	49,407,235
Ground and non-airlilne terminal rentals (*Note 12*)	22,108,637	20,053,031
Other operating revenue	1,700,548	1,749,405
Total operating revenues	265,830,273	248,846,939
Operating expenses:		
Salaries and benefits (*Notes 6, 7 and 8*)	47,865,727	46,873,862
Contractual services (*Note 14*)	45,248,939	44,372,149
Safety and security	30,733,076	28,421,603
Space rental (*Note 13*)	10,189,836	10,189,944
Utilities	12,509,607	10,735,957
Maintenance	12,602,987	14,269,953
Equipment and systems	597,859	506,154
Materials and supplies	655,698	610,787
Insurance	1,097,868	956,358
Employee development and support	1,248,355	1,347,007
Business development	3,245,967	2,347,199
Equipment rentals and repairs	3,124,471	3,094,559
Total operating expenses before depreciation	169,120,390	163,725,532
Income from operations before depreciation	96,709,883	85,121,407
Depreciation expense	105,531,703	95,229,026
Operating loss	(8,821,820)	(10,107,619)

(Continued)

See Notes to Financial Statements.

Statements of Revenues, Expenses and Change in Net Position, Continued
Years Ended June 30, 2018 and 2017

	2018	2017
Nonoperating revenues (expenses):		
Passenger facility charges	$ 46,952,755	$ 42,199,763
Customer facility charges	41,036,526	36,527,853
Quieter Home Program grant revenue (*Note 1*)	8,389,249	1,413,999
Quieter Home Program expenses (*Note 1*)	(11,135,808)	(2,198,744)
Joint Studies Program	(114,387)	-
Interest income	13,374,227	8,133,765
Interest expense (*Note 5*)	(68,411,379)	(58,178,865)
Build America Bonds subsidy (*Note 5*)	4,666,190	4,651,203
Other revenues (expenses), net	(13,229,154)	(17,120,558)
Nonoperating revenue, net	21,528,219	15,428,416
Income before federal grants	12,706,399	5,320,797
Federal grants (*Note 1*)	13,328,021	1,903,686
Change in net position	26,034,420	7,224,483
Net position, as previously reported	783,173,032	775,948,549
Adjustment for adoption of GASB 75	717,255	
Net position, beginning of year, as restated	783,890,287	
Net position, end of year	$ 809,924,707	$ 783,173,032

See Notes to Financial Statements.

Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows From Operating Activities		
Receipts from customers	$ 267,462,006	$ 247,823,092
Payments to suppliers	(164,900,528)	(122,079,920)
Payments to employees	(49,265,624)	(49,487,337)
Other receipts	2,043,904	1,793,123
Net cash provided by operating activities	55,339,758	78,048,958
Cash Flows From Noncapital Financing Activities		
Settlement receipts (payments)	(3,779,457)	(2,350,067)
Quieter Home Program grant receipts	5,424,925	1,413,999
Quieter Home Program payments	(11,135,808)	(2,198,744)
Joint Studies Program payments	(114,387)	-
Net cash used in noncapital financing activities	(9,604,727)	(3,134,812)
Cash Flows From Capital and Related Financing Activities		
Capital outlay	(212,327,613)	(97,053,113)
Proceeds on Build America Bonds subsidy	4,666,190	4,651,203
Proceeds from variable rate debt	-	32,550,000
Payment of variable rate debt	(38,835,000)	-
Federal grants received (excluding Quieter Home Program)	8,691,513	6,172,709
Proceeds from passenger facility charges	46,473,100	40,541,802
Proceeds from customer facility charges	40,656,344	35,779,198
Payment of principal on bonds	(11,585,000)	(17,223,000)
Proceeds from issuance of Series 2017 Bonds	339,633,688	-
Payment of capital lease	(298,449)	(275,421)
Interest and debt fees paid	(67,174,633)	(62,605,537)
Net cash provided by (used in) capital and related financing activities	109,900,140	(57,462,159)
Cash Flows From Investing Activities		
Sales and maturities of investments	467,359,490	106,870,324
Purchases of investments	(625,758,198)	(144,732,956)
Interest received on investments and note receivable	10,963,897	7,726,057
Principal payments received on notes receivable	1,801,694	1,705,491
Net cash used in investing activities	(145,633,117)	(28,431,084)
Net increase (decrease) in cash and cash equivalents	10,002,054	(10,979,097)
Cash and cash equivalents, beginning of year	36,535,803	47,514,900
Cash and cash equivalents, end of year	$ 46,537,857	$ 36,535,803

See Notes to Financial Statements.

Statements of Cash Flows, Continued
Years Ended June 30, 2018 and 2017

	2018	2017
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Unrestricted cash and cash equivalents	**$ 7,243,688**	$ 10,743,557
Cash and cash equivalents designated for specific capital projects and other commitments	**39,294,169**	25,792,246
Total cash and cash equivalents	**$ 46,537,857**	$ 36,535,803
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	**$ (8,821,820)**	$ (10,107,619)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense	**105,531,703**	95,229,030
Change in pensions/OPEB liability/asset	**718,394**	16,438,743
Change in deferred outflow s related to pensions/OPEB	**(1,938,110)**	(15,984,887)
Change in deferred inflow s related to pensions/OPEB	**2,412,067**	-
Changes in assets and liabilities:		
Tenant lease receivables	**(1,515,759)**	(793,124)
Other assets	**(3,003,518)**	(391,094)
Accounts payable	**(49,176,177)**	(2,448,171)
Accrued liabilities	**8,102,069**	(3,807,485)
Compensated absences	**45,562**	(131,087)
Other liabilities	**2,985,347**	44,652
Net cash provided by operating activities	**$ 55,339,758**	$ 78,048,958
Supplemental Disclosure of Noncash Investing, Capital and Financing Activities		
Additions to capital assets included in accounts payable	**$ 37,299,559**	$ 20,009,065

See Notes to Financial Statements.

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Reporting entity: The San Diego County Regional Airport Authority (the Airport Authority), an autonomous public agency, was established in accordance with, Assembly Bill 93 (2001), as modified by Senate Bill 1896 (2002), which together comprise the San Diego County Regional Airport Authority Act (the Act). The Act required, among other things, the transfer of the assets and operations of the San Diego International Airport (SDIA) from the San Diego Unified Port District (the District) to the Airport Authority. Effective January 1, 2003 (inception), the District transferred all airport operations and certain related assets and liabilities to the Airport Authority, pursuant to the Act and the Memorandum of Understanding (MOU) dated as of December 31, 2002, between the Airport Authority and the District, which implemented the Act.

Senate Bill 10 (SB 10), the San Diego County Regional Airport Authority Reform Act, was effective January 1, 2008. Responsibilities of the Airport Authority include, among other things, the operation, maintenance, development, management and regulation of SDIA and its facilities. In addition, the Airport Authority has the responsibility to plan or to expand the existing SDIA. Under one of the requirements of SB 10, the Airport Authority completed a Regional Aviation Strategic Plan and the Airport Authority prepared and adopted an Airport Multimodal Accessibility Plan. In addition, the Airport Authority acts as the Airport Land Use Commission within San Diego County.

In accordance with the Codification of Governmental Accounting and Financial Reporting Standards, the basic financial statements should include all organizations, agencies, boards, commissions and authorities for which the Airport Authority is financially accountable. The Airport Authority has also considered all other potential organizations for which the nature and significance of their relationships with the Airport Authority are such that exclusion would cause the Airport Authority's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. Based on these criteria, there are no other organizations or agencies which should be included in these basic financial statements.

The Airport Authority is governed by a nine-member, appointed Board of Directors (Board), representing all areas of San Diego County and three additional members serving as non-voting, ex-officio Board members. Three Board members are appointed by the Mayor of the City of San Diego (the City). Two Board members are appointed by the San Diego County Board of Supervisors. The remaining four Board members are each appointed by the Mayors of the following defined jurisdictions: the east county cities, south county cities, north coastal area cities and north county inland cities. The Board members serve three year terms in accordance with California SB 10.

Measurement focus and basis of accounting: The accounting policies of the Airport Authority conform to accounting principles generally accepted in the United States of America applicable to state and local government agencies, and as such, the Airport Authority is accounted for as a proprietary fund. The basic financial statements presented are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This measurement focus emphasizes the determination of the change in Airport Authority net position.

Use of estimates: The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, as well as the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents: For purposes of the statements of cash flows, cash and cash equivalents includes unrestricted (including designated) cash on hand, demand deposits, and investment securities with original maturities of three months or less from the date of acquisition.

Investments: Investments in the state and county investment pools are recorded at fair value based upon the Airport Authority's pro rata share of the fair value provided by the state and county investment pools for the entire respective pool. All other investments are stated at market value based on quoted market prices.

Tenant lease receivables: Tenant lease receivables are carried at the original invoice amount for fixed-rent tenants and at estimated invoice amount for concession (variable) tenants, less an estimate made for doubtful receivables for both fixed-rent and concession tenants. Management determines the allowance for doubtful accounts by evaluating individual tenant receivables and considering a tenant's financial condition and credit history and current economic conditions. Tenant lease receivables are written off when deemed uncollectible. Recoveries of tenant lease receivables previously written off are recorded when received.

Federal grants: Outlays for airport capital improvements and certain airport nonoperating expenses, primarily those relating to the Airport Authority's Quieter Home Program, are subject to reimbursement from federal grant programs. Funding provided from government grants is considered earned as the related approved capital outlays or expenses are incurred. Costs claimed for reimbursement are subject to audit and acceptance by the granting agency.

Airport Improvement Program (AIP): AIP grants are authorized and disbursed by the FAA under the Airway Improvement Act of 1982, as amended, which provides funding for airport planning and development projects at airports included in the National Plan of Integrated Airport Systems. As such, the AIP grants must be used to pay for the allowable costs of approved projects. As of June 30, 2018 and 2017, the Airport Authority recovered $13,079,164 and $1,903,686, respectively, for approved capital projects and $8,389,249 and $1,413,999, respectively, for the Quieter Home Program. Related recoverable costs as of June 30, 2018 and 2017, were $17,438,885 and $2,538,248, respectively, for capital projects and $10,486,561 and $1,767,499, respectively, for the Quieter Home Program.

Passenger facility charges (PFC): The PFC program is authorized by the Aviation Safety and Capacity Expansion Act of 1990 (the Expansion Act). In accordance with the Expansion Act, the Airport Authority's AIP Passenger Entitlement Apportionment is reduced by certain percentages, dependent upon the level of PFC received by the Airport Authority.

In accordance with the program, PFC revenue must be used to pay allowable costs for approved capital projects. As of June 30, 2018 and 2017, accrued PFC receivables totaled $6,635,273 and $6,155,618, respectively, and there were $80,297,022 and $73,311,497 PFC amounts collected but not yet applied for approved capital projects as of June 30, 2018 and 2017, respectively.

On May 20, 2003, the FAA approved an increase in the Airport Authority's PFC charge per enplaned passenger from $3.00 to $4.50, beginning August 1, 2003. Currently, there are four active applications that allow the Airport Authority to impose and use $1.2 billion in PFC revenue through November 1, 2037. The Airport Authority has formally closed five previously approved applications and withdrawn one pending application which has been integrated in a ninth application to impose and use approximately $32 million in PFC revenue. The latest application was approved by the FAA in October 2016 providing collection authority with a charge effective date through November 2037. In accordance with the Aviation Investment Reform Act (AIR-21), airports imposing a $4.50 collection level are required to reduce AIP Passenger Entitlement Apportionment to 75 percent.

Customer facility charges (CFC): The Airport Authority received approval in May 2009 from the State of California under Section 1936 of the California Civil Code to impose a $10.00 CFC per contract on rental cars at SDIA.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

In accordance with the program, the CFC revenue must be used to pay allowable costs for approved capital projects. Effective January 1, 2017, the CFC rate went from $7.50 to $9.00 per day for a maximum of five days. As of June 30, 2018 and 2017, accrued CFC receivables totaled $4,097,757 and $3,717,575, respectively. CFC amounts collected, including interest, but not yet applied for approved capital projects as of June 30, 2018 and 2017, were $44,661,454 and $37,830,593 respectively.

Deferred Outflows/Inflows of Resources: In addition to assets and liabilities, the statement of net position may report a separate section for deferred outflows of resources and deferred inflows of resources, respectively. These separate financial statement elements represent the consumption or addition to net position that applies to a future reporting period(s) and as such will not be recognized as flows of resources (expenses/revenues) until then.

- Employer Contributions – Pensions and OPEB– These contributions are those made after the measurement date through the fiscal year end (July 1st – June 30th) resulting in a cash outlay not yet recognized under GASB 68 or GASB 75. This amount is deferred and recognized in the following fiscal year. This item is presented as a deferred outflow of resources.

- Investment difference – Pensions and OPEB – These amounts represent the difference in projected and actual earnings on pension/OPEB plan assets. These differences are deferred and amortized over a closed five-year period. This item can be presented as both a deferred outflow and deferred inflow of resources and is combined annually as a single net unamortized balance.

- Experience difference – Pensions and OPEB – These amounts represent the difference in expected and actual pension/OPEB experience. These differences are deferred and recognized over the estimated average remaining lives of all members determined as of the beginning of the measurement period. This item can be presented as both a deferred outflow and deferred inflow of resources but may not be shown net if there are unamortized balances for categories.

- Assumption changes – Pensions and OPEB – These amounts represent the difference resulting from a change in assumptions used to measure the underlying net pension/OPEB liability/asset. These differences are deferred and recognized over the estimated average remaining lives of all members determined as of the beginning of the measurement period. This item can be presented as both a deferred outflow and deferred inflow of resources but may not be shown net if there are unamortized balances for categories.

Capital assets: Capital assets are recorded at cost, except for capital assets contributed by third parties, which are recorded at acquisition value as of the date of acquisition. The Airport Authority capitalizes incremental overhead costs and interest cost associated with the construction of capital assets. Capital assets are defined by the Airport Authority as assets with an initial, individual cost of more than $5,000 and an initial useful life of one year or greater.

The Airport Authority recognizes lessee-financed improvements as capital assets based upon the asset’s estimated value at the time the asset reverts to the Airport Authority.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Depreciation is computed by use of the straight-line method over the following estimated useful lives:

Asset Category	Useful Life (Years)
Land improvements	30-40
Runways, roadways and parking lots	
Lighting, security, and minor improvements	3-10
Airfield and parking lots and improvements	12-25
Drainage systems, gas lines, and pedestrian bridges	30
Roadways, bridges, and infrastructure	40-50
Buildings and structures	
Passenger loading bridges, security systems, general upgrades, and remodels	3-10
Baggage handling systems, HVAC, structural improvements, fuel, and storage facility	12-20
Buildings and smart curb improvements	25-50
Machinery and equipment	
Vehicles and emergency vehicles	3-15
Office furniture and equipment	3-10
Communication and electronic systems	3-20
Works of art	15-30

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are expensed as incurred. Major outlays for capital assets and improvements are capitalized as construction in progress as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. For the fiscal years ended June 30, 2018 and 2017, the Airport Authority capitalized interest of $7,218,861 and $4,774,693, respectively.

Capital asset impairment: The Airport Authority's capital assets include property, equipment and infrastructure assets. A capital asset is considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstances is outside the normal life cycle of the capital asset. The Airport Authority evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Common indicators of impairment include evidence of physical damage where restoration efforts are needed to restore service utility, enactment or approval of laws or regulations setting standards that the capital asset would not be able to meet, technological development or evidence of obsolescence, a change in the manner or expected duration of use of a capital asset or construction stoppage. The Airport Authority reports the effects of capital asset impairments in its financial statements when they occur and accounts for insurance recoveries in the same manner. The Airport Authority's management has determined that no impairments of capital assets currently exist.

Retentions payable: The Airport Authority enters into construction contracts that may include retention provisions such that a certain percentage of the contract amount is held for payment until completion of the contract and acceptance by the Airport Authority. The Airport Authority's policy is to record the retention payable only after completion of the work and acceptance of the contractor invoices have occurred. Retentions payable on completed contracts are included with accounts payable on the accompanying statements of net position. Amounts related to unpaid retentions on uncompleted contracts are included in accrued liabilities.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Compensated absences: All employees of the Airport Authority earn annual leave that is paid upon termination or retirement. Annual leave is accrued at current rates of compensation and based on assumptions concerning the probability that certain employees will become eligible to receive these benefits in the future.

Bond discounts, premiums, and issuance costs: Bond discounts and premiums are deferred and amortized over the term of the respective bonds using the effective interest method. Bond issuance costs are expensed as incurred.

Airport Authority net position: Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net investment in capital assets excludes unspent debt proceeds.

Restricted net position represents amounts that are appropriated or legally segregated for a specific purpose. The Airport Authority's net position is reported as restricted when there are limitations imposed on its use, either through the enabling legislation adopted by the Airport Authority or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Unrestricted net position as of June 30, 2018 and 2017 includes designations of net position that represent tentative management plans that are subject to change, consisting of:

	2018	2017
Operating contingency	$ 2,000,000	$ 2,000,000
Insurance contingency	10,249,962	9,531,966
Capital projects and other commitments	27,044,207	14,260,280
Total designated net position	$ 39,294,169	$ 25,792,246

When both restricted and unrestricted resources are available for use, it is the Airport Authority's policy to use restricted resources first and then unrestricted resources as they are needed.

Revenue and expense recognition: Revenues from airlines, concessionaires, lessees and parking are reported as operating revenues. Operating expenses include the cost of administering the airport system, including depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions and grants.

Concentrations: A significant portion of the Airport Authority's earnings and revenues are directly or indirectly attributed to the activity of a number of major airlines. The Airport Authority's earnings and revenues could be materially and adversely affected should any of these major airlines discontinue operations and should the Airport Authority be unable to replace those airlines with similar activity. The level of operations is determined based upon the relative share of enplaned passengers.

The five largest airlines in terms of enplaned passengers are as follows:

	2018	2017
Southwest Airlines	38.0%	37.4%
Alaska	13.4%	8.7%
American Airlines	12.8%	12.6%
United Airlines	12.7%	11.9%
Delta	10.6%	10.3%

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Defined Benefit Pension Plan: The Airport Authority has a single-employer defined benefit pension plan (Plan) administered through San Diego City Employee Retirement System (SDCERS). For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Accounting pronouncements adopted: The Airport Authority has adopted and implemented the following GASB statements during the year ended June 30, 2018:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), effective for the Airport Authority's year ended June 30, 2018.
- GASB Statement No. 85, *Omnibus 2017*, effective for the Airport Authority's year ended June 30, 2018.
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, effective for the Airport Authority's year ending June 30, 2018

The implementation of Statement No. 75 resulted in a restatement of beginning net position as of July 1, 2017, which is the beginning of the earliest period restated. Restatement of beginning net position of the prior period presented was not practical as prior actuary reports were issued in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This restatement reclassified amounts previously expensed as salaries and benefits to deferred outflow of resources, and recognized the net OPEB liability as of July 1, 2017. Adjustments to beginning net position for the adoption of this statement follow:

Deferred OPEB contributions	$ 2,012,419
Net OPEB liability	(1,295,164)
Net position, July 1, 2017	(717,255)

Accounting pronouncements issued but not yet adopted: GASB has issued several pronouncements that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the Airport Authority:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, effective for the Airport Authority's year ending June 30, 2019
- GASB Statement No. 84, *Fiduciary Activities*, effective for the Airport Authority's year ending June 30, 2020
- GASB Statement No. 87, *Leases*, effective for the Airport Authority's year ending June 30, 2021
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, effective for the Airport Authority's year ending June 30, 2019
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for the Airport Authority's year ending June 30, 2021

Reclassifications: Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 presentation. The reclassifications had no effect on the changes in net position.

Note 2. Cash, Cash Equivalents and Investments

Summary of Cash, cash equivalents, and investments: Cash, cash equivalents and investments are reported in the accompanying statements of net position as follows at June 30:

	2018	2017
Unrestricted and undesignated:		
Cash and cash equivalents	$ 7,243,688	$ 10,743,557
Current investments	85,690,254	97,353,685
Noncurrent investments	136,796,912	148,319,754
Total unrestricted and undesignated	229,730,854	256,416,996
Designated for specific capital projects and other commitments: cash and cash equivalents	39,294,169	25,792,246
Restricted:		
Current cash, cash equivalents and investments, with trustees	99,650,564	90,068,047
Noncurrent cash, cash equivalents and investments, not with trustees	191,304,621	175,907,551
Noncurrent investments, with trustees	228,598,834	71,993,440
Total restricted cash, cash equivalents and investments	519,554,019	337,969,038
Total cash, cash equivalents and investments	$ 788,579,042	$ 620,178,280

The components of restricted cash, cash equivalents and investmants at June 30 are summarized below:

	2018	2017
Restricted cash, cash equivalents and investments:		
Bond reserves:		
Operation and maintenance reserve subaccount	$ 42,709,622	$ 41,534,736
Operation and maintenance subaccount	14,236,540	13,844,912
Renewal and replacement account	5,400,000	5,400,000
Total reserves	62,346,162	60,779,648
Passenger facility charges unapplied	80,297,022	73,311,497
Customer facility charges unapplied	44,661,454	37,830,593
Small business development bond guarantee	4,000,000	4,000,000
Revolving line of credit construction fund	-	162,616
2010 Series debt service reserve fund	51,974,951	51,512,762
2010 Series debt service account	25,312,063	25,001,407
2013 Series construction fund	2,323	1,720,948
2013 Series debt service reserve fund	33,573,756	33,322,247
2013 Series debt service account	11,430,643	11,338,002
2014 Series construction fund	1,969	37,044
2014 Series debt service reserve fund	22,347,589	22,180,178
2014 Series debt service account	13,781,497	8,153,925
2014 Series rolling coverage fund	6,769,427	6,718,716
2014 Series renew and replace	3,825,876	1,899,455
2017 Series construction fund	131,388,973	-
2017 Series debt service reserve fund	15,154,803	-
2017 Series debt service account	12,685,511	-
Total restricted cash, cash equivalents and investments	$ 519,554,019	$ 337,969,038

Note 2. Cash, Cash Equivalents, and Investments (Continued)

Investments authorized in accordance with California Government Code Section 53601 and under the provisions of the Airport Authority's investment policy: The table that follows identifies the investment types that are authorized by the Airport Authority's investment policy and State Government Code. The table also identifies certain provisions of the Airport Authority's investment policy that address interest rate risk, credit risk, and concentration of credit risk.

This table does not address investments of bond proceeds held by the bond trustee that are governed by provisions of debt agreements of the Airport Authority, in addition to the general provisions of the Airport Authority's investment policy and State Government Code.

Authorized Investment Type	Maximum Maturity	Minimum Quality Requirements	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	5 years	N/A	None	None
U.S. agency securities	5 years	N/A	None	None
Supranationals	5 years	AA	30 percent	10 percent
Bankers' acceptances	180 days	AAA/Aaa	40 percent	5 percent
Commercial paper	270 days	A-1; P-1; F-1	25 percent	5 percent
Negotiable certificates of deposit	5 years	A	30 percent	5 percent
Medium-term notes	5 years	A	20 percent	5 percent
Money market mutual funds	N/A	AAA/Aaa	20 percent	5 percent
Repurchase agreements	1 year	A	None	None
Local Agency Investment Fund	N/A	N/A	None	$65 million
San Diego County Investment Pool	N/A	N/A	None	$65 million
Local Government Investment Pool	N/A	N/A	None	$65 million
U.S. State and California agency indebtedness	5 years	A	20 percent	5 percent
Placement service certificates of deposits	3 years	N/A	30 percent	5 percent
Time certificates of deposit	3 years	*	20 percent	5 percent
Bank deposits	N/A	*	None	None

* Financial institution must have at least an overall satisfactory rating under the Community Reinvestment Act for meeting the credit needs of California communities in its most recent evaluation. Collateralization required per Cal. Gov. Code Section 53630 et seq.

Investment in state investment pools: The Airport Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Airport Authority's investments in this pool are reported in the accompanying financial statements at fair value based upon the Airport Authority's pro rata share of the amortized cost basis provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of each portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF.

Investment in county investment pool: The Airport Authority is a voluntary participant in the San Diego County Investment Pool (SDCIP) that is regulated by California Government Code Section 16429 under the oversight of the County Treasurer of San Diego. The Airport Authority's investments in this pool are reported in the accompanying financial statements at fair value based upon the Airport Authority's pro rata share of the amortized cost basis provided by SDCIP for the entire SDCIP portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by SDCIP.

Note 2. Cash, Cash Equivalents, and Investments (Continued)

Investments authorized by debt agreements: Investments held by the bond trustee are governed by the provisions of the debt agreement, in addition to the general provisions of the California Government Code and the Airport Authority's investment policy. The table below identifies the investment types that are authorized for investments held by the bond trustee, according to the Master Trust Indenture. In the event of a conflict between the Airport Authority's investment policy and permitted investments associated with any Airport Authority debt issuance, the debt agreement shall control. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Minimum Quality Requirements	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	None	N/A	None	None
U.S. agency securities	None	N/A	None	None
State obligations	None	AAA/Aaa	None	None
Commercial paper	None	A-1; P-1; F-1	None	None
Negotiable certificates of deposit	None	AAA/Aaa	None	None
Long-term and medium-term notes	None	Two highest ratings	None	None
Money market mutual funds	None	Two highest ratings	None	None
Municipal bonds	None	Two highest ratings	None	None
Repurchase agreements	None	BBB*	None	None
Investment agreements	None	N/A	None	None
Local Agency Investment Fund	None	N/A	None	None
San Diego County Investment Pool	None	N/A	None	None
Deposit accounts	None	N/A	None	None

Any other investment which is a permitted investment of the Authority in accordance with the laws of the state.

*Investment requires collateralization

The primary objective of the Airport Authority's investment policy is to invest public funds in a manner that will provide the highest security of the funds under management while meeting the daily cash flow demands of the Airport Authority. Assets of the Airport Authority that are not bond proceeds, which are invested in securities as permitted in the bond indenture, are described in the preceding table. In addition, there are various credit criteria as defined in the Airport Authority's investment policy as depicted in the previous section entitled "Investments authorized in accordance with California Government Code Section 53601 and under the provisions of the Airport Authority's investment policy."

Investments held by Trustee: The Airport Authority has monies held by trustees pledged for the security and payment of certain debt instruments, the payment of bond interest during construction and the payment of capital project costs.

Disclosures related to interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, investments with longer maturities have greater fair value sensitivity to changes in market interest rates. One of the ways the Airport Authority manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities. These staggered maturities also provide consistent cash flow and fulfill liquidity needs for operations. The Airport Authority monitors interest rate risk inherent in its portfolio by measuring the segmented time distribution of its portfolio. The Airport Authority has no specific limitations with respect to this metric.

Note 2. Cash, Cash Equivalents, and Investments (Continued)

Custodial credit risk (deposits): Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Airport Authority maintains deposits at several institutions in order to minimize custodial credit risk. These deposits are collateralized by various instruments such as U.S. government securities (guaranteed) or U.S. agency securities (government sponsored). California Government Code requires that a financial institution secure deposits made by a state or local government by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure Airport Authority deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured deposits.

Insurance through the Federal Deposit Insurance Corporation (FDIC) may be applicable to the first $250,000 of institutional deposit accounts, with any balance above this amount covered by the collateralization requirement. Certificates of deposit held by the Airport Authority's third-party custodians are fully insured by the FDIC, as the individual amounts do not exceed the FDIC-insured limits, or are collateralized in accordance with the California Government Code.

Custodial credit risk (investments): Custodial credit risk for investments is the risk that the Airport Authority will not be able to recover the value of its investments in the event of a counterparty failure. The Airport Authority uses third-party banks' custody and safekeeping services for its registered investment securities. Securities are held in custody at third-party banks registered in the name of the Airport Authority and are segregated from securities owned by those institutions or held in custody by those institutions.

Disclosures related to credit risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. California Government Code Section 53601 (as referenced previously in this note) limits the types of investment instruments that may be purchased by the Airport Authority.

Note 2. Cash, Cash Equivalents, and Investments (Continued)

The maturity ranges and credit ratings for the Airport Authority's investment securities as of June 30 are presented in the following tables:

	2018				
		Investment Maturities (in Years)			
Investment Type	**Total**	**0 - 1**	**1 - 2**	**2 - 5**	**Ratings**
Investments subject to credit and interest rate risk:					
U.S. Treasury obligations	$ 124,032,939	$ 14,814,921	$ 24,988,888	$ 84,229,130	AA+
U.S. agency securities	67,281,728	3,988,720	63,293,008	-	AA+
Supranationals	8,020,598	2,961,090	2,959,710	2,099,798	AAA
	5,294,485	-	-	5,294,485	Not rated
Negotiable certicates of deposit	11,911,120	7,994,640	-	3,916,480	AA
	22,642,037	16,941,660	5,700,377	-	A
Medium-term notes	2,876,730	-	-	2,876,730	AAA
	15,749,735	4,464,870	7,409,025	3,875,840	AA
	31,802,519	10,543,467	7,900,497	13,358,555	A
Money market mutual funds	93,517	93,517	-	-	AAA
Local Agency Investment Fund	48,733,079	48,733,079	-	-	Unrated
San Diego County Investment Pool	234,006,333	234,006,333	-	-	Unrated(1)
CalTrust Fund	15,522,832	15,522,832	-	-	AA
Total investments subject to credit and interest rate risk:	587,967,652	$ 360,065,129	$ 112,251,505	$ 115,651,018	
Investments not subject to credit or interest rate risk:					
Nonnegotiable certificates of deposit	15,639,415				
Total Investments	$ 603,607,067				

	2017				
		Investment Maturities (in Years)			
Investment Type	**Total**	**0 - 1**	**1 - 2**	**2 - 5**	**Ratings**
Investments subject to credit and interest rate risk:					
U.S. Treasury obligations	$ 85,201,348	$ 9,973,800	$ 49,865,262	$ 25,362,286	AA+
U.S. agency securities	109,436,513	4,438,252	41,168,904	63,829,357	AA+
Supranationals	5,982,120	-	2,968,080	3,014,040	AAA
Commercial paper	8,485,280	8,485,280	-	-	A-1+
Negotiable certicates of deposit	46,592,680	25,528,280	21,064,400	-	A-1+
Medium-term notes	22,457,198	10,443,358	7,497,765	4,516,075	AA
	17,107,339	1,501,860	7,603,761	8,001,718	A
Money market mutual funds	630,996	630,996	-	-	AAA
Local Agency Investment Fund	48,182,813	48,182,813	-	-	Unrated
San Diego County Investment Pool	157,252,092	157,252,092	-	-	Unrated(1)
CalTrust Fund	15,297,173	15,297,173	-	-	AA
Total investments subject to credit and interest rate risk:	516,625,552	$ 281,733,904	$ 130,168,172	$ 104,723,476	
Investments not subject to credit or interest rate risk:					
Nonnegotiable certificates of deposit	15,413,828				
Total Investments	$ 532,039,380				

Ratings per Standard and Poor's
(1) Investment rated AAA by Fitch

Note 2. Cash, Cash Equivalents, and Investments (Continued)

Concentration of credit risk: The investment policy of the Airport Authority contains no limitations on the amount that can be invested by any one issuer beyond that stated in the table provided earlier in this note. The Airport Authority requires a diversified investment portfolio to avoid risk of losses resulting from an over-concentration of assets in a specific maturity, issuer or class of securities. The Airport Authority had no concentrations of credit risk at June 30, 2018 and 2017.

Foreign currency risk: The Airport Authority's investment policy does not allow investments in foreign securities.

Note 3. Note Receivable

As part of the transfer of airport operations from the District to the Airport Authority, and pursuant to the associated MOU, the District issued a $50,000,000 unsecured promissory note to the Airport Authority. According to an agreement with the District that commenced on January 1, 2006, the note will be amortized over 25 years, maturing on December 31, 2030. The note is subordinate to all bond indebtedness of the District and carries a fixed interest rate of 5.5 percent per annum. At June 30, 2018 and 2017, the balance of the note receivable was $33,242,085 and $35,043,779, respectively.

The required principal payments owed from the District for note receivable for the fiscal years ending June 30 are as follows:

Years Ending June 30,	Amount
2019	$ 1,903,323
2020	2,006,052
2021	2,123,843
2022	2,243,644
2023	2,370,203
2024-2028	14,008,274
2029-2033	8,586,746
	$ 33,242,085

Note 4. Capital Assets

Capital asset activity for the years ended June 30, 2018 and 2017, are as follows:

	Balance at June 30, 2017	Increases	Decreases	**Balance at June 30, 2018**
Nondepreciable assets:				
Land	$ 22,167,595	$ -	$ -	**$ 22,167,595**
Construction in progress	171,498,032	272,511,934	(333,489,767)	110,520,199
Intangible asset	440,000	-	-	**440,000**
Total nondepreciable assets	194,105,627	272,511,934	(333,489,767)	**133,127,794**
Depreciable assets:				
Land improvements	88,873,547	24,535,625	(490,176)	**112,918,996**
Buildings and structures (1)	1,430,977,373	262,093,480	(1,407,995)	**1,691,662,858**
Machinery and equipment (2)	98,289,643	15,856,555	(1,682,138)	112,464,060
Runways, roads and parking lots	626,871,756	32,705,934	(12,638,406)	**646,939,284**
Total capital assets being depreciated	2,245,012,319	335,191,594	(16,218,715)	**2,563,985,198**
Less accumulated depreciation for:				
Land improvements	(13,595,257)	(7,185,518)	85,769	**(20,695,006)**
Building and structures	(547,652,555)	(64,299,973)	1,402,095	**(610,550,433)**
Machinery and equipment	(56,392,656)	(8,475,734)	1,682,137	**(63,186,253)**
Runways, roads and parking lots	(276,568,778)	(25,570,478)	3,599,017	**(298,540,239)**
Total accumulated depreciation	(894,209,246)	(105,531,703)	6,769,018	**(992,971,931)**
Total capital assets being depreciated, net	1,350,803,073	229,659,891	(9,449,697)	**1,571,013,267**
Capital assets, net	$ 1,544,908,700	$ 502,171,825	$ (342,939,464)	**$ 1,704,141,061**

(1) Includes capitalized lease of building with a net present value of future lease payments of $7,012,496

(2) Includes capitalized leases of office equipment with a net present value of future lease payments of $131,369

	Balance at June 30, 2016	Increases	Decreases	Balance at June 30, 2017
Nondepreciable assets:				
Land	$ 22,167,595	$ -	$ -	$ 22,167,595
Construction in progress	152,703,001	100,687,513	(81,892,482)	171,498,032
Intangible asset	440,000	-	-	440,000
Total nondepreciable assets	175,310,596	100,687,513	(81,892,482)	194,105,627
Depreciable assets:				
Land improvements	87,806,629	1,066,918	-	88,873,547
Buildings and structures (1)	1,415,251,585	38,732,334	(23,006,546)	1,430,977,373
Machinery and equipment (2)	94,326,157	3,963,486	-	98,289,643
Runways, roads and parking lots	590,772,032	41,343,092	(5,243,368)	626,871,756
Total capital assets being depreciated	2,188,156,403	85,105,830	(28,249,914)	2,245,012,319
Less accumulated depreciation for:				
Land improvements	(9,315,258)	(4,279,999)	-	(13,595,257)
Building and structures	(492,481,777)	(63,647,618)	8,476,840	(547,652,555)
Machinery and equipment	(49,619,914)	(6,772,742)	-	(56,392,656)
Runways, roads and parking lots	(261,042,693)	(20,528,667)	5,002,582	(276,568,778)
Total accumulated depreciation	(812,459,642)	(95,229,026)	13,479,422	(894,209,246)
Total capital assets being depreciated, net	1,375,696,761	(10,123,196)	(14,770,492)	1,350,803,073
Capital assets, net	$ 1,551,007,357	$ 90,564,317	$ (96,662,974)	$ 1,544,908,700

(1) Includes capitalized lease of building with a net present value of future lease payments of $7,237,033

(2) Includes capitalized leases of office equipment with a net present value of future lease payments of $205,281

Note 5. Long-Term Liabilities

The following is a summary of changes in the long-term liability activity for the years ended June 30, 2018 and 2017:

	Principal Balance at June 30, 2017	Additions/ New Issuances	Reductions/ Repayments	**Principal Balance at June 30, 2018**	Due Within One Year
Variable Rate Debt					
Series A tax-exempt	$ 32,550,000	$ -	$ (32,550,000)	**$ -**	$ -
Series B tax-exempt	15,849,000	-	(1,055,000)	**14,794,000**	-
Series C taxable	10,599,000	-	(5,230,000)	**5,369,000**	-
Total variable rate debt	58,998,000	-	(38,835,000)	**20,163,000**	-
Bonds payable:					
Series 2010 Bonds	546,420,000	-	(9,430,000)	**536,990,000**	9,890,000
Series 2013 Bonds	375,465,000	-	(2,155,000)	**373,310,000**	2,240,000
Series 2014 Bonds	305,285,000	-	-	**305,285,000**	5,580,000
Series 2017 Bonds	-	291,210,000		**291,210,000**	4,940,000
Bond premiums	60,432,498	48,423,688	(5,690,489)	**103,165,697**	-
Total bonds payable	1,287,602,498	339,633,688	(17,275,489)	**1,609,960,697**	22,650,000
Capital Leases	7,442,314	-	(298,449)	**7,143,865**	323,514
Total debt obligations	1,354,042,812	339,633,688	(56,408,938)	**1,637,267,562**	22,973,514
Compensated absences	3,231,026	3,138,941	(3,093,379)	**3,276,588**	3,093,379
Net pension obligation	18,111,482	7,308,825	(5,197,849)	**20,222,458**	-
Total other accruals	21,342,508	10,447,766	(8,291,228)	23,499,046	3,093,379
Total long-term liabilities	$ 1,375,385,320	$ 350,081,454	$ (64,700,166)	**$ 1,660,766,608**	$ 26,066,893

	Principal Balance at June 30, 2016	Additions/ New Issuances	Reductions/ Repayments	Principal Balance at June 30, 2017	Due Within One Year
Variable Rate Debt					
Series A tax-exempt	$ -	$ 32,550,000	$ -	$ 32,550,000	$ -
Series B tax-exempt	16,884,000	-	(1,035,000)	15,849,000	-
Series C taxable	15,697,000	-	(5,098,000)	10,599,000	-
Total variable rate debt	32,581,000	32,550,000	(6,133,000)	58,998,000	-
Bonds payable:					
Series 2010 Bonds	555,420,000	-	(9,000,000)	546,420,000	9,430,000
Series 2013 Bonds	377,555,000	-	(2,090,000)	375,465,000	2,155,000
Series 2014 Bonds	305,285,000	-	-	305,285,000	-
Bond premiums	64,586,043	-	(4,153,545)	60,432,498	-
Total bonds payable	1,302,846,043	-	(15,243,545)	1,287,602,498	11,585,000
Capital Leases	7,717,734	-	(275,420)	7,442,314	298,449
Total debt obligations	1,343,144,777	32,550,000	(21,651,965)	1,354,042,812	11,883,449
Compensated absences	3,362,113	3,086,661	(3,217,748)	3,231,026	3,217,748
Net pension obligation (asset)	1,680,759	27,275,582	(10,844,859)	18,111,482	-
Total other accruals	5,042,872	30,362,243	(14,062,607)	21,342,508	3,217,748
Total long-term liabilities	$ 1,348,187,649	$ 62,912,243	$ (35,714,572)	$ 1,375,385,320	$ 15,101,197

Note 5. Long-Term Liabilities (Continued)

Senior Lien Airport Revenue Bonds, Series 2005 and Refunded Series 1995: The California Maritime Infrastructure Authority issued $76,690,000 of Airport Revenue Bonds (Series 1995 Bonds) for the District, pursuant to a trust agreement dated December 1, 1995. The proceeds of the Series 1995 Bonds, together with investment income thereon, were used solely to pay a portion of the construction and installation of the West Terminal Expansion at SDIA, fund a Reserve Account and pay certain expenses in connection with the issuance of the Series 1995 Bonds. In conjunction with the transfer of airport operations to the Airport Authority on January 1, 2003, these bond obligations were assumed by the Airport Authority.

On November 9, 2005, the Airport Authority issued 56,270,000 of senior lien Series 2005 bonds to refund all of the then-outstanding Series 1995 Bonds, fund a debt service reserve account and pay cost of issuance.

On December 21, 2012, the Airport Authority defeased all of its outstanding Series 2005 Bonds, by depositing proceeds of Subordinate CP Notes and certain other available monies into an irrevocable escrow fund. The amounts on deposit in the escrow fund will be used to pay the principal of and interest on the Series 2005 Bonds until their final maturity date of July 1, 2020. As of June 30, 2018 and 2017, the amount held in escrow by the trustee was $15,516,704 and $20,603,125, respectively, and the amount of the defeased Series 2005 Bonds still outstanding was $14,605,000 and $18,985,000, respectively.

Senior Lien Airport Revenue Bonds, Series 2013: On January 30, 2013, the Airport Authority issued $379,585,000 of Series A and B Senior Airport Revenue Bonds (Series 2013 Bonds). The Series 2013 Bonds were issued to finance certain capital improvements at SDIA, fund a portion of the interest accruing on the Series 2013 Bonds through and including July 1, 2015, fund the senior reserve fund and pay the costs of issuance of the Series 2013 Bonds.

The Series 2013 Bonds were structured as serial and term bonds that bear interest at rates ranging from 3.00 percent to 5.00 percent and mature in fiscal years 2016 to 2044. The bonds were issued at a premium of $55,934,101, which is being amortized over the life of the bonds. Interest on the senior Series 2013 Bonds is payable semiannually on January 1 and July 1, of each year. Interest for the fiscal years ended June 30, 2018 and 2017, was $18,263,750 and $18,349,950, respectively, including accrued interest of $9,131,875 and $9,174,975 for fiscal years ending June 30, 2018 and 2017, respectively. The principal balance on the Series 2013 Bonds as of June 30, 2018 and 2017, was $373,310,000 and $375,465,000, respectively.

The senior Series 2013 Bonds are special obligations of the Airport Authority, payable solely from and secured by (a) a pledge of net revenues, which include certain income and revenue received by the Airport Authority from the operation of the airport system, less all amounts that are required to pay the operation and maintenance expenses of the airport system (b) certain funds and accounts held by the senior trustee under the senior indenture.

As senior lien bonds, the Series 2013 Bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 125 percent times the senior debt service for that year. In addition, the Series 2013 Bonds require the Airport Authority to maintain a debt service reserve account with the bond trustee and to reserve certain additional amounts in the Airport Authority's books, as shown previously in the notes. For the fiscal years ended June 30, 2018 and 2017, the amount held by the trustee was $45,006,722 and $46,381,197, respectively, which included the July 1 payment and the debt service reserve fund. The total additional amounts held by the Airport Authority for Operating and Maintenance, and Renewal and Replacements reserves for fiscal years 2018 and 2017 was $62,346,162 and $60,779,648, respectively. The public ratings of the Series 2013 Bonds as of June 30, 2017, are A+/A1/A+ by Standard & Poor's, Moody's Investors Service and Fitch Ratings.

Note 5. Long-Term Liabilities (Continued)

The required debt service payments for the Series 2013 Bonds for the fiscal years ending June 30 are as follows:

Years Ending June 30,	Principal	Interest	Total
2019	$ 2,240,000	$ 18,218,950	$ 20,458,950
2020	2,320,000	18,127,750	20,447,750
2021	7,925,000	17,883,225	25,808,225
2022	8,315,000	17,477,225	25,792,225
2023	8,725,000	17,051,225	25,776,225
2024-2028	50,660,000	78,095,450	128,755,450
2029-2033	45,330,000	65,221,975	110,551,975
2034-2038	32,565,000	57,139,125	89,704,125
2039-2043	150,780,000	41,634,250	192,414,250
2044	64,450,000	1,573,750	66,023,750
	$ 373,310,000	$ 332,422,925	$ 705,732,925

Subordinate Lien Series 2010 and 2017 Bonds: On October 5, 2010, the Airport Authority issued $572,565,000 of Series A, B and C Subordinate Airport Revenue Bonds (Series 2010 Bonds). The subordinate Series 2010 Bonds were issued to finance certain capital improvements at SDIA, fund a portion of the interest accruing on the subordinate Series 2010 Bonds through and including January 1, 2013, refund $142,176,000 of the Airport Authority's then outstanding commercial paper notes, fund the subordinate reserve fund and pay the costs of issuance of the subordinate Series 2010 Bonds.

The Series 2010 A and 2010 B Bonds were structured as serial and term bonds that bear interest at rates ranging from 2.00 percent to 5.00 percent and mature in fiscal years 2012 to 2041. The Series 2010 C Bonds were issued as taxable Build America Bonds (BAB), which benefit from periodic cash subsidy payments from the U.S. Treasury. The BAB interest subsidies received by the Airport Authority for fiscal years ended June 30, 2018 and 2017, amounted to $4,666,190 and $4,651,203, respectively. The interest rate on the Series 2010 C Bonds, net of the subsidy, is 4.46 percent and the bonds mature in fiscal year 2041. The bonds were issued at a premium of $26,154,344, which is being amortized over the life of the bonds. Interest on the subordinate Series 2010 Bonds is payable semiannually on January 1 and July 1 of each year.

Interest for the fiscal years ended June 30, 2018 and 2017, amounted to $30,259,748 and $30,716,248, respectively, including accrued interest of $15,129,875 and $15,358,125, respectively. The principal balance on the subordinate Series 2010 Bonds as of June 30, 2018 and 2017, was $536,990,000 and $546,420,000, respectively.

Note 5. Long-Term Liabilities (Continued)

The required debt service payments for the Series 2010 Bonds for the fiscal years ending June 30 are as follows:

Years Ending June 30,	Principal	Interest	Total
2019	$ 9,890,000	$ 30,020,298	$ 39,910,298
2020	10,365,000	29,529,823	39,894,823
2021	10,865,000	29,007,173	39,872,173
2022	11,415,000	28,463,486	39,878,486
2023	11,960,000	27,892,767	39,852,767
2024-2028	69,330,000	129,681,617	199,011,617
2029-2033	110,385,000	108,629,628	219,014,628
2034-2038	176,410,000	65,792,997	242,202,997
2039-2041	126,370,000	11,699,976	138,069,976
	$ 536,990,000	$ 460,717,765	$ 997,707,765

The Airport Authority issued $291,210,000 of Series A and B Subordinate Airport Revenue Bonds on August 3, 2017. The Subordinate Series 2017 Bonds were issued to finance certain capital improvements at SDIA including the Parking Plaza and the FIS facility, fund a portion of the interest accruing on the subordinate Series 2017 Bonds, refund $32,550,000 of the Airport Authority's outstanding variable rate debt, fund the subordinate reserve fund and pay the costs of issuance of the subordinate Series 2017 Bonds. The Series 2017 Bonds are structured as serial and term bonds that bear interest at rates ranging from 4.00 percent to 5.00 percent and mature in fiscal years 2019 to 2048. The bonds were issued at a premium of $48,423,688, which is being amortized over the life of the bonds. Interest on the Series 2017 Bonds is payable semiannually on January 1 and July 1 of each year.

Interest for the fiscal year ended June 30, 2018, amounted to $13,245,096, including accrued interest of $7,268,650. The principal balance on the subordinate Series 2017 Bonds as of June 30, 2018, was $291,210,000.

The required debt service payments for the Series 2017 Bonds for the fiscal years ending June 30 are as follows:

Years Ending June 30,	Principal	Interest	Total
2019	$ 4,940,000	$ 14,425,400	$ 19,365,400
2020	4,460,000	14,202,000	18,662,000
2021	4,825,000	13,969,875	18,794,875
2022	5,070,000	13,722,500	18,792,500
2023	5,320,000	13,462,750	18,782,750
2024-2028	30,860,000	62,941,750	93,801,750
2029-2033	39,395,000	54,201,375	93,596,375
2034-2038	50,275,000	43,045,875	93,320,875
2039-2043	64,170,000	28,808,750	92,978,750
2044-2048	81,895,000	10,635,875	92,530,875
	$ 291,210,000	$ 269,416,150	$ 560,626,150

Note 5. Long-Term Liabilities (Continued)

The subordinate Series Bonds are special obligations of the Airport Authority, payable solely from and secured by (a) a pledge of subordinate net revenues, which include certain income and revenue received by the Airport Authority from the operation of the airport system, less all amounts that are required to pay the operation and maintenance expenses of the airport system and all amounts necessary to pay debt service on and fund the reserves for the senior bonds; and (b) certain funds and accounts held by the subordinate trustee under the subordinate indenture. The subordinate Series Bonds were issued with a pledge of and lien on subordinate net revenues.

As subordinate lien bonds, the Series 2010 and 2017 Bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 110 percent times the subordinate debt service for that year. In addition, the subordinate Bonds require the Airport Authority to maintain a reserve account with the bond trustee. At June 30, 2018 and 2017, the amount held by the trustee was $236,516,301 and $76,514,169, respectively, which included the July 1 payment, a debt service reserve fund, construction fund, and a capitalized interest fund. The public ratings of the Subordinate Series 2010 and 2017 Bonds as of June 30, 2017, are A/A2/A by Standard & Poor’s, Moody’s Investors Service and Fitch Ratings.

Subordinate Variable Rate Debt Program: During fiscal year 2015, the Airport Authority replaced its commercial paper program with a $125,000,000 Revolving Line Of Credit issued by US Bank. The Revolving Line Of Credit was used to refund the outstanding Series B and Series C CP Note balances. The Revolving Line Of Credit is a three-year agreement that took effect on September 5, 2014. The agreement was amended on June 29, 2017, to extend the commitment through June 29, 2020.

At June 30, 2018, the Authority had an outstanding principal balance on Series A Revolving Obligations of $0, (the balance was $32,550,000 as at June 30 2017). At June 30 2018 and 2017, the outstanding principal balances of the Series B Revolving Obligations were $14,794,000 and $15,849,000, respectively. The Series A and Series B Revolving Obligations bear interest at the tax-exempt rate which is based on a spread to LIBOR. The outstanding principal balances of the Series C Revolving Obligations at June 30 2018 and 2017, were $5,369,000 and $10,599,000 respectively, and bear interest at the taxable rate, also based on a spread to LIBOR.

In April of 2017, the Authority established a Subordinate Drawdown Bond program with RBC Municipal Products of up to $100,000,000. On April 1, 2017, the Authority and RBC Municipal Products agreed upon a Bondholders Agreement and on April 19, 2017, the Authority and RBC Capital Markets LLC agreed upon a Subordinate Drawdown Bond Purchase Agreement. When issued, all Subordinate Drawdown Bonds will be purchased by the Subordinate Drawdown Bond Purchaser in accordance with the terms of the Subordinate Drawdown Bondholder’s Agreement and the Subordinate Drawdown Bond Purchase Agreement. The Authority currently has no Subordinate Drawdown Bonds outstanding. This commitment will expire on April 17 2020.

The Revolving Line Of Credit and Subordinate Drawdown Bonds are payable solely from and secured by a pledge of “Subordinate Net Revenues.” Subordinate Net Revenues are generally defined as all revenues and other cash receipts of the Airport Authority’s airport operations remaining after senior lien payments have been deposited by the Trustee in accordance with the Senior Lien Trust Indenture.

Senior Lien Special Facilities Revenue Bonds, Series 2014: On February 19, 2014, the Airport Authority issued $305,285,000 of Series A and B Senior Special Facilities Revenue Bonds (Series 2014 Bonds). The Series 2014 Bonds were issued to finance a portion of the costs of the development and construction of a consolidated rental car facility and related improvements at SDIA, fund a portion of the interest accruing on the Series 2014 Bonds, fund deposits to the senior reserve fund and pay the costs of issuance of the Series 2014 Bonds.

Note 5. Long-Term Liabilities (Continued)

The Series 2014 A Bonds were structured as tax-exempt and non-AMT term bonds that bear interest at 5.00 percent. The Series 2014 B Bonds were structured as federally taxable bonds that bear interest at rates ranging from 2.54 percent to 5.59 percent. The bonds were issued at a premium of $594,226, which is amortized over the life of the bonds. Interest on the Series 2014 Bonds is payable semiannually on January 1 and July 1 of each year. Interest for fiscal years ended June 30, 2018 and 2017, was $16,341,210, including accrued interest of $8,170,605 each year. The principal balance on the Series 2014 Bonds for fiscal years ended June 30, 2018 and 2017 was $305,285,000.

The Series 2014 Bonds are special limited obligations of the Airport Authority, payable solely from and secured by a pledge of the Trust Estate, which includes, among other things, customer facility charges collected from the rental car companies operating at the Airport and remitted to the Trustee. No revenues of the Airport Authority other than the customer facility charges and the Bond Funding Supplemental Consideration (as defined in the bond indenture), are pledged to the payment of the Series 2014 Bonds. The Series 2014 Bonds require the Airport Authority to maintain a debt service reserve account with the bond trustee and to reserve certain additional amounts in the Airport Authority's net position, as shown previously in the notes. For the fiscal years ended June 30, 2018 and 2017, the amount held by the trustee was $46,726,358 and $38,989,318, respectively, which included the July 1 payment, the debt service reserve fund, and the rolling coverage fund.

The public ratings of the Senior Series Special Facility 2014 Bonds as of June 30, 2017, are A-/A3 by Standard & Poor's and Moody's Investors Service.

The required debt service payments for the Series 2014 Bonds for the fiscal years ending June 30 are as follows:

Years Ending June 30,	Principal	Interest	Total
2019	$ 5,580,000	$ 16,270,428	$ 21,850,428
2020	5,720,000	16,114,217	21,834,217
2021	5,890,000	15,928,365	21,818,365
2022	6,090,000	15,714,362	21,804,362
2023	6,320,000	15,424,013	21,744,013
2024-2028	37,305,000	71,246,224	108,551,224
2029-2033	48,980,000	59,250,031	108,230,031
2034-2038	64,295,000	43,501,662	107,796,662
2039-2043	84,410,000	22,828,056	107,238,056
2044-2045	40,695,000	2,094,701	42,789,701
	$ 305,285,000	$ 278,372,059	$ 583,657,059

Line of credit: In fiscal year 2018, the Airport Authority maintained a $4,000,000 line of credit held with US Bank, which is collateralized with a bank certificate of deposit. This line is utilized to issue letters of credit to surety companies who are partnering with the Airport Authority to provide bonding assistance to contractors accepted into the bonding assistance program at the Airport Authority. As of June 30, 2018, nothing had been drawn on the line of credit and there are no outstanding letters of credit.

Capital Leases

Office equipment leases: The Airport Authority has entered into five year capital lease agreements for office equipment that require monthly lease payments of $6,849.

Note 5. Long-Term Liabilities (Continued)

Receiving distribution center lease: The Airport Authority entered into an installment purchase agreement for a receiving and distribution center (RDC) in fiscal year 2013. This agreement has been determined to be a capital lease and requires monthly lease payments of $73,108. The Airport Authority will become the owner of the RDC at the conclusion of the 20 year installment purchase agreement.

The following is a schedule of future lease payments applicable to the RDC installment purchase agreement, the office equipment capital leases, and the net present value of the future lease payments at June 30, 2018:

Years Ending June 30,	Amount
2019	$ 959,486
2020	932,090
2021	877,298
2022	877,298
2023	877,298
2024-2028	4,386,489
2029-2033	3,874,732
Total lease payments	12,784,691
Less amount representing interest	(5,640,826)
Present value of future lease payments	$ 7,143,865

Note 6. Defined Benefit Plan

Plan description: The Airport Authority's defined benefit pension plan (Plan), administered by SDCERS, provides service retirement, disability benefits, death and survivor benefits to Plan members and beneficiaries. SDCERS is a multi-employer public employee retirement system that acts as a common investment and administrative agent for three separate single-employer defined benefit pension plans for the City, the District, and Airport Authority.

From January 1, 2003 through June 30, 2007, SDCERS administered a qualified employer defined benefit plan for the City, the District and Airport Authority. However, as of July 1, 2007, the City, the District and the Airport Authority plans were separated into independent, qualified, single-employer governmental defined benefit plans and trusts. The assets of the three separate plans and trusts were pooled in the SDCERS Group Trust, which was established as of July 1, 2007. SDCERS invests and administers the Group Trust as a common investment fund and accounts separately for the proportional interest of each plan and trust that participates in the Group Trust.

SDCERS is governed by a 13-member Board, responsible for the administration of retirement benefits for the City, the District, and the Airport Authority and for overseeing the investment portfolio of the retirement system's trust fund. The Board is comprised of seven appointed members, four active members, one retired member, and one ex-officio member.

SDCERS acts as a common, independent investment and administrative agent for the City, the District and the Airport Authority, whose plans cover all eligible employees. In a defined benefit plan, pension benefits are actuarially determined by a member's age at retirement, number of years of service credit and final compensation, typically based on the highest salary earned over a one-year or three-year period. Airport Authority members who are participants under the California Public Employees' Pension Reform Act (PEPRA) are subject to pensionable compensation caps.

Note 6. Defined Benefit Plan (Continued)

The San Diego City Charter Section 144 and San Diego Municipal Code Sections 24.0100 et seq. assign the authority to establish and amend the benefit provisions of the plans that participate in SDCERS to the SDCERS Board. The Airport Authority contributes to the Federal Social Security Program. The SDCERS Board issues a publicly available financial report that includes financial statements and required supplementary information for SDCERS. The financial report may found on the San Diego City Employees' Retirement System website at www.SDCRA.org.

Benefits provided: The Airport Authority provides retirement, disability, and death benefits.

There are two types of participants, the classic participants and the PEPRA participants. A classic participant means any member who is not a PEPRA participant. A PEPRA participant is any member hired on or after January 1, 2013, who has never been a member of a public retirement system or who had a break in service of more than six months before their Airport Authority hire date.

The classic participant retirement benefit is calculated by using monthly salary amounts based on the highest continuous 26 bi-weekly pay periods divided by 12. The eligibility of the classic participants begins at age 62 with five years of service, or age 55 with 20 years of service.

The PEPRA participant's benefit is calculated by using monthly salary amounts based on the highest 36 consecutive months divided by 36. Base salary cannot exceed 100 percent of the Social Security contribution and benefit base, indexed to the CPI-U. The eligibility of the PEPRA participants begins at age 52 with five years of service.

The Airport Authority provides monthly payments for the life of the employee, with 50 percent continuance to the eligible spouse, domestic partner, or dependent child under 21 years of age upon the member's death. If there is no eligible spouse, the member may receive either a lump sum payment equal to the accumulated surviving spouse contributions or an actuarially equivalent annuity.

Employees with ten years of continuous service are eligible to receive non-industrial disability and employees with no service requirement can receive industrial disability.

The death benefit for non-industrial death before the employee is eligible to retire is a refund of the employee contributions, with interest plus one month's salary for each completed year of service to a maximum of six months' salary. A non-industrial death benefit after the employee is eligible to retire from service is 50 percent of earned benefit payable to eligible surviving spouse, domestic partner, or dependent child under 21 years of age. The industrial death benefit is 50 percent of the final average compensation preceding death, payable to eligible surviving spouse, domestic partner or dependent child under 21 years of age.

As of the measurement dates June 30, 2017 and June 30, 2016, Plan membership was as follows:

	2017	2016
Active employees	394	385
Inactive employees entitled to but not yet receiving benefits	119	112
Inactive employees or beneficiaries currently receiving benefits	107	90
Total	620	587

Note 6. Defined Benefit Plan (Continued)

Contributions: SDCERS uses actuarial developed methods and assumptions to determine what level of contributions are required to achieve and maintain an appropriate funded status for the Plan. The actuarial process uses a funding method that attempts to create a pattern of contributions that is both stable and predictable. The actual employer and member contribution rates in effect each year are based upon actuarial valuations performed by an independent actuary and adopted by the SDCERS Board annually.

The actuarial valuation is completed as of June 30, of each year. Once accepted by the SDCERS Board, the approved rates for Airport Authority apply to the fiscal year beginning 12 months after the valuation date. For June 30, 2018, the actuarially determined contribution rates for plan sponsors and members were developed in the June 30, 2016, actuarial valuation.

The funding objective of SDCERS is to fully fund the plan's actuarially accrued liability with contributions, which over time will remain as a level percent of payroll for the Airport Authority. Under this approach, the contribution rate is based on the normal cost rate and an amortization of any unfunded actuarial liability.

For the years ended June 30, 2018 and 2017, employees contributed $2,990,317 and $2,967,269 respectively, and the Airport Authority contributed $7,247,201 and $4,047,780, respectively, to the Plan. Under the Plan, the Airport Authority pays a portion of the classic participant’s contribution, referred to as the “off-set”. The off-set is equal to 7.00% or 8.50% of the general classic members’ base compensation and 9.91% of the executive classic members’ base compensation. These contributions are included in the employee contribution. There is no off-set for PEPRA participants.

Net Pension Liability: The Airport Authority’s net pension liability as of June 30, 2018, is measured as the total pension liability, less the pension plan’s fiduciary net position. The total pension liability as of June 30, 2018, is measured as of June 30, 2017. The annual valuation used is as of June 30, 2016, rolled forward to June 30, 2017, using standard update procedures. A summary of the principal assumptions and methods used to determine the net pension liability follow.

Actuarial Assumptions: The total pension liability in the June 30, 2017 and 2016, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	June 30, 2017	June 30, 2016
Valuation date	June 30, 2016	June 30, 2015
Measurement date	June 30, 2017	June 30, 2016
Actarial cost method	Entry-age normal funding method	Entry-age normal funding method
Asset valuation method	Expected value with smoothing	Expected value with smoothing
Actuarial assumptions:		
Investment rate of return (1)	6.75%	7.00%
Projected salary increase (2)	3.05%	3.05%
Cost-of-living adjustment	1.9% per annum, compounded	1.90%
Termination rate (3)	3.0% - 11.0%	3.0% - 11.0%
Disability rate (4)	0.01% - 0.30%	0.01% - 0.30%
Mortality (5)	0.02% - 13.54%	0.02% - 13.54%

(1) Net of investment expense

(2) Net plus merit component based on employee classification and years of service

(3) Based on years of service

(4) Based on age

(5) All active and retired healthy members: CalPERS Mortality Tables from the CalPERS January 2014
Further details about the actuarial assumptions can be found in the SDCERS June 30, 2017 and June 30 , 2016 actuarial reports.

Note 6. Defined Benefit Plan (Continued)

Discount Rate: For the June 30, 2017 and 2016 actuarial valuations, the discount rates used to measure the total pension liability were 6.75 percent and 7.0 percent, respectively. Based on plan funding expectations, no actuarial projection of cash flows was made as the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability (asset).

The long-term expected rate of return estimates for equity and fixed income are developed using a geometric (long-term compounded) building block approach: 1) expected returns based on observable information in the equity and fixed income markets and consensus estimates for major economic and capital market inputs, such as earnings and inflation, and 2) where necessary, judgment-based modifications are made to these inputs. Return assumptions for other assets classes are based on historical returns, current market characteristics, and professional judgements from SDCERS general investment consultant specialist research teams.

Best estimates of geometric long-term real rates and nominal rates of return for each major asset class are summarized below:

Asset Class	Target Allocation	Long-term Long-term Expected Real Rates of Return	Long-term Expected Nominal Rates of Return
U.S. equity	21.0%	4.4%	6.7%
Non-U.S. developed equity	15.0%	5.2%	7.5%
Global equity	5.0%	5.1%	7.3%
U.S. fixed income	22.0%	1.3%	3.5%
Emerging market debt	5.0%	3.7%	6.0%
Real estate	11.0%	3.1%	5.3%
Private equity and infrastructure	13.0%	6.2%	8.5%
Opportunity fund	8.0%	4.3%	6.6%
	100.0%		

Note 6. Defined Benefit Plan (Continued)

Changes in the Net Pension Liability: Changes in the total pension liability, plan fiduciary net position and the net pension liability through the year ended June 30, 2018, were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of 6/30/17	$ 161,951,893	$ 143,840,411	$ 18,111,482
Changes for the year:			
Service cost	6,996,180	-	6,996,180
Interest on total pension liability	11,416,679	-	11,416,679
Difference between expected and actual experience	3,975,029	-	3,975,029
Changes in assumptions	5,871,218	-	5,871,218
Employer contributions	-	5,480,984	(5,480,984)
Member contributions	-	2,990,317	(2,990,317)
Net investment income	-	19,480,875	(19,480,875)
Benefit payments	(4,669,787)	(4,669,787)	-
Administrative expense	-	(325,041)	325,041
Net changes	23,589,319	22,957,348	631,971
Balances as of 6/30/18	$ 185,541,212	$ 166,797,759	$ 18,743,453

Changes in the total pension liability, plan fiduciary net position and the net pension liability through the year ended June 30, 2017, were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of 6/30/16	$ 140,197,047	$ 138,516,288	$ 1,680,759
Changes for the year:			
Service cost	6,205,263	-	6,205,263
Interest on total pension liability	10,277,611	-	10,277,611
Difference between expected and actual experience	(2,178,527)	-	(2,178,527)
Changes in assumptions	10,473,890	-	10,473,890
Employer contributions	-	4,047,780	(4,047,780)
Member contributions	-	2,967,269	(2,967,269)
Net investment income	-	1,651,283	(1,651,283)
Benefit payments	(3,023,391)	(3,023,391)	-
Administrative expense	-	(318,818)	318,818
Net changes	21,754,846	5,324,123	16,430,723
Balances as of 6/30/17	$ 161,951,893	$ 143,840,411	$ 18,111,482

Note 6. Defined Benefit Plan (Continued)

Sensitivity of the Net Pension Liability to Discount Rate Changes: The following presents the resulting net pension liability (asset) calculated using the discount rate of 6.75 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate for the fiscal years ended June 30, 2018:

	1% Decrease	Current Discount Rate	1% Increase
Total pension liability	$ 212,190,155	$ 185,541,212	$ 163,647,313
Plan fiduciary net position	166,797,759	166,797,759	166,797,759
Net pension liability	$ 45,392,396	$ 18,743,453	$ (3,150,446)
Plan fiduciary net position as a percentage of the total pension liability	78.6%	89.9%	101.9%

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Plan: For the years ended June 30, 2018 and 2017, the Airport Authority recognized pension expense, as measured in accordance with GASB Statement No. 68, of $7,491,437 and $7,451,396, respectively. At June 30, 2018 and 2017, the Airport Authority reported deferred outflows of resources and deferred inflows of resources related to the plan from the following sources:

June 30, 2018	Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 3,485,355	$ 1,452,351
Net difference between projected and actual earnings	-	2,054,516
Changes in assumptions	11,875,275	-
Employer contributions made subsequent to June 30, 2017 measurement date	7,247,203	-
Total	$ 22,607,833	$ 3,506,867

June 30, 2017	Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 230,441	$ 1,815,440
Net difference between projected and actual earnings	6,089,002	-
Changes in assumptions	8,728,242	-
Employer contributions made subsequent to June 30, 2016 measurement date	5,197,849	-
Total	$ 20,245,534	$ 1,815,440

The deferred outflows of resources, at June 30, 2018 and 2017, related to pensions resulting from Airport Authority contributions subsequent to the measurement date and prior to year-end that will be recognized as a reduction of the net pension liability at June 30, 2019 and 2018, respectively.

Note 6. Defined Benefit Plan (Continued)

Other amounts reported as deferred outflows/inflows of resources related to the plan at June 30, 2018, will be recognized in pension expense as follows:

Fiscal Year-end	
2019	$ 2,009,284
2020	4,051,282
2021	2,971,643
2022	1,180,515
2023	1,641,039
	$ 11,853,763

Note 7. Preservation of Benefits Trust Plan (GASB No. 73)

POB description: The Airport Authority's single-employer defined benefit pension plan under the provisions of GASB 73 established as the preservation of benefits and trust plan (POB), administered by SDCERS, provides benefits to POB members and beneficiaries. The POB was established on January 1, 2003, for the purpose of providing benefits to POB members in excess of San Diego City Charter, Code Section 415(b) limitations. Information regarding SDCERS is included in *Note 6*.

The San Diego City Charter Section 144 and San Diego Municipal Code Sections 24.1601 et seq. assign the authority to establish and amend the benefit provisions of the plans that participate in SDCERS to the SDCERS Board.

Benefits provided: The Airport Authority provides retirement benefits.

Retirement benefits are provided to POB members with retirement benefits in excess of Code Section 415(b) who have participated in in the Plan since establishment of the POB. Participation ends for a portion of a plan year in which the retirement benefit of a retiree or beneficiary is not limited by Code Section 415(b) or when all benefit obligations to the retiree or beneficiary have been satisfied. Benefit payments are equal to the amount of retirement income that would have been payable, less the amount payable by the Plan. Benefit payments for the year ended June 30 2018, were $190,871. The POB is unfunded and provides benefits on an annual basis as determined by SDCERS.

As of the measurement date June 30, 2017, Plan membership was as follows:

	2017
Inactive employees or beneficiaries currently receiving benefits	1
Active employees	3
	4

Total Pension Liability: The Airport Authority's total pension liability as of June 30, 2018, is $1,479,005. The pension liability as of June 30, 2018, is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017, using standard update procedures. A summary of the principal assumptions and methods used to determine the net pension liability follow.

Note 7. Preservation of Benefits Trust Plan (GASB No. 73) (Continued)

Actuarial Assumptions: The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	June 30, 2017
Valuation date	June 30, 2016
Measurement date	June 30, 2017
Actuarial cost method	Entry-age normal
Actuarial assumptions:	
Discount rate	3.58%
Inflation rate	3.05%
Interest credited to member contributions	7.00%
Projected salary increases	3.05%

Changes in the Total Pension Liability: Changes in the total pension liability included service cost of $60,994, interest of $35,323 as well as amortization of deferred outflows of resources and deferred inflows of resources related to the pension.

Sensitivity of the Total Pension Liability to Discount Rate Changes: The following presents the resulting total pension liability calculated using the discount rate of 3.58 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate for the fiscal years ended June 30, 2018:

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
Total Pension Liability	$ 1,783,438	$ 1,479,005	$ 1,239,482

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the POB: For the year ended June 30, 2018, the Airport Authority recognized pension expense, as measured in accordance with GASB Statement No. 73, of $1,177,544. At June 30, 2018, the Airport Authority reported deferred outflows of resources and deferred inflows of resources related to the plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected & actual experience	$ 323,607	$ -
Change of assumptions	181,719	178,971
Total	$ 505,326	$ 178,971

Note 7. Preservation of Benefits Trust Plan (GASB No. 73) (Continued)

Amounts reported as deferred outflows/inflows of resources related to the plan will be recognized in pension expense as follows:

Years Ending June 30	Amount
2019	$ 74,358
2020	74,358
2021	74,358
2022	74,357
2023	28,924
	$ 326,355

Note 8. Employees' Deferred Compensation Plan

The Airport Authority offers its employees a deferred compensation plan, which was created in accordance with Internal Revenue Code (IRC) Section 457. The Plan, which is available to all full-time Airport Authority employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, total disability, death or unforeseeable emergency.

The plan is administered by the Airport Authority and contracted to an unrelated financial institution. Under the terms of an IRC Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts held by the financial institution, until paid or made available to the employees or beneficiaries, are held in trust for employees.

Employee assets to be held in the IRC Section 457 plans are not the property of the Airport Authority and are not subject to the claims of the Airport Authority's general creditors. Accordingly, employee assets are not reflected in the Airport Authority's financial statements.

Note 9. Other Postemployment Benefits

GASB 45

The Airport Authority provides an agent multiple-employer defined benefit postemployment benefit plan (the OPEB Plan). The OPEB Plan provides postretirement medical, dental, vision and life insurance benefits for nonunion employees hired prior to May 1, 2006, and union employees hired prior to October 1, 2008. The employees are eligible for these benefits if they retire from active employment after age 55 with 20 years of service or age 62 with five years of service.

Plan description: As of May 8, 2009, the Board approved entering into an agreement with the California Employer's Retiree Benefit Trust (CERBT) fund. This is managed by California Public Employees Retirement System (CalPERS). CalPERS administers pension and health benefits for approximately 1.5 million California public employees, retirees and their families. CalPERS was founded in 1932 and is the largest public pension fund in the United States, managing more than $250 billion in assets for more than 2,500 California employers. In 1988 and 2007, enabling statutes and regulations were enacted which permitted CalPERS to form the CERBT fund, an irrevocable Section 115 Trust, for the purpose of receiving employer contributions that will prefund health and other postemployment benefit costs for retirees and their beneficiaries. Financial statements for CERBT may be obtained from CalPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

Note 9. Other Postemployment Benefits (Continued)

Funding policy: CERBT requires a valuation of the liabilities and annual costs for benefits by an approved actuarial consulting firm. It is the Airport Authority's intent to budget and prefund the annual required contributions (ARCs). As of May 9, 2009, the agreement with CERBT was approved. The retirees' contribution rate was raised from 5 percent to 10 percent of plan costs for single coverage and the entire cost of vision benefits, lowering the OPEB liabilities of the Airport Authority. Annually, the Airport Authority's goal is to fund 100 percent of the actuarially calculated ARC for its OPEB. In previous years, the Airport Authority has made contributions above the annual ARC which has resulted in a net OPEB asset. During the fiscal year ended June 30, 2018, the Airport Authority's contributions were $461,859.

Annual OPEB cost and actuarial methods and assumptions: The Airport Authority's annual OPEB cost is calculated based on the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 45. The Airport Authority has elected to perform an actuarial valuation of the OPEB on a biennial basis, the most recent of which is dated as of July 1, 2017. According to the July 1, 2015, actuarial valuation, the ARC was $ 2,013,000 for fiscal year 2017. The ARC was determined using the entry age normal cost method with amortization of the unfunded accrued liability occurring over a 30-year period ending June 30, 2037.

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial values of assets, consistent with the long-term perspective of the calculations. The actuarial assumptions used by CERBT include (a) a 7.28 percent investment rate of return, (7.36 percent was used in the prior valuations), net of administrative expenses, RP-2015 Mortality Tables with fully generational projection using MP-2015 scale and (b) projected salary increases of 3.00 percent. The annual healthcare cost trend rate ranged from 4.5 to 9.0 percent for medical and assumes a 5.0 percent rate for dental. In establishing the discount rate, an inflation rate of 2.75 percent was used. The 2015 actuarial valuation included a 10 percent retirees' contribution of plan costs for single coverage; previously it was 5 percent.

The entry age normal cost method spreads plan costs for each participant from entry date to the expected retirement date. Under the entry age normal cost method, the plan's normal cost is developed as a level percentage of payroll spread over the participants' working lifetime. The actuarial accrued liability is the cumulative value, on the valuation date, of prior service costs. For retirees, the actuarial accrued liability is the present value of all projected benefits.

The plan costs are derived by making certain specific assumptions as to the rates of interest, mortality, turnover and the like, which are assumed to hold for many years into the future. Actual experience may differ somewhat from the assumptions and the effect of such differences is spread over all periods. Due to these differences, the costs determined by the valuation must be regarded as estimates of the true plan costs.

Development of the net OPEB obligation (NOO/Asset) and annual OPEB cost for the past three years is as follows (dollars in thousands):

Actuarial Valuation Date	Fiscal Year	ARCs	Employer Contribution	NOO/(Asset) End of Year	Interest on NOO/(Asset)	Adjustment to the ARC	Annual OPEB Cost
7/1/13	14/15	$ 2,403	$ 2,403	$ (59)	$ (4)	$ 4	$ 2,403
7/1/15	15/16	1,959	1,959	(59)	(4)	4	1,959
7/1/17	16/17	2,013	2,013	(59)	(4)	4	2,013

Note 9. Other Postemployment Benefits (Continued)

The Airport Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for 2017, 2016 and 2015, were as follows (dollars in thousands):

Fiscal Year Ended	Annual OPEB Costs	Employer Contribution	Percentage of OPEB Cost Contributed	NOO/ (Asset)
6/30/15	$ 2,403	$ 2,403	100.0%	(59)
6/30/16	1,959	1,959	100.0%	(59)
6/30/17	2,013	2,013	100.0%	(59)

Funded status and funding progress: The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the accompanying notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits

The funded status of the Plan based on the most recent biennial actuarial valuation for the plan, dated as of July 1, 2015, was as follows (dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll	Interest Rate	Salary Scale
7/1/15	$ 18,917	$ 34,587	$ 15,670	54.7%	$ 16,809	93.2%	7.3%	3.0%

GASB 75

GASB Statement No. 75 was used to account for the June 30, 2018, net OPEB asset. A measurement date of June 30, 2017, was used for the June 30, 2018, OPEB asset and expense. The information that follows was determined as of a valuation date of July 1, 2017.

Membership in the OPEB by membership class at June 30, 2017, is as follows:

	2017
Active employees	173
Inactive employees or beneficiaries currently receiving benefits	61
Total	234

Note 9. Other Postemployment Benefits (Continued)

Actuarial Assumptions: The total OPEB liability in the July 1, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all period included in the measurement:

Inflation	2.75%
Projected salary increase	3.00%
Investment rate of return	7.28%, net of OPEB plan investment expense, including inflation.
Actuarial cost method	Entry Age Normal, with amortization of 7/1/2017 unfunded liability over the period ending 6/30/2037 and amortization of subsequent unanticipated changes in liability over 15-year periods.
Asset valuation method	6 year asset smoothing
Retirement age	Rates used are the same as used in the June 30, 2016, San Diego City Employees' Retirements System actuarial valuation.
Mortality	RP-2006 Mortality Table projected with future improvements from 2006 using fully generational projection Scale MP-2017.

Health care cost trends rates

	Medical		
Year	Pre-65	Post-65	Dental
2017	7.6%	8.7%	5.0%
2018	7.2%	8.2%	5.0%
2019	6.8%	7.7%	5.0%
2020	6.4%	7.2%	5.0%
2021	6.0%	6.6%	5.0%
2022	5.5%	6.1%	5.0%
2023	5.0%	5.5%	5.0%
2024	4.7%	5.0%	5.0%
2025	4.5%	4.5%	5.0%

Following the implementation of GASB Statement No. 75 through the June 30, 2017 actuarial report, changes of assumptions were made from the June 30, 2015 actuarial report. These changes include updated assumptions for mortality, disability, retirement, plan participation, spouse election and baseline trends. These changes resulted in a deferred outflow of resources signifying an expectation of increased future OPEB costs.

Note 9. Other Postemployment Benefits (Continued)

The long-term expected rate of return on the OPEB Plan investments was based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information. The target allocation and best estimates of rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rates of Return
Public Equity	57%	5.71%
Fixed Income	27%	2.40%
REITs	8%	7.88%
TIPS	5%	2.25%
Commodies	3%	4.95%
	100%	

Discount Rate: The discount rate used to measure the total OPEB liability (asset) was 7.28 percent. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in the Net OPEB Liability (Asset): Changes in the total OBEP liability, plan fiduciary net position and the net OPEB liability (asset) through the year ended June 30, 2018, were as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
Balances as of 6/30/17	$ 21,884,188	$ 20,589,024	$ 1,295,164
Changes for the year:			
Service cost	411,052	-	411,052
Interest on total OPEB liability	1,606,959	-	1,606,959
Difference between expected and			-
actual experience	-	-	-
Changes in assumptions	766,830	-	766,830
Employer contributions	-	2,012,419	(2,012,419)
Member contributions	-	-	-
Net investment income	-	2,175,582	(2,175,582)
Benefit payments	(451,189)	(451,189)	-
Administrative expense	-	(10,578)	10,578
Net changes	2,333,652	3,726,234	(1,392,582)
Balances as of 6/30/18	$ 24,217,840	$ 24,315,258	$ (97,418)

Note 9. Other Postemployment Benefits (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Health Care Cost Trend Rates: The net OPEB liability of the Authority has been calculated using a discount rate of 7.28%. The following presents the net OPEB liability using a discount rate 1% higher and 1% lower than the current discount rate.

	1% Decrease	Current Discount	1% Increase
Total OPEB liability	$ 27,874,346	$ 24,217,840	$ 21,237,345
Plan fiduciary net position	24,315,258	24,315,258	24,315,258
Net OPEB liability (asset)	$ 3,559,088	$ (97,418)	$ (3,077,913)

The net OPEB liability of the Authority has been calculated using health care cost trend rates of 8.7% decreasing to 4.5% in 2025 and thereafter. The following presents the net OPEB liability using health care cost trend rates 1% higher and 1% lower than the current health care cost trend rates.

	1% Decrease	Trend Rate	1% Increase
Total OPEB liability	$ 21,100,042	$ 24,217,840	$ 28,046,331
Plan fiduciary net position	24,315,258	24,315,258	24,315,258
Net OPEB liability (asset)	$ (3,215,216)	$ (97,418)	$ 3,731,073

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the OPEB: For the year ended June 30, 2018, the Airport Authority recognized OPEB expense, as measured in accordance with GASB Statement No. 75, of $540,459, and reported deferred inflows of resources and deferred outflows of resources related to the OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings	$ -	$ (541,669)
Changes in assumptions	621,045	-
Employer contributions subsequent to June 30, 2017 measurement date	461,859	-
Total	$ 1,082,904	$ (541,669)

Note 9. Other Postemployment Benefits (Continued)

The deferred outflows of resources at June 30, 2018 related to OPEB resulting from Airport Authority contributions subsequent the measurement date and prior to year-end will be recognized as an addition to the net OPEB asset at June 30, 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2018, related to the OPEB will be recognized in OPEB expense as follows:

Years Ending June 30,	Amount
2019	$ 10,368
2020	10,368
2021	10,368
2022	10,368
2023	37,904
Total	$ 79,376

Note 10. Risk Management

The Airport Authority has a comprehensive Risk Management Program comprised of commercial insurance, self-insurance, loss prevention, loss control, and claims administration. The Airport Authority's coverage includes a variety of retentions or deductibles.

Commercially issued insurance:

- The Airport Authority maintains a minimum of $500 million in limits for general liability insurance.
- The Airport Authority maintains a property insurance policy with minimum limits of $750 million providing all risk and flood coverage for physical assets.
- The Airport Authority also maintains policies for workers' compensation, commercial auto, fiduciary liability, privacy and network security, crime, and public entity and employment practices liability, among others.

Self-insurance: Due to the exorbitant cost of earthquake insurance, the Airport Authority self-insures for losses due to earthquake damage. Effective July 1, 2007, the Airport Authority removed the purchase of commercial earthquake insurance from the Risk Management Program and increased reliance on the laws designed to assist public entities through the Federal Emergency Management Agency and the California Disaster Assistance Act. As of June 30, 2018 and 2017, the Airport Authority has designated $10,249,962 and $9,531,966, respectively, from its net position, as an insurance contingency.

A $2,000,000 reserve has been established within unrestricted net position by the Airport Authority's management to respond to uninsured and underinsured catastrophic losses. This fund is maintained pursuant to Board action only; there is no requirement that it be maintained.

Loss prevention: The Airport Authority has an active loss prevention program, staffed by a full-time risk manager, one senior risk analyst, a safety manager and two safety analysts. In addition, third party loss control engineers conduct safety surveys on a periodic basis. Employees receive regular safety training and claims are monitored using a claims information system.

During fiscal year 2018, there were no significant reductions in insurance coverage from the prior year. For each of the past three fiscal years, settlements have not exceeded insurance coverage.

Note 11. Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying financial statements measured at the fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2018 and 2017:

June 30, 2018	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
U.S. Treasury obligations	$ 124,032,939	$ 124,032,939	$ -	$ -
U.S. agency securities	67,281,728	-	67,281,728	-
Non-U.S Securities	13,315,083	13,315,083	-	-
Negotiable certicates of deposit	34,553,157	-	34,553,157	-
Medium-term notes	50,428,984	-	50,428,984	-
Total investments by fair value level	289,611,891	$ 137,348,022	$ 152,263,869	$ -
Investments measured at amortized cost	93,517			
Investments measured at net asset value	15,522,832			
Non-negotiable certificate of deposit	15,639,415			
Local Agency Investment Fund	48,733,079			
San Diego County Investment Pool	234,006,333			
Total investments	$ 603,607,067			

Note 11. Disclosures About Fair Value of Assets (Continued)

June 30, 2017	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
U.S. Treasury obligations	$ 85,201,348	$ 85,201,348	$ -	$ -
U.S. agency securities	109,436,513	-	109,436,513	-
Non-U.S Securities	5,982,120	5,982,120	-	-
Commercial paper	8,485,280	-	8,485,280	-
Negotiable certicates of deposit	46,592,680	-	46,592,680	-
Medium-term notes	39,564,537	-	39,564,537	-
Total investments by fair value level	295,262,478	$ 91,183,468	$ 204,079,010	$ -
Investments measured at amortized cost	630,996			
Investments measured at net asset value	15,297,173			
Non-negotiable certificate of deposit	15,413,828			
Local Agency Investment Fund	48,182,813			
San Diego County Investment Pool	157,252,092			
Total investments	$ 532,039,380			

Note 12. Lease Revenues

Substantially all capital assets held by the Airport Authority are for the purpose of rental and related use.

Certain capital assets, such as loading bridges, airfield, and building space, are leased to signatory airlines under the Airline Operating leases. The Airport Authority's Airline Operating leases are governed by a policy statement issued by the Federal Aviation Administration and as such rates are determined each year based upon a combination of residual and compensatory rate setting methodologies, which do not exceed actual costs of operating the airport. Such costs are allocated to each signatory airline based upon factors such as landed weights, enplanements, square footage, acres, etc. These regulated leases are not included in the schedule below.

Other capital assets are leased to concessionaires. As of June 30, 2018, the Airport Authority had 83 terminal food service and retail concession locations as part of a comprehensive concessions program designed to provide a world class shopping and dining experience for the millions of passengers who use SDIA. Concession lease payments for space within the terminals are typically based on the greater of the percentage of tenant sales or an agreed upon minimum guarantee. The amounts exceeding the minimum guarantee are not included in the schedule below.

The Airport Authority's CFC revenues and Bonds funded construction of the Rental Car Center facility (RCC), which was completed and placed in service on January 20, 2016. The RCC facility sits on 24.85 acres of land and houses all the major and small operator rental car tenants. The land rent leases for the RCC commenced on the opening date of the facility and will continue until the Bonds are repaid or defeased. This land rent is non-cancellable lease and will convert to Facility Rent when bonds are repaid.

Note 12. Lease Revenues (Continued)

The minimum future lease payments to be received under the Airport Authority's non-cancelable lease agreements, including known minimum escalations, as of June 30, 2018, are as follows:

Years Ending June 30,	Amount
2019	$ 32,717,960
2020	29,755,952
2021	26,095,603
2022	25,200,507
2023	24,558,480
2024-2028	79,615,734
2029-2033	75,306,013
2034-2038	82,885,986
2039-2043	91,888,617
2044-2048	88,902,848
2049-2053	13,140,114
2054-2058	724,440
2059-2063	724,440
2064-2068	724,440
2069-2073	72,444
Total	**$ 572,313,578**

Note 13. Lease Commitments

Operating Leases

General Dynamics lease: The Airport Authority is required, by legislation mandating the transfer of airport operations from the District, to lease from the District 89.75 acres of the former General Dynamics property on Pacific Highway adjacent to SDIA for 66 years commencing January 1, 2003. The lease agreement as amended calls for rent payments of $6,750,000 annually through December 31, 2068. A portion of the land is leased back to the District for employee parking at the same fair market value rent paid by the Airport Authority.

SDIA lease: The Airport Authority is leasing from the District 480 acres of land on North Harbor Drive for an annual rent of $1 per year under a lease that expires December 31, 2068.

Teledyne Ryan lease: The Airport Authority is leasing from the District 46.88 acres on North Harbor Drive referred to as the Teledyne Ryan lease that commenced on January 1, 2005 and expires December 31, 2068, for $3 million in annual rent.

Under current law, in the event SDIA is relocated and the District leases are no longer used by the Airport Authority for airport purposes, all District leases will terminate and use of the property will revert to the District.

Note 13. Lease Commitments (Continued)

The future rental commitment under the above operating lease agreements as of June 30 are due as follows:

Years Ending June 30,	Amount
2019	$ 10,176,660
2020	10,176,660
2021	10,176,660
2022	10,176,660
2023	10,176,660
2024-2028	50,883,300
2029-2033	50,883,300
2034-2038	50,883,300
2039-2043	50,883,300
2044-2048	50,883,300
2049-2053	50,883,300
2054-2058	50,883,300
2059-2063	50,883,300
2064-2068	50,883,300
2069-2073	5,088,330
	$ 513,921,330

The total rental expense charged to operations for the years ended June 30 consists of the following:

	2018	2017
Rental payments made	$ 10,189,944	$ 10,189,944

Note 14. Commitments and Contingencies

Commitments: As of June 30, 2018 and 2017, the Airport Authority had significant commitments for capital expenditures and other matters as described below:

i. The Airport Authority has funds which have been classified as current assets, primarily for the unpaid contractual portion of capital projects that are currently in progress, and will not be funded by grants or additional debt, but will be funded through Airport Authority cash. These amounts are for the estimated cost of capital projects that have been authorized by the Board for construction planning to proceed and for the contractual costs of upgrading certain major equipment. At June 30, 2018 and 2017, these funds totaled approximately $27 million and $14.3 million, respectively, and are classified on the accompanying statements of net position as cash and investments designated for specific capital projects and other commitments.

Note 14. Commitments and Contingencies (Continued)

ii. Support services. As part of the MOU, services provided by the District Harbor Police are required to be purchased by the Airport Authority as long as SDIA continues to operate at the current location. At the time of the transfer, the Airport Authority entered into a Master Services Agreement, a Police Services Agreement and a Communications Services Agreement with the District, which described the services that the Airport Authority could purchase and the manner of calculating the payments for such services. The largest amount that became payable under any of these agreements is under the Police Services Agreement, which is for Harbor Police services. The District provides monthly billings to the Airport Authority, with payment generally due 30 days after the date of the invoice, and provision of appropriate supporting documentation. During the years ended June 30, 2018 and 2017, the Airport Authority expensed $19,337,603 and $17,799,133 respectively for these services.

iii. In fiscal year 2012, the Board approved two contracts with Ace Parking Management Inc., for parking management services in the amount of $29.7 million and airport shuttle services in the amount of $31.3 million. In fiscal year 2017, the Board approved an additional $9.9 million for parking management services and $19.7 million for shuttle services. The total amounts spent as of June 30, 2018, were $35.9 million for parking management services and $44.2 million for airport shuttle services. These contracts are scheduled for completion in 2018.

iv. In fiscal year 2015, the Board approved a $29.2 million contract with SP Plus Corporation to transport rental car companies' customers between the Rental Car Center facility and the terminals. The contract scope also includes the operation, management and maintenance of the shuttle vehicles. In fiscal year 2016, the Board approved an additional $1.2 million. As of June 30, 2018, $17.7 million had been spent and the contract is due to be completed in fiscal year 2021.

v. In fiscal year 2015, the Board approved a $60 million contract with AECOM Technical Services, Inc. for on call program management services. In fiscal year 2018, the Board approved an additional $8 million. As of June 30, 2018, $48.2 million had been spent and the contract is due to be completed in fiscal year 2019.

vi. In fiscal year 2016, the Board approved a $12 million contract with Swinerton Builders for a design-build for the T2 Parking Plaza. In fiscal year 2018 and 2017, the Board approved an additional $2 million and $85.7 million respectively. As of June 30, 2018, $82.2 million had been spent and the contract is due to be completed in fiscal year 2019.

vii. In fiscal year 2017, the Board approved a $186.6 million contract with Turner-PCL A Joint Venture for Terminal 2 West Federal Inspection Station build out. In fiscal year 2018, the Board approved an additional $1.6 million. As of June 30, 2018, $129.1 million had been spent and the contract is due to be completed in fiscal year 2020.

viii. In fiscal year 2017, the Board approved a $3.3 million contract with Vasquez Construction Company to replace terminal seating in Terminal 1 and 2. In fiscal year 2018, the Authority added an additional $82K. As of June 30, 2018, $3.3 million had been spent and the contract was completed in fiscal year 2018.

ix. In fiscal year 2018, the Board approved a $3.4 million contract with Prava Construction Services, Inc. for Terminal 2 East improvements. As of June 30, 2018, $3.3 million had been spent and the contract was completed in fiscal year 2018.

x. In fiscal year 2018, the Board approved a $5.8 million contract with Granite Construction Company to clear objects from object free area (OFA) on existing taxiway B. As of June 30, 2018, $3.9 million had been spent and the contract is due to be completed in early fiscal year 2019.

Note 14. Commitments and Contingencies (Continued)

xi. In fiscal year 2018, the Board approved a $20.4 million contract with Granite Construction Company to rehabilitate runway 9-27 & cross taxiway B-1, B4-7, C3 & C6. As of June 30, 2018, $15.4 million had been spent and the contract is due to be completed in fiscal year 2019.

Contingencies: As of June 30, 2018, the Airport Authority is subject to contingencies arising from legal matters as described below:

The Airport Authority has leases and operating agreements with various tenants. These agreements typically include provisions requiring the tenants/operators to indemnify the Airport Authority for any damage to property or losses to the Airport Authority as a result of the tenant's operations. Also, the leases and operating agreements typically require the Airport Authority to be named as an additional insured under certain insurance policies of the tenants/operators. The Airport Authority also tenders these claims to its own insurers once they become asserted claims. When these types of claims are asserted against the Airport Authority, the Airport Authority not only vigorously opposes them but also vigorously seeks contribution and/or indemnity from all tenants/operators involved, from the tenants'/operators' insurers and from its own insurers. The Airport Authority's legal counsel cannot predict the net exposure to the Airport Authority with respect to these matters, or the probability or remoteness of any outcome.

Note 15. Subsequent Events

Airline Operating and Lease Agreement: The five year Airline Operating and Lease Agreement went into hold over effective July 1, 2018. The agreement was due to expire on June 30, 2018. Pursuant to Section 28.01 of the agreement, the Authority approved the airlines' holding over its tenancy on all of the leased premises beyond the June 30, 2018. The holding over is on a month-to –month basis. The airlines will continue to pay all of the airline rent, fees and charges required by the agreement. A new agreement is being negotiated with the airlines. It is expected to be completed by March 2019 with an effective date of July 1, 2019.

Required Supplementary Information (Unaudited)
Fiscal Year Ended June 30, 2018

Schedule of OPEB Funding Progress for the Airport Authority is as Follows (Dollars in Thousands)*:

Actuarial Valuation Date*	Actuarial Value of Assets	Actuarial Accrued Liability AAL	Unfunded Actuarial Accrued Liability UAAL	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll	Interest Rate	Salary Scale
7/1/09	$ 2,674	$ 12,206	$ 9,532	21.9%	$ 19,514	48.8%	7.75%	3.25%
7/1/10	4,474	14,149	9,675	31.6%	20,148	48.0%	7.75%	3.25%
7/1/11	7,604	22,197	14,593	34.3%	18,728	77.9%	7.60%	3.25%
7/1/12	7,604	22,197	14,593	34.3%	18,728	77.9%	7.61%	3.25%
7/1/13	12,667	31,553	18,886	40.1%	17,567	107.5%	7.36%	3.00%
7/1/15	18,917	34,587	15,670	54.7%	16,809	93.2%	7.36%	3.00%

* In accordance with GASB Statement No. 45, the Airport Authority has an actuarial valuation completed biennially.

Required Supplementary Information (Unaudited)
Fiscal Year Ended June 30, 2018

Schedule of Changes in the Net Pension Liability and Related Ratios
Last 10 Fiscal Years (Plan Year Reported in Subsequent Fiscal Year)

	2018	2017	2016	2015
Total Pension Liability:				
Service cost	$ 6,996,180	$ 6,205,263	$ 6,154,579	$ 6,099,481
Interest (includes interest on service cost)	11,416,679	10,277,610	9,327,538	8,465,485
Differences between expected and actual experience	3,975,029	(2,178,527)	345,661	-
Effect of changes of assumptions	5,871,218	10,473,890	-	-
Benefit payments, including rerfunds of member contributions	(4,669,787)	(3,023,391)	(2,482,523)	(2,913,221)
Net change in total pension liability	23,589,319	21,754,845	13,345,255	11,651,745
Total pension liability - beginning	161,951,893	140,197,048	126,851,793	115,200,048
Total pension liability - ending	$ 185,541,212	$ 161,951,893	$ 140,197,048	$ 126,851,793
Plan Fiduciary Net Position:				
Contributions - employer	$ 5,480,984	$ 4,047,780	$ 3,897,545	$ 3,924,988
Contributions - employee	2,990,317	2,967,269	2,840,236	2,765,079
Net investment income	19,480,875	1,651,283	4,390,185	18,302,683
Benefit payments, including refunds of member contributions	(4,669,786)	(3,023,391)	(2,482,523)	(2,913,221)
Administrative expense	(325,042)	(318,817)	(332,290)	(332,645)
Net change in plan fiduciary net position	22,957,348	5,324,124	8,313,153	21,746,884
Plan fiduciary net position - beginning	143,840,411	138,516,287	130,203,134	108,456,250
Plan fiduciary net position - ending	$ 166,797,759	$ 143,840,411	$ 138,516,287	$ 130,203,134
Net pension liability (asset) - ending	$ 18,743,453	$ 18,111,482	$ 1,680,761	$ (3,351,341)
Plan fiduciary net position as a percentage of the total pension liability	89.90%	88.82%	98.80%	102.64%
Covered payroll	$ 31,131,795	$ 29,189,357	$ 27,955,455	$ 26,380,323
Net pension liability as a percentage of covered payroll	60.21%	62.05%	6.01%	(12.70%)

Note to schedule: This schedule is intended to display the most recent 10 years of data for annual changes in the net pension liability. Until such time has elapsed after implementing GASB Statement No. 68, this schedule will only present information from those years that are available.

Required Supplementary Information (Unaudited)
Fiscal Year Ended June 30, 2018

Schedule of Contributions (Pensions), Last 10 Fiscal Years (Dollars in Thousands):

	2018	2017	2016	2015	2014
Actuarially determined contribution	$ 5,416	$ 3,765	$ 3,666	$ 3,823	$ 2,900
Contributions in relation to the actuarially determined contribution	7,247	5,421	3,948	3,823	3,728
Contribution deficiency (excess)	$ (1,831)	$ (1,656)	$ (282)	$ -	$ (828)
Covered payroll	$ 30,848	$ 31,506	$ 29,189	$ 27,955	$ 26,380
Contributions as a percentage of covered payroll	23.49%	17.21%	13.53%	13.68%	14.13%

	2013	2012	2011	2010	2009
Actuarially determined contribution	$ 2,600	$ 3,800	$ 4,300	$ 3,000	$ 3,000
Contributions in relation to the actuarially determined contribution	2,600	3,800	4,300	7,600	3,035
Contribution deficiency (excess)	$ -	$ -	$ -	$ (4,600)	$ (35)
Covered payroll	$ 24,840	$ 25,148	$ 25,596	$ 24,693	$ 23,488
Contributions as a percentage of covered payroll	10.47%	15.11%	16.80%	30.78%	12.92%

* This schedule is presented for the fiscal year.

Note to schedule: This schedule is intended to display the most recent 10 years of data for annual pension contributions.

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Required Supplementary Information (Unaudited)
Fiscal Year Ended June 30, 2018

Schedule of Changes in the Net Pension Liability and Related Ratios
Last 10 Fiscal Years (Plan Year Reported in Subsequent Fiscal Year)

	2018
Total Pension Liability	
Service cost	$ 60,994
Interest cost	35,323
Differences between expected and actual experience	388,329
Changes of assumptions	(214,765)
Net Change in Total Pension Liability	269,881
Total pension liability -beginning	1,209,124
Total pension liability - ending	$ 1,479,005
Covered payroll	31,131,795
Net Pension Liability as a percentage of covered payroll	4.8%

Note to schedule: This schedule is intended to display the most recent 10 years of data for annual changes in the total pension liability. Until such time has elapsed after implementing GASB Statement No. 73, this schedule will only present information from those years that are available.

Required Supplementary Information (Unaudited)
Fiscal Year Ended June 30, 2018

Schedule of Contributions (Pensions), Last 10 Fiscal Years:

	2018
Actuarially determined contribution	$ -
Contributions in relation to the actuarially determined contribution	56,513
Contribution deficiency (excess)	$ (56,513)
Covered payroll	$ 30,828,256
Contributions as a percentage of covered payroll	0.18%

*** This schedule is presented for the fiscal year.**

Note to schedule: This schedule is intended to display the most recent 10 years of data for annual pension contributions. Until such time has elapsed after implementing GASB Statement No. 73, this schedule will only present information from those years that are available.

Required Supplementary Information (Unaudited)
Fiscal Year Ended June 30, 2018

Schedule of Changes in the Net OPEB Liability (Asset) and Related Ratios
Last 10 Fiscal Years (Plan Year Reported in Subsequent Fiscal Year)

	2018
Total OPEB Liability	
Service Cost	$ 411,052
Interest Cost	1,606,959
Changes of Assumptions	766,830
Benefit Payments	(451,189)
Net Change in Total OPEB Liability	2,333,652
Total OPEB Liability (Beginning)	21,884,188
Total OPEB Liability (Ending)	$ 24,217,840
Plan Fiduciary Net Position	
Contributions—Employer	$ 2,012,419
Net Investment Income	2,175,582
Benefit Payments	(451,189)
Administrative Expense	(10,578)
Net Change in Plan Fiduciary Net Position	3,726,234
Plan Fiduciary Net Position (Beginning)	20,589,024
Plan Fiduciary Net Position (Ending)	$ 24,315,258
Net OPEB Asset	(97,418)
Net Position as a Percentage of OPEB Liability	100.40%
Covered Payroll	16,141,609
Net OPEB Liability as a Percentage of Covered Payroll	(0.60%)

Note to schedule: This schedule is intended to display the most recent 10 years of data for annual changes in the net OPEB liability (asset). Until such time has elapsed after implementing GASB Statement No. 75, this schedule will only present information from those years that are available.

Required Supplementary Information (Unaudited)
Fiscal Year Ended June 30, 2018

Schedule of Contributions (OPEB), Last 10 Fiscal Years (Dollars in Thousands):

	2018
Actuarially determined contribution	$ 472
Contributions in relation to the actuarially determined contribution	462
Contribution deficiency (excess)	$ 10
Covered payroll	$ 15,674
Contributions as a percentage of covered payroll	2.95%

* This schedule is presented for the fiscal year.

Note to schedule: This schedule is intended to display the most recent 10 years of data for annual OPEB contributions. Until such time has elapsed after implementing GASB Statement No. 75, this schedule will only present information from those years that are available.

Attachment B

San Diego County Regional Airport Authority

Single Audit Reports

Year Ended June 30, 2018
(With Independent Auditor's Report Thereon)

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San Diego County Regional Airport Authority

June 30, 2018

Contents

San Diego County Regional Airport Authority
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass - Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass - Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Transportation - Federal Aviation Administration:				
Direct Programs:				
Airport Improvement Program (AIP)	20.106		$ -	$ 3,213,447
Airport Improvement Program (AIP)	20.106		-	3,199,656
Airport Improvement Program (AIP)	20.106		-	248,857
Airport Improvement Program (AIP)	20.106		-	9,864,580
Airport Improvement Program (AIP)	20.106		-	1,976,146
Airport Improvement Program (AIP)	20.106		-	3,214,584
Total U.S. Department of Transportation - Federal Aviation Administration			-	21,717,270
Total Federal Awards Expended			$ -	$ 21,717,270

The accompanying notes are an integral part of this Schedule.

Notes to Schedule:

1. The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of San Diego County Regional Airport Authority (Airport Authority) under a program of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Airport Authority, it is not intended to and does not present the financial position, changes in net position or cash flows of the Airport Authority.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal* Governments, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Airport Authority has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To the Members of the Board
San Diego County Regional Airport Authority
San Diego, CA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the San Diego County Regional Airport Authority (Airport Authority), which comprise the statement of net position as of June 30, 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 17, 2018, which contained an emphasis of matter paragraph regarding a change in accounting principle.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Airport Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Airport Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Airport Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Airport Authority's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Airport Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Airport Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Dallas, Texas
October 17, 2018

Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditor's Report

To the Members of the Board
San Diego County Regional Airport Authority
San Diego, CA

Report on Compliance for the Major Federal Program

We have audited San Diego County Regional Airport Authority's (Airport Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Airport Authority's major federal program for the year ended June 30, 2018. The Airport Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Airport Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Airport Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Airport Authority's compliance.

Opinion on the Major Federal Program

In our opinion, the Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the Airport Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airport Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Airport Authority as of and for the year ended June 30, 2018, and have issued our report thereon dated October 17, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

Dallas, Texas
October 17, 2018

San Diego County Regional Airport Authority
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies)?	☐ Yes	☒ None reported
Material weakness(es)?	☐ Yes	☒ No

3. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ Yes ☒ No

Federal Awards

4. The independent auditor's report on internal control over compliance for the major federal award program disclosed:

Significant deficiency(ies)?	☐ Yes	☒ None reported
Material weakness(es)?	☐ Yes	☒ No

5. The opinion expressed in the independent auditor's report on compliance for the major federal award program was:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)?

   ☐ Yes ☒ No

7. The Airport Authority's major program was:

Cluster/Program	CFDA Number
Airport Improvement Program	20.106

8. The threshold used to distinguish between Type A and Type B programs was $750,000.

9. The Organization qualified as a low-risk auditee? ☒ Yes ☐ No

San Diego County Regional Airport Authority

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2018

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding

No matters are reportable.

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding

No matters are reportable.

San Diego County Regional Airport Authority
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018

Reference Number	Summary of Finding	Status

No matters are reportable.

Attachment C

San Diego County Regional Airport Authority

Passenger Facility Charge Compliance Report

Year Ended June 30, 2018
(With Independent Auditor's Report Thereon)

BKD
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San Diego County Regional Airport Authority

Passenger Facility Charge Program

June 30, 2018

Contents

San Diego County Regional Airport Authority

Passenger Facility Charge Program

Schedule of Passenger Facility Charge Collections and Expenditures

Year Ended June 30, 2018

Revenues	Date Approved	Amount Approved For Use	Cumulative Total - June 30, 2017	Quarter Ended September 30, 2017	Quarter Ended December 31, 2017	Quarter Ended March 31, 2018	Quarter Ended June 30, 2018	Year Ended June 30, 2018	Cumulative Total - June 30, 2018
Passenger facility charge collections			$ 650,500,702	$ 11,572,360	$ 11,196,034	$ 11,087,549	$ 12,617,157	$ 46,473,100	$ 696,973,802
Interest earned			12,991,062	194,615	215,891	234,274	260,310	905,090	13,896,152
Total passenger facility charge revenue received			$ 663,491,764	$ 11,766,975	$ 11,411,925	$ 11,321,823	$ 12,877,467	$ 47,378,190	$ 710,869,954
Expenditures									
Application 95-01-C-04-SAN	7/26/1995	$ 103,804,864	$ 103,804,864	$ -	$ -	$ -	$ -	$ -	$ 103,804,864
Application 98-02-C-04-SAN	7/24/1998	45,496,665	45,496,665	-	-	-	-	-	45,496,665
Application 03-03-C-01-SAN	5/20/2003	65,058,035	65,058,035	-	-	-	-	-	65,058,035
Application 05-04-C-01-SAN	11/22/2005	44,822,518	44,822,518	-	-	-	-	-	44,822,518
Application 08-05-C-01-SAN	6/27/2008	19,031,690	19,031,690	-	-	-	-	-	19,031,690
Application 09-07-C-00-SAN	9/30/2009	85,181,950	79,489,990	-	-	-	-	-	79,489,990
Application 10-08-C-00-SAN	11/24/2010	1,118,567,229	198,901,483	7,501,335	7,501,335	7,501,335	7,501,335	30,005,340	228,906,823
Application 12-10-C-00-SAN	7/3/2012	27,835,280	21,898,844	-	1,256,650	735,756	666,309	2,658,715	24,557,559
Application 15-11-U-00-SAN	7/1/2008	1,391,894	1,391,894	-	-	-	-	-	1,391,894
Application 16-12-C-00-SAN	10/28/2016	43,795,768	10,284,735	-	5,202,247	-	2,526,476	7,728,723	18,013,458
Total passenger facility charge revenue expended		$1,554,985,893	$ 590,180,718	$ 7,501,335	$ 13,960,232	$ 8,237,091	$ 10,694,120	$ 40,392,778	$ 630,573,496

See Note to Schedule of Passenger Facility Charge Collections and Expenditures.

San Diego County Regional Airport Authority

Passenger Facility Charge Program

Note to Schedule of Passenger Facility Charge Collections and Expenditures

Year Ended June 30, 2018

Note 1. General

This schedule includes the Passenger Facility Charge (PFC) Program activity of the San Diego County Regional Airport Authority (Airport Authority) and is presented on the modified cash basis of accounting. Under the modified cash basis of accounting, PFC revenues are recognized when received rather when earned and eligible expenditures are recognized when the related goods or services are provided or incurred. The information in this schedule is presented in accordance with the requirements of the *Passenger Facility Charge Audit Guide for Public Agencies* issued by the Federal Aviation Administration. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements of the Airport Authority.

PFC expenditures may consist of direct project costs, administrative costs, debt service and bond financing costs, as applicable to active applications. The accompanying schedule of Passenger Facility Charge Collections and Expenditures includes eligible expenditures that have been applied against PFCs collected as of June 30, 2018.

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Report on Compliance for the Passenger Facility Charge Program; Report on Internal Control Over Compliance; and Report on Schedule of Passenger Facility Charge Collections and Expenditures

Independent Auditor's Report

To the Members of the Board
San Diego County Regional Airport Authority
San Diego, CA

Report on Compliance for Passenger Facility Charge Program

We have audited San Diego County Regional Airport Authority's (Airport Authority) compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (Guide) that could have a direct and material effect on the passenger facility charge program for the year ended June 30, 2018.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations and the terms and conditions applicable to its passenger facility charge program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Airport Authority's passenger facility charge program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Airport Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the passenger facility charge program. However, our audit does not provide a legal determination of the Airport Authority's compliance.

Opinion on Passenger Facility Charge Program

In our opinion, the San Diego County Regional Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its passenger facility charge program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the Airport Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airport Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the passenger facility charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the passenger facility charge program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the passenger facility charge program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the passenger facility charge program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Passenger Facility Charge Collections and Expenditures

We have audited the financial statements of the Airport Authority as of and for the year ended June 30, 2018, and have issued our report thereon dated October 17, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying *Schedule of Passenger Facility Charge Collections and Expenditures* is presented for purposes of additional analysis, as specified in the Guide, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *Schedule of Passenger Facility Charge Collections and Expenditures* is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

Dallas, Texas
October 17, 2018

San Diego County Regional Airport Authority
Passenger Facility Charge Audit Summary
Year Ended June 30, 2018

Summary of Auditor's Results

1.	Type of report issued on PFC financial statements.	☒ Unmodified	☐ Qualified	
2.	Type of report on PFC compliance.	☒ Unmodified	☐ Qualified	
3.	Quarterly revenue and expenditures reconcile with submitted quarterly reports and reported un-liquidated revenue matches actual amounts.	☒ Yes	☐ No	
4.	PFC revenue and interest is accurately reported on FAA Form 5100-127.	☒ Yes	☐ No	
5.	The Public Agency maintains a separate financial accounting record for each application.	☒ Yes	☐ No	
6.	Funds disbursed were for PFC eligible items as identified in the FAA decision to pay only for the allowable costs of the project.	☒ Yes	☐ No	
7.	Monthly carrier receipts were reconciled with quarterly carrier reports.	☒ Yes	☐ No	
8.	PFC revenues were maintained in a separate interest-bearing capital account or commingled only with other interest-bearing airport capital funds.	☒ Yes	☐ No	
9.	Serving carriers were notified of PFC program actions/changes approved by the FAA.	☒ Yes	☐ No	
10.	Quarterly reports were transmitted (or available via website) to remitting carriers.	☒ Yes	☐ No	
11.	The Public Agency is in compliance with Assurances 5, 6, 7 and 8.	☒ Yes	☐ No	
12.	Project design and implementation is carried out in accordance with Assurance 9.	☒ Yes	☐ No	
13.	Program administration is carried out in accordance with Assurance 10.	☒ Yes	☐ No	
14.	For those public agencies with excess revenue, a plan for the use of this revenue has been submitted to the FAA for review and concurrence.	☐ Yes	☐ No	☒ N/A

San Diego County Regional Airport Authority

Schedule of Passenger Facility Charge Program

Findings and Questioned Costs

Year Ended June 30, 2018

Findings Required to be Reported by the Guide

Reference Number	Finding

No matters are reportable.

San Diego County Regional Airport Authority

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2018

Reference Number	Summary of Finding	Status

No matters are reportable.

Attachment D

San Diego County Regional Airport Authority

Customer Facility Charge Compliance Report

Year Ended June 30, 2018
(With Independent Auditor's Report Thereon)

BKD
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San Diego County Regional Airport Authority
Customer Facility Charge Program
June 30, 2018

Contents

San Diego County Regional Airport Authority
Customer Facility Charge Program
Schedule of Customer Facility Charge Collections and Expenditures
Year Ended June 30, 2018

Description	Beginning Balance, Unapplied CFC	CFC Collections	Interest Earned	Expenditures	Ending Balance, Unapplied CFC
Collections and expenditures, quarter ended September 30, 2017	$ 37,913,566	$ 11,130,585	$ 105,712	$ 8,885,064	$ 40,264,799
Collections and expenditures, quarter ended December 31, 2017	40,264,799	9,864,932	117,766	7,449,627	42,797,870
Collections and expenditures, quarter ended March 31, 2018	42,797,870	8,754,070	126,218	9,397,765	42,280,393
Collections and expenditures, quarter ended June 30, 2018	42,280,393	10,906,757	139,807	8,568,370	44,758,587
		$ 40,656,344	$ 489,503	$ 34,300,826	

See Notes to Schedule of Customer Facility Charge Collections and Expenditures.

San Diego County Regional Airport Authority

Customer Facility Charge Program

Notes to Schedule of Customer Facility Charge Collections and Expenditures

Year Ended June 30, 2018

Note 1. General

In May 2009, Assembly Bill 491 of the 2001-2002 California Legislature (codified in California Civil Code Section 1936 et seq.) authorized the San Diego County Regional Airport Authority (Airport Authority) to impose a $10 Customer Facility Charge (CFC) per contract on rental cars at the San Diego International Airport.

On October 4, 2012, the Airport Authority Board of Directors approved an alternative CFC rate modification from the $10 CFC rate per contract to $6.00 per day (up to a maximum of five days) to allow for the collection of sufficient CFC funds to cover the future costs of the anticipated consolidated rental car facility and centralized bussing system. Effective January 1, 2014, the CFC fee increased from $6.00 to $7.50 per day up to a maximum of five days. As of June 30, 2016, a CFC forecast was examined to collect an alternative fee. This resulted in a CFC increase from $7.50 to $9.00 per day up to a maximum of five days, effective as of January 1, 2017.

In accordance with the program, the CFC revenue must be used to pay allowable costs for approved capital projects. The Airport Authority is utilizing CFC revenue for the development and operation of a consolidated rental car facility. The primary objectives of this project are to reduce vehicle traffic volume on terminal curb front and Harbor Drive, provide a long-term rental car facility and site for airport passengers and rental car concessionaires, and implement a common use bussing system.

Note 2. Basis of Presentation

The accompanying *Schedule of Customer Facility Charge Collections and Expenditures* includes the CFC activity of the Airport Authority and is presented on the modified cash basis of accounting. Under the modified cash basis of accounting, CFC revenues are recognized when received rather than when earned (collections) and eligible expenditures are recognized when the related goods or services are provided or incurred. The information in this schedule is presented for purposes of additional analysis, as specified in California Civil Code Section 1936.

CFC expenditures may consist of direct project costs, administrative costs, debt service and related financing costs. The accompanying Schedule of Customer Facility Charge Collections and Expenditures includes the eligible expenditures that have been applied against CFCs collected as of June 30, 2018.

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Report on Compliance for the Customer Facility Charge Program; Report on Internal Control Over Compliance; and Report on Schedule of Customer Facility Charge Collections and Expenditures

Independent Auditor's Report

Members of the Board
San Diego County Regional Airport Authority
San Diego, CA

Report on Compliance for Customer Facility Charge Program

We have audited San Diego County Regional Airport Authority's (Airport Authority) compliance with the types of compliance requirements described in the *California Civil Code Section 1936* (Code) that could have a direct and material effect on the customer facility charge program for the year ended June 30, 2018.

Management's Responsibility

Management is responsible for compliance with the requirements of state statutes, regulations and terms and conditions applicable to its customer facility charge program.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance of the Airport Authority based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Code. Those standards and the Code require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the customer facility charge program occurred. An audit includes examining, on a test basis, evidence about the Airport Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the Code. However, our audit does not provide a legal determination on the Airport Authority's compliance.

Opinion on Customer Facility Charge Program

In our opinion, the San Diego County Regional Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its customer facility charge program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the Airport Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Airport Authority's internal control over compliance with the requirements that could have a direct and material effect on the customer facility charge program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Code, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the customer facility charge program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the customer facility charge program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the customer facility charge program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the customer facility charge program. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Customer Facility Charge Collections and Expenditures

We have audited the financial statements of the Airport Authority as of and for the year ended June 30, 2018, and have issued our report thereon, dated October 17, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Customer Facility Charge Collections and Expenditures is presented for purposes of additional analysis, as specified in the Code, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *Schedule of Customer Facility Charge Collections and Expenditures* is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

Dallas, Texas
October 17, 2018

BKD
CPAs & Advisors

14241 Dallas Parkway, Suite 1100 | Dallas, TX 75254-2961
972.702.8262 | Fax 972.702.0673 | bkd.com

To the Members of the Board
San Diego County Regional Airport Authority
San Diego, CA

As part of our audits of the financial statements and compliance of the San Diego County Regional Airport Authority (Airport Authority) as of and for the year ended June 30, 2018, we wish to communicate the following to you.

AUDIT SCOPE AND RESULTS

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America and the Standards Applicable to Financial Audits Contained in *Government Auditing Standards* Issued by the Comptroller General of the United States and U.S. Office of Management and Budget (OMB) Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); the *Passenger Facility Charge Audit Guide for Public Agencies* (Guide) Issued by the Federal Aviation Administration, and the *California Civil Code Section 1936* (Code), an ordinance of the State of California

An audit performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and U.S. Office of Management and Budget (OMB) Uniform Guidance the Guide, and the Code is designed to obtain reasonable, rather than absolute, assurance about the financial statements and about whether noncompliance with the types of compliance requirements described in the *OMB Compliance Supplement*, the Guide and the Code that could have a direct and material effect on a major federal program, the passenger facility charge program or customer facility charge program occurred. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement and compliance audits that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

Audits of the financial statements and compliance do not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The Airport Authority's significant accounting policies are described in *Note 1* of the Comprehensive Annual Financial Report (CAFR).

Alternative Accounting Treatments

No matters are reportable.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Fair market value of investments
- Valuation allowance for the various receivables
- Estimated useful lives used to depreciate capital assets
- Actuarial assumptions used to estimate the net pension and other post-employment benefit liability/asset
- Pollution remediation obligations
- Litigation and other loss contingencies

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Cash, cash equivalents and investments
- Long-term liabilities
- Defined benefit and other post-employment benefit plans
- Disclosures about fair value of assets
- Commitments and contingencies
- Restatement related to the adoption of GASB 75

<u>Audit Adjustments</u>

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. An adjustment proposed was not recorded because its aggregate effect is not currently material.

Areas in which adjustments were proposed include:

Proposed Audit Adjustments Recorded

- None

Proposed Audit Adjustments Not Recorded

- None

Attached is a summary of an uncorrected misstatement during the current engagement and pertaining to the latest period presented that was determined by management to be immaterial to the financial statements as a whole.

<u>Auditor's Judgments About the Quality of the Airport Authority's Accounting Principles</u>

No matters are reportable.

<u>Difficulties Encountered in Performing the Audit</u>

Our audit requires cooperative effort between management and the audit team. There were no difficulties encountered during the course of our audit. Management of the Airport Authority assisted with all audit requests in a timely manner.

<u>Other Material Communication</u>

Listed below is a material communication between management and us related to the audit:

- Management representation letter (*attached*)

OTHER MATTERS

We observed the following matters related to ongoing standard setting by the GASB. We can discuss these matters further at your convenience and may provide assistance with implementation including initial and ongoing considerations.

<u>GASB Statement No. 87, *Leases* (GASB 87)</u>

GASB 87 provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and non-lease components will need to be separated so each component is accounted for accordingly.

GASB 87 is effective for financial statements for fiscal years beginning after December 15, 2019. Earlier application is encouraged. Governments will be allowed to transition using the facts and circumstances in place at the time of adoption, rather than retroactive to the time each lease was begun.

<u>GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* (GASB 89)</u>

GASB 89 requires that interest costs incurred before the end of a construction period be recognized as expenses in the period in which the costs are incurred. As a result, the interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

GASB 89 is effective for financial statements for fiscal years beginning after December 15, 2019. Earlier application is encouraged. GASB 89 will be applied prospectively to interest incurred after the date of adoption.

This communication is intended solely for the information and use of the Audit Committee, Members of the Board and management, and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

October 17, 2018

October 17, 2018

BKD, LLP
Certified Public Accountants
14241 Dallas Parkway, Suite 1100
Dallas, Texas 95254

We are providing this letter in connection with your audits of our financial statements as of and for the years ended June 30, 2018 and 2017 and your audit of our compliance with requirements applicable to our major federal awards program, our passenger facility charge program and customer facility charge program as of and for the year ended June 30, 2018. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter May 18, 2018 for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. We have provided you with:
   - (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.
   - (b) Additional information that you have requested from us for the purpose of the audit.
   - (c) Unrestricted access to persons within the San Diego County Regional Airport Authority (Airport Authority) from whom you determined it necessary to obtain audit evidence.
   - (d) All minutes of meetings of the governing body held through the date of this letter.

(e) All significant contracts and grants.

5. All transactions have been recorded in the accounting records and are reflected in the financial statements.

6. We have informed you of all current risks of a material amount that are not adequately prevented or detected by entity procedures with respect to:

   (a) Misappropriation of assets.

   (b) Misrepresented or misstated assets, liabilities or net position.

7. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

8. We have no knowledge of any known or suspected:

   (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.

   (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.

9. We have no knowledge of any allegations of fraud or suspected fraud affecting the Airport Authority received in communications from employees, customers, regulators, suppliers or others.

10. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term <u>related party</u> refers to an affiliate; management, and members of their immediate families, component units; and any other party with which the entity may deal if it can significantly influence, or be influenced by, the management or operating policies of the other. The term <u>affiliate</u> refers to a party that directly or indirectly controls, or is controlled by, or is under common control with us.

11. Except as reflected in the financial statements, there are no:

    (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.

    (b) Material transactions omitted or improperly recorded in the financial statements.

    (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.

    (d) Events occurring subsequent to the statement of net position date through the date of this letter requiring adjustment or disclosure in the financial statements.

    (e) Agreements to purchase assets previously sold.

    (f) Restrictions on cash balances or compensating balance agreements.

(g) Guarantees, whether written or oral, under which the Airport Authority is contingently liable.

12. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

13. We have no reason to believe the Airport Authority owes any penalties or payments under the Employer Shared Responsibility Provisions of the Patient Protection and Affordable Care Act nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.

14. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

15. Adequate provisions and allowances have been accrued for any material losses from:

    (a) Uncollectible receivables.

    (b) Reducing obsolete or excess inventories to estimated net realizable value.

    (c) Sales/lease/service commitments, including those unable to be fulfilled.

    (d) Purchase commitments in excess of normal requirements or above prevailing market prices.

16. Except as disclosed in the financial statements, we have:

    (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.

    (b) Complied with all aspects of contractual and grant agreements, for which noncompliance would materially affect the financial statements.

17. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.

18. We have notified you of any instances of noncompliance with applicable disclosure requirements of the SEC Rule 15c2-12 and applicable state laws.

19. With regard to deposit and investment activities:

    (a) All deposit and investment transactions have been made in accordance with legal and contractual requirements.

    (b) Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.

    (c) We understand that your audit does not represent an opinion regarding the enforceability of any collateral pledges.

20. We acknowledge that we are responsible for compliance with applicable laws, regulations and provisions of contracts and grant agreements.

21. We have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that have a direct and material effect on the determination of amounts in our financial statements or other financial data significant to the audit objectives.

22. We have identified and disclosed to you any violations or possible violations of laws, regulations and provisions of contracts and grant agreements whose effects should be considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance.

23. We have taken or will take timely and appropriate steps to remedy any fraud, abuse, illegal acts or violations of provisions of contracts or grant agreements that you or other auditors report.

24. We have a process to track the status of audit findings and recommendations.

25. We have identified to you any previous financial audits, attestation engagements, performance audits or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other studies.

26. With regard to federal awards programs, passenger facility charge and customer facility charge programs:

    (a) We have identified in the schedule of expenditures of federal awards all assistance provided (either directly or passed through other entities) by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, commodities, insurance, direct appropriations or in any other form.

    (b) We have identified the types of compliance requirements described in the *U.S. Office of Management and Budget* (OMB) *Compliance Supplement* regarding activities allowed or unallowed; allowable costs/cost principles; cash management; eligibility; equipment and real property management; matching, level of effort, earmarking; period of performance (or availability) of federal funds; procurement and suspension and debarment; program income; reporting; subrecipient monitoring; and special tests and provisions that are applicable to each of our federal awards programs. We have identified to you our interpretation of any applicable compliance requirements subject to varying interpretations. We have also identified all compliance requirements of the passenger facility charge and customer facility charge programs.

    (c) We are responsible for complying, and have complied, with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

    (d) We are responsible to understand and comply with the requirements of federal statutes, regulations and the terms and conditions of federal awards related to each of our federal awards programs and have disclosed to you any and all instances of noncompliance with those requirements occurring during the period of your audit or subsequent thereto to the date of this letter of which we are aware. Except for any instances of noncompliance we have disclosed to you, we believe the Airport Authority has complied with all applicable compliance requirements.

(e) We are responsible for establishing and maintaining effective internal control over compliance to provide reasonable assurance we have administered each of our federal awards, passenger facility charge and customer facility charge programs in compliance with requirements of laws, regulations, contracts and grants applicable to those programs.

(f) We have made available to you all federal awards (including amendments, if any) and any other correspondence or documentation relevant to each of our federal awards programs and to our compliance with applicable requirements of those programs.

(g) The information presented in federal awards program financial reports and claims for advances and reimbursements is supported by the books and records from which our financial statements have been prepared.

(h) The costs charged to federal awards are in accordance with applicable cost principles.

(i) The reports provided to you related to federal awards programs are true copies of reports submitted or electronically transmitted to the federal awarding agency and the applicable payment system.

(j) Amounts claimed or used for matching were determined in accordance with Uniform Guidance regarding cost principles.

(k) We have disclosed to you any communications from federal awarding agencies and pass-through entities concerning possible noncompliance with the applicable compliance requirements for each of our federal awards programs, including any communications received from the end of the period of your audit through the date of this letter.

(l) We have identified to you any previous compliance audits, attestation engagements and internal or external monitoring related to the objectives of your compliance audit, including findings received and corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other monitoring.

(m) The reporting package does not contain any protected personally identifiable information.

27. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the statement of net position date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events <u>could</u> occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

28. The fair values of financial and nonfinancial assets and liabilities, if any, recognized in the financial statements or disclosed in the notes thereto are reasonable estimates based on the methods and assumptions used. The methods and significant assumptions used result in measurements of fair value appropriate for financial statement recognition and disclosure purposes and have been applied consistently from period to period, taking into account any changes in circumstances. The significant assumptions appropriately reflect market participant assumptions.

29. The supplementary information required by the Governmental Accounting Standards Board, consisting of management's discussion and analysis and pension/other post-employment benefit information, has been prepared and is measured and presented in conformity with the applicable GASB pronouncements, and we acknowledge our responsibility for the information. The information contained therein is based on all facts, decisions and conditions currently known to us and is measured using the same methods and assumptions as were used in the preparation of the financial statements. We believe the significant assumptions underlying the measurement and/or presentation of the information are reasonable and appropriate. There has been no change from the preceding period in the methods of measurement and presentation.

30. With regard to supplementary information:

    (a) We acknowledge our responsibility for the presentation of the supplementary information in accordance with the applicable criteria.

    (b) We believe the supplementary information is fairly presented, both in form and content, in accordance with the applicable criteria.

    (c) The methods of measurement and presentation of the supplementary information are unchanged from those used in the prior period.

    (d) We believe the significant assumptions or interpretations underlying the measurement and/or presentation of the supplementary information are reasonable and appropriate.

    (e) If the supplementary information is not presented with the audited financial statements, we acknowledge we will make the audited financial statements readily available to intended users of the supplementary information no later than the date such information and the related auditor's report are issued.

Kimberly J. Becker

Kimberly J. Becker, President/Chief Executive Officer

Scott Brickner

Scott M. Brickner, Vice President/Chief Financial Officer

San Diego County Regional Airport Authority

ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	223,609,808		223,609,808	
Non-Current Assets & Deferred Outflows	2,371,811,037		2,371,811,037	
Current Liabilities	(145,942,493)		(145,942,493)	
Non-Current Liabilities & Deferred Inflows	(1,639,553,645)		(1,639,553,645)	
Current Ratio	1.532		1.532	
Total Assets & Deferred Outflows	2,595,420,845		2,595,420,845	
Total Liabilities & Deferred Inflows	(1,785,496,138)		(1,785,496,138)	
Total Net Position	(809,924,707)		(809,924,707)	
Operating Revenues	(265,830,273)		(265,830,273)	
Operating Expenses	169,120,390	(815,998)	168,304,392	-0.48%
Nonoperating (Revenues) Exp	(21,528,219)		(21,528,219)	
Change in Net Position	(26,034,420)	(815,998)	(26,850,418)	3.13%

Client: San Diego County Regional Airport Authority
Period Ending: June 30, 2018

Major Enterprise Fund

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

Description	Financial Statement Line Item	Factual (F), Judgmental (J), Projected (P)	Assets & Deferred Outflows: *Current* DR (CR)	Assets & Deferred Outflows: *Non-Current* DR (CR)	Liabilities & Deferred Inflows: *Current* DR (CR)	Liabilities & Deferred Inflows: *Non-Current* DR (CR)	Operating Revenues DR (CR)	Operating Expenses DR (CR)	Nonoperating (Revenues) Exp DR (CR)	Net Position DR (CR)	Net Effect on Following Year: *Change in Net Position* DR (CR)	Net Effect on Following Year: *Net Position* DR (CR)
To adjust NP for the Preservation of Benefits plan.		F	0	0	0	0	0	(815,998)	0	815,998	0	0
	Net Position									815,998		
	Salaries and Benefits							(815,998)				
			0	0	0	0	0	0	0	0	0	0
			0	0	0	0	0	0	0	0	0	0
			0	0	0	0	0	0	0	0	0	0
			0	0	0	0	0	0	0	0	0	0
			0	0	0	0	0	0	0	0	0	0
Total passed adjustments			0	0	0	0	0	(815,998)	0	815,998	0	0

Impact on Change in Net Position	(815,998)
Impact on Net Position	0

ITEM 2

SAN DIEGO
INTERNATIONAL AIRPORT
LET'S GO.

Report to the Audit Committee

November 5, 2018

Annual Audit - Year Ended June 30, 2018

experience BKD LLP
CPAs & Advisors

2018 Highlights

Independent Auditor's Report on Basic Financial Statements	**Unmodified**
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*	**Unmodified**
Independent Auditor’s Report on Compliance for the Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	**Unmodified**
Independent Auditor’s Report on Compliance for the Passenger Facility Charge Program; Report on Internal Control Over Compliance; and Report on Schedule of Passenger Facility Charge Collections and Expenditures	**Unmodified**
Independent Auditor’s Report on Compliance for the Customer Facility Charge Program; Report on Internal Control Over Compliance; and Report on Schedule of Customer Facility Charge Collections and Expenditures	**Unmodified**

- During fiscal year 2018, the Airport Authority received its Certificate of Achievement for Excellence in Financial Reporting for its 2017 CAFR. This was the 15th consecutive year the Airport Authority has received this prestigious award. There was only minor comments received from the GFOA.

- There were no material weaknesses or significant deficiencies in internal controls identified during the audit.

- For fiscal year 2018, the Airport Authority had one major federal award program that required testing, the FAA's *Airport Improvement Program* . We identified no compliance or internal control matters related to this program during compliance audit testing.

experience BKD LLP
CPAs & Advisors

2018 Highlights (Cont.)

- **Asset highlights:** Restricted Cash, cash equivalents and investments increased $182 million primarily as a result of issuance of Series 2017 bonds. Capital assets, net increased by $159 million due to ongoing construction on terminal projects. Grants receivable increased by $8 million or 64% resulting from increased Quieter Home Program activities.
- **Liability highlights:** Accrued liabilities increased by $26 million related to the terminal projects, increasing the amount of construction related accruals and retainages payable. Long-term debt increased by $283 million due to issuance of series 2017 bonds. Accrued interest payable increased slightly in line with increasing outstanding principle balances.
- **Net position highlights:** Net investment in capital assets increase by $18 million, which is primarily resulting from the terminal projects construction. Amounts restricted for debt service increase $2 million based on scheduled payments. Amounts restricted for construction increased by $15 million as a result of increased PFC and CFC reserves. Unrestricted net position decreased by $10 million, which is primarily due to the increases in debt payable from restricted and unrestricted resources.
- **Revenue highlights:** Airline revenue grew by $7 million or 6%, reflecting higher cost recovery from the airlines in 2018. Concession revenue increased by $4 million, primarily stemming from the Airport Authority's expanded concession program and an increase in enplaned passengers. Parking and ground transportation revenue rose by $3 million due to higher enplanements and higher trip fees from transportation network companies. Ground rentals revenue increased $2 million or 10%, which is attributable to increased fuel facility rentals, and scheduled rent increases.
- **Expense highlights:** Salaries and benefits increased $1 million or 2% due due to planned wage and benefit increases. Safety and security increased by $2.3 million or 8% due higher law enforcement and emergency services costs. Utilities increased by $2 million or 16%, due to higher usage as a result of the increase in total passengers. Interest expense increased by $10 million in line with increasing outstanding principle balances.
- **Cash flow highlights:** Cash flows from operating activities continue to grow and reflect a strong trend and unrestricted liquid reserves ($273 million) are significant, representing 96% of total unrestricted net position and more than one year of current operating expenses (exclusive of depreciation).
- **Current change in accounting principles:** There were no significant changes to the Airport Authority's significant accounting policies, except with regard to adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* . This statement requires governments providing OPEB plans to recognize their long-term obligation for OPEB benefits as a liability, to provide consistent and comprehensive guidance for all postemployment benefits, parallel to the standards of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* .

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Future Change in Accounting Principles

- **For the fiscal year ended June 30, 2019, the Airport Authority will implement the following accounting principle:**

  - *GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period*

    This Statement requires that interest costs incurred before the end of a construction period be recognized as expenses in the period in which the costs are incurred. As a result, the interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

    This Statement is effective for financial statements for fiscal years beginning after December 15, 2019. Earlier application is encouraged. GASB 89 will be applied prospectively to interest incurred after the date of adoption.

- **Future changes in accounting principle the Airport Authority will implement:**

  - **GASB Statement No. 87**, *Leases*

    This statement includes guidance for lessor and lessee treatment of exchange or exchange-like contracts that convey control of the right of use of a nonfinancial asset.

    Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Application of this standard will apply to all revenue leases other than airline agreements.

    For leases governed or limited by external laws, regulations or legal rulings, recognition of respective lease assets and liabilities is not permitted, though additional note disclosure will be required. Disclosure only requirements will be applicable for airline agreements as these have legal restrictions and limitations.

    This Statement is effective for reporting periods beginning after December 15, 2019. Early implementation is encouraged.

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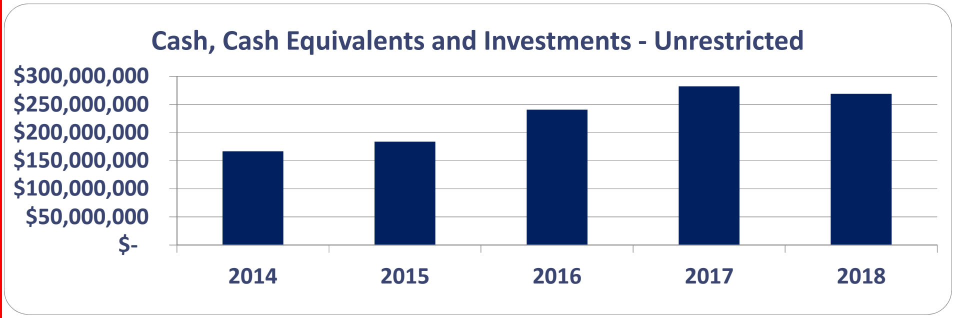
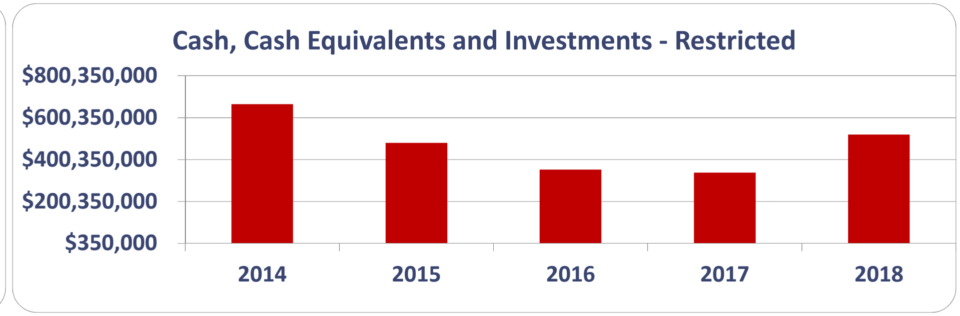
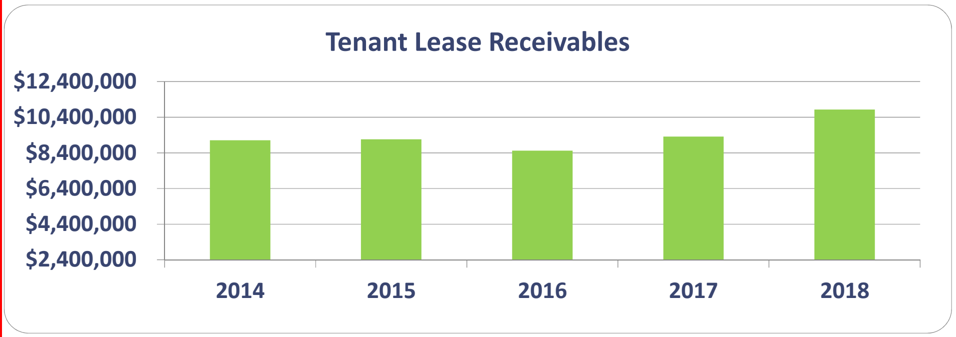
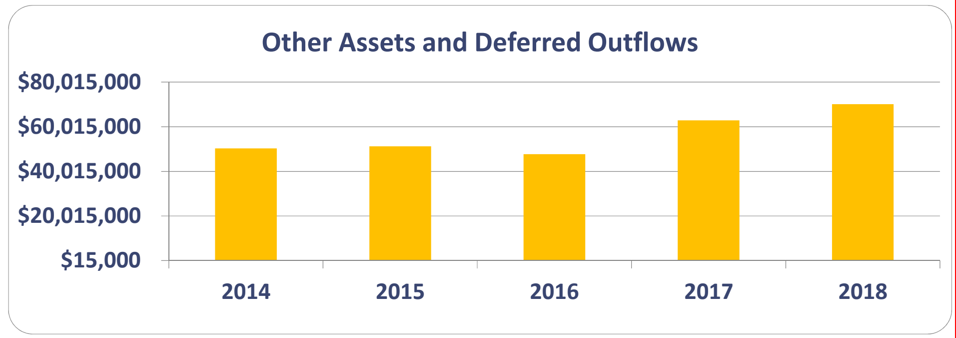
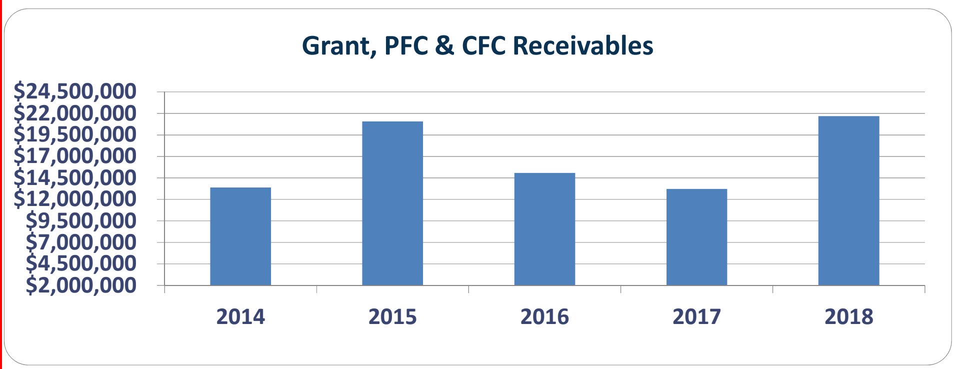
Assets and Deferred Outflows Composition Trends

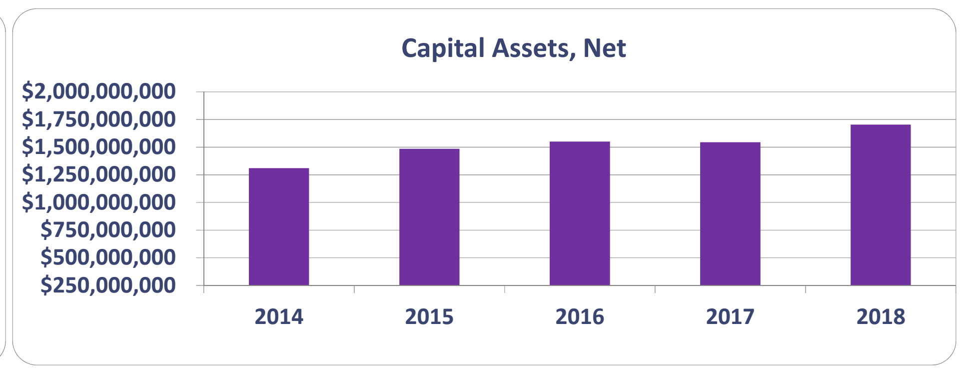












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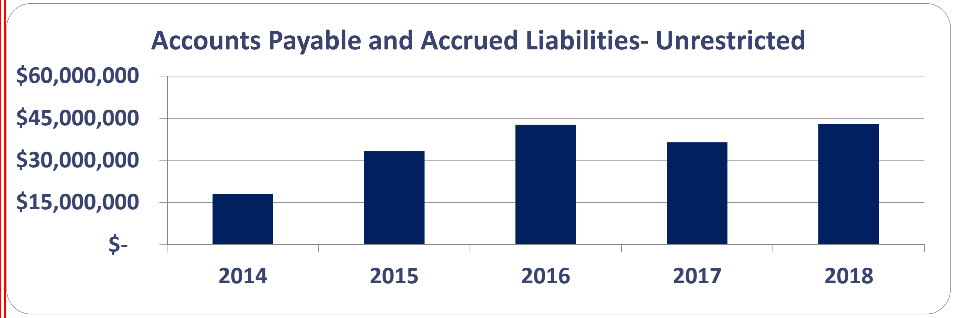
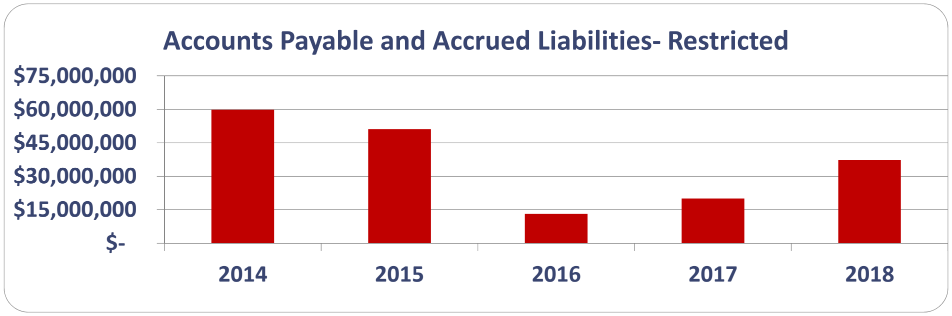
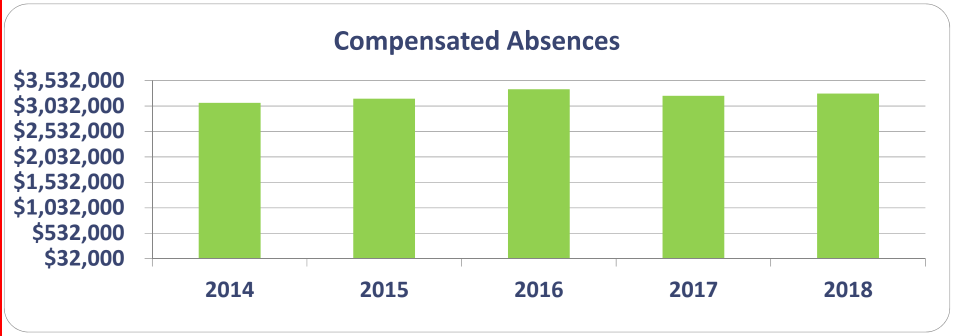
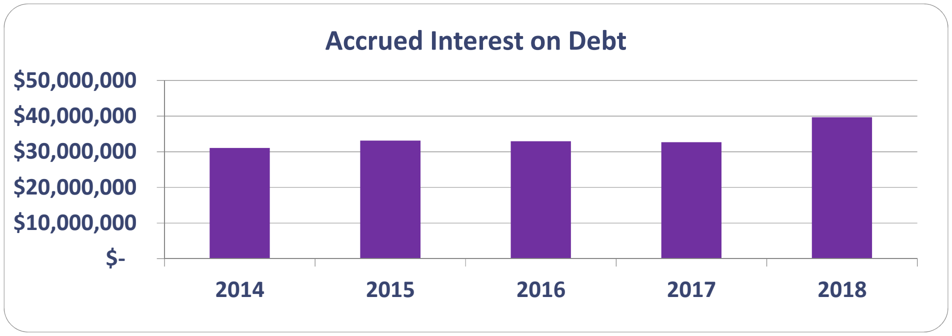
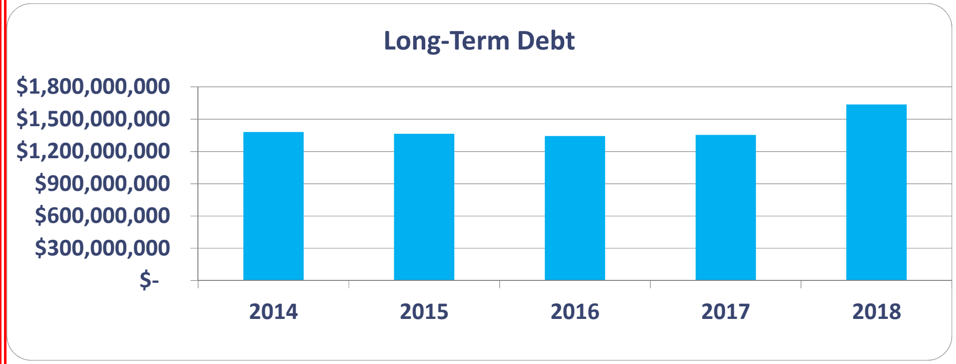
Liabilities and Deferred Inflows Composition Trends

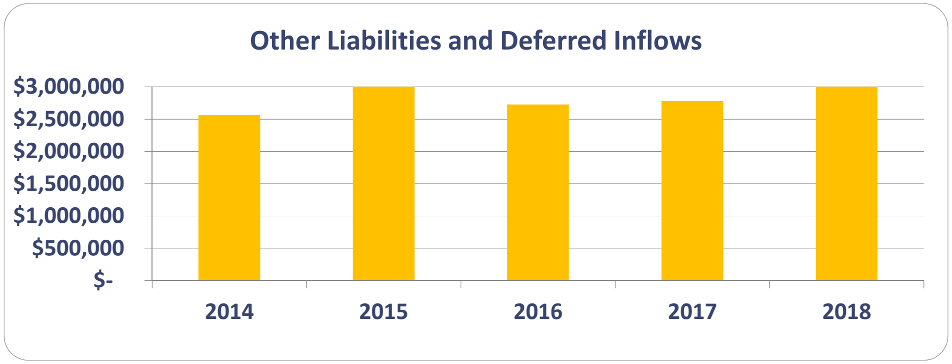












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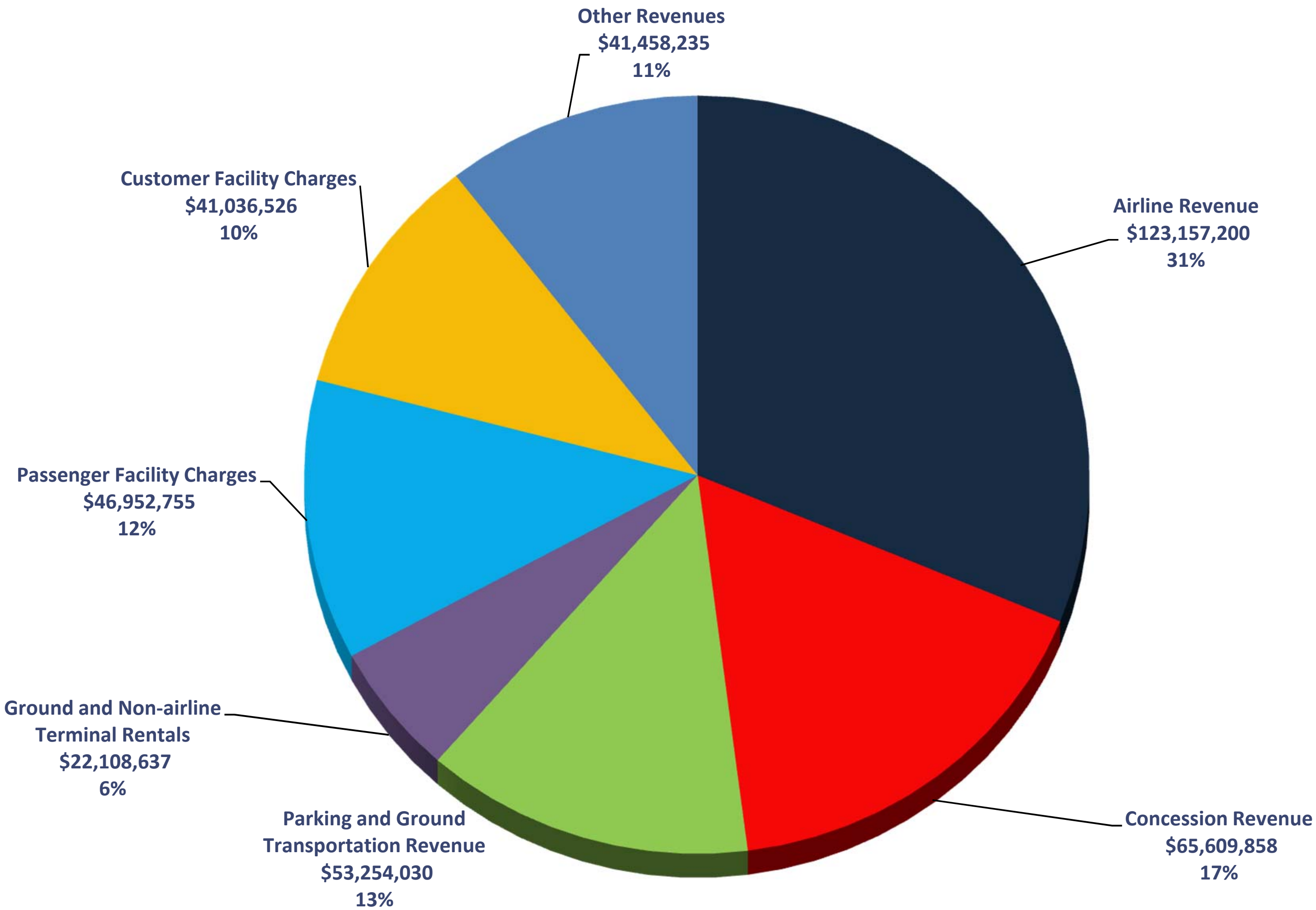
Total Revenues and Capital Contributions Composition for the Year Ended June 30, 2018



Total Revenues = $393,577,241

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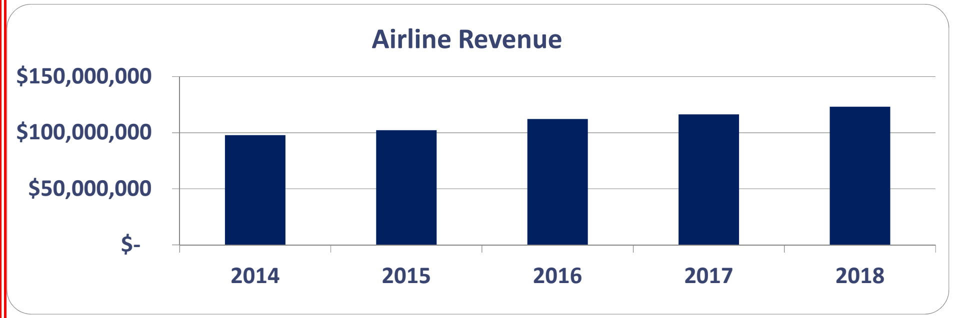
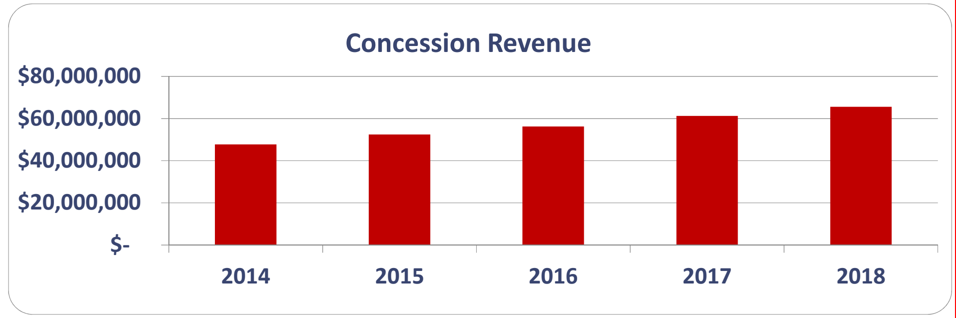
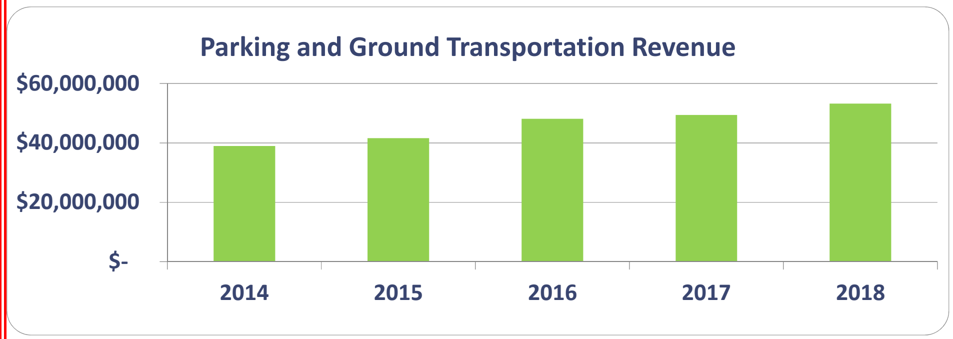
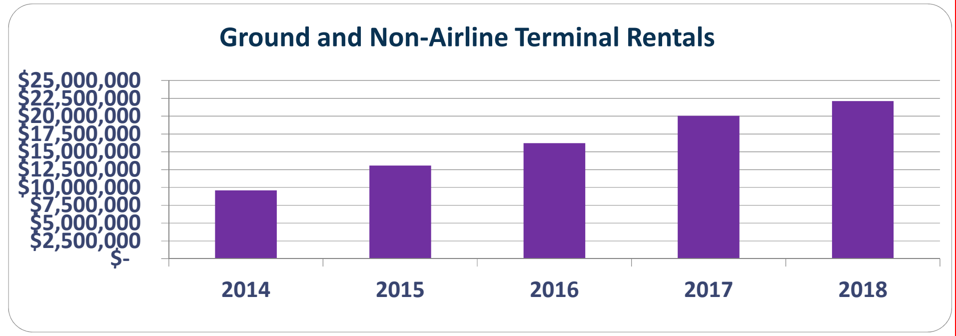
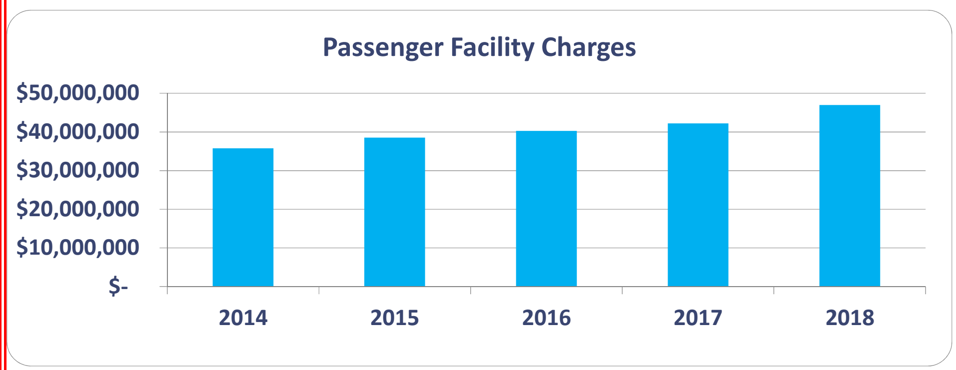
Total Revenues and Capital Contributions Trends

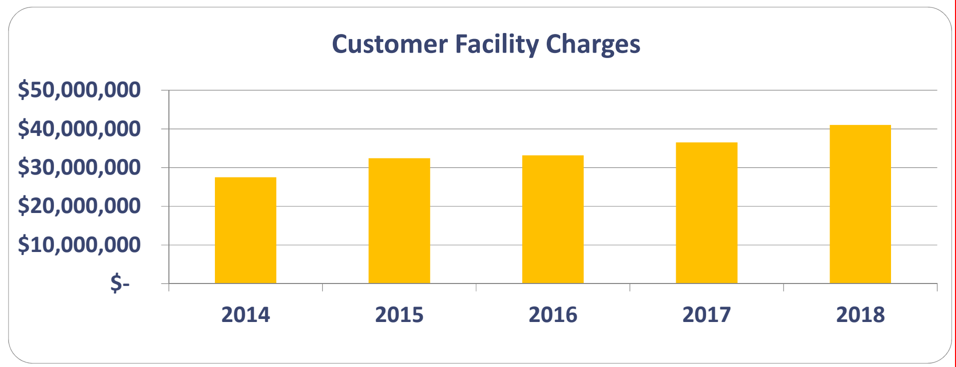












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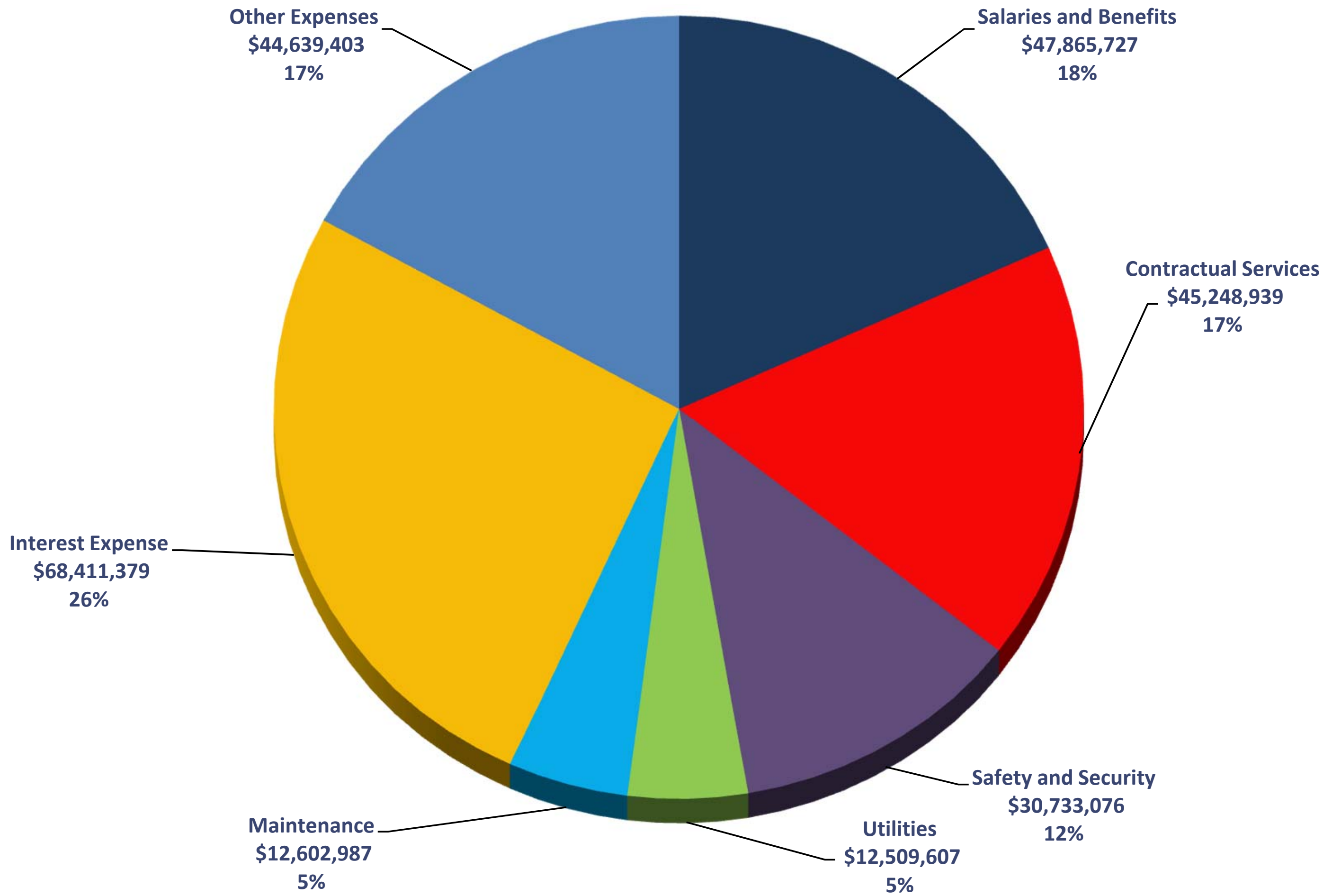
Expense Composition for the Year Ended June 30, 2018
(Excl. Depreciation)



Total Expenses (Excl. Depreciation of $105,553,703) = $262,011,118

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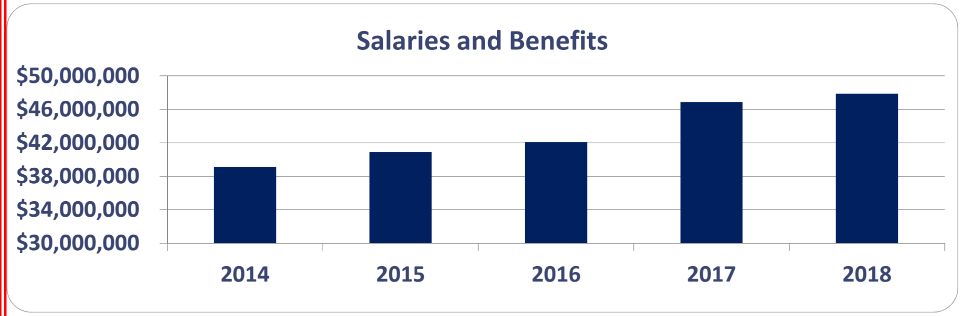
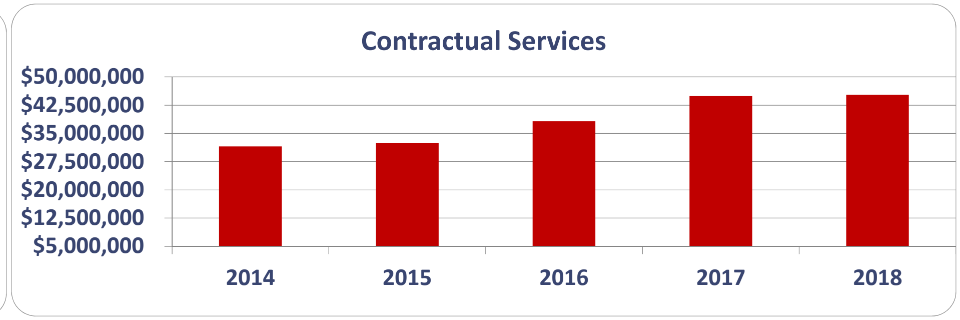
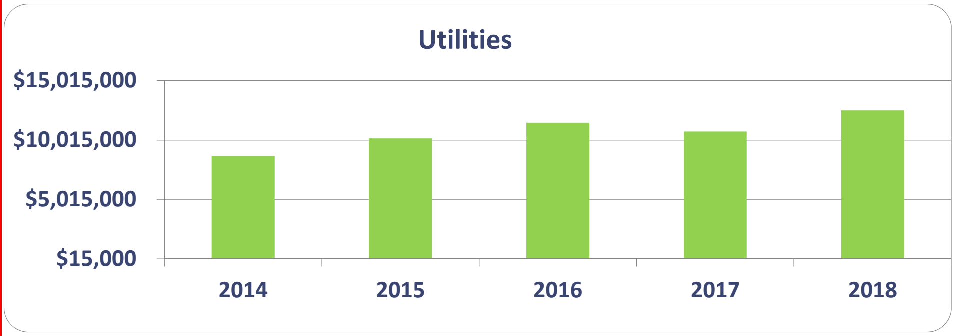
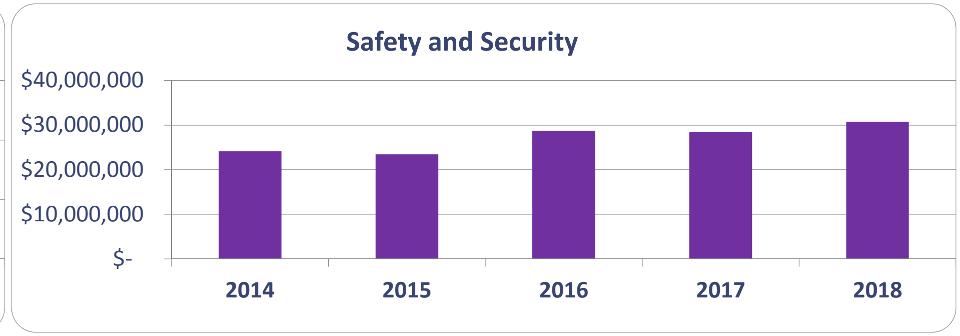
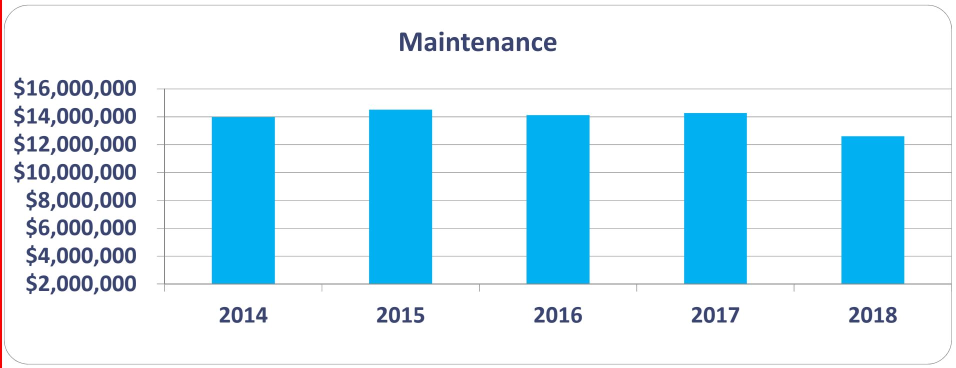
Expense Trends

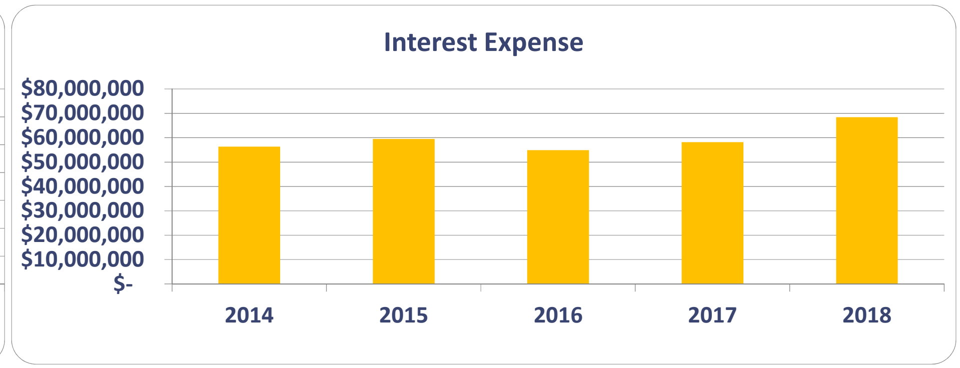












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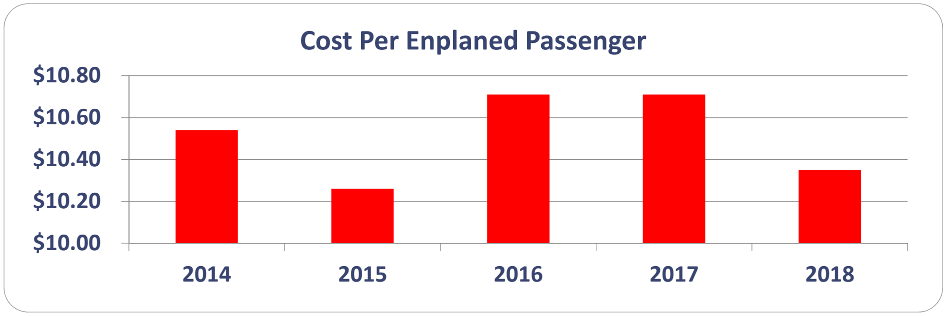
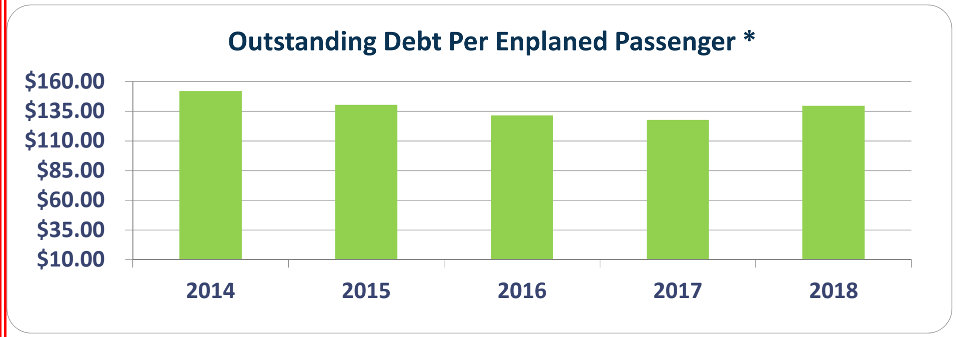
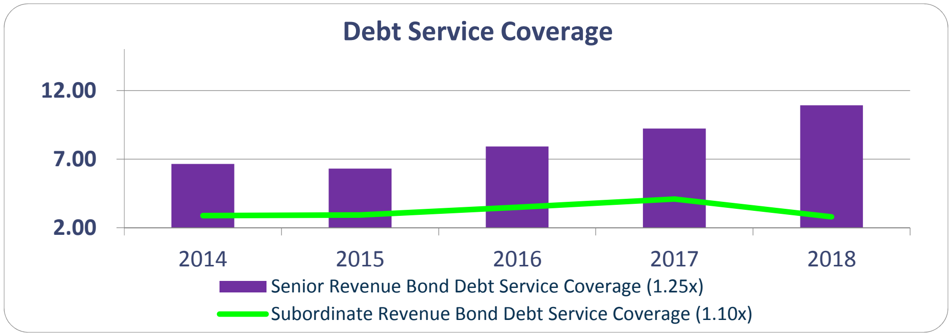
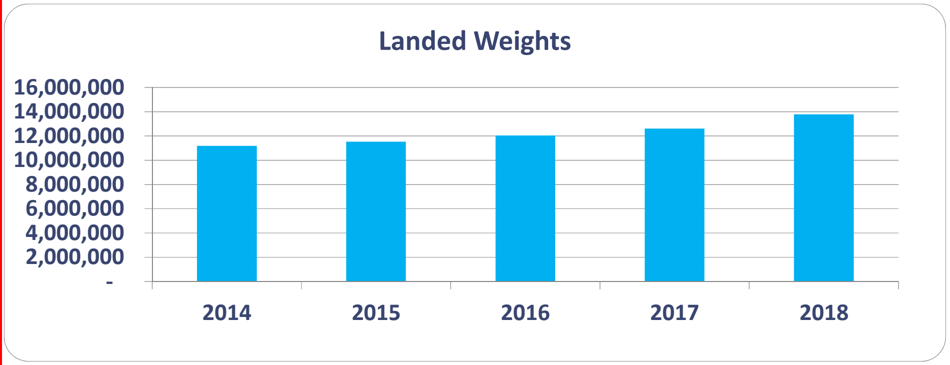
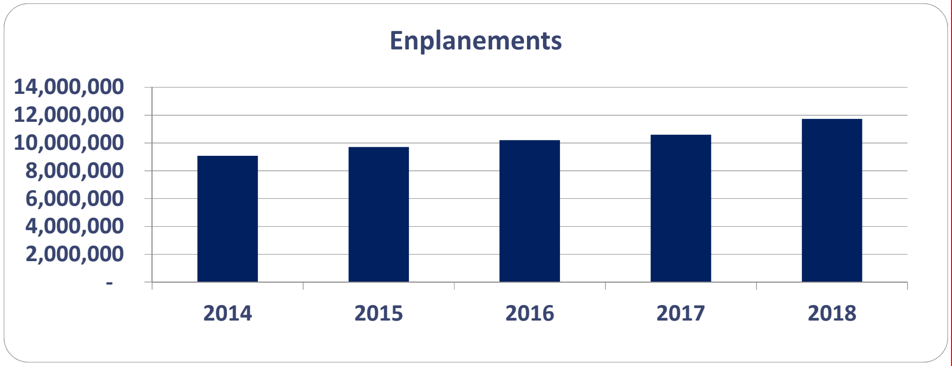
Other Relevant Trends











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SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY

Item No.
3

AUDIT COMMITTEE

Meeting Date: **NOVEMBER 5, 2018**

Subject:

Review of the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2018

Recommendation:

Staff recommends that the Audit Committee forward this item to the Board with a recommendation for acceptance.

Background/Justification:

A Comprehensive Annual Financial Report (CAFR) is a set of U.S. government financial statements that encompass the financial report of a state, municipal, or other governmental entity that conforms with the accounting requirements of the Governmental Accounting Standards Board (GASB).

The CAFR provides a measure of financial transparency on local and state government spending. It is a more thorough report when compared to the audited financial statements, and includes three major sections: the introductory section, which provides general information on the Airport's organization structure; the financial section, which includes the Airport's audited financial statements; and the statistical section, which provides data trends.

The Charter of the Audit Committee directs the Committee to review the CAFR and other external auditor annual reports, and to forward them to the San Diego County Regional Airport Authority Board for approval.

The Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, is submitted as Attachment A.

Fiscal Impact:

Adequate funding for the audit conducted by BKD, LLP, is included in the adopted Fiscal Year 2019 and conceptually approved Fiscal Year 2020 Operating Expense Budgets within the Accounting Department Services – Other line item.

Authority Strategies:

This item supports one or more of the Authority Strategies, as follows:

☐ Community Strategy ☒ Customer Strategy ☐ Employee Strategy ☒ Financial Strategy ☒ Operations Strategy

Environmental Review:

A. CEQA: This Board action is not a project that would have a significant effect on the environment as defined by the California Environmental Quality Act ("CEQA"), as amended. 14 Cal. Code Regs. §15378. This Board action is not a "project" subject to CEQA. Cal. Pub. Res. Code §21065.

B. California Coastal Act Review: This Board action is not a "development" as defined by the California Coastal Act. Cal. Pub. Res. Code §30106.

Application of Inclusionary Policies:

Not Applicable

Prepared by:

KATHY KIEFER
SENIOR DIRECTOR, FINANCE & ASSET MANAGEMENT

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY **Attachment A**

SAN DIEGO, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEARS ENDED JUNE 30, 2018 & 2017

SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
SAN DIEGO, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEARS ENDED JUNE 30, 2018 & 2017

PREPARED BY

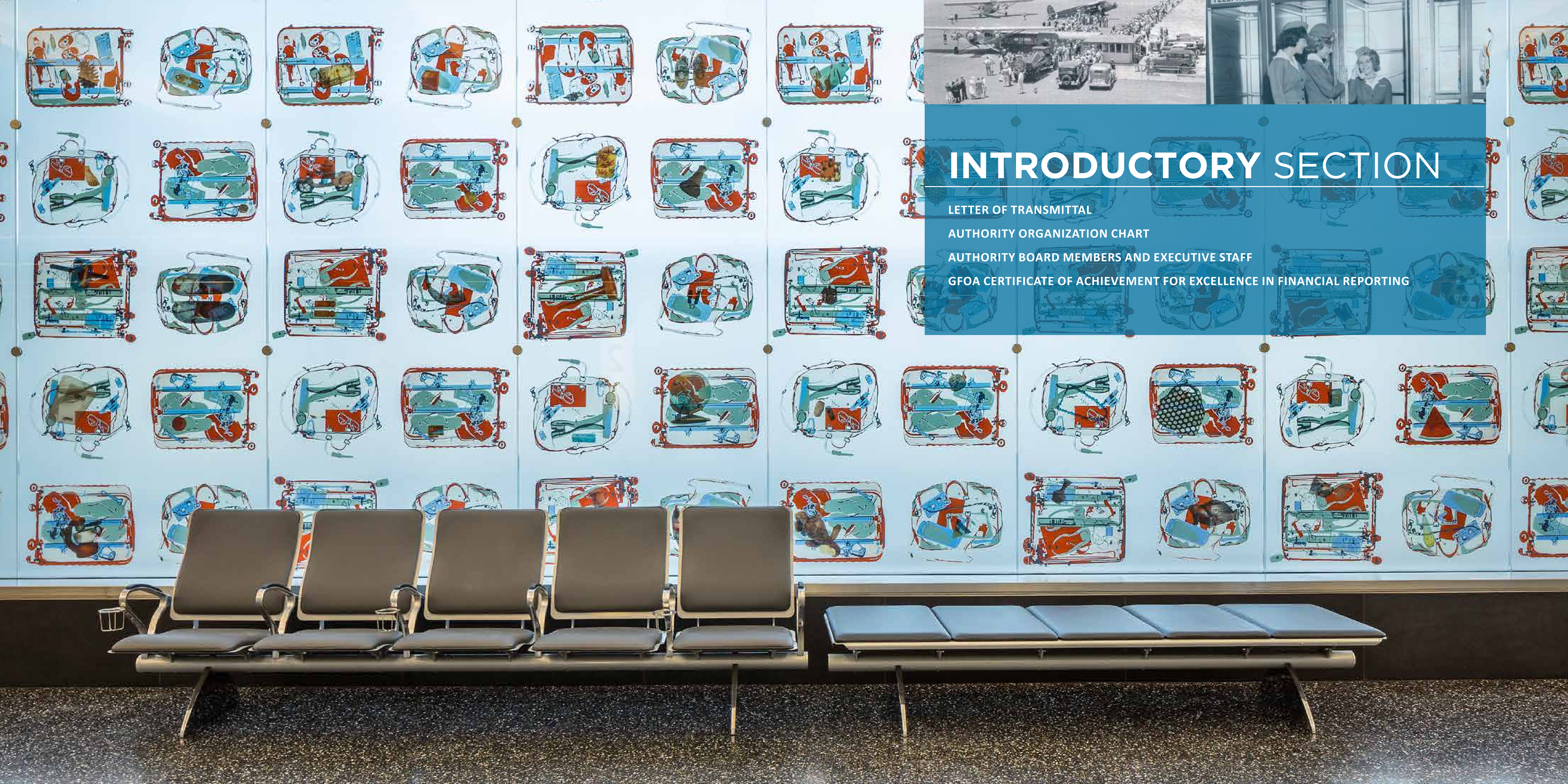
ACCOUNTING DEPARTMENT OF THE
SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY

Scott Brickner
Vice President/Chief Financial Officer

Kathryn J. Kiefer
Sr. Director, Finance and Asset Management

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
SAN DIEGO, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED JUNE 30, 2018 & 2017

TABLE OF **CONTENTS**



INTRODUCTORY SECTION

SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
P.O. BOX 82776, SAN DIEGO, CA 92138-2776
619.400.2400 WWW.SAN.ORG

SAN DIEGO INTERNATIONAL AIRPORT
LET'S GO.

October 23, 2018
To the Public:

We are pleased to present the Comprehensive Annual Financial Report of the San Diego County Regional Airport Authority ("Airport Authority") for the fiscal years ended June 30, 2018 and 2017. The purpose of this report is to provide the Airport Authority Board, the public and other interested parties with reliable information concerning the financial condition and results of the operations of the Airport Authority. The Airport Authority's Accounting Department prepared this report following the guidelines recommended by the Government Finance Officers Association of the United States and Canada (GFOA). Responsibility for the accuracy, completeness and fairness of the presented data, including all disclosures, rests with the Airport Authority management.

To the best of our knowledge and belief, this report fairly presents and fully discloses the Airport Authority's financial position, changes in financial positon, results of operations and cash flows in accordance with generally accepted accounting principles (GAAP) in the United States of America.

The Airport Authority has established and maintains a comprehensive framework of internal controls to provide reasonable assurance that assets are properly safeguarded, transactions are properly executed, and the financial statements are free from material misstatement.

The Airport Authority engaged the Certified Public Accounting firm BKD, LLP to perform the annual independent audit of the basic financial statements contained in this report. The auditors issued an unmodified (or clean) opinion on the Airport Authority's financial statements for the fiscal years ended June 30, 2018 and 2017.

GAAP requires that management provide a narrative overview and analysis to accompany the financial statements in the form of a Management's Discussion and Analysis (MD&A) section. This letter of transmittal should be read in conjunction with the MD&A, which can be found immediately following the report of the independent auditors in the Financial Section of this report.

PROFILE OF AIRPORT AUTHORITY AND ORGANIZATIONAL STRUCTURE

The Airport Authority began operations on January 1, 2003, as an independent agency to manage the day-to-day operations of San Diego International Airport (SAN) and address the region's long-term air transportation needs.

The legislation that created the Airport Authority mandates three main responsibilities:

- Operate San Diego International Airport
- Plan for the future air transportation needs of the region
- Serve as the region's Airport Land Use Commission – and ensure the adoption of land use plans that protect public health and safety surrounding all 16 of the county's airports.

The Airport Authority is governed by an appointed Board of Directors of nine members representing all areas of San Diego County and three additional members serving as non-voting, ex-officio Board members. Three Board members serve as the Executive Committee consisting of one Board member from each of the following "defined jurisdictions": the City of San Diego, the County of San Diego, and one Board member from among the east county cities, south county cities, north county coastal or north county inland cities. The Board members serve three-year terms.

The management and operations of SAN are carried out by a staff headed by the President/Chief Executive Officer, who is appointed by and reports directly to the Airport Authority Board of Directors ("Board").

ECONOMIC CONDITION

Economic and industry trends drive passenger traffic and airline operations at SAN, directly impacting our operating environment and airport finances. The U.S. economy continues to slowly strengthen. Gross Domestic Product (GDP) increased 2.2% during 2017, reflecting continued modest growth in the national economy.

The Air Trade Area for SAN includes San Diego County and portions of neighboring Orange and Riverside Counties and Baja California del Norte, Mexico. The California Department of Finance estimates the population of San Diego County to be 3.34 million as of January 1, 2018. The county is the second largest in California, in terms of population, and the City of San Diego ranks as the second largest city in the state. The majority of the county's population is concentrated in its western portion adjacent to the ocean. The largest cities in the county are San Diego (43 percent), Chula Vista (8 percent), Oceanside (5 percent), Escondido (5 percent), Carlsbad (3 percent), and El Cajon (3 percent). The combined San Diego/Tijuana metropolitan population is estimated to be around 5 million inhabitants.

The region's economy is diverse with a strong tourism sector, a large defense industry and a bustling technology cluster. Over the next five years, job gains are expected in professional and business services, leisure and hospitality, education and healthcare and government. San Diego County has enjoyed a relatively stable economic climate during the past four years, with lower unemployment rates than the State of California. The U.S. Bureau of Labor Statistics notes that the county's average unemployment rate for June 2018 was 3.7 percent compared to June 2017, at 4.3 percent. California's unemployment rate was 4.5 percent in June 2018 and 4.7 percent in June 2017, and the national unemployment rate was 4.2 percent as of June 2018 compared to 4.4 percent as of June 2017. See the Statistical Section for additional economic information.

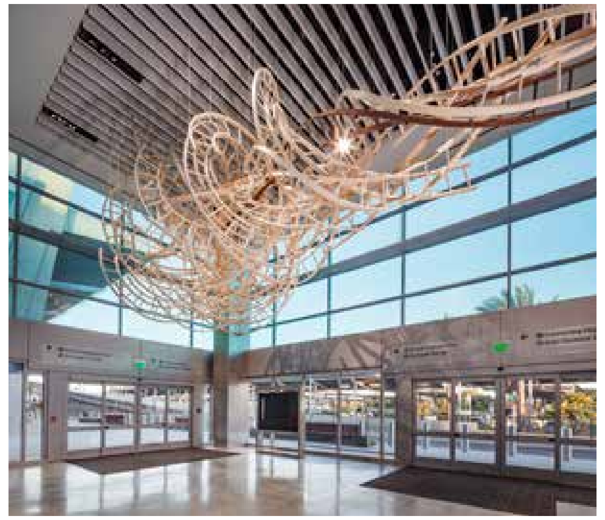
SAN's enplaned passengers grew a very robust 10.7 percent in fiscal year 2018, reflecting continuing economic and industry strength. Total enplaned passengers were 11.7 million, compared to 10.6 million in fiscal year 2017. See the MD&A section of the Financial Section of this report for further discussion of the current year activity.

AIRPORT EXPANDS SERVICE TO DOMESTIC AND INTERNATIONAL MARKETS

San Diego International Airport (SAN) added 21 flights to exciting destinations on eight airlines in Fiscal Year 2018, including:

- Alaska Airlines – Albuquerque, NM
- Alaska Airlines – Austin, TX
- Alaska Airlines – Dallas/Love, TX
- Alaska Airlines – Kansas City, MO
- Alaska Airlines – Mexico City, MX
- Alaska Airlines – Minneapolis/St. Paul, MN
- Alaska Airlines – Omaha, NE
- Alaska Airlines – San Francisco, CA
- Alaska Airlines – St. Louis, MO
- Alaska Airlines – Steamboat Springs/Hayden, CO
- Allegiant Air – Eugene, OR
- Frontier Airlines – Colorado Springs, CO
- Frontier Airlines – Oklahoma City, OK
- Frontier Airlines – San Antonio, TX
- Frontier Airlines – Tulsa, OK
- Hawaiian Airlines – Maui, HI
- Lufthansa – Frankfurt
- Southwest Airlines – El Paso, TX
- Southwest Airlines – Tampa, FL
- Spirit Airlines – Detroit, MI
- Sun Country – San Jose del Cabo, MX

With the addition of these flights, SAN now offers nonstop service to more than 60 domestic and nine international destinations.



RIBBON-CUTTING HELD FOR INNOVATIVE NEW INTERNATIONAL ARRIVALS FACILITY

The Airport Authority held a ribbon-cutting in June 2018 to mark the completion of a new 130,000-square-foot International Arrivals facility at SAN's Terminal 2.

The new facility will allow the airport to accommodate the increase in international passengers resulting from recently added overseas flights. SAN has experienced significant growth in international arrivals in the past 25 years – from about 50,000 passengers a year in the early 1990s to more than 400,000 a year in 2017. That number – and the associated economic impact – will continue to grow as more international nonstop flights are added.

At 130,000 square feet, the new facility is five times larger than the previous facility. It also increases the number of international gates at the airport from three to six and offers the latest biometric facial recognition technologies, as well as an expanded baggage claim and passenger wait area. This has resulted in reduced wait times and a more welcoming environment.

The facility also features two integrated public artworks. Paths Woven, by artist Aaron T. Stephan, is a suspended artwork in the public waiting area that consists of 25 ladders representing the many individual journeys that converge at an airport. In baggage claim, visitors will see Carry On by artist Walter Hood, made up of 52 glass panels featuring more than 600 photos of unique, symbolic items contributed by members of the San Diego community and airport staff.

The total cost of the project is estimated at $229.4 million. The new facility will serve these airlines: British Airways, Edelweiss Air, Japan Airlines, Lufthansa, Alaska Airlines, Southwest Airlines, and Spirit Airlines. SAN currently offers nonstop flights to and from six countries – Japan, Germany, Switzerland, the U.K., Mexico and Canada.

TERMINAL 2 PARKING PLAZA OPENS

The airport opened a much-needed 2,900-space Parking Plaza in front of Terminal 2 in May 2018, providing a net increase of 1,700 spaces of critical close-in parking. Having an adequate supply of convenient, close-in parking is viewed by the Airport Authority as a core customer service need.

The $127.8 million Parking Plaza features numerous sustainable features, including advanced parking guidance technology to reduce unnecessary vehicle circulation and idling, energy-saving lighting controls and fixtures, a scenic overlook deck and public art. The project also includes 16 electric vehicle (EV) charging ports as well as 145 "EV-ready" parking stalls, allowing the airport to quickly increase chargers as customer demand grows in the future.

The Airport Authority is pursuing "Parksmart" certification for this project. Parksmart is similar to LEED but focuses on recognizing sustainable practices in parking structure design, technology, programming and management. If successful, SAN would be one of the first airports in the U.S. to be certified under the green parking program.

Another notable feature is a below-ground rainwater storage system with a capacity of nearly 100,000 gallons. Rainwater captured by this system will be treated and used in the adjacent Central Utility Plant to help manage air temperatures in the terminals. Currently, the airport uses potable water for this purpose.

SMALL BUSINESS, BIG IMPACT

The Airport Authority's Small Business Development program had a very productive year and exceeded its goal of having 8.4 percent of federally funded projects to include Disadvantaged Business Enterprises (DBEs).

In total, $157 million in capital improvement contracts for local business and $63 million in contracts for small businesses were implemented at SAN. This achievement was possible due to numerous outreach initiatives to small and underrepresented enterprises, including a Meet the Primes event that was attended by 450 small businesses interested in learning about on-site opportunities, and an Airport Disadvantaged Business Enterprise Program (ACDBE) Lunch & Learn that was a networking opportunity for joint venture concessionaires and ACDBEs.

One of the challenges for the program is the lack of qualified small businesses available to work on projects at SAN, especially due to the volume of large capital projects that are simultaneously happening across the Southern California region. The initiatives highlighted above help the Airport Authority address this growing challenge.

AIRPORT AUTHORITY BEGINS NEGOTIATIONS WITH AIRLINES ON NEW AIRLINE OPERATING AND LEASE AGREEMENT

The Authority's existing agreement with airline partners expired July 1, 2018 and the agreement has transitioned to hold over status. Negotiations on a new agreement with the airlines have been ongoing, with spring of 2019 as the target date to have executed agreements in place. Financial terms of the agreement are being negotiated to include support of the Authority's capital program, including the Airport Development Plan.

SAN SIGNS SUSTAINABILITY DECLARATION

On November 13, 2017, SAN officially signed the "Airports Sustainability Declaration." The declaration, which is voluntary and non-binding, calls for airports to develop, implement and expand initiatives that improve the sustainability and resilience of airports and their surrounding communities.

The declaration promotes four key principles – collaboration, transparency, innovation and engagement – and encourages partnerships between airports on a worldwide scale. The declaration is also aligned with the 17 action areas of the United Nations Sustainable Development Goals, which were adopted by the United States and over 190 other countries in 2015. SAN is implementing a portfolio of policies and projects that support the Airports Sustainability Declaration and its main principles.

OPPORTUNITIES ABOUND FOR INNOVATION LAB'S INAUGURAL ACCELERATION PROGRAM

The unique Innovation Lab was launched to reduce barriers for innovators to break into the aviation industry. Its goals are to enhance the passenger experience, improve operational efficiency and decrease costs for the Airport Authority.

The Airport Authority established the Innovation Lab in part of the former Commuter Terminal, which was decommissioned in June 2015. The 3,500-square-foot space offers a functional mini-terminal area with ticket counters and a bag claim carousel, all without passenger or security concerns to work around.

The Airport Authority, in concert with its Innovation Lab's third-party operator, Detecon Innovation Institute, in April 2018 released the first two "opportunity statements" to solicit applicants to participate in its accelerator program. One opportunity focused on airport parking while the other zeroed in on ways to assist passengers with unique needs to simplify the journey through the airport.

AIRPORT AUTHORITY COMPLETES MAJOR BOND SALE, EARNS LOWEST INTEREST RATE IN AIRPORT'S HISTORY

The Airport Authority in July 2017 completed a major bond sale. Proceeds covered construction costs of the Terminal 2 Parking Plaza and international arrivals facility, which opened in mid-2018. More than $291 million in Subordinate Airport Revenue Bonds were issued at a favorable all-in borrowing cost of 3.74 percent for the bonds, the lowest long-term rate the Authority has ever attained. Accessing the market at a favorable interest rate saves an estimated $43.4 million in debt service cost over the 30-year term of the bonds.

The bond sale's advantageous circumstances were due to several factors, including the Airport Authority's careful timing of market entry for the sale, pricing during a time when rates were more attractive, and its strong financial profile as evidenced by favorable credit ratings for Airport Authority bonds from the nation's top three ratings agencies: Fitch Ratings, Moody's Investor Services and Standard & Poor's.

QUIETER HOME PROGRAM GAINS MOMENTUM

The Airport Authority strives to be a good neighbor to surrounding communities. In 2017, one of its most important community programs – the Quieter Home Program – gained momentum. The Quieter Home Program provides improvements and retrofits to homes around SAN to reduce interior sound levels from overhead planes.

In May 2018, the program began construction on homes in the Loma Portal, Ocean Beach, Midtown, South Park and Golden Hill communities. To date, the Quieter Home Program has treated more than 3,500 homes, providing sound reduction benefits for nearly 9,000 residents.

RUNWAY REHABILITATION PROJECT PROVES TO BE EFFICIENT AND SUSTAINABLE

In addition to the Parking Plaza and new international arrivals facility, SAN has been working on several other major capital improvement projects including runway rehabilitation. In November 2017, the airport's single Runway 9-27 was closed from midnight to 5:00 AM to allow milling, paving, and re-striping activities to occur. Each night, a 22.5-foot-wide by approximately 2,100-foot long lane was replaced with new asphalt paving with the runway being completed in only 74 days.

In 2018, the Authority will continue its efforts to rehabilitate its single runway and various taxiways. Specifically, the current runway lights will be replaced with energy-saving LED lights, the runway pavement will be grooved and striped and eight cross taxiways will be rehabilitated.

SAN DIEGO INTERNATIONAL AIRPORT WINS ENVIRONMENTAL EXCELLENCE AWARD

Two projects at SAN that advance water conservation and reuse efforts received the Industrial Environmental Association's (IEA) 2017 Environmental Excellence Award in October 2017. SAN's Terminal 2 Parking Plaza was recognized for an innovative rainwater capture system. The airport's air conditioning condensate collection system was also recognized.

The new Parking Plaza was designed to capture 100 percent of the rain that falls on the 7.6-acre structure, routing it into a below-ground storage system with a capacity of nearly 100,000 gallons. Instead of becoming storm water runoff, potentially impacting San Diego Bay, the collected rainwater will be used by the adjacent Central Utility Plant to help heat and cool the terminals.

The Airport's Air Conditioning Condensate Capture and Reuse program saves significant amounts of water (condensate) that drips from the air conditioning units of the passenger boarding bridges. The program has resulted in capturing over 100,000 gallons of clean water annually for reuse around other areas of the airport facility. Potential storm water compliance issues have also been evaded.

SAN DIEGO INTERNATIONAL AIRPORT RECOGNIZED FOR ENGAGEMENT IN CARBON REDUCTION EFFORTS

The Airport Authority's continuing efforts to reduce the airport's carbon footprint have been recognized by the global agency that enforces carbon standards for airports worldwide. SAN has been certified at "Level 3 Optimization," one of only 10 airports in North America to achieve this designation or higher from the Airports Council International's Airport Carbon Accreditation (ACA) program. The third-party verified program is a framework that helps airports identify, manage, and reduce their carbon emissions.

Level 3 certification acknowledges that the airport has gone beyond implementing a carbon management plan that reduces emissions under its control; and is now effectively partnering with airlines, concessions, and ground transportation operators to help them lower their emissions at the airport. SAN's goal is to reach the highest level of certification, Level 3+ (Carbon Neutrality), by 2022.

SAN DIEGO INTERNATIONAL AIRPORT UNVEILS ICONIC DYNAMIC, SOLAR-POWERED PUBLIC ART INSTALLATION ON RENTAL CAR CENTER

In September 2017, SAN and artist team Ueberall International officially unveiled DAZZLE, the region's largest high-tech public art installation spanning the nearly one-third-mile façade of the airport's Rental Car Center facing Pacific Highway. The artwork is named for the military dazzle camouflage technique used in World War I in which the outlines of ships would be camouflaged through the use of stripes and patterns.

The 1,600-foot long digital art installation features 2,100 e-paper solar-powered panels that collectively display synchronized animated designs to include water ripples and dancing snowflakes. Through the utilization of E Ink technology, the entire display consumes about as much energy as a PC computer.

AIRPORT LAUNCHES GREEN CONCESSIONS PROGRAM

In July 2017, SAN launched the Green Concessions program, which rewards and recognizes airport concessionaires that help reduce water and energy use, minimize waste and educate consumers on what green business is all about.

The Green Concessions program is designed to help our concessionaires adopt sustainable business practices that benefit their individual businesses, the airport as a whole, and the environment.

The Authority provides support and assistance to concessionaires interested in being certified. The certification is good for a one-year period with the opportunity for renewal. More than 30 businesses have been certified as Green Concessions.

BUDGET PROCESS AND FINANCIAL PLAN

Annually, the Airport Authority prepares a five year capital program budget, an operating budget for the fiscal year and a conceptual budget for the next year. The capital program provides for critical improvements and asset preservation. Security, environmental remediation, terminal upgrades and development are the main focus of the capital program. The budget process begins in the fall with senior management collaborating with the Board to update, review and formulate the strategies and initiatives that drive business performance. The management team engages in cross-functional discussions to arrive at key decisions and agreements. The effort is designed to align divisional requirements with the Airport Authority's overall strategies and initiatives.

FINANCIAL INFORMATION

The Airport Authority Board sets policy that provides for appropriate internal controls and provides oversight to ensure that the assets of the Airport Authority are protected from loss, theft or misuse, and to ensure that adequate accounting data is compiled to allow for preparation of financial statements in conformity with GAAP. Internal controls are designed to provide reasonable, but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the valuation of costs and benefits requires estimates and judgments by management.

The Airport Authority completed fiscal year 2018 with operating income (before depreciation) of $96.7 million. Fiscal year 2018 also grew as compared to fiscal year 2017, with enplanements increasing 10.7 percent, total passengers increasing 10.8 percent, and freight and mail tons increasing 1.6 percent. The accompanying Management's Discussion and Analysis provides a detailed narrative overview.

ACKNOWLEDGEMENTS

The preparation of the Comprehensive Annual Financial Report was made possible by the dedicated service and efforts of the Airport Authority's Accounting, Financial Management, and Media and Public Relations. We wish to express our sincere appreciation for their dedication to ensure fiscal transparency and accountability and to maintain and present the Airport Authority's financial statements in conformance with the highest professional standards.

Finally we would like to thank members of the Airport Authority Board for their continued leadership, guidance and support towards the execution of our Mission to plan for and provide air transportation services to the region with safe, effective facilities that exceed customer expectations. We are committed to operating San Diego's air transportation gateways in a manner that promotes the region's prosperity and protects its quality of life.

Respectfully submitted,

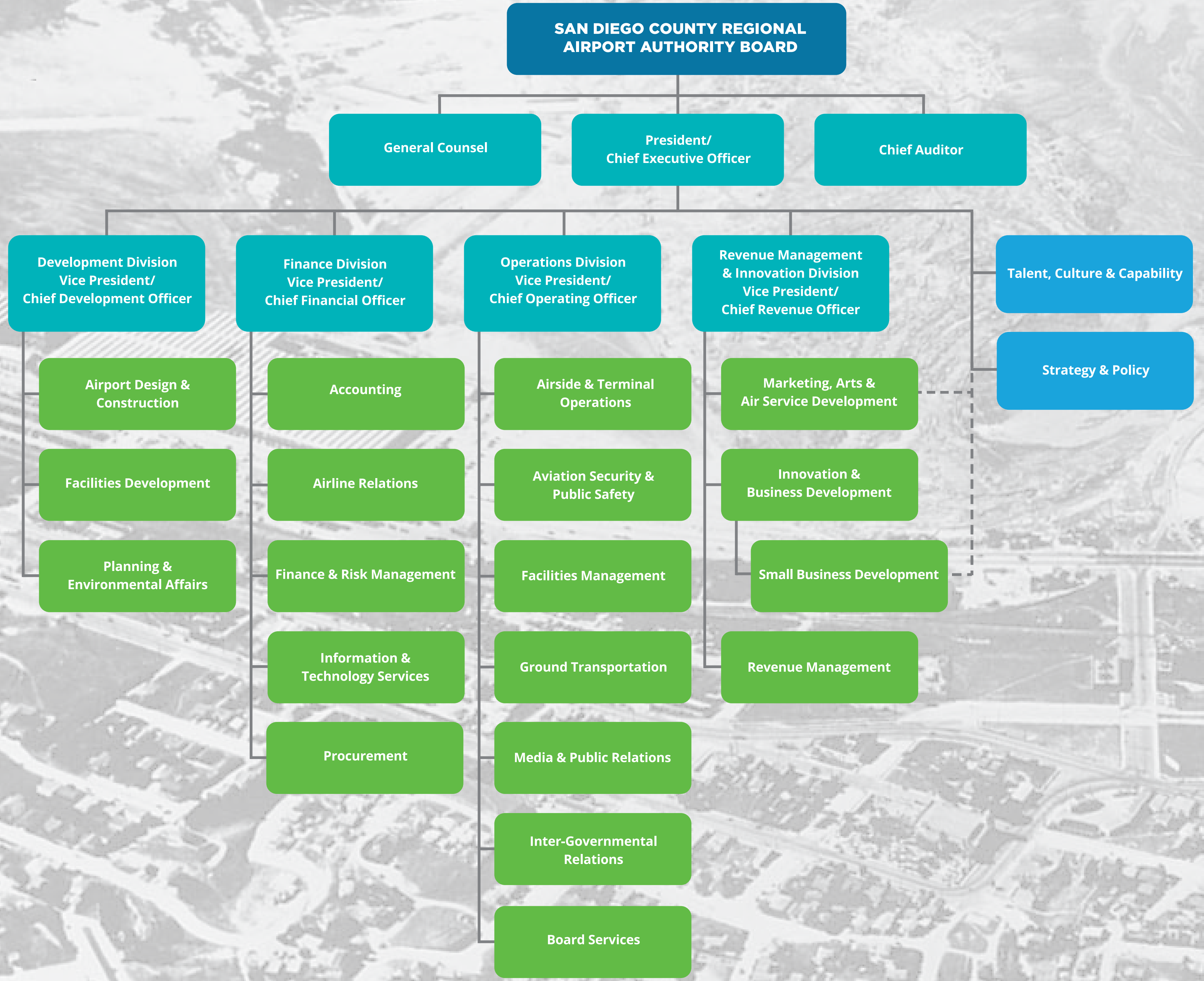
Kimberly J. Becker

President | Chief Executive Officer

Scott Brickner, CPA

Vice President | Chief Financial Officer

ORGANIZATION CHART



AUTHORITY BOARD MEMBERS AND EXECUTIVE STAFF

AS OF JUNE 30, 2018

AIRPORT AUTHORITY BOARD

EXECUTIVE COMMITTEE MEMBERS:

C. APRIL BOLING, BOARD CHAIRMAN

PAUL ROBINSON, VICE CHAIR

MICHAEL SCHUMACHER

GENERAL MEMBERS:

GREG COX

MAJOR JIM DESMOND

MARK KERSEY

ROBERT T. LLOYD

JOHANNA SCHIAVONI

MARK B. WEST

EX-OFFICIO MEMBERS

TIM GUBBINS

JACQUELINE WONG-HERNANDEZ

COLONEL JASON G. WOODWORTH

EXECUTIVE STAFF

KIMBERLY J. BECKER, PRESIDENT/CHIEF EXECUTIVE OFFICER

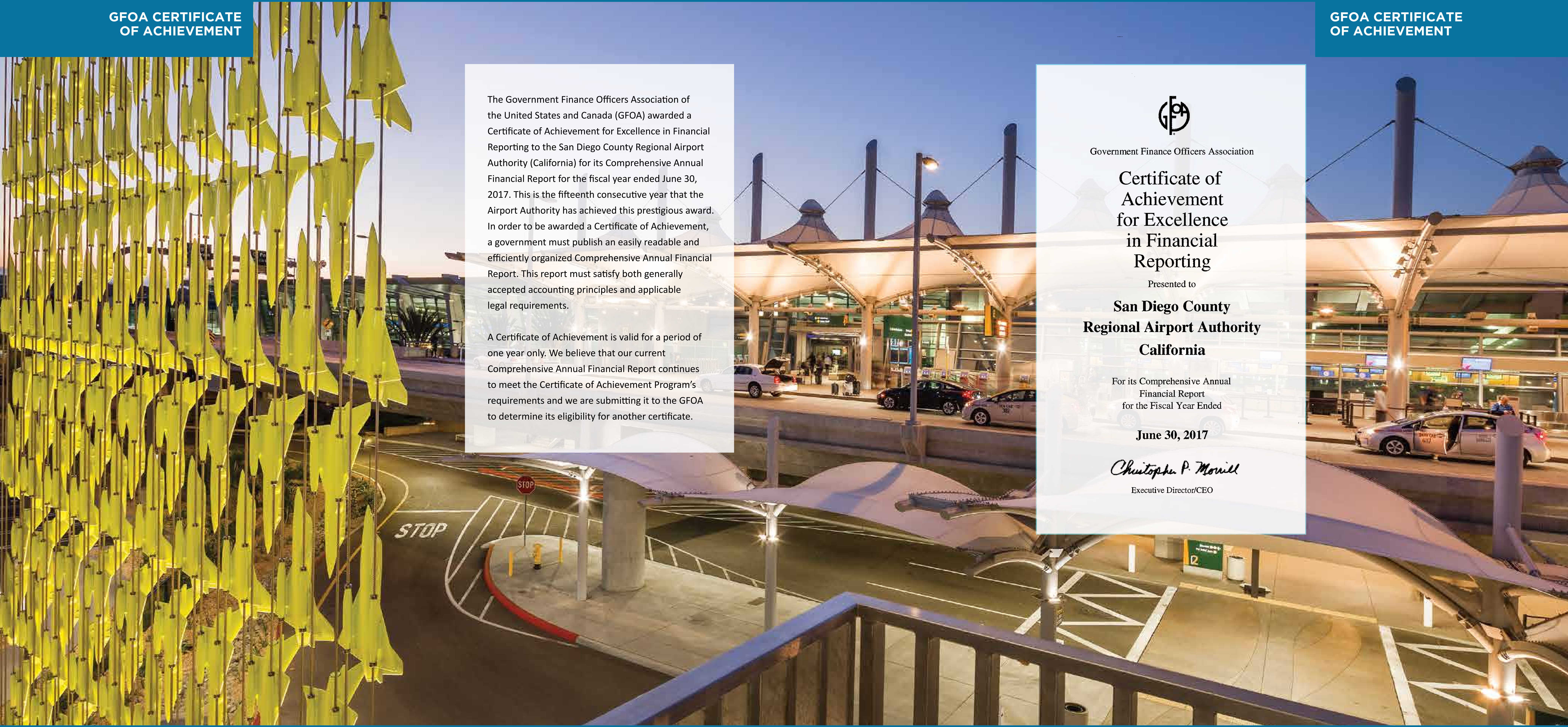
SCOTT BRICKNER, VICE PRESIDENT/CHIEF FINANCIAL OFFICER

ANGELA SHAFER-PAYNE, VICE PRESIDENT/CHIEF OPERATING OFFICER

DENNIS PROBST, VICE PRESIDENT/CHIEF DEVELOPMENT OFFICER

AMY GONZALEZ, GENERAL COUNSEL

LEE PARRAVANO, CHIEF AUDITOR



The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the San Diego County Regional Airport Authority (California) for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017. This is the fifteenth consecutive year that the Airport Authority has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

GFOA CERTIFICATE
OF ACHIEVEMENT

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Diego County Regional Airport Authority California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

FINANCIAL SECTION

BKD
CPAs & Advisors
14241 Dallas Parkway, Suite 1100 | Dallas, TX 75254-2961
972.702.8262 | Fax 972.702.0673 | bkd.com

Independent Auditor's Report

To the Members of the Board
San Diego County Regional Airport Authority
San Diego, CA

We have audited the accompanying financial statements of the San Diego County Regional Airport Authority (Airport Authority) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Airport Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Members of the Board
San Diego County Regional Airport Authority

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport Authority as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, in 2018, the Airport Authority changed its method of accounting for postemployment benefits other than pensions (OPEB) with the adoption of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

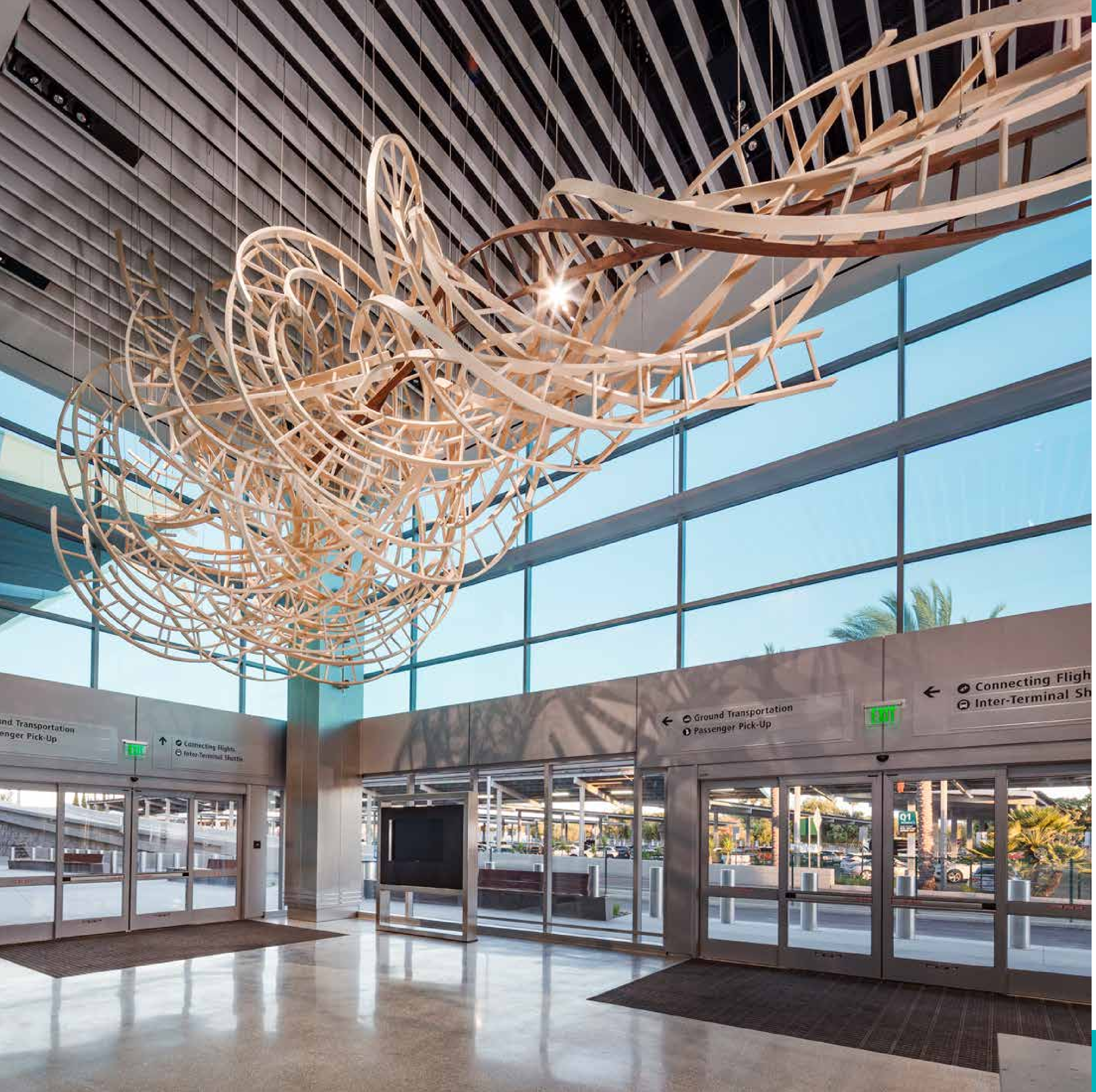
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension and other postemployment benefit information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Introductory and Statistical Sections listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Dallas, Texas
October 17, 2018



INTRODUCTION

The San Diego County Regional Airport Authority (Airport Authority) was established on January 1, 2002, as an independent agency. On January 1, 2003, the operations and assets of San Diego International Airport (SDIA) transferred from the San Diego Unified Port District (District) to the Airport Authority.

The Airport Authority is a self-sustaining entity receiving most of its revenues through user fees and rents from airline and non-airline business partners operating at SDIA. Since the Airport Authority is not funded by tax revenues, accounts are maintained in an enterprise fund on the accrual basis of accounting. Under accrual accounting, revenues are recognized as soon as they are earned, and expenses are recognized as soon as a liability is incurred, regardless of the timing of related cash inflows and outflows. Users of SDIA's facilities provide most of the revenues to operate, maintain, and acquire necessary services and facilities.

SAN DIEGO INTERNATIONAL AIRPORT

HISTORY OF OWNERSHIP

The public policy decision to transfer responsibility for SDIA from the District to the newly created Airport Authority emanated from recommendations made by the San Diego Regional Efficiency Commission (Commission). The Commission was established to evaluate regional governance in San Diego County and report recommended improvement measures to the California State Legislature.

Because of the significant regional consequences of airport development and operations, the Commission concluded that a regional decision-making process should address the future development of airport facilities in San Diego County. In October 2001, the enabling legislation, Assembly Bill 93 (AB 93) established the composition and jurisdiction of the Airport Authority's governing body in a manner that is designed to reflect the collective interests of the entire San Diego region.

LEGISLATIVE BACKGROUND

AB 93 was signed into California State law in October 2001. The Act established the Airport Authority on January 1, 2002, as a local agency of regional government with jurisdiction throughout the County of San Diego. Subsequent legislative changes to AB 93 were introduced and passed in California Senate Bill 1896 (Act). The amendment addresses several points pertaining to the transfer of aviation employees, date of transfer, property leases, property acquisition and purchase of services from the District.

On January 1, 2008, Senate Bill 10 (SB 10), the San Diego County Regional Airport Authority Reform Act, was enacted into law expanding the responsibilities of the Airport Authority. The Airport Authority is vested with five principal responsibilities:

1. Operation of SDIA;
2. Planning and operation of any future airport that could be developed as a supplement or replacement to SDIA;
3. Development of comprehensive airport land use plans for the airports in the county;
4. Serving as the region's Airport Land Use Commission; and
5. In accordance with SB 10, preparing a Regional Aviation Strategic Plan (completed in fiscal year 2011).

AIRPORT ACTIVITIES HIGHLIGHTS (2016 – 2018)

In August 2013, Assembly Bill 1058 was signed into law. This bill made minor clarifying and technical changes to the Airport Authority Act.

AIRPORT ACTIVITIES HIGHLIGHTS (2016 – 2018)

The Airport Authority experienced continued growth during the current and prior two fiscal years. This follows the overall trend of healthy growth in the airport industry over the last several years as improving economic conditions fuel demand for airport services.

The changes in the SDIA's major activities for the three years are as follows:

	FY 2016	FY 2017	**FY 2018**
Enplaned passengers	10,206,222	10,596,483	**11,728,880**
% increase	5.1%	3.8%	**10.7%**
Total passengers	20,397,170	21,140,067	**23,431,340**
% increase	5.1%	3.6%	**10.8%**
Aircraft operations	193,451	201,011	**218,671**
% increase	(0.9%)	3.9%	**8.8%**
Freight and mail (in tons)	185,655	188,607	**191,550**
% increase	3.9%	1.6%	**1.6%**
Landed weight (in thousands)	12,048	12,616	**13,781**
% increase	4.6%	4.7%	**9.2%**

Overall, the strong economy is reflected in the FY 2018 Airport Activities results at SDIA. There was a substantial increase in enplaned passengers in fiscal year 2018 of 10.7 percent. Additionally, freight and mail tons increased by 1.6 percent. New airline routes also factored into the sizable increases of aircraft operations and landed weight.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (IN THOUSANDS)

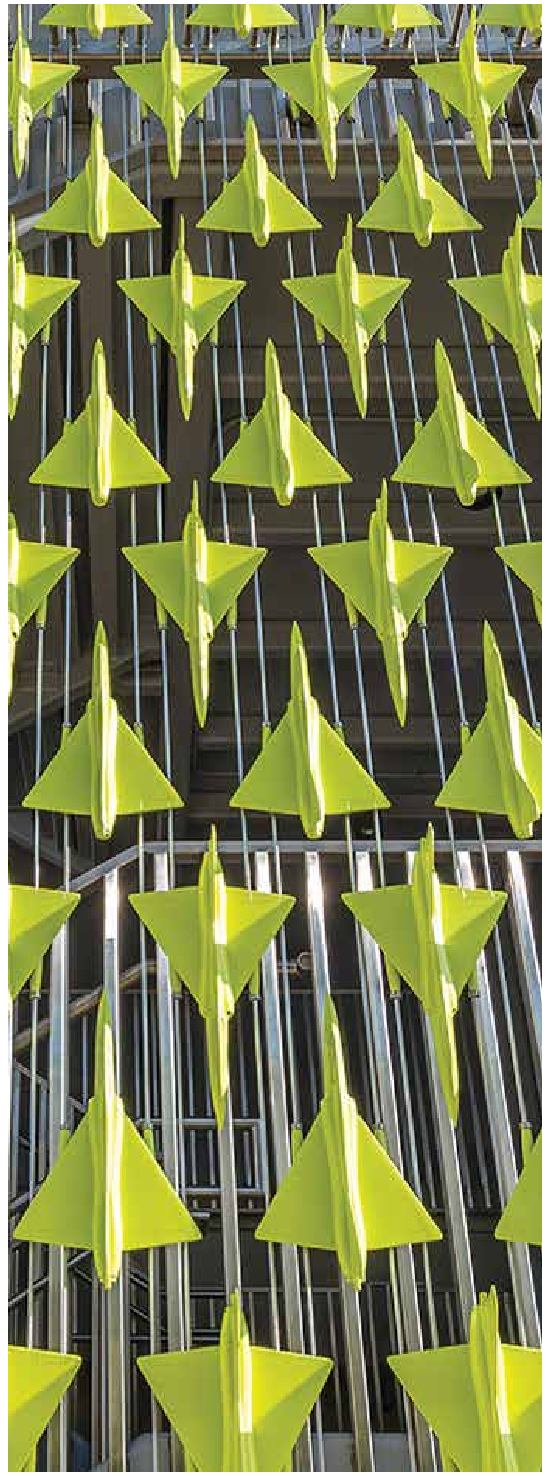
The metric 'Changes in Net Position' is an indicator of whether the Airport Authority's overall financial condition has improved or deteriorated during the fiscal year. Net position increased by 4.5 percent in 2016, was followed by a slight 0.9 percent increase in 2017, and was followed by a larger increase of 3.4 percent in 2018.

Following is a summary of the statements of revenues, expenses and changes in net position (in thousands):

	FY 2016	FY 2017	**FY 2018**
Operating revenues	$ 233,994	$ 248,847	**$ 265,830**
Operating expenses	(241,429)	(258,954)	**(274,652)**
Nonoperating revenues, net	31,933	15,428	**21,528**
Capital contributions and grants	10,477	1,904	**13,328**
Increase in net position	34,975	7,225	**26,034**
Net position, beginning of year	742,741	775,949	**783,174**
Prior-period adjustment	(1,767)	-	**717**
Net position, end of year	$ 775,949	$ 783,174	**$ 809,925**

Detailed descriptions of the components of operating revenues and expenses, and nonoperating revenues and expenses are described in the sections that follow. The implementation of GASB 68 and 75 caused prior-period adjustments in fiscal years 2016 and 2018 respectively. The cumulative changes in accounting for pension and postretirement benefit liabilities are reflected in these adjustments.

OPERATING REVENUES (IN THOUSANDS)



	FY 2017	FY 2018	From 2017 to 2018 Increase (Decrease)	% Change
Airline revenue:				
Landing fees	$ 24,612	**$ 23,900**	$ (712)	(2.9%)
Aircraft parking fees	2,927	**3,236**	309	10.6%
Building rentals	56,575	**62,241**	5,666	10.0%
Security surcharge	29,468	**32,303**	2,835	9.6%
Other aviation revenue	2,799	**1,477**	(1,322)	(47.2%)
Total airline revenue	116,381	**123,157**	6,776	5.8%
Concession revenue	61,256	**65,610**	4,354	7.1%
Parking and ground transportation revenue	49,407	**53,254**	3,847	7.8%
Ground and non-airline terminal rentals	20,053	**22,109**	2,056	10.3%
Other operating revenue	1,750	**1,701**	(49)	(2.8%)
Total operating revenue	$ 248,847	**$ 265,831**	$ 16,984	6.8%

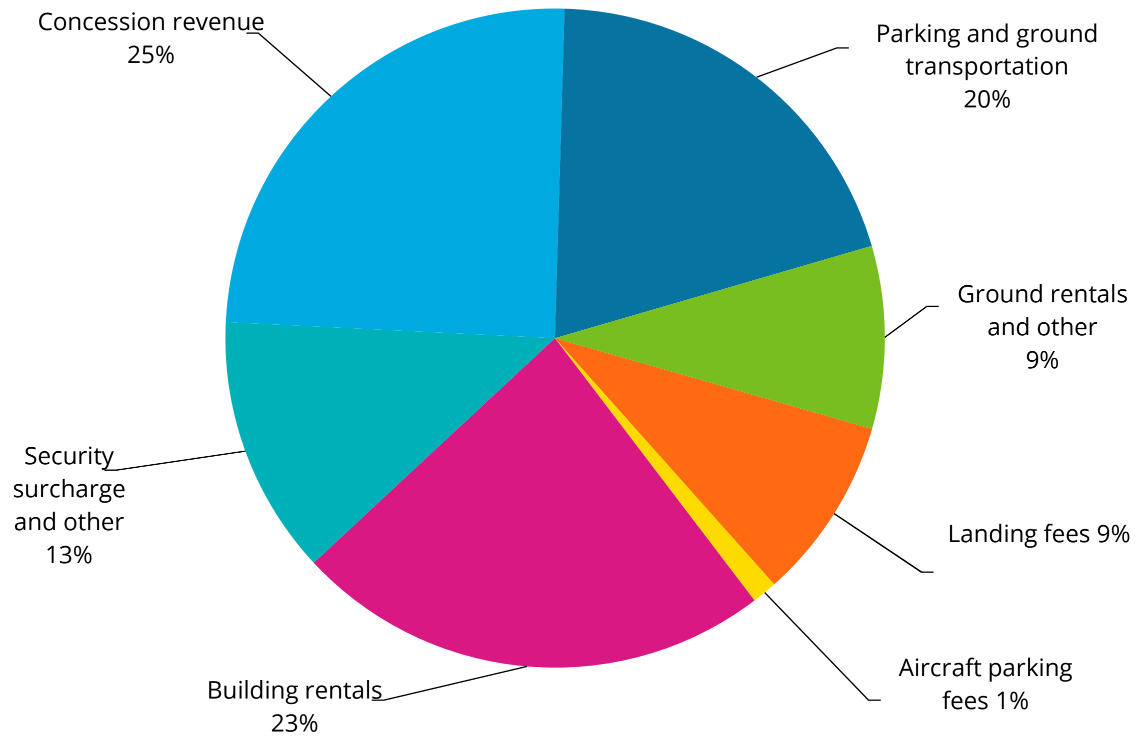
	FY 2016	FY 2017	From 2016 to 2017 Increase (Decrease)	% Change
Airline revenue:				
Landing fees	$ 23,985	$ 24,612	$ 627	2.6%
Aircraft parking fees	2,701	2,927	226	8.4%
Building rentals	51,273	56,575	5,302	10.3%
Security surcharge	29,223	29,468	245	0.8%
Other aviation revenue	5,023	2,799	(2,224)	(44.3%)
Total airline revenue	112,205	116,381	4,176	3.7%
Concession revenue	56,274	61,256	4,982	8.9%
Parking and ground transportation revenue	48,106	49,407	1,301	2.7%
Ground and non-airline terminal rentals	16,226	20,053	3,827	23.6%
Other operating revenue	1,183	1,750	567	47.9%
Total operating revenue	$ 233,994	$ 248,847	$ 14,853	6.3%

FISCAL YEAR 2018 COMPARED TO 2017:
Total airline revenues increased by $6.8 million, or 5.8 percent, primarily due to an increased cost recovery for the airlines which was higher in fiscal year 2018, compared to 2017. Landing fees decreased by $712 thousand or 2.9 percent due to airfield-related cost savings. Aircraft parking fees increased by $309 thousand or 10.6 percent due to additional overnight aircraft parking positions. Building rentals increased by $5.7 million or 10.0 percent due to increased cost recovery from airline rents. Security surcharge increased by $2.8 million or 9.6 percent, primarily due to increased terminal security charges. Other aviation revenue decreased by $1.3 million or 47.2 percent, mostly due to common use cost recovery charges. Concession revenue increased by $4.4 million or 7.1 percent, reflecting increased enplanements. Parking and ground transportation increased by $3.8 million or 7.8 percent, due to higher enplanements and higher trip fees from transportation network companies. Ground and non-airline terminal rentals increased by $2.1 million or 10.3 percent. This increase was primarily due to fuel facility rentals, and scheduled rent increases.

FISCAL YEAR 2017 COMPARED TO 2016:
Total airline revenues increased by $4.2 million, or 3.7 percent, primarily due to an increased cost recovery from the airlines which was higher in fiscal year 2017, compared to 2016. Landing fees increased by $627 thousand or 2.6 percent due to increased airfield operating costs and new capital projects. Aircraft parking fees increased by $226 thousand or 8.4 percent, due to increased airfield-related costs. Building rentals increased by $5.3 million or 10.3 percent due to higher terminal maintenance costs and changes in rentable square footage. Security surcharge increased slightly by $245 thousand or .8 percent, partially due to increased security checkpoint expenses and increased security equipment costs. Concession revenue increased by $5.0 million or 8.9 percent, reflecting higher sales per enplaned passenger. Parking and ground transportation increased by $1.3 million or 2.7 percent, due to higher enplanements, valet parking revenue, and permits. Ground non-airline terminal rentals increased by $3.8 million or 23.6 percent, due in part to new non-tenant agreements and increased Fixed Base Operator rents. Other operating revenue increased by $567 thousand or 47.9 percent, primarily due to higher landing fees at the Fixed Base Operator, and higher fees for miscellaneous services.

OPERATING REVENUES (CONTINUED)

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
FISCAL YEAR ENDED JUNE 30, 2018 | OPERATING REVENUES



OPERATING EXPENSES (IN THOUSANDS)

	FY 2017	**FY 2018**	From 2017 to 2018 Increase (Decrease)	% Change
Salaries and benefits	$ 46,874	**$ 47,866**	$ 992	2.1%
Contractual services	44,372	**45,249**	877	2.0%
Safety and security	28,422	**30,733**	2,311	8.1%
Space rental	10,190	**10,190**	-	0.0%
Utilities	10,736	**12,509**	1,773	16.5%
Maintenance	14,270	**12,603**	(1,667)	(11.7%)
Equipment and systems	506	**598**	92	18.2%
Materials and supplies	611	**656**	45	7.4%
Insurance	956	**1,098**	142	14.9%
Employee development and support	1,347	**1,248**	(99)	(7.3%)
Business development	2,347	**3,246**	899	38.3%
Equipment rentals and repairs	3,095	**3,124**	29	0.9%
Total operating expenses before depreciation	163,726	**169,120**	5,394	3.3%
Depreciation	95,229	**105,532**	10,303	10.8%
Total operating expense	$ 258,955	**$ 274,652**	$ 15,697	6.1%

	FY 2016	FY 2017	**From 2016 to 2017** Increase (Decrease)	% Change
Salaries and benefits	$ 42,025	$ 46,874	$ 4,849	11.5%
Contractual services	38,215	44,372	6,157	16.1%
Safety and security	28,721	28,422	(299)	(1.0%)
Space rental	10,367	10,190	(177)	(1.7%)
Utilities	11,480	10,736	(744)	(6.5%)
Maintenance	14,122	14,270	148	1.0%
Equipment and systems	708	506	(202)	(28.5%)
Materials and supplies	536	611	75	14.0%
Insurance	950	956	6	0.6%
Employee development and support	1,242	1,347	105	8.5%
Business development	2,390	2,347	(43)	(1.8%)
Equipment rentals and repairs	2,852	3,095	243	8.5%
Total operating expenses before depreciation	153,608	163,726	10,118	6.6%
Depreciation	87,821	95,229	7,408	8.4%
Total operating expense	$ 241,429	$ 258,955	$ 17,526	7.3%

OPERATING EXPENSES (CONTINUED)

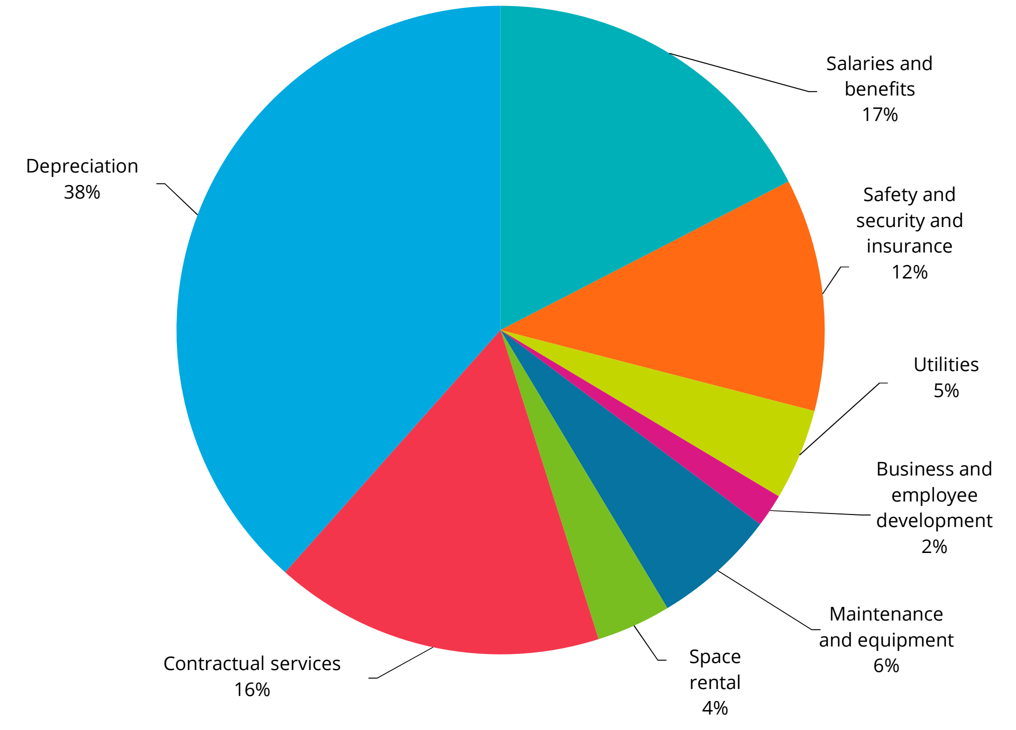
FISCAL YEAR 2018 COMPARED TO 2017:
Total fiscal year 2018 operating expenses increased by $15.7 million or 6.1 percent. Salaries and benefits increased by $992 thousand or 2.1 percent, due to planned wage and benefit increases. Contractual services increased by $877 thousand or 2.0 percent, mainly due to higher expenses in custodial services. Safety and security increased by $2.3 million or 8.1 percent due higher law enforcement and emergency services costs. Utilities increased by $1.8 million or 16.5 percent, due to higher usage as a result of the increase in total passengers. Equipment and systems increased by $92 thousand or 18.2 percent, mainly due to additional computer equipment and licenses. Insurance increased by $142 thousand or 14.9 percent, primarily due to higher coverage costs of various policies. Business development increased by $899 thousand or 38.3 percent, mainly due to community outreach. Depreciation increased by $10.3 million or 10.8 percent, due to the Parking Plaza and international passenger area (FIS) being placed in service.

Offsetting this increase in operating expenses was the following decrease: Maintenance expenses decreased $1.7 million, or 11.7 percent, due in part to lower electrical and HVAC maintenance contract costs.

FISCAL YEAR 2017 COMPARED TO 2016:
Total fiscal year 2017 operating expenses increased by $17.5 million or 7.3 percent. Salaries and benefits increased by $4.8 million or 11.5 percent, due to a GASB 68 valuation adjustment and planned wage and benefit increases. Contractual services increased by $6.2 million or 16.1 percent, mainly due to higher expenses in parking, noise monitoring, and a full year of Rental Car Center bussing. Maintenance expenses increased $148 thousand, or 1.0 percent, due to slightly higher major maintenance projects. Materials and supplies increased $75 thousand or 14.0 percent, partly due to higher maintenance and safety expenditures. Employee development and support increased by $105 thousand or 8.5 percent, due to higher recruitment and training expenses. Depreciation increased by $7.4 million or 8.5 percent, due to a full year of depreciation for the Rental Car Center. Equipment rentals and repairs increased by $243 thousand or 8.5 percent, mainly due to higher maintenance contract and computer licensing expenses.

Offsetting this increase in operating expenses were the following decreases: Safety and security decreased by $299 thousand or 1.0 percent due to an estimate recorded in fiscal year 2016 pertaining to expenses incurred in 2015. Space rental decreased by $177 thousand or 1.7 percent, due to the termination of the taxi hold lot lease. Utilities decreased by $744 thousand or 6.5 percent, mainly due to lower rates and usage, as well as state energy credits. Equipment and systems decreased by $202 thousand or 28.5 percent, due to lower office movement and reconfiguration expenses.

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
FISCAL YEAR ENDED JUNE 30, 2018 | OPERATING EXPENSES



NONOPERATION REVENUES (EXPENSES) (IN THOUSANDS)

	FY 2017	FY 2018	From 2017 to 2018 Increase (Decrease)	% Change
Passenger facility charges	$ 42,200	**$ 46,953**	$ 4,753	11.3%
Customer facility charges	36,528	**41,037**	4,509	12.3%
Quieter Home Program, net	(785)	**(2,747)**	(1,962)	(249.9%)
Joint studies program	-	**(114)**	(114)	-
Interest income	8,134	**13,374**	5,240	64.4%
Interest expense, net	(53,528)	**(63,745)**	(10,217)	(19.1%)
Other nonoperating income (expenses)	(17,121)	**(13,230)**	3,891	22.7%
Nonoperating revenues, net	$ 15,428	**$ 21,528**	$ 6,100	39.5%

	FY 2016	FY 2017	From 2016 to 2017 Increase (Decrease)	% Change
Passenger facility charges	$ 40,258	$ 42,200	$ 1,942	4.8%
Customer facility charges	33,208	36,528	3,320	10.0%
Quieter Home Program, net	(3,698)	(785)	2,913	78.8%
Joint studies program	(101)	-	101	100.0%
Interest income	5,999	8,134	2,135	35.6%
Interest expense, net	(45,979)	(53,528)	(7,549)	(16.4%)
Other nonoperating income (expenses)	2,246	(17,121)	(19,367)	(862.3%)
Nonoperating revenues, net	$ 31,933	$ 15,428	$ (16,505)	(51.7%)

PASSENGER FACILITY CHARGES (PFCS) were established by Congress in 1990 as part of the Aviation Safety and Capacity Expansion Act of 1990. The Airport Authority collects a $4.50 PFC from revenue enplaned passengers to pay for the cost to design and construct eligible Airport capital projects or to repay debt service issued to build such projects. PFCs are collected by the air carriers when passengers purchase their tickets and are remitted to the Airport Authority the month following collection less a $0.11 administration fee.

CUSTOMER FACILITY CHARGES (CFCS) are authorized under Section 1936 of the California Civil Code and approved by legislation under Senate Bill 1510. The revenues collected have been used to plan and construct a consolidated rental car facility and related ground transportation system. The rental car agencies remit to the Airport Authority collection of the fee monthly. In January 2017, the fee was increased from $7.50 to $9.00 per day, up to five days for rental car transactions. This fee applies to transactions that originated at the RCC. For car rental transactions of non-RCC tenants, the CFC rate was increased from $2.17 to $2.42 per day, up to five days for rental car transactions.

QUIETER HOME PROGRAM includes sound attenuation construction improvements at all eligible single-family and multifamily dwellings with six or fewer units located in the Year 2000 65 dB Community Noise Equivalent Level contour. The project is eligible for the Airport Improvement Program (AIP). From inception through the end of fiscal year 2018, the Airport Authority has spent $201.5 million and received reimbursement for $162.2 million.

INTEREST INCOME is derived from interest earned by the Airport Authority on investments and notes receivable from the District.

INTEREST EXPENSE Includes interest paid and accrued on the Bonds, Variable Debt, and Lease Interest. This is netted with the capitalization of bond interest to the construction in progress assets that the bond and variable debt finances. The capitalized interest in fiscal years ended June 30, 2018 and 2017 was $7.2 million and $4.8 million, respectively. The bond premium amortization from all four bond series is also netted with interest expense. The 2010 Series C Bonds were issued as Build America Bonds and, as such, the Airport Authority receives a cash subsidy from the U.S. Treasury equal to 32.7 percent of the interest payable. The interest subsidy for the fiscal years ended June 30, 2018 and 2017 was $4.7 million.

OTHER NONOPERATING INCOME (EXPENSE) includes proceeds and expenses for legal settlements, gain (loss) on the sale of assets, unrealized gain (loss) on investments, and other miscellaneous revenue and expenses.

FISCAL YEAR 2018 COMPARED TO 2017: Nonoperating revenues (net) increased by $6.1 million or 39.5 percent. Passenger facility charges increased by $4.8 million or 11.3 percent, due to a 10.7 percent increase in enplaned passengers. Customer facility charges increased by $4.5 million or 12.3 percent, due to a corresponding increase in rental car transactions and a full year receiving the increased daily fee previously discussed. Interest income increased by $5.2 million or 64.4 percent, due to an increase in dollars invested from the Series 2017 bond issuance as well as improved market performance compared to fiscal year 2017. Other nonoperating expense decreased by $3.9 million or 22.7 percent, primarily due to a loss on fixed asset disposal resulting from the new Parking Plaza.

The increase in nonoperating income was offset by a Quieter Home Program expenses (net) increase of $2.0 million or 249.9 percent, due to higher sound attenuation activity. Interest expense (net) was higher by $10.2 million or 19.1 percent, due to the Series 2017 bond issuance.

FISCAL YEAR 2017 COMPARED TO 2016: Nonoperating revenues (net) decreased by $16.5 million or 51.7 percent. Passenger facility charges increased by $1.9 million or 4.8 percent, due to a 3.8 percent increase in enplaned passengers. Customer facility charges increased by $3.3 million or 10.0 percent, due to a corresponding increase in rental car transactions and increase in fee effective January 1, 2017. Quieter Home Program expenses (net) decreased by 2.9 million or 78.8 percent, due to lower sound attenuation activity. Interest income increased by $2.1 million or 35.6 percent, due to an increase in dollars invested as well as improved market performance compared to fiscal year 2016.

Offsetting the nonoperating income was a higher net interest expense of $7.5 million or 16.4 percent, due to lower capitalized interest. Other nonoperating expense increased by $19.4 million or 862.3 percent, primarily due to a loss on fixed asset disposal resulting from the new Federal Inspection Station project.

CAPITAL GRANT CONTRIBUTION (IN THOUSANDS)

	FY 2017	FY 2018	From 2017 to 2018 Increase (Decrease)	% Change
Federal grants	$ 1,904	**$ 13,328**	$ 11,424	600.0%

	FY 2016	FY 2017	From 2016 to 2017 Increase (Decrease)	% Change
Federal grants	$ 10,477	$ 1,904	$ (8,573)	(81.8%)

CAPITAL GRANT CONTRIBUTIONS are comprised of Airport Improvement Project (AIP) entitlement and discretionary grants through the Federal Aviation Administration (FAA) and other Federal and state organizations. These funds are recognized as revenue as the work is completed on the eligible projects. In fiscal year 2018 capital grant contributions increased by $11.4 million or 600.0 percent compared to fiscal year 2017. Additionally in fiscal year 2017, capital grant contributions decreased by $8.6 million or 81.8 percent, compared to fiscal year 2016. This was due to the completion of the Runway 9 displaced threshold, Northside taxiway bypass, and storm drain trunk projects.

Variances from year to year relate to the amount of work completed on eligible projects during the fiscal year. In fiscal year 2018, the grant fund increase is primarily due to airfield projects.

ASSETS, LIABILITIES AND NET POSITION (IN THOUSANDS)

The statements of net position present the financial position of the Airport Authority as of a period in time. The statements include all assets, deferred outflows, liabilities, deferred inflows and net position of the Airport Authority.

A summary comparison of the Airport Authority's assets, liabilities and net position at June 30, 2016, 2017 and 2018, is as follows:

	FY 2016	FY 2017	FY 2018
Assets and Deferred Outflows of Resources			
Current assets	$ 169,078	$ 180,941	**$ 223,610**
Capital assets, net	1,551,007	1,544,909	**1,704,141**
Noncurrent assets	491,362	504,406	**643,474**
Total assets	2,211,447	2,230,256	**2,571,225**
Deferred outflows of resources	4,260	20,246	**24,196**
Total assets and deferred outflows of resources	2,215,707	2,250,502	**2,595,421**
Liabilities and Deferred Inflows of Resources			
Current liabilities	103,136	104,422	**145,942**
Long-term liabilities	1,334,816	1,361,090	**1,635,326**
Total liabilities	1,437,952	1,465,512	**1,781,268**
Deferred inflows of resources	1,807	1,815	**4,228**
Total liabilities and deferred inflows of resources	1,439,759	1,467,327	**1,785,496**
Net Position			
Net investment in capital assets	310,339	263,952	**281,703**
Restricted	214,533	225,088	**244,188**
Unrestricted	251,076	294,133	**284,034**
Total net position	$ 775,948	$ 783,173	**$ 809,925**

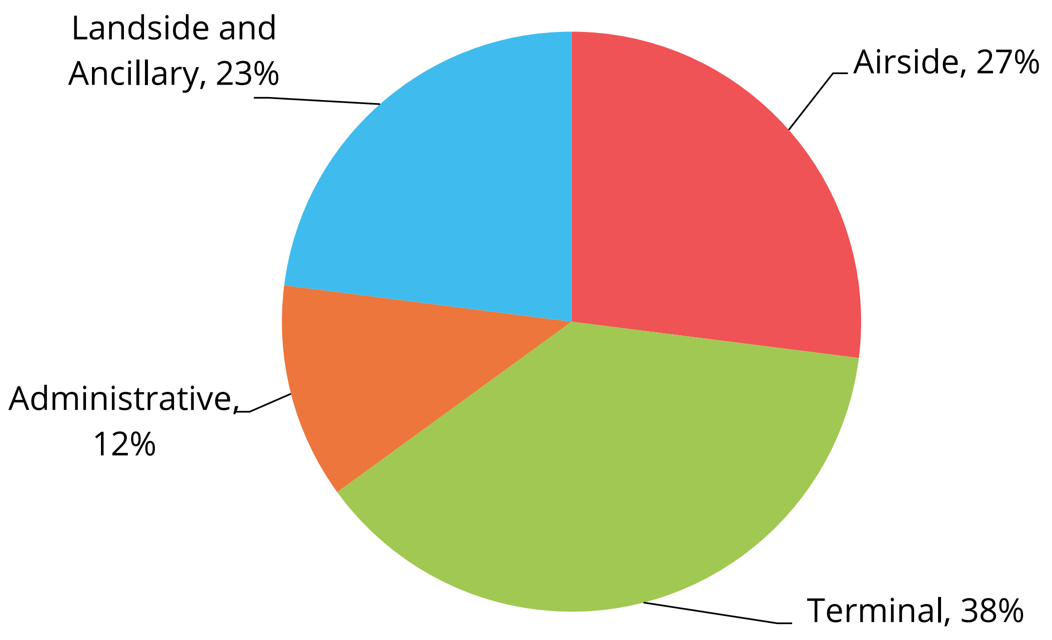
As of june 30, 2018, the Airport Authority's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $809.9 million. This reflects a $26.8 million increase in net position from June 30, 2017. The Airport Authority uses the capital assets to provide services to its passengers and other users of SDIA; consequently, these assets cannot be sold or otherwise liquidated. Although the Airport Authority's investment in its capital assets is reported net of related debt, it is noted that the funds required to repay this debt must be provided annually from operations. The unrestricted net position of $284 million as of June 30, 2018, may be used to meet any of the Airport Authority's ongoing obligations. As of June 30, 2018, 2017 and 2016, management has designated unrestricted funds in the amount of $39.3 million, $25.8 million, and $31.3 million, respectively, for capital contract commitments funded by Airport Authority cash, earthquake insurance and operating contingency.

The Capital Program is a rolling five-year program that provides critical improvements and asset additions. The program includes capital projects that address federal security requirements, airfield security, environmental remediation, terminal upgrades and development. Funding sources for the projects include the Federal Aviation Administration's Airport Improvement Program, Transportation Security Agency grants, Passenger Facility Charges, Customer Facility Charges, airport operating revenues, airport revenue bonds, special facility bonds, and short-term borrowing using commercial paper/revolving lines of credit.

CAPITAL PROGRAM

The current Capital Program, which includes projects through 2023, consists of $300.7 million for airside projects, $258.9 million for landside and ancillary projects, $415.9 million for terminal projects, and $127.8 million for administrative projects.

Capital Program Projects by Type



Additional information of the Airport Authority's capital assets can be found in Note 4 to the financial statements.

CAPITAL FINANCING AND DEPT MANAGEMENT

On October 5, 2010, the Airport Authority issued $572.6 million of Subordinate Airport Revenue Bonds Series 2010 A, B and C (Series 2010 Bonds). The bonds are rated A/A2/A by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively. The Subordinate Series 2010 Bonds were issued to finance certain capital improvements at SDIA, fund a portion of the interest accruing on the Subordinate Series 2010 Bonds, refund $142.2 million of the Airport Authority's outstanding commercial paper notes, fund the subordinate bond reserve fund and pay the costs of issuance of the Subordinate Series 2010 Bonds.

The Series 2010 A and B bonds were structured as serial and term bonds that bear interest at rates ranging from 2.00 percent to 5.00 percent and mature in fiscal years 2012 to 2041. The Series 2010 C Bonds were issued as Build America Bonds and include a cash subsidy payment from the U.S. Treasury; currently, 32.69 percent of interest payable. The interest rate on the Series 2010 C Bonds, net of subsidy, is 4.46 percent and the bonds mature in fiscal year 2041.

The Subordinate Series 2010 Bonds are special obligations of the Airport Authority, payable from and secured by (a) a pledge of subordinate net revenues, which include certain income and revenue received by the Airport Authority from the operation of the airport system, less all amounts that are required to pay the operation and maintenance expenses of the airport system and all amounts necessary to pay debt service on and fund the reserves for the senior bonds; and (b) certain funds and accounts held by the subordinate trustee under the subordinate indenture. The Subordinate Series 2010 Bonds were issued with a pledge of and lien on subordinate net revenues on parity with the Airport Authority's subordinate commercial paper notes. As of June 30, 2018, the principal balance on the subordinate Series 2010 Bonds was $537.0 million.

On January 30, 2013, the Airport Authority issued $379.6 million of Senior Airport Revenue Bonds Series 2013 A and B (Series 2013 Bonds). The Series 2013 Bonds are rated A+/A1/A+ by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively. The Senior Series 2013 Bonds were issued to finance certain capital improvements at SDIA, fund a portion of the interest accrued on the senior Series 2013 Bonds, fund the senior reserve fund, and pay the costs of issuance of the Senior Series 2013 Bonds.

The Series 2013 Bonds were structured as serial and term bonds that bear interest at rates ranging from 3.00 percent to 5.00 percent and mature in fiscal years 2016 to 2044. The bonds were issued at a premium of $55.9 million, which is being amortized over the life of the bonds. Interest on the Senior Series 2013 Bonds is payable semiannually on January 1 and July 1 of each year. Interest expense for the fiscal year ended June 30, 2018, amounted to $18.26 million, including accrued interest of $9.48 million. The principal balance on the Series 2013 Bonds as of June 30, 2018 was $373.3 million.

The Senior Series 2013 Bonds are special obligations of the Airport Authority, payable solely from and secured by (a) a pledge of net revenues, which include certain income and revenue received by the Airport Authority from the operation of the airport system, less all amounts that are required to pay the operation and maintenance expenses of the airport system (b) certain funds and accounts held by the senior trustee under the senior indenture.

As senior lien bonds, the Series 2013 Bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 125 percent times the senior debt service for that year. In addition, the Series 2013 Bonds require the Airport Authority to maintain a reserve account with the bond trustee and to reserve certain amounts in the Airport Authority's books, as shown in Note 2.

On February 19, 2014, the Airport Authority issued $305,285,000 of Series A and B Senior Special Facilities Revenue Bonds (Series 2014 Bonds). The Series 2014 Bonds were issued to finance a portion of the costs of the development and construction of a consolidated rental car facility and related improvements at SDIA, fund a portion of the interest on the Series 2014 Bonds, fund deposits to the senior reserve fund, the rolling coverage fund and pay the costs of issuance of the Series 2014 Bonds.

The Series 2014 A Bonds were structured as tax-exempt non-AMT term bonds that bear interest at 5.00 percent. The Series 2014 B Bonds were structured as federally taxable bonds that bear interest at rates ranging from 2.54 percent to 5.59 percent and mature in fiscal years 2019 to 2045. As of June 30, 2018, the principal balance on the Series 2014 Bonds was $305.3 million.

The Series 2014 Bonds are special limited obligations of the Airport Authority, payable solely from and secured by a pledge of the Trust Estate, which includes, among other things, Customer Facility Charges collected from the rental car companies operating at the Airport and remitted to the Trustee. No revenues of the Airport Authority other than the Customer Facility Charges and the Bond Funding Supplemental Consideration (as defined in the Indenture), are pledged to the payment of the Series 2014 Bonds.

On August 3, 2017, the Airport Authority issued $291,210,000 of Series A and B Subordinate Airport Revenue Bonds (Series 2017 Bonds). The Series 2017 Bonds were issued to finance certain capital improvements at SDIA including the Parking Plaza and the FIS facility, fund a portion of the interest accruing on the subordinate Series 2017 Bonds, refund $32,550,000 of the Airport Authority's outstanding variable rate debt, which was issued during 2017, fund the subordinate reserve fund and pay the costs of issuance of the subordinate Series 2017 Bonds. The Series 2017 Bonds are structured as serial and term bonds that bear interest at rates ranging from 4.00 percent to 5.00 percent and mature in fiscal years 2019 to 2048. The bonds were issued at a premium of $48,423,688, which is being amortized over the life of the bonds. Interest on the senior Series 2017 Bonds is payable semiannually on January 1 and July 1, of each year. Interest expense for the fiscal year ended June 30, 2018, amounted to $13.2 million, including accrued interest of $7.27 million. As of June 30, 2018, the principal balance on the Series 2017 was $291.2 million.

On September 5, 2014, the Airport Authority replaced its commercial paper program with a $125,000,000 Revolving Line of Credit, issued by US Bank, which was used to refund the outstanding Series B and Series C commercial paper balances. The revolving line of credit is a three year agreement that was extended through June 29, 2020. As of June 30, 2018, the Airport Authority's outstanding debt under this agreement consists of $14.8 million of Series B (AMT) and $5.4 million Series C (taxable).

The revolving line of credit is payable solely from and secured by a pledge of subordinate net revenues. Subordinate net revenues are generally defined as all revenues and other cash receipts of the Airport Authority's airport operations remaining after Senior Lien payments have been deposited by the Trustee in accordance with the Senior Lien Trust Indenture.

Additional information of the Airport Authority's long-term debt can be found in Note 5 to the financial statements.

The SDIA's PFC program was established in 1994, and currently authorizes the imposition of a $4.50 fee on enplaning passengers. There are currently four active applications which provide authority to impose and use PFC revenue through November 1, 2037.

FAA entitlement and discretionary grants are awarded on a federal fiscal year running October 1 through September 30. The Airport Authority has received approximately $25.4 million in grant awards for the federal fiscal year ended September 30, 2018, as compared to $24.7 million for 2017. Grant awards are recognized as nonoperating revenue or capital contributions as eligible expenses are incurred.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Airport Authority's finances. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the Accounting Department, P.O. Box 82776, San Diego, CA 92138. The Accounting Department can also be reached at (619) 400-2807. A copy of the financial report is available at www.san.org.

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017

Assets and Deferred Outflows of Resources	2018	2017
Current Assets		
Unrestricted:		
Cash and cash equivalents (*Note 2*)	$ 7,243,688	$ 10,743,557
Investments (*Notes 2 and 11*)	85,690,254	97,353,685
Tenant lease receivables, net	10,837,699	9,321,940
Grants receivable	10,955,228	3,354,396
Note receivable, current portion (*Note 3*)	1,903,323	1,801,694
Other current assets	7,329,052	4,433,986
Total unrestricted current assets	123,959,244	127,009,258
Restricted cash, cash equivalents and investments with trustees (*Notes 2 and 5*)	99,650,564	64,297,770
Total current assets	223,609,808	191,307,028
Noncurrent Assets		
Restricted assets (*Notes 2 and 5*):		
Restricted cash, cash equivalents and investments not with trustees	191,304,621	175,907,551
Restricted investments with trustees	228,598,834	97,763,717
Passenger facility charges receivable (*Note 1*)	6,635,273	6,155,618
Customer facility charges receivable (*Note 1*)	4,097,757	3,717,575
Other restricted assets	5,310,167	2,791,385
Total restricted assets	435,946,652	286,335,846
Other noncurrent assets:		
Investments, noncurrent (*Note 2*)	136,796,912	148,319,754
Note receivable, long-term portion (*Note 3*)	31,338,762	33,242,085
Cash and cash equivalents designated for specific capital projects and other commitments (*Notes 2 and 11*)	39,294,169	25,792,246
Net OPEB asset (*Note 9*)	97,418	-
Other noncurrent assets	-	349,943
Total other noncurrent assets	207,527,261	207,704,028
Capital assets (*Note 4*):		
Land, land improvements and nondepreciable assets	135,086,591	111,041,142
Buildings and structures	1,692,102,858	1,431,417,373
Machinery and equipment	112,464,061	98,289,644
Runways, roads and parking lots	646,939,284	626,871,756
Construction in progress	110,520,198	171,498,031
	2,697,112,992	2,439,117,946
Less accumulated depreciation	(992,971,931)	(894,209,246)
Capital assets, net	1,704,141,061	1,544,908,700
Total noncurrent assets	2,347,614,974	2,038,948,574
Total assets	2,571,224,782	2,230,255,602
Deferred outflows of resources:		
Deferred pension outflows (*Note 6 and 7*)	23,113,159	20,245,534
Deferred OPEB outflows (*Note 9*)	1,082,904	-
Total deferred outflows of resources	24,196,063	20,245,534
Total assets and deferred outflows of resources	$ 2,595,420,845	$ 2,250,501,136

See Notes to Financial Statements.

Liabilities, Deferred Inflows of Resources and Net Position	2018	2017
Current Liabilities		
Payable from unrestricted assets:		
Accounts payable	$ 2,589,715	$ 7,195,303
Accrued liabilities	28,508,254	20,756,128
Compensated absences, current portion (*Note 5*)	3,093,379	3,217,748
Other current liabilities	11,777,067	8,656,783
Long-term debt, current portion (*Note 5*)	323,514	298,449
Total payable from unrestricted assets	46,291,929	40,124,411
Payable from restricted assets:		
Accounts payable	51,585	1,135,312
Accrued liabilities	37,247,974	18,873,753
Long-term debt, current portion (*Note 5*)	22,650,000	11,585,000
Accrued interest on bonds and commercial paper (*Note 5*)	39,701,005	32,703,705
Total payable from restricted assets	99,650,564	64,297,770
Total current liabilities	145,942,493	104,422,181
Long-Term Liabilities		
Compensated absences, net of current portion (*Note 5*)	183,209	13,278
Other noncurrent liabilities	626,423	806,360
Long-term debt, net of current portion (*Note 5*)	1,614,294,048	1,342,159,363
Net pension liability (*Note 6 and 7*)	20,222,458	18,111,482
Total long-term liabilities	1,635,326,138	1,361,090,483
Total liabilities	1,781,268,631	1,465,512,664
Deferred inflows of resources		
Deferred pension inflows *(Note 6 and 7)*	3,685,838	1,815,440
Deferred OPEB inflows *(Note 9)*	541,669	-
Total deferred inflows of resources	4,227,507	1,815,440
Total liabilities and deferred inflows of resources	$ 1,785,496,138	$ 1,467,328,104
Net Position		
Net investment in capital assets (*Note 1*)	281,703,129	263,951,847
Restricted:		
Debt Service	84,852,323	83,274,140
Construction	135,691,506	121,177,898
OPEB	97,418	-
Operation and maintenance expenses	14,236,540	13,844,912
Small business bond guarantee	4,000,000	4,000,000
OCIP loss reserve	5,310,166	2,791,385
Total restricted net position	244,187,953	225,088,335
Unrestricted net position	284,033,625	294,132,850
Total net position	$ 809,924,707	$ 783,173,032

See Notes to Financial Statements.

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

STATEMENTS OF NET POSITION (CONTINUED)
JUNE 30, 2018 AND 2017

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION JUNE 30, 2018 AND 2017

	2018	2017
Operating revenues:		
Airline revenue:		
Landing fees	$ **23,900,414**	$ 24,612,412
Aircraft parking fees	**3,235,788**	2,926,972
Building rentals (*Note 12*)	**62,241,252**	56,574,914
Security surcharge	**32,303,267**	29,468,089
Other aviation revenue	**1,476,479**	2,799,070
Concession revenue	**65,609,858**	61,255,811
Parking and ground transportation revenue	**53,254,030**	49,407,235
Ground and non-airlilne terminal rentals (*Note 12*)	**22,108,637**	20,053,031
Other operating revenue	**1,700,548**	1,749,405
Total operating revenues	**265,830,273**	248,846,939
Operating expenses:		
Salaries and benefits (*Notes 6, 7, and 8*)	**47,865,727**	46,873,859
Contractual services (*Note 14*)	**45,248,939**	44,372,149
Safety and security	**30,733,076**	28,421,603
Space rental (*Note 13*)	**10,189,836**	10,189,944
Utilities	**12,509,607**	10,735,957
Maintenance	**12,602,987**	14,269,953
Equipment and systems	**597,859**	506,154
Materials and supplies	**655,698**	610,787
Insurance	**1,097,868**	956,358
Employee development and support	**1,248,355**	1,347,007
Business development	**3,245,967**	2,347,199
Equipment rentals and repairs	**3,124,471**	3,094,559
Total operating expenses before depreciation	**169,120,390**	163,725,529
Income from operations before depreciation	**96,709,883**	85,121,410
Depreciation expense	**105,531,703**	95,229,029
Operating loss	$ **(8,821,820)**	$ (10,107,619)

(Continued)

See Notes to Financial Statements.

	2018	2017
Nonoperating revenues (expenses):		
Passenger facility charges	$ **46,952,755**	$ 42,199,763
Customer facility charges	**41,036,526**	36,527,853
Quieter Home Program grant revenue (*Note 1*)	**8,389,249**	1,413,999
Quieter Home Program expenses (*Note 1*)	**(11,135,808)**	(2,198,744)
Joint Studies Program	**(114,387)**	-
Interest income	**13,374,227**	8,133,765
Interest expense (*Note 5*)	**(68,411,379)**	(58,178,865)
Build America Bonds subsidy (*Note 5*)	**4,666,190**	4,651,203
Other revenues (expenses), net	**(13,229,154)**	(17,120,558)
Nonoperating revenue, net	**21,528,219**	15,428,416
Income before federal grants	**12,706,399**	5,320,797
Federal grants (*Note 1*)	**13,328,021**	1,903,686
Change in net position	**26,034,420**	7,224,483
Net position, as previously reported	**783,173,032**	775,948,549
Adjustment for adoption of GASB 75	**717,255**	
Net position, beginning of year, as restated	**783,890,287**	
Net position, end of year	$ **809,924,707**	$ 783,173,032

See Notes to Financial Statements.

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (CONTINUED) JUNE 30, 2018 AND 2017

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

STATEMENTS OF CASH FLOWS
JUNE 30, 2018 AND 2017

	2018	2017
Cash Flows From Operating Activities		
Receipts from customers	$ **267,462,006**	$ 247,823,092
Payments to suppliers	**(164,900,528)**	(122,079,920)
Payments to employees	**(49,265,624)**	(49,487,337)
Other receipts	**2,043,904**	1,793,123
Net cash provided by operating activities	**55,339,758**	78,048,958
Cash Flows From Noncapital Financing Activities		
Settlement receipts (payments)	**(3,779,457)**	(2,350,067)
Quieter Home Program grant receipts	**5,424,925**	1,413,999
Quieter Home Program payments	**(11,135,808)**	(2,198,744)
Joint Studies Program payments	**(114,387)**	-
Net cash used in noncapital financing activities	**(9,604,727)**	(3,134,812)
Cash Flows From Capital and Related Financing Activities		
Capital outlay	**(212,327,613)**	(97,053,113)
Proceeds on Build America Bonds subsidy	**4,666,190**	4,651,203
Proceeds from variable debt	**-**	32,550,000
Federal grants received (excluding Quieter Home Program)	**8,691,513**	6,172,709
Proceeds from passenger facility charges	**46,473,100**	40,541,802
Proceeds from customer facility charges	**40,656,344**	35,779,198
Proceeds from issuance of Series 2017 Bonds	**339,633,688**	-
Payment of from variable debt	**(38,835,000)**	-
Payment of principal on bonds	**(11,585,000)**	(17,223,000)
Payment of capital lease	**(298,449)**	(275,421)
Interest and debt fees paid	**(67,174,633)**	(62,605,537)
Net cash used in capital and related financing activities	**109,900,140**	(57,462,159)
Cash Flows From Investing Activities		
Sales and maturities of investments	**467,359,490**	106,870,324
Purchases of investments	**(625,758,198)**	(144,732,956)
Interest received on investments and note receivable	**10,963,897**	7,726,057
Principal payments received on notes receivable	**1,801,694**	1,705,491
Net cash provided by (used in) investing activities	**(145,633,117)**	(28,431,084)
Net increase (decrease) in cash and cash equivalents	**10,002,054**	(10,979,097)
Cash and cash equivalents, beginning of year	**36,535,803**	47,514,900
Cash and cash equivalents, end of year	$ **46,537,857**	$ 36,535,803

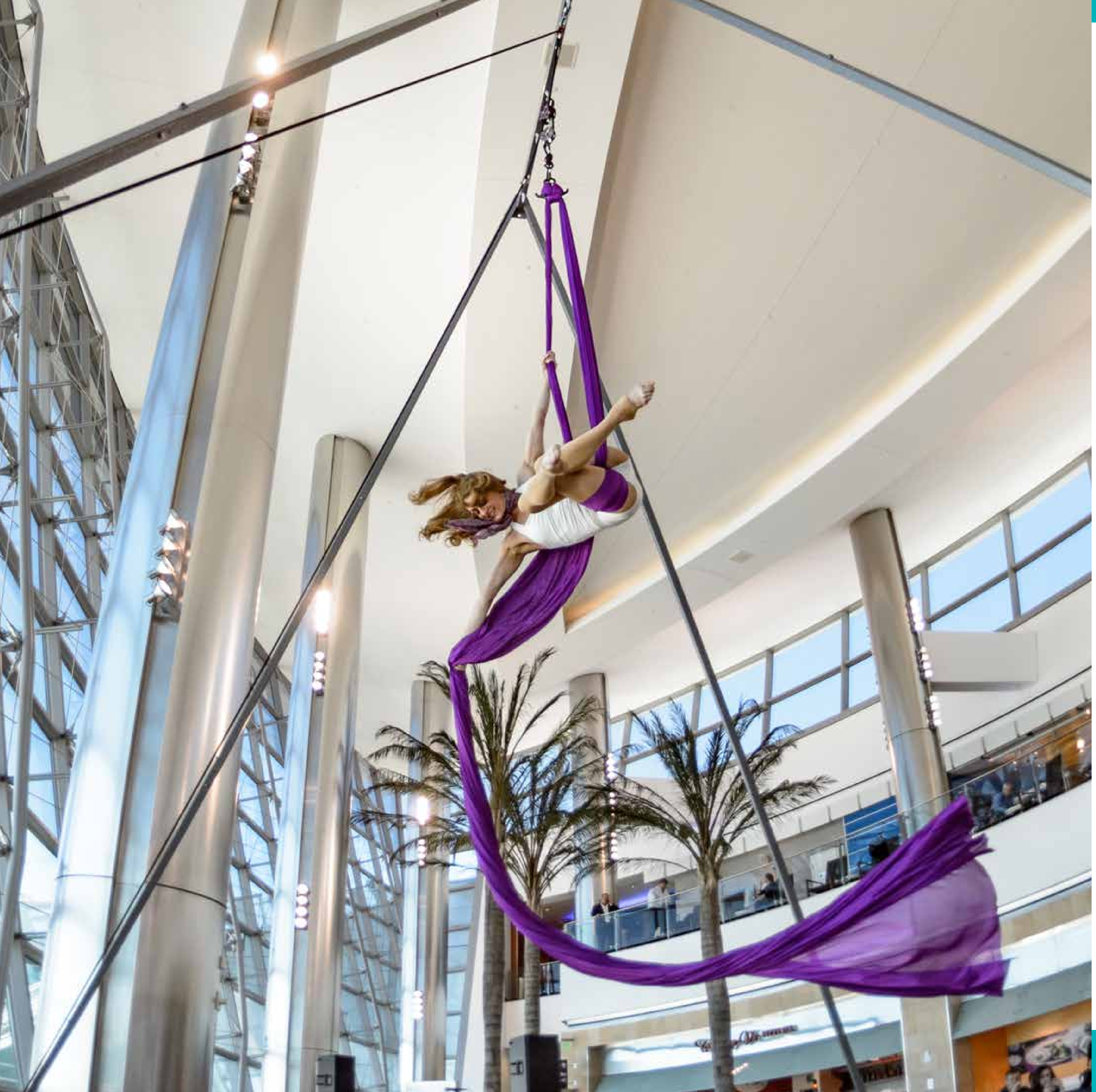
See Notes to Financial Statements.

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

STATEMENTS OF CASH FLOWS, (CONTINUED)
JUNE 30, 2018 AND 2017

	2018	2017
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Unrestricted cash and cash equivalents	$ **7,243,688**	$ 10,743,557
Cash and cash equivalents designated for specific capital projects and other commitments	**39,294,169**	25,792,246
Total cash and cash equivalents	$ **46,537,857**	$ 36,535,803
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	$ **(8,821,820)**	$ (10,107,619)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense	**105,531,703**	95,229,030
Change in pension expense	**718,394**	453,856
Change in deferred outflows reated to pensions/OPEB	**(1,938,110)**	
Change in deferred inflows reated to pensions/OPEB	**2,412,067**	
Changes in assets and liabilities:		
Tenant lease receivables	**(1,515,759)**	(793,124)
Other assets	**(3,003,518)**	(391,094)
Accounts payable	**(49,176,177)**	(2,448,171)
Accrued liabilities	**8,102,069**	(3,807,485)
Compensated absences	**45,562**	(131,087)
Other liabilities	**2,985,347**	44,652
Net cash provided by operating activities	$ **55,339,758**	$ 78,048,958
Supplemental Disclosure of Noncash Investing, Capital and Financing Activities		
Additions to capital assets included in accounts payable	$ **37,299,559**	$ 20,009,065

See Notes to Financial Statements.



NOTE 1.

NATURE OF ORGANIZATION & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY:
The San Diego County Regional Airport Authority (Airport Authority), an autonomous public agency, was established in accordance with, Assembly Bill 93 (2001), as modified by Senate Bill 1896 (2002), which together comprise the San Diego County Regional Airport Authority Act (the Act). The Act required, among other things, the transfer of the assets and operations of the San Diego International Airport (SDIA) from the San Diego Unified Port District (District) to the Airport Authority. Effective January 1, 2003 (inception), the District transferred all airport operations and certain related assets and liabilities to the Airport Authority, pursuant to the Act and the Memorandum of Understanding (MOU) dated as of December 31, 2002, between the Airport Authority and the District, which implemented the Act.

Senate Bill 10 (SB 10), the San Diego County Regional Airport Authority Reform Act, was effective January 1, 2008. Responsibilities of the Airport Authority include, among other things, the operation, maintenance, development, management and regulation of SDIA and its facilities. In addition, the Airport Authority has the responsibility to plan or to expand the existing SDIA. Under one of the requirements of SB 10, the Airport Authority completed a Regional Aviation Strategic Plan and the Airport Authority prepared and adopted an Airport Multimodal Accessibility Plan. In addition, the Airport Authority acts as the Airport Land Use Commission within San Diego County.

In accordance with the Codification of Governmental Accounting and Financial Reporting Standards, the basic financial statements should include all organizations, agencies, boards, commissions and authorities for which the Airport Authority is financially accountable. The Airport Authority has also considered all other potential organizations for which the nature and significance of their relationships with the Airport Authority are such that exclusion would cause the Airport Authority's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. Based on these criteria, there are no other organizations or agencies which should be included in these basic financial statements.

The Airport Authority is governed by a nine-member, appointed Board of Directors (Board), representing all areas of San Diego County and three additional members serving as non-voting, ex-officio Board members. Three Board members are appointed by the Mayor of the City of San Diego (City). Two Board members are appointed by the San Diego County Board of Supervisors. The remaining four Board members are each appointed by the Mayors of the following defined jurisdictions: the east county cities, south county cities, north coastal area cities and north county inland cities. The Board members serve three year terms in accordance with California SB 10.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING:
The accounting policies of the Airport Authority conform to accounting principles generally accepted in the United States of America applicable to state and local government agencies, and as such, the Airport Authority is accounted for as a proprietary fund. The basic financial statements presented are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This measurement focus emphasizes the determination of the change in Airport Authority net position.

USE OF ESTIMATES:
The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, as well as the disclosure of contingent assets and liabilities at the

NOTE 1.

NATURE OF ORGANIZATION & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS:
For purposes of the statements of cash flows, cash and cash equivalents includes unrestricted (including designated) cash on hand, demand deposits, and investment securities with original maturities of three months or less from the date of acquisition.

INVESTMENTS:
Investments in the state and county investment pools are recorded at fair value based upon the Airport Authority's pro rata share of the fair value provided by the state and county investment pools for the entire respective pool. All other investments are stated at market value based on quoted market prices.

TENANT LEASE RECEIVABLES:
Tenant lease receivables are carried at the original invoice amount for fixed-rent tenants and at estimated invoice amount for concession (variable) tenants, less an estimate made for doubtful receivables for both fixed-rent and concession tenants. Management determines the allowance for doubtful accounts by evaluating individual tenant receivables and considering a tenant's financial condition and credit history and current economic conditions. Tenant lease receivables are written off when deemed uncollectible. Recoveries of tenant lease receivables previously written off are recorded when received.

FEDERAL GRANTS:
Outlays for airport capital improvements and certain airport nonoperating expenses, primarily those relating to the Airport Authority's Quieter Home Program, are subject to reimbursement from federal grant programs. Funding provided from government grants is considered earned as the related approved capital outlays or expenses are incurred. Costs claimed for reimbursement are subject to audit and acceptance by the granting agency.

AIRPORT IMPROVEMENT PROGRAM (AIP):
AIP grants are authorized and disbursed by the FAA under the Airway Improvement Act of 1982, as amended, which provides funding for airport planning and development projects at airports included in the National Plan of Integrated Airport Systems. As such, the AIP grants must be used to pay for the allowable costs of approved projects. As of June 30, 2018 and 2017, the Airport Authority recovered $13,079,164 and $1,903,686, respectively, for approved capital projects and $8,389,249 and $1,413,999, respectively, for the Quieter Home Program. Related recoverable costs as of June 30, 2018 and 2017, were $17,438,885 and $2,538,248, respectively, for capital projects and $10,486,561 and $1,767,499, respectively, for the Quieter Home Program.

PASSENGER FACILITY CHARGES (PFC):
The PFC program is authorized by the Aviation Safety and Capacity Expansion Act of 1990 (the Expansion Act). In accordance with the Expansion Act, the Airport Authority's AIP Passenger Entitlement Apportionment is reduced by certain percentages, dependent upon the level of PFC received by the Airport Authority.

In accordance with the program, PFC revenue must be used to pay allowable costs for approved capital projects. As of June 30, 2018 and 2017, accrued PFC receivables totaled $6,635,273 and $6,155,618, respectively, and there were $80,297,022 and $73,311,497 PFC amounts collected but not yet applied for approved capital projects as of June 30, 2018 and 2017, respectively.

On May 20, 2003, the FAA approved an increase in the Airport Authority's PFC charge per enplaned passenger from $3.00 to $4.50, beginning August 1, 2003. Currently, there are four active applications that allow the Airport Authority to impose and use $1.2 billion in PFC revenue through November 1, 2037. The Airport Authority has formally closed five previously approved applications and withdrawn one pending application which has been integrated in a ninth application to impose and use approximately $32 million in PFC revenue. The latest application was approved by the FAA in October 2016 providing collection authority with a charge effective date through November 2037. In accordance with the Aviation Investment Reform Act (AIR-21), airports imposing a $4.50 collection level are required to reduce AIP Passenger Entitlement Apportionment to 75 percent.

CUSTOMER FACILITY CHARGES (CFC):
The Airport Authority received approval in May 2009 from the State of California under Section 1936 of the California Civil Code to impose a $10.00 CFC per contract on rental cars at SDIA.

In accordance with the program, the CFC revenue must be used to pay allowable costs for approved capital projects. Effective January 1, 2017, the CFC rate went from $7.50 to $9.00 per day for a maximum of five days. As of June 30, 2018 and 2017, accrued CFC receivables totaled $4,097,757 and $3,717,575, respectively. CFC amounts collected, including interest, but not yet applied for approved capital projects as of June 30, 2018 and 2017, were $44,661,454 and $37,830,593 respectively.

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES:
In addition to assets and liabilities, the statement of net position may report a separate section for deferred outflows of resources and deferred inflows of resources, respectively. These separate financial statement elements represent the consumption or addition to net position that applies to a future reporting period(s) and as such will not be recognized as flows of resources (expenses/revenues) until then.

- Employer Contributions – Pensions and OPEB– These contributions are those made after the measurement date through the fiscal year end (July 1st – June 30th) resulting in a cash outlay not yet recognized under GASB 68 or GASB 75. This amount is deferred and recognized in the following fiscal year. This item is presented as a deferred outflow of resources.

- Investment difference – Pensions and OPEB – These amounts represent the difference in projected and actual earnings on pension/OPEB plan assets. These differences are deferred and amortized over a closed five-year period. This item can be presented as both a deferred outflow and deferred inflow of resources and is combined annually as a single net unamortized balance.

- Experience difference – Pensions and OPEB – These amounts represent the difference in expected and actual pension/OPEB experience. These differences are deferred and recognized over the estimated average remaining lives of all members determined as of the beginning of the measurement period. This item can be presented as both a deferred outflow and deferred inflow of resources but may not be shown net if there are unamortized balances for categories.

- Assumption changes – Pensions and OPEB – These amounts represent the difference resulting from a change in assumptions used to measure the underlying net pension/OPEB liability/asset. These differences are deferred and recognized over the estimated average remaining lives of all members determined as of the beginning of the measurement period. This item can be presented as both a deferred outflow and deferred inflow of resources but may not be shown net if there are unamortized balances for categories.

CAPITAL ASSETS:
Capital assets are recorded at cost, except for capital assets contributed by third parties, which are recorded at acquisition value as of the date of acquisition. The Airport Authority capitalizes incremental overhead costs and interest cost associated with the construction of capital assets. Capital assets are defined by the Airport Authority as assets with an initial, individual cost of more than $5,000 and an initial useful life of one year or greater.

The Airport Authority recognizes lessee-financed improvements as capital assets based upon the asset's estimated value at the time the asset reverts to the Airport Authority.

NOTE 1.

NATURE OF ORGANIZATION & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NOTE 1.

NATURE OF ORGANIZATION & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation is computed by use of the straight-line method over the following estimated useful lives:

Asset Category	(Years)
Land improvements	30-40
Runways, roadways and parking lots	
Lighting, security and minor improvements	3-10
Airfield and parking lots and improvements	12-25
Drainage systems, gas lines, pedestrian bridges	30
Roadways, bridges and infrastructure	40-50
Buildings and structures	
Passenger loading bridges, security systems, general upgrades and remodels	3-10
Baggage handling systems, HVAC, structural improvements, fuel and storage facility	12-20
Buildings and smart curb improvements	25-50
Machinery and equipment	
Vehicles and emergency vehicles	3-15
Office furniture and equipment	3-10
Communication and electronic systems	3-20
Works of art	15-30

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are expensed as incurred. Major outlays for capital assets and improvements are capitalized as construction in progress as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. For the fiscal years ended June 30, 2018 and 2017, the Airport Authority capitalized interest of $7,218,861 and $4,774,693, respectively.

CAPITAL ASSET IMPAIRMENT:
The Airport Authority's capital assets include property, equipment and infrastructure assets. A capital asset is considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstances is outside the normal life cycle of the capital asset. The Airport Authority evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Common indicators of impairment include evidence of physical damage where restoration efforts are needed to restore service utility, enactment or approval of laws or regulations setting standards that the capital asset would not be able to meet, technological development or evidence of obsolescence, a change in the manner or expected duration of use of a capital asset or construction stoppage. The Airport Authority reports the effects of capital asset impairments in its financial statements when they occur and accounts for insurance recoveries in the same manner. The Airport Authority's management has determined that no impairments of capital assets currently exist.

RETENTIONS PAYABLE:
The Airport Authority enters into construction contracts that may include retention provisions such that a certain percentage of the contract amount is held for payment until completion of the contract and acceptance by the Airport Authority. The Airport Authority's policy is to record the retention payable only after completion of the work and acceptance of the contractor invoices have occurred. Retentions payable on completed contracts are included with accounts payable on the accompanying statements of net position. Amounts related to unpaid retentions on uncompleted contracts are included in accrued liabilities

COMPENSATED ABSENCES:
All employees of the Airport Authority earn annual leave that is paid upon termination or retirement. Annual leave is accrued at current rates of compensation and based on assumptions concerning the probability that certain employees will become eligible to receive these benefits in the future.

BOND DISCOUNTS, PREMIUMS, AND ISSUANCE COSTS:
Bond discounts and premiums are deferred and amortized over the term of the respective bonds using the effective interest method. Bond issuance costs are expensed as incurred.

AIRPORT AUTHORITY NET POSITION:
Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net investment in capital assets excludes unspent debt proceeds.

Restricted net position represents amounts that are appropriated or legally segregated for a specific purpose. The Airport Authority's net position is reported as restricted when there are limitations imposed on its use, either through the enabling legislation adopted by the Airport Authority or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

NOTE 1.

NATURE OF ORGANIZATION & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unrestricted net position as of June 30, 2018 and 2017 includes designations of net position that represent tentative management plans that are subject to change, consisting of:

	2018	2017
Operating contingency	**$ 2,000,000**	$ 2,000,000
Insurance contingency	**10,249,962**	9,531,966
Capital projects and other commitments	**27,044,207**	14,260,280
Total designated net position	**$ 39,294,169**	$ 25,792,246

When both restricted and unrestricted resources are available for use, it is the Airport Authority's policy to use restricted resources first and then unrestricted resources as they are needed.

REVENUE AND EXPENSE RECOGNITION:
Revenues from airlines, concessionaires, lessees and parking are reported as operating revenues. Operating expenses include the cost of administering the airport system, including depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions and grants.

CONCENTRATIONS:
A significant portion of the Airport Authority's earnings and revenues are directly or indirectly attributed to the activity of a number of major airlines. The Airport Authority's earnings and revenues could be materially and adversely affected should any of these major airlines discontinue operations and should the Airport Authority be unable to replace those airlines with similar activity. The level of operations is determined based upon the relative share of enplaned passengers.

The five largest airlines in terms of enplaned passengers are as follows:

	2018	2017
Southwest Airlines	**38.0%**	37.4%
Alaska	**13.4%**	8.7%
American Airlines	**12.8%**	12.6%
United Airlines	**12.7%**	11.9%
Delta	**10.6%**	10.3%

NOTE 1.

NATURE OF ORGANIZATION & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEFINED BENEFIT PENSION PLAN:
The Airport Authority has a single-employer defined benefit pension plan (Plan) administered through San Diego City Employee Retirement System (SDCERS). For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

ACCOUNTING PRONOUNCEMENTS ADOPTED:
The Airport Authority has adopted and implemented the following GASB statements during the year ended June 30, 2018:

- GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB), effective for the Airport Authority's year ended June 30, 2018.
- GASB Statement No. 85, Omnibus 2017, effective for the Airport Authority's year ended June 30, 2018.
- GASB Statement No. 86, Certain Debt Extinguishment Issues, effective for the Airport Authority's year ending June 30, 2018

The implementation of Statement No. 75 resulted in a restatement of beginning net position as of July 1, 2017, which is the beginning of the earliest period restated. Restatement of beginning net position of the prior period presented was not practical as prior actuary reports were issued in accordance with GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This restatement reclassified amounts previously expensed as salaries and benefits to deferred outflow of resources, and recognized the net OPEB liability as of July 1, 2017.

Adjustments to beginning net position for the adoption of this statement follow:

Deferred OPEB contributions	$ 2,012,419
Net OPEB liability	1,295,164
Net position, July 1, 2017	717,255

ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED:
GASB has issued several pronouncements that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the Airport Authority:

- GASB Statement No. 83, Certain Asset Retirement Obligations, effective for the Airport Authority's year ending June 30, 2019
- GASB Statement No. 84, Fiduciary Activities, effective for the Airport Authority's year ending June 30, 2020
- GASB Statement No. 87, Leases, effective for the Airport Authority's year ending June 30, 2021
- GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements, effective for the Airport Authority's year ending June 30, 2019
- GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period, effective for the Airport Authority's year ending June 30, 2021

RECLASSIFICATIONS:
Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 presentation. The reclassifications had no effect on the changes in net position.

NOTE 2.

CASH, CASH EQUIVALENTS & INVESTMENTS

SUMMARY OF CASH, CASH EQUIVALENTS AND INVESTMENTS:
Cash, cash equivalents and investments are reported in the accompanying statements of net position as follows at June 30:

	2018	2017
Unrestricted and Undesignated:		
Cash and cash equivalents	**$ 7,243,688**	$ 10,743,557
Current investments	**85,690,254**	97,353,685
Noncurrent investments	**136,796,912**	148,319,754
Total unrestricted and undesignated	**229,730,854**	256,416,996
Designated for specific capital projects and other commitments: cash and cash equivalents	**39,294,169**	25,792,246
Restricted:		
Current cash, cash equivalents and investments, with trustees	**99,650,564**	90,068,047
Noncurrent cash, cash equivalents and investments, not with trustees	**191,304,621**	175,907,551
Noncurrent investments, with trustees	**228,598,834**	71,993,440
Total restricted cash, cash equivalents and investments	**519,554,019**	337,969,038
Total cash, cash equivalents and investments	**$ 788,579,042**	$ 620,178,280

The components of restricted cash, cash equivalents and investments at June 30, are summarized below:

	2018	2017
Restricted cash, cash equivalents and investments:		
Bond reserves:		
Operation and maintenance reserve subaccount	**$ 42,709,622**	$ 41,534,736
Operation and maintenance subaccount	**14,236,540**	13,844,912
Renewal and replacement account	**5,400,000**	5,400,000
Total bonds reserves	**62,346,162**	60,779,648
Passenger facility charges unapplied	**80,297,022**	73,311,497
Customer facility charges unapplied	**44,661,454**	37,830,593
Small business development bond guarantee	**4,000,000**	4,000,000
Revolving line of credit construction fund	**-**	162,616
2010 Series debt service reserve fund	**51,974,951**	51,512,762
2010 Series debt service account	**25,312,063**	25,001,407
2013 Series construction fund	**2,323**	1,720,948
2013 Series debt service reserve fund	**33,573,756**	33,322,247
2013 Series debt service account	**11,430,643**	11,338,002
2014 Series construction fund	**1,969**	37,044
2014 Series debt service reserve fund	**22,347,589**	22,180,178
2014 Series debt service account	**13,781,497**	8,153,925
2014 Series rolling coverage fund	**6,769,427**	6,718,716
2014 Series renew and replace	**3,825,876**	1,899,455
2017 Series construction fund	**131,388,973**	-
2017 Series debt service reserve fund	**15,154,803**	-
2017 Series debt service account	**12,685,511**	-
Total restricted cash, cash equivalents and investments	**$ 519,554,019**	$ 337,969,038

NOTE 2.

CASH, CASH EQUIVALENTS & INVESTMENTS (CONTINUED)

INVESTMENTS AUTHORIZED IN ACCORDANCE WITH CALIFORNIA GOVERNMENT CODE SECTION 53601 AND UNDER THE PROVISIONS OF THE AIRPORT AUTHORITY'S INVESTMENT POLICY:
The table that follows identifies the investment types that are authorized by the Airport Authority's investment policy and State Government Code. The table also identifies certain provisions of the Airport Authority's investment policy that address interest rate risk, credit risk, and concentration of credit risk.

This table does not address investments of bond proceeds held by the bond trustee that are governed by provisions of debt agreements of the Airport Authority, in addition to the general provisions of the Airport Authority's investment policy and State Government Code.

Authorized Investment Type	Maximum Maturity	Minimum Quality Requirements	Percentage of Portfolio	Investment in One Issuer
U.S. Treasury obligations	5 years	N/A	None	None
U.S. agency securities	5 years	N/A	None	None
Supranationals	5 years	AA	30 percent	10 percent
Bankers' acceptances	180 days	AAA/Aaa	40 percent	5 percent
Commercial paper	270 days	A-1; P-1; F-1	25 percent	5 percent
Negotiable certificates of deposit	5 years	A	30 percent	5 percent
Medium-term notes	5 years	A	20 percent	5 percent
Money market mutual funds	N/A	AAA/Aaa	20 percent	5 percent
Repurchase agreements	1 year	A	None	None
Local Agency Investment Fund	N/A	N/A	None	$65 million
San Diego County Investment Pool	N/A	N/A	None	$65 million
Local Government Investment Pool	N/A	N/A	None	$65 million
U.S. State and California agency indebtedness	5 years	A	20 percent	5 percent
Placement service certificates of deposits	3 years	N/A	30 percent	5 percent
Time certificates of deposit	3 years	*	20 percent	5 percent
Bank deposits	N/A	*	None	None

* Financial institution must have at least an overall satisfactory rating under the Community Reinvestment Act for meeting the credit needs of California communities in its most recent evaluation. Collateralization required per Cal. Gov. Code Section 53630 et seq.

INVESTMENT IN STATE INVESTMENT POOLS:
The Airport Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Airport Authority's investments in this pool are reported in the accompanying financial statements at fair value based upon the Airport Authority's pro rata share of the amortized cost basis provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of each portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF.

INVESTMENT IN COUNTY INVESTMENT POOL:
The Airport Authority is a voluntary participant in the San Diego County Investment Pool (SDCIP) that is regulated by California Government Code Section 16429 under the oversight of the County Treasurer of San Diego. The Airport Authority's investments in this pool are reported in the accompanying financial statements at fair value based upon the Airport Authority's pro rata share of the amortized cost basis provided by SDCIP for the entire SDCIP portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by SDCIP.

NOTE 2.

CASH, CASH EQUIVALENTS & INVESTMENTS (CONTINUED)

INVESTMENTS AUTHORIZED BY DEBT AGREEMENTS:
Investments held by the bond trustee are governed by the provisions of the debt agreement, in addition to the general provisions of the California Government Code and the Airport Authority's investment policy. The table below identifies the investment types that are authorized for investments held by the bond trustee, according to the Master Trust Indenture. In the event of a conflict between the Airport Authority's investment policy and permitted investments associated with any Airport Authority debt issuance, the debt agreement shall control. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Minimum Quality Requirements	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	None	N/A	None	None
U.S. agency securities	None	N/A	None	None
State Obligations	None	AAA/Aaa	None	None
Commercial paper	None	A-1; P-1; F-1	None	None
Negotiable certificates of deposit	None	AAA/Aaa	None	None
Long term and Medium-term notes	None	Two highest ratings	None	None
Money market mutual funds	None	Two highest ratings	None	None
Municipal bonds	None	Two highest ratings	None	None
Repurchase agreements	None	BBB*	None	None
Investment agreements	None	N/A	None	None
Local Agency Investment Fund	None	N/A	None	None
San Diego County Investment Pool	None	N/A	None	None
Deposit accounts	None	N/A	None	None

Any other investment which is a permitted investment of the Authority in accordance with the laws of the State.

*Investment requires collateralization

The primary objective of the Airport Authority's investment policy is to invest public funds in a manner that will provide the highest security of the funds under management while meeting the daily cash flow demands of the Airport Authority. Assets of the Airport Authority that are not bond proceeds, which are invested in securities as permitted in the bond indenture, are described in the preceding table. In addition, there are various credit criteria as defined in the Airport Authority's investment policy as depicted in the previous section entitled "Investments authorized in accordance with California Government Code Section 53601 and under the provisions of the Airport Authority's investment policy."

INVESTMENTS HELD BY TRUSTEE:
The Airport Authority has monies held by trustees pledged for the security and payment of certain debt instruments, the payment of bond interest during construction and the payment of capital project costs.

DISCLOSURES RELATED TO INTEREST RATE RISK:
Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, investments with longer maturities have greater fair value sensitivity to changes in market interest rates. One of the ways the Airport Authority manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities. These staggered maturities also provide consistent cash flow and fulfill liquidity needs for operations. The Airport Authority monitors interest rate risk inherent in its portfolio by measuring the segmented time distribution of its portfolio. The Airport Authority has no specific limitations with respect to this metric.

CUSTODIAL CREDIT RISK (DEPOSITS):
Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Airport Authority maintains deposits at several institutions in order to minimize custodial credit risk. These deposits are collateralized by various instruments such as U.S. government securities (guaranteed) or U.S. agency securities (government sponsored). California Government Code requires that a financial institution secure deposits made by a state or local government by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure Airport Authority deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured deposits.

Insurance through the Federal Deposit Insurance Corporation (FDIC) may be applicable to the first $250,000 of institutional deposit accounts, with any balance above this amount covered by the collateralization requirement. Certificates of deposit held by the Airport Authority's third-party custodians are fully insured by the FDIC, as the individual amounts do not exceed the FDIC-insured limits, or are collateralized in accordance with the California Government Code.

CUSTODIAL CREDIT RISK (INVESTMENTS):
Custodial credit risk for investments is the risk that the Airport Authority will not be able to recover the value of its investments in the event of a counterparty failure. The Airport Authority uses third-party banks' custody and safekeeping services for its registered investment securities. Securities are held in custody at third-party banks registered in the name of the Airport Authority and are segregated from securities owned by those institutions or held in custody by those institutions.

DISCLOSURES RELATED TO CREDIT RISK:
Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. California Government Code Section 53601 (as referenced previously in this note) limits the types of investment instruments that may be purchased by the Airport Authority.

NOTE 2.

CASH, CASH EQUIVALENTS & INVESTMENTS (CONTINUED)

NOTE 2.

CASH, CASH EQUIVALENTS & INVESTMENTS (CONTINUED)

The maturity ranges and credit ratings for the Airport Authority's investment securities as of June 30, are presented in the following tables:

	2018				
		Investment Maturities (in Years)			
Investment Type	**Total**	**0 - 1**	**1 - 2**	**2 - 5**	**Ratings**
Investments subject to credit and interest rate risk:					
U.S. Treasury obligations	$124,032,939	$14,814,921	$24,988,888	$84,229,130	AA+
U.S. agency securities	67,281,728	3,988,720	63,293,008	-	AA+
Supranationals	8,020,598	2,961,090	2,959,710	2,099,798	AAA
	5,294,485	-	-	5,294,485	Not rated
Negotiable certicates of deposit	11,911,120	7,994,640	-	3,916,480	AA
	22,642,037	16,941,660	5,700,377	-	A
Medium-term notes	2,876,730	-	-	2,876,730	AAA
	15,749,735	4,464,870	7,409,025	3,875,840	AA
	31,802,519	10,543,467	7,900,497	13,358,555	A
Money market mutual funds	93,517	93,517	-	-	AAA
Local Agency Investment Fund	48,733,079	48,733,079	-	-	Unrated
San Diego County Investment Pool	234,006,333	234,006,333	-	-	Unrated(1)
CalTrust Fund	15,522,832	15,522,832	-	-	AA
Total investments subject to credit and interest rate risk:	587,967,652	360,065,129	112,251,505	115,651,018	
Investments not subject to credit or interest rate risk:					
Nonnegotiable certificates of deposit	15,639,415				
Total Investments	$603,607,067				

	2017				
		Investment Maturities (in Years)			
Investment Type	**Total**	**0 - 1**	**1 - 2**	**2 - 5**	**Ratings**
Investments subject to credit and interest rate risk:					
U.S. Treasury obligations	$ 85,201,348	$ 9,973,800	$49,865,262	$25,362,286	AA+
U.S. agency securities	109,436,513	4,438,252	41,168,904	63,829,357	AA+
Supranationals	5,982,120	-	2,968,080	3,014,040	AAA
Commercial paper	8,485,280	8,485,280	-	-	A-1+
Negotiable certicates of deposit	46,592,680	25,528,280	21,064,400	-	A-1+
Medium-term notes	22,457,198	10,443,358	7,497,765	4,516,075	AA
	17,107,339	1,501,860	7,603,761	8,001,718	A
Money market mutual funds	630,996	630,996	-	-	AAA
Local Agency Investment Fund	48,182,813	48,182,813	-	-	Unrated
San Diego County Investment Pool	157,252,092	157,252,092	-	-	Unrated(1)
CalTrust Fund	15,297,173	15,297,174	-	-	AA
Total investments subject to credit and interest rate risk:	516,625,552	281,733,905	130,168,172	104,723,476	
Investments not subject to credit or interest rate risk:					
Nonnegotiable certificates of deposit	15,413,828				
Total Investments	$532,039,380				

Ratings per Standard and Poor's
(1) Investment rated AAA by Fitch

NOTE 2.

CASH, CASH EQUIVALENTS & INVESTMENTS (CONTINUED)

CONCENTRATION OF CREDIT RISK:
The investment policy of the Airport Authority contains no limitations on the amount that can be invested by any one issuer beyond that stated in the table provided earlier in this note. The Airport Authority requires a diversified investment portfolio to avoid risk of losses resulting from an over-concentration of assets in a specific maturity, issuer or class of securities. The Airport Authority had no concentrations of credit risk at June 30, 2018 and 2017.

FOREIGN CURRENCY RISK:
The Airport Authority's investment policy does not allow investments in foreign securities.

NOTE 3.

NOTE RECEIVABLE

As part of the transfer of airport operations from the District to the Airport Authority, and pursuant to the associated MOU, the District issued a $50,000,000 unsecured promissory note to the Airport Authority. According to an agreement with the District that commenced on January 1, 2006, the note will be amortized over 25 years, maturing on December 31, 2030. The note is subordinate to all bond indebtedness of the District and carries a fixed interest rate of 5.5 percent per annum. At June 30, 2018 and 2017, the balance of the note receivable was $33,242,085 and $35,043,779, respectively.

The required principal payments owed from the District for note receivable for the fiscal years ending June 30 are as follows:

Years Ending June 30,	Amount
2019	$ 1,903,323
2020	2,006,052
2021	2,123,843
2022	2,243,644
2023	2,370,203
2024-2028	14,008,274
2029-2031	8,586,746
	$ 33,242,085

NOTE 4.

CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2018 and 2017 are as follows:

	Balance at June 30, 2017	Increases	Decreases	**Balance at June 30, 2018**
Nondepreciable assets:				
Land	$ 22,167,595	$ -	$ -	**$ 22,167,595**
Construction in progress	171,498,032	272,511,934	(333,489,767)	**110,520,199**
Intangible asset	440,000	-	-	**440,000**
Total nondepreciable assets	194,105,627	272,511,934	(333,489,767)	**133,127,794**
Depreciable assets:				
Land improvements	88,873,547	24,535,625	(490,176)	**112,918,996**
Buildings and structures (1)	1,430,977,373	262,093,480	(1,407,995)	**1,691,662,858**
Machinery and equipment (2)	98,289,643	15,856,555	(1,682,138)	**112,464,060**
Runways, roads and parking lots	626,871,756	32,705,934	(12,638,406)	**646,939,284**
Total capital assets being depreciated	2,245,012,319	335,191,594	(16,218,715)	**2,563,985,198**
Less accumulated depreciation for:				
Land improvements	(13,595,257)	(7,185,518)	85,769	**(20,695,006)**
Building and structures	(547,652,555)	(64,299,973)	1,402,095	**(610,550,433)**
Machinery and equipment	(56,392,656)	(8,475,734)	1,682,137	**(63,186,253)**
Runways, roads and parking lots	(276,568,778)	(25,570,478)	3,599,017	**(298,540,239)**
Total accumulated depreciation	(894,209,246)	(105,531,703)	6,769,018	**(992,971,931)**
Total capital assets being depreciated, net	1,350,803,073	229,659,891	(9,449,697)	**1,571,013,267**
Capital assets, net	$ 1,544,908,700	$ 502,171,825	$ (342,939,464)	**$ 1,704,141,061**

(1) Includes capitalized lease of building with a net present value of future lease payments of $7,012,496
(2) Includes capitalized leases of office equipment with a net present value of future lease payments of $131,369

	Balance at June 30, 2016	Increases	Decreases	Balance at June 30, 2017
Nondepreciable assets:				
Land	$ 22,167,595	$ -	$ -	$ 22,167,595
Construction in progress	152,703,001	100,687,513	(81,892,482)	171,498,032
Intangible asset	440,000	-	-	440,000
Total nondepreciable assets	175,310,596	100,687,513	(81,892,482)	194,105,627
Depreciable assets:				
Land improvements	87,806,629	1,066,918	-	88,873,547
Buildings and structures (1)	1,415,251,585	38,732,334	(23,006,546)	1,430,977,373
Machinery and equipment (2)	94,326,157	3,963,486	-	98,289,643
Runways, roads and parking lots	590,772,032	41,343,092	(5,243,368)	626,871,756
Total capital assets being depreciated	2,188,156,403	85,105,830	(28,249,914)	2,245,012,319
Less accumulated depreciation for:				
Land improvements	(9,315,258)	(4,279,999)	-	(13,595,257)
Building and structures	(492,481,777)	(63,647,618)	8,476,840	(547,652,555)
Machinery and equipment	(49,619,914)	(6,772,742)	-	(56,392,656)
Runways, roads and parking lots	(261,042,693)	(20,528,667)	5,002,582	(276,568,778)
Total accumulated depreciation	(812,459,642)	(95,229,026)	13,479,422	(894,209,246)
Total capital assets being depreciated, net	1,375,696,761	(10,123,196)	(14,770,492)	1,350,803,073
Capital assets, net	$ 1,551,007,357	$ 90,564,317	$ (96,662,974)	$ 1,544,908,700

(1) Includes capitalized lease of building with a net present value of future lease payments of $7,237,033
(2) Includes capitalized leases of office equipment with a net present value of future lease payments of $205,281

NOTE 5.

LONG-TERM LIABILITIES

The following is a summary of changes in the long-term liability activity for the years ended June 30, 2018 and 2017:

	Principal Balance at June 30, 2017	Additions /New Issuances	Reductions/ Repayments	**Principal Balance at June 30, 2018**	Due Within One Year
Variable Rate Debt					
Series A tax-exempt	$ 32,550,000	$ -	$ (32,550,000)	**$ -**	$ -
Series B tax-exempt	15,849,000	-	(1,055,000)	**14,794,000**	-
Series C taxable	10,599,000	-	(5,230,000)	**5,369,000**	-
Total variable rate debt	58,998,000	-	(38,835,000)	**20,163,000**	-
Bonds payable:					
Series 2010 Bonds	546,420,000	-	(9,430,000)	**536,990,000**	9,890,000
Series 2013 Bonds	375,465,000	-	(2,155,000)	**373,310,000**	2,240,000
Series 2014 Bonds	305,285,000	-	-	**305,285,000**	5,580,000
Series 2017 Bonds	-	291,210,000	-	**291,210,000**	4,940,000
Bond premiums	60,432,498	48,423,688	(5,690,489)	**103,165,697**	-
Total bonds payable	1,287,602,498	339,633,688	(17,275,489)	**1,609,960,697**	22,650,000
Capital leases	7,442,314	-	(298,449)	**7,143,865**	323,514
Total debt obligations	1,354,042,812	339,633,688	(56,408,938)	**1,637,267,562**	22,973,514
Compensated absences	3,231,026	3,138,941	(3,093,379)	**3,276,588**	3,093,379
Net pension liability	18,111,482	7,308,825	(5,197,849)	**20,222,458**	-
Total other accruals	21,342,508	10,447,766	(8,291,228)	**23,499,046**	3,093,379
Total long-term liabilities	$ 1,375,385,320	$ 350,081,454	$ (64,700,166)	**$ 1,660,766,608**	$ 26,066,893

	Principal Balance at June 30, 2016	Additions /New Issuances	Reductions/ Repayments	Principal Balance at June 30, 2017	Due Within One Year
Variable Rate Debt					
Series A tax-exempt	$ -	$ 32,550,000	$ -	$ 32,550,000	$ -
Series B tax-exempt	16,884,000	-	(1,035,000)	15,849,000	-
Series C taxable	15,697,000		(5,098,000)	10,599,000	-
Total variable rate debt	32,581,000	32,550,000	(6,133,000)	58,998,000	-
Bonds payable:					
Series 2010 Bonds	555,420,000	-	(9,000,000)	546,420,000	9,430,000
Series 2013 Bonds	377,555,000	-	(2,090,000)	375,465,000	2,155,000
Series 2014 Bonds	305,285,000	-	-	305,285,000	-
Bond premiums	64,586,043	-	(4,153,545)	60,432,498	-
Total bonds payable	1,302,846,043	-	(15,243,545)	1,287,602,498	11,585,000
Capital leases	7,717,734	-	(275,420)	7,442,314	298,449
Total debt obligations	1,343,144,777	32,550,000	(21,651,965)	1,354,042,812	11,883,449
Compensated absences	3,362,113	3,086,661	(3,217,748)	3,231,026	3,217,748
Net pension liability	1,680,759	27,275,582	(10,844,859)	18,111,482	-
Total other accruals	5,042,872	30,362,243	(14,062,607)	21,342,508	3,217,748
Total long-term liabilities	$ 1,348,187,649	$ 62,912,243	$ (35,714,572)	$ 1,375,385,320	$ 15,101,197

NOTE 5.

LONG-TERM LIABILITIES (CONTINUED)

SENIOR LIEN AIRPORT REVENUE BONDS, SERIES 2005 AND REFUNDED SERIES 1995:
The California Maritime Infrastructure Authority issued $76,690,000 of Airport Revenue Bonds (Series 1995 Bonds) for the District, pursuant to a trust agreement dated December 1, 1995. The proceeds of the Series 1995 Bonds, together with investment income thereon, were used solely to pay a portion of the construction and installation of the West Terminal Expansion at SDIA, fund a Reserve Account and pay certain expenses in connection with the issuance of the Series 1995 Bonds. In conjunction with the transfer of airport operations to the Airport Authority on January 1, 2003, these bond obligations were assumed by the Airport Authority.

On November 9, 2005, the Airport Authority issued 56,270,000 of senior lien Series 2005 bonds to refund all of the then-outstanding Series 1995 Bonds, fund a debt service reserve account and pay cost of issuance.

On December 21, 2012, the Airport Authority defeased all of its outstanding Series 2005 Bonds, by depositing proceeds of Subordinate CP Notes and certain other available monies into an irrevocable escrow fund. The amounts on deposit in the escrow fund will be used to pay the principal of and interest on the Series 2005 Bonds until their final maturity date of July 1, 2020. As of June 30, 2018 and 2017, the amount held in escrow by the trustee was $15,516,704 and $20,603,125, respectively, and the amount of the defeased Series 2005 Bonds still outstanding was $14,605,000 and $18,985,000, respectively.

SENIOR LIEN AIRPORT REVENUE BONDS, SERIES 2013:
On January 30, 2013, the Airport Authority issued $379,585,000 of Series A and B Senior Airport Revenue Bonds (Series 2013 Bonds). The Series 2013 Bonds were issued to finance certain capital improvements at SDIA, fund a portion of the interest accruing on the Series 2013 Bonds through and including July 1, 2015, fund the senior reserve fund and pay the costs of issuance of the Series 2013 Bonds.

The Series 2013 Bonds were structured as serial and term bonds that bear interest at rates ranging from 3.00 percent to 5.00 percent and mature in fiscal years 2016 to 2044. The bonds were issued at a premium of $55,934,101, which is being amortized over the life of the bonds. Interest on the senior Series 2013 Bonds is payable semiannually on January 1 and July 1, of each year. Interest for the fiscal years ended June 30, 2018 and 2017, was $18,263,750 and $18,349,950, respectively, including accrued interest of $9,131,875 and $9,174,975 for fiscal years ending June 30, 2018 and 2017, respectively. The principal balance on the Series 2013 Bonds as of June 30, 2018 and 2017, was $373,310,000 and $375,465,000, respectively.

The senior Series 2013 Bonds are special obligations of the Airport Authority, payable solely from and secured by (a) a pledge of net revenues, which include certain income and revenue received by the Airport Authority from the operation of the airport system, less all amounts that are required to pay the operation and maintenance expenses of the airport system (b) certain funds and accounts held by the senior trustee under the senior indenture.

As senior lien bonds, the Series 2013 Bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 125 percent times the senior debt service for that year. In addition, the Series 2013 Bonds require the Airport Authority to maintain a debt service reserve account with the bond trustee and to reserve certain additional amounts in the Airport Authority's books, as shown previously in the notes. For the fiscal years ended June 30, 2018 and 2017, the amount held by the trustee was $45,006,722 and $46,381,197, respectively, which included the July 1 payment and the debt service reserve fund. The total additional amounts held by the Airport Authority for Operating and Maintenance, and Renewal and Replacements reserves for fiscal years 2018 and 2017 was $62,346,162 and $60,779,648, respectively. The public ratings of the Series 2013 Bonds as of June 30, 2017, are A+/A1/A+ by Standard & Poor's, Moody's Investors Service and Fitch Ratings.

The required debt service payments for the Series 2013 Bonds for the fiscal years ending June 30, are as follows:

Years Ending June 30,	Principal	Interest	Total
2019	$ 2,240,000	$ 18,218,950	$ 20,458,950
2020	2,320,000	18,127,750	20,447,750
2021	7,925,000	17,883,225	25,808,225
2022	8,315,000	17,477,225	25,792,225
2023	8,725,000	17,051,225	25,776,225
2024-2028	50,660,000	78,095,450	128,755,450
2029-2033	45,330,000	65,221,975	110,551,975
2034-2038	32,565,000	57,139,125	89,704,125
2039-2043	150,780,000	41,634,250	192,414,250
2044	64,450,000	1,573,750	66,023,750
	$ 373,310,000	$ 332,422,925	$ 705,732,925

SUBORDINATE LIEN SERIES 2010 AND 2017 BONDS:
On October 5, 2010, the Airport Authority issued $572,565,000 of Series A, B and C Subordinate Airport Revenue Bonds (Series 2010 Bonds). The subordinate Series 2010 Bonds were issued to finance certain capital improvements at SDIA, fund a portion of the interest accruing on the subordinate Series 2010 Bonds through and including January 1, 2013, refund $142,176,000 of the Airport Authority's then outstanding commercial paper notes, fund the subordinate reserve fund and pay the costs of issuance of the subordinate Series 2010 Bonds.

The Series 2010 A and 2010 B Bonds were structured as serial and term bonds that bear interest at rates ranging from 2.00 percent to 5.00 percent and mature in fiscal years 2012 to 2041. The Series 2010 C Bonds were issued as taxable Build America Bonds (BAB), which benefit from periodic cash subsidy payments from the U.S. Treasury. The BAB interest subsidies received by the Airport Authority for fiscal years ended June 30, 2018 and 2017, amounted to $4,666,190 and $4,651,203, respectively. The interest rate on the Series 2010 C Bonds, net of the subsidy, is 4.46 percent and the bonds mature in fiscal year 2041. The bonds were issued at a premium of $26,154,344, which is being amortized over the life of the bonds. Interest on the subordinate Series 2010 Bonds is payable semiannually on January 1 and July 1 of each year.

Interest for the fiscal years ended June 30, 2018 and 2017, amounted to $30,259,748 and $30,716,248, respectively, including accrued interest of $15,129,875 and $15,358,125, respectively. The principal balance on the subordinate Series 2010 Bonds as of June 30, 2018 and 2017, was $536,990,000 and $546,420,000, respectively.

NOTE 5.

LONG-TERM LIABILITIES (CONTINUED)

The required debt service payments for the Series 2010 Bonds for the fiscal years ending June 30, are as follows:

Years Ending June 30,	Principal	Interest	Total
2019	9,890,000	30,020,298	39,910,298
2020	10,365,000	29,529,823	39,894,823
2021	10,865,000	29,007,173	39,872,173
2022	11,415,000	28,463,486	39,878,486
2023	11,960,000	27,892,767	39,852,767
2024-2028	69,330,000	129,681,617	199,011,617
2029-2033	110,385,000	108,629,628	219,014,628
2034-2038	176,410,000	65,792,997	242,202,997
2039-2041	126,370,000	11,699,976	138,069,976
	$ 536,990,000	$ 460,717,765	$ 997,707,765

The Airport Authority issued $291,210,000 of Series A and B Subordinate Airport Revenue Bonds on August 3, 2017. The Subordinate Series 2017 Bonds were issued to finance certain capital improvements at SDIA including the Parking Plaza and the FIS facility, fund a portion of the interest accruing on the subordinate Series 2017 Bonds, refund $32,550,000 of the Airport Authority's outstanding variable rate debt, fund the subordinate reserve fund and pay the costs of issuance of the subordinate Series 2017 Bonds. The Series 2017 Bonds are structured as serial and term bonds that bear interest at rates ranging from 4.00 percent to 5.00 percent and mature in fiscal years 2019 to 2048. The bonds were issued at a premium of $48,423,688, which is being amortized over the life of the bonds. Interest on the Series 2017 Bonds is payable semiannually on January 1 and July 1 of each year.

Interest for the fiscal year ended June 30, 2018, amounted to $13,245,096, including accrued interest of $7,268,650. The principal balance on the subordinate Series 2017 Bonds as of June 30, 2018, was $291,210,000.

The required debt service payments for the Series 2017 Bonds for the fiscal years ending June 30, are as follows:

Years Ending June 30,	Principal	Interest	Total
2019	$ 4,940,000	$ 14,425,400	$ 19,365,400
2020	4,460,000	14,202,000	18,662,000
2021	4,825,000	13,969,875	18,794,875
2022	5,070,000	13,722,500	18,792,500
2023	5,320,000	13,462,750	18,782,750
2024-2028	30,860,000	62,941,750	93,801,750
2029-2033	39,395,000	54,201,375	93,596,375
2034-2038	50,275,000	43,045,875	93,320,875
2039-2043	64,170,000	28,808,750	92,978,750
2040-2048	81,895,000	10,635,875	92,530,875
	$ 291,210,000	$ 269,416,150	$ 560,626,150

The subordinate Series Bonds are special obligations of the Airport Authority, payable solely from and secured by (a) a pledge of subordinate net revenues, which include certain income and revenue received by the Airport Authority from the operation of the airport system, less all amounts that are required to pay the operation and maintenance expenses of the airport system and all amounts necessary to pay debt service on and fund the reserves for the senior bonds; and (b) certain funds and accounts held by the subordinate trustee under the subordinate indenture. The subordinate Series Bonds were issued with a pledge of and lien on subordinate net revenues.

As subordinate lien bonds, the Series 2010 and 2017 Bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 110 percent times the subordinate debt service for that year. In addition, the subordinate Bonds require the Airport Authority to maintain a reserve account with the bond trustee. At June 30, 2018 and 2017, the amount held by the trustee was $236,516,301 and $76,514,169, respectively, which included the July 1 payment, a debt service reserve fund, construction fund, and a capitalized interest fund. The public ratings of the Subordinate Series 2010 and 2017 Bonds as of June 30, 2017, are A/A2/A by Standard & Poor's, Moody's Investors Service and Fitch Ratings.

SUBORDINATE VARIABLE RATE DEBT PROGRAM: During fiscal year 2015, the Airport Authority replaced its commercial paper program with a $125,000,000 Revolving Line Of Credit issued by US Bank. The Revolving Line Of Credit was used to refund the outstanding Series B and Series C CP Note balances. The Revolving Line Of Credit is a three-year agreement that took effect on September 5, 2014. The agreement was amended on June 29, 2017, to extend the commitment through June 29, 2020.

At June 30, 2018, the Authority had an outstanding principal balance on Series A Revolving Obligations of $0, (the balance was $32,550,000 as at June 30 2017). At June 30 2018 and 2017, the outstanding principal balances of the Series B Revolving Obligations were $14,794,000 and $15,849,000, respectively. The Series A and Series B Revolving Obligations bear interest at the tax-exempt rate which is based on a spread to LIBOR. The outstanding principal balances of the Series C Revolving Obligations at June 30 2018 and 2017, were $5,369,000 and $10,599,000 respectively, and bear interest at the taxable rate, also based on a spread to LIBOR.

In April of 2017, the Authority established a Subordinate Drawdown Bond program with RBC Municipal Products of up to $100,000,000. On April 1, 2017, the Authority and RBC Municipal Products agreed upon a Bondholders Agreement and on April 19, 2017, the Authority and RBC Capital Markets LLC agreed upon a Subordinate Drawdown Bond Purchase Agreement. When issued, all Subordinate Drawdown Bonds will be purchased by the Subordinate Drawdown Bond Purchaser in accordance with the terms of the Subordinate Drawdown Bondholder's Agreement and the Subordinate Drawdown Bond Purchase Agreement. The Authority currently has no Subordinate Drawdown Bonds outstanding. This commitment will expire on April 17 2020.

The Revolving Line Of Credit and Subordinate Drawdown Bonds are payable solely from and secured by a pledge of "Subordinate Net Revenues." Subordinate Net Revenues are generally defined as all revenues and other cash receipts of the Airport Authority's airport operations remaining after senior lien payments have been deposited by the Trustee in accordance with the Senior Lien Trust Indenture.

SENIOR LIEN SPECIAL FACILITIES REVENUE BONDS, SERIES 2014:
On February 19, 2014, the Airport Authority issued $305,285,000 of Series A and B Senior Special Facilities Revenue Bonds (Series 2014 Bonds). The Series 2014 Bonds were issued to finance a portion of the costs of the development and construction

NOTE 5.

LONG-TERM LIABILITIES (CONTINUED)

NOTE 5.

LONG-TERM LIABILITIES (CONTINUED)

of a consolidated rental car facility and related improvements at SDIA, fund a portion of the interest accruing on the Series 2014 Bonds, fund deposits to the senior reserve fund and pay the costs of issuance of the Series 2014 Bonds.

The Series 2014 A Bonds were structured as tax-exempt and non-AMT term bonds that bear interest at 5.00 percent. The Series 2014 B Bonds were structured as federally taxable bonds that bear interest at rates ranging from 2.54 percent to 5.59 percent. The bonds were issued at a premium of $594,226, which is amortized over the life of the bonds. Interest on the Series 2014 Bonds is payable semiannually on January 1 and July 1 of each year. Interest for fiscal years ended June 30, 2018 and 2017, was $16,341,210, including accrued interest of $8,170,605 each year. The principal balance on the Series 2014 Bonds for fiscal years ended June 30, 2018 and 2017 was $305,285,000.

The Series 2014 Bonds are special limited obligations of the Airport Authority, payable solely from and secured by a pledge of the Trust Estate, which includes, among other things, customer facility charges collected from the rental car companies operating at the Airport and remitted to the Trustee. No revenues of the Airport Authority other than the customer facility charges and the Bond Funding Supplemental Consideration (as defined in the bond indenture), are pledged to the payment of the Series 2014 Bonds. The Series 2014 Bonds require the Airport Authority to maintain a debt service reserve account with the bond trustee and to reserve certain additional amounts in the Airport Authority's net position, as shown previously in the notes. For the fiscal years ended June 30, 2018 and 2017, the amount held by the trustee was $46,726,358 and $38,989,318, respectively, which included the July 1 payment, the debt service reserve fund, and the rolling coverage fund.

The public ratings of the Senior Series Special Facility 2014 Bonds as of June 30, 2017, are A-/A3 by Standard & Poor's and Moody's Investors Service.

The required debt service payments for the Series 2014 Bonds for the fiscal years ending June 30 are as follows:

Years Ending June 30,	Principal	Interest	Total
2019	$ 5,580,000	$ 16,270,428	$ 21,850,428
2020	5,720,000	16,114,217	21,834,217
2021	5,890,000	15,928,365	21,818,365
2022	6,090,000	15,714,362	21,804,362
2023	6,320,000	15,424,013	21,744,013
2024-2028	37,305,000	71,246,224	108,551,224
2029-2033	48,980,000	59,250,031	108,230,031
2034-2038	64,295,000	43,501,662	107,796,662
2039-2043	84,410,000	22,828,056	107,238,056
2044-2045	40,695,000	2,094,701	42,789,701
	$ 305,285,000	$ 278,372,059	$ 583,657,059

LINE OF CREDIT:

In fiscal year 2018, the Airport Authority maintained a $4,000,000 line of credit held with US Bank, which is collateralized with a bank certificate of deposit. This line is utilized to issue letters of credit to surety companies who are partnering with the Airport Authority to provide bonding assistance to contractors accepted into the bonding assistance program at the Airport Authority. As of June 30, 2018, nothing had been drawn on the line of credit and there are no outstanding letters of credit.

NOTE 5.

LONG-TERM LIABILITIES (CONTINUED)

CAPITAL LEASES

OFFICE EQUIPMENT LEASES:

The Airport Authority has entered into a five year capital lease agreement for office equipment that requires a monthly lease payment of $6,849. The agreement expires January 2020.

RECEIVING DISTRIBUTION CENTER LEASE:

The Airport Authority entered into an installment purchase agreement for a receiving and distribution center (RDC) in fiscal year 2013. This agreement has been determined to be a capital lease and requires monthly lease payments of $73,108. The Airport Authority will become the owner of the RDC at the conclusion of the 20 year installment purchase agreement.

The following is a schedule of future lease payments applicable to the RDC installment purchase agreement, the office equipment capital leases, and the net present value of the future lease payments at June 30, 2018:

Years Ending June 30,	Amount
2019	959,486
2020	932,090
2021	877,298
2022	877,298
2023	877,298
2024-2028	4,386,489
2029-2033	3,874,732
Total lease payments	12,784,691
Less amount representing interest	(5,640,826)
Present value of future lease payments	$ 7,143,865

NOTE 6.

DEFINED BENEFIT PLAN

PLAN DISCRIPTION: The Airport Authority's defined benefit pension plan (Plan), administered by SDCERS, provides service retirement, disability benefits, death and survivor benefits to Plan members and beneficiaries. SDCERS is a multi-employer public employee retirement system that acts as a common investment and administrative agent for three separate single-employer defined benefit pension plans for the City, the District, and Airport Authority.

From January 1, 2003 through June 30, 2007, SDCERS administered a qualified employer defined benefit plan for the City, the District and Airport Authority. However, as of July 1, 2007, the City, the District and the Airport Authority plans were separated into independent, qualified, single-employer governmental defined benefit plans and trusts. The assets of the three separate plans and trusts were pooled in the SDCERS Group Trust, which was established as of July 1, 2007. SDCERS invests and administers the Group Trust as a common investment fund and accounts separately for the proportional interest of each plan and trust that participates in the Group Trust.

SDCERS is governed by a 13-member Board, responsible for the administration of retirement benefits for the City, the District, and the Airport Authority and for overseeing the investment portfolio of the retirement system's trust fund. The Board is comprised of seven appointed members, four active members, one retired member, and one ex-officio member.

SDCERS acts as a common, independent investment and administrative agent for the City, the District and the Airport Authority, whose plans cover all eligible employees. In a defined benefit plan, pension benefits are actuarially determined by a member's age at retirement, number of years of service credit and final compensation, typically based on the highest salary earned over a one-year or three-year period. Airport Authority members who are participants under the California Public Employees' Pension Reform Act (PEPRA) are subject to pensionable compensation caps.

The San Diego City Charter Section 144 and San Diego Municipal Code Sections 24.0100 et seq. assign the authority to establish and amend the benefit provisions of the plans that participate in SDCERS to the SDCERS Board. The Airport Authority contributes to the Federal Social Security Program. The SDCERS Board issues a publicly available financial report that includes financial statements and required supplementary information for SDCERS. The financial report may found on the San Diego City Employees' Retirement System website at www.SDCERS.org.

BENEFITS PROVIDED: The Airport Authority provides retirement, disability, and death benefits.

There are two types of participants, the classic participants and the PEPRA participants. A classic participant means any member who is not a PEPRA participant. A PEPRA participant is any member hired on or after January 1, 2013, who has never been a member of a public retirement system or who had a break in service of more than six months before their Airport Authority hire date.

The classic participant retirement benefit is calculated by using monthly salary amounts based on the highest continuous 26 bi-weekly pay periods divided by 12. The eligibility of the classic participants begins at age 62 with five years of service, or age 55 with 20 years of service.

The PEPRA participant's benefit is calculated by using monthly salary amounts based on the highest 36 consecutive months divided by 36. Pensionable salary cannot exceed 100 percent of the Social Security contribution and benefit base, indexed to the CPI-U. The eligibility of the PEPRA participants begins at age 52 with five years of service.

The Airport Authority provides monthly payments for the life of the employee, with 50 percent continuance to the eligible spouse, domestic partner, or dependent child under 21 years of age

NOTE 6.

DEFINED BENEFIT PLAN (CONTINUED)

upon the member's death. If there is no eligible spouse, the member may receive either a lump sum payment equal to the accumulated surviving spouse contributions or an actuarially equivalent annuity.

Employees with ten years of continuous service are eligible to receive non-industrial disability and employees with no service requirement can receive industrial disability.

The death benefit for non-industrial death before the employee is eligible to retire is a refund of the employee contributions, with interest plus one month's salary for each completed year of service to a maximum of six months' salary. A non-industrial death benefit after the employee is eligible to retire from service is 50 percent of earned benefit payable to eligible surviving spouse, domestic partner, or dependent child under 21 years of age. The industrial death benefit is 50 percent of the final average compensation preceding death, payable to eligible surviving spouse, domestic partner or dependent child under 21 years of age.

As of the measurement dates June 30, 2017 and June 30, 2016, Plan membership was as follows:

	2017	2016
Active employees	394	385
Inactive employees entitled to but not yet receiving benefits	119	112
Inactive employees or beneficiaries currently receiving benefits	107	90
Total	620	587

CONTRIBUTIONS:
SDCERS uses actuarial developed methods and assumptions to determine what level of contributions are required to achieve and maintain an appropriate funded status for the Plan. The actuarial process uses a funding method that attempts to create a pattern of contributions that is both stable and predictable. The actual employer and member contribution rates in effect each year are based upon actuarial valuations performed by an independent actuary and adopted by the SDCERS Board annually.

The actuarial valuation is completed as of June 30, of each year. Once accepted by the SDCERS Board, the approved rates for Airport Authority apply to the fiscal year beginning 12 months after the valuation date. For June 30, 2018, the actuarially determined contribution rates for plan sponsors and members were developed in the June 30, 2016, actuarial valuation.

The funding objective of SDCERS is to fully fund the plan's actuarially accrued liability with contributions, which over time will remain as a level percent of payroll for the Airport Authority. Under this approach, the contribution rate is based on the normal cost rate and an amortization of any unfunded actuarial liability.

For the years ended June 30, 2018 and 2017, employees contributed $2,990,317 and $2,967,269 respectively, and the Airport Authority contributed $5,480,984 and $4,047,780, respectively, to the Plan. Under the Plan, the Airport Authority pays a portion of the classic participant's contribution, referred to as the "off-set". The off-set is equal to 7.00% or 8.50% of the general classic members' base compensation and 9.91% of the executive classic members' base compensation. These contributions are included in the employee contribution. There is no off-set for PEPRA participants.

NET PENSION LIABILITY:
The Airport Authority's net pension liability as of June 30, 2018, is measured as the total pension liability, less the pension plan's fiduciary net position. The total pension liability as of June 30, 2018, is measured as of June 30, 2017. The annual valuation used is as of June 30, 2016, rolled forward to June 30, 2017, using standard update procedures. A summary of the principal assumptions and methods used to determine the net pension liability follow.

ACTUARIAL ASSUMPTIONS:
The total pension liability in the June 30, 2017 and 2016, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	June 30, 2017	June 30, 2016
Valuation date	June 30, 2016	June 30, 2015
Measurement date	June 30, 2017	June 30, 2016
Actarial cost method	Entry-age normal funding method	Entry-age normal funding method
Asset valuation method	Expected value with smoothing	Expected value with smoothing
Actuarial assumptions:		
Investment rate of return [1]	6.75%	7.00%
Projected salary increase [2]	3.05%	3.05%
Cost-of-living adjustment	1.9% per annum, compounded	1.90%
Termination rate [3]	3.0% - 11.0%	3.0% - 11.0%
Disability rate [4]	0.01% - 0.30%	0.01% - 0.30%
Mortality [5]	0.02% - 13.54%	0.02% - 13.54%

[1] Net of investment expense
[2] Net plus merit component based on employee classification and years of service
[3] Based on years of service
[4] Based on age
[5] All active and retired healthy members: CalPERS Mortality Tables from the CalPERS January 2014 Experience Study, projected 20 years from the 2009 base year using variation of scale MP-2015, with a 10% increase to healthy retired female rates. Disabled: CalPERS Work Related Diability Mortality Table base rates from the CalPERS January 2014 Experience Study, projected 20 years from 2009 base year using a variation of scale MP-2015.
Additional details about the actuarial assumptions can be found in the SDCERS June 30, 2017 and June 30 , 2016 actuarial reports.

DISCOUNT RATE:
For the June 30, 2017 and 2016 actuarial valuations, the discount rates used to measure the total pension liability were 6.75 percent and 7.0 percent, respectively. Based on plan funding expectations, no actuarial projection of cash flows was made as the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability (asset).

The long-term expected rate of return estimates for equity and fixed income are developed using a geometric (long-term compounded) building block approach: 1) expected returns based on observable information in the equity and fixed income markets and consensus estimates for major economic and capital market inputs, such as earnings and inflation, and 2) where necessary, judgment-based modifications are made to these inputs. Return assumptions for other assets classes are based on historical returns, current market characteristics, and professional judgements from SDCERS general investment consultant specialist research teams.

Asset Class	Target Allocation	Long-term Expected Real Rates of Return	Long-term Expected Nominal Rates of Return
U.S. equity	21.0%	4.4%	6.7%
Non-U.S. developed equity	15.0%	5.2%	7.5%
Global equity	5.0%	5.1%	7.3%
U.S. fixed income	22.0%	1.3%	3.5%
Emerging market debt	5.0%	3.7%	6.0%
Real estate	11.0%	3.1%	5.3%
Private equity and infrastructure	13.0%	6.2%	8.5%
Opportunity fund	8.0%	4.3%	6.6%
	100.0%		

NOTE 6.

DEFINED BENEFIT PLAN (CONTINUED)

CHANGES IN THE NET PENSION LIABILITY:

Changes in the total pension liability, plan fiduciary net position and the net pension liability through the year ended June 30, 2018, were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of 6/30/17	$ 161,951,893	$ 143,840,411	$ 18,111,482
Changes for the year:			
Service cost	6,996,180	-	6,996,180
Interest on total pension liability	11,416,679	-	11,416,679
Difference between expected and			-
actual experience	3,975,029	-	3,975,029
Changes in assumptions	5,871,218	-	5,871,218
Employer contributions	-	5,480,984	(5,480,984)
Member contributions	-	2,990,317	(2,990,317)
Net investment income	-	19,480,875	(19,480,875)
Benefit payments	(4,669,787)	(4,669,787)	-
Administrative expense	-	(325,041)	325,041
Net changes	23,589,319	22,957,348	631,971
Balances as of 6/30/18	$ 185,541,212	$ 166,797,759	$ 18,743,453

Changes in the total pension liability, plan fiduciary net position and the net pension liability (asset) through the year ended June 30, 2017 were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) - (b)
Balances as of 6/30/16	$ 140,197,047	$ 138,516,288	$ 1,680,759
Changes for the year:			
Service cost	6,205,263	-	6,205,263
Interest on total pension liability	10,277,611	-	10,277,611
Difference between expected and			-
actual experience	(2,178,527)	-	(2,178,527)
Changes in assumptions	10,473,890		10,473,890
Employer contributions	-	4,047,780	(4,047,780)
Member contributions	-	2,967,269	(2,967,269)
Net investment income	-	1,651,283	(1,651,283)
Benefit payments	(3,023,391)	(3,023,391)	-
Administrative expense		(318,818)	318,818
Net changes	21,754,846	5,324,123	16,430,723
Balances as of 6/30/17	$ 161,951,893	$ 143,840,411	$ 18,111,482

NOTE 6.

DEFINED BENEFIT PLAN (CONTINUED)

SENSITIVITY OF THE NET PENSION LIABILITY TO DISCOUNT RATE CHANGES:

The following presents the resulting net pension liability (asset) calculated using the discount rate of 6.75 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate for the fiscal years ended June 30, 2018:

	1% Decrease	Current Discount Rate	1% Increase
Total pension liability	$ 212,190,155	$ 185,541,212	$ 163,647,313
Plan fiduciary net position	166,797,759	166,797,759	166,797,759
Net pension liability (asset)	$ 45,392,396	$ 18,743,453	$ (3,150,446)
Plan fiduciary net position as a percentage of the total pension liability	78.6%	89.9%	101.9%

PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO THE PLAN:

For the years ended June 30, 2018 and 2017, the Airport Authority recognized pension expense, as measured in accordance with GASB Statement No. 68, of $7,491,437 and $7,451,396, respectively. At June 30, 2018 and 2017, the Airport Authority reported deferred outflows of resources and deferred inflows of resources related to the plan from the following sources:

For June 30, 2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 3,485,355	$ 1,452,351
Net difference between projected and actual earnings	-	2,054,516
Changes in assumptions	11,875,275	-
Employer contributions made subsequent to June 30, 2017 measurement date	7,247,203	-
Total	$ 22,607,833	$ 3,506,867

For June 30, 2017	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 230,441	$ 1,815,440
Net difference between projected and actual earnings	6,089,002	-
Changes in assumptions	8,728,242	-
Employer contributions made subsequent to June 30, 2016 measurement date	5,197,849	-
Total	$ 20,245,534	$ 1,815,440

The deferred outflows of resources, at June 30, 2018 and 2017, related to pensions resulting from Airport Authority contributions subsequent to the measurement date and prior to year-end that will be recognized as a reduction of the net pension liability at June 30, 2019 and 2018, respectively.

NOTE 6.

DEFINED BENEFIT PLAN (CONTINUED)

Other amounts reported as deferred outflows/inflows of resources related to the plan at June 30, 2018, will be recognized in pension expense as follows:

Years ended June 30,		
2019	$	2,009,284
2020		4,051,282
2021		2,971,643
2022		1,180,515
2023		1,641,039
	$	11,853,763

NOTE 7.

PRESERVATION OF BENEFITS TRUST PLAN (GASB NO. 73)

PRESERVATION OF BENEFITS TRUST PLAN (POB) DESCRIPTION:
The Airport Authority's single-employer defined benefit pension plan under the provisions of GASB 73 established as the preservation of benefits and trust plan administered by SDCERS, provides benefits to POB members and beneficiaries. The POB was established on January 1, 2003, for the purpose of providing benefits to POB members in excess of San Diego City Charter, Code Section 415(b) limitations. Information regarding SDCERS is included in Note 6.

The San Diego City Charter Section 144 and San Diego Municipal Code Sections 24.1601 et seq. assign the authority to establish and amend the benefit provisions of the plans that participate in SDCERS to the SDCERS Board.

BENEFITS PROVIDED:
The Airport Authority provides retirement benefits. Retirement benefits are provided to POB members with retirement benefits in excess of Code Section 415(b) who have participated in in the Plan since establishment of the POB. Participation ends for a portion of a plan year in which the retirement benefit of a retiree or beneficiary is not limited by Code Section 415(b) or when all benefit obligations to the retiree or beneficiary have been satisfied. Benefit payments are equal to the amount of retirement income that would have been payable, less the amount payable by the Plan. Benefit payments for the year ended June 30 2018, were $190,871. The POB is unfunded and provides benefits on an annual basis as determined by SDCERS.

As of the measurement date June 30, 2017, Plan membership was as follows:

	2017
Active employees	3
Inactive employees or beneficiaries currently receiving benefits	1
Total	4

TOTAL PENSION LIABILITY:
The Airport Authority's total pension liability as of June 30, 2018, is $1,479,005. The pension liability as of June 30, 2018, is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017, using standard update procedures. A summary of the principal assumptions and methods used to determine the net pension liability follow.

ACTUARIAL ASSUMPTIONS:
The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	June 30, 2017
Valuation date	June 30, 2016
Measurement date	June 30, 2017
Actarial cost method	Entry-age normal
Actuarial assumptions:	
Discount rate	3.58%
Inflation rate	3.05%
Interest credited to member contributions	7.00%
projected salary increases	3.05%

NOTE 7.

PRESERVATION OF BENEFITS TRUST PLAN (GASB NO. 73) (CONTINUED)

CHANGES IN THE TOTAL PENSION LIABILITY:
Changes in the total pension liability included service cost of $60,994, interest of $35,323 as well as amortization of deferred outflows of resources and deferred inflows of resources related to the pension.

SENSITIVITY OF THE TOTAL PENSION LIABILITY TO DISCOUNT RATE CHANGES:
The following presents the resulting total pension liability calculated using the discount rate of 3.58 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate for the fiscal years ended June 30, 2018:

	1% Decrease	Current Discount Rate	1% Increase
Total pension liability	$ 1,783,438	$ 1,479,005	$ 1,239,482

PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO THE POB:
For the year ended June 30, 2018, the Airport Authority recognized pension expense, as measured in accordance with GASB Statement No. 73, of $1,177,544. At June 30, 2018, the Airport Authority reported deferred outflows of resources and deferred inflows of resources related to the plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 323,607	$ -
Changes in assumptions	181,719	178,971
Total	$ 505,326	$ 178,971

Amounts reported as deferred outflows/inflows of resources related to the plan will be recognized in pension expense as follows:

Years ended June 30,	
2019	$ 74,358
2020	74,358
2021	74,358
2022	74,357
2023	28,924
	$ 326,355

NOTE 8.

EMPLOYEES' DEFERED COMPENSATION PLAN

The Airport Authority offers its employees a deferred compensation plan, which was created in accordance with Internal Revenue Code (IRC) Section 457. The Plan, which is available to all full-time Airport Authority employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, total disability, death or unforeseeable emergency.

The plan is administered by the Airport Authority and contracted to an unrelated financial institution. Under the terms of an IRC Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts held by the financial institution, until paid or made available to the employees or beneficiaries, are held in trust for employees.

Employee assets to be held in the IRC Section 457 plans are not the property of the Airport Authority and are not subject to the claims of the Airport Authority's general creditors. Accordingly, employee assets are not reflected in the Airport Authority's financial statements.

NOTE 9.

OTHER POSTEMPLOYMENT BENEFITS

GASB 45
The Airport Authority provides an agent multiple-employer defined benefit postemployment benefit plan (the OPEB Plan). The OPEB Plan provides postretirement medical, dental, vision and life insurance benefits for nonunion employees hired prior to May 1, 2006, and union employees hired prior to October 1, 2008. The employees are eligible for these benefits if they retire from active employment after age 55 with 20 years of service or age 62 with five years of service.

PLAN DESCRIPTION:
As of May 8, 2009, the Board approved entering into an agreement with the California Employer's Retiree Benefit Trust (CERBT) fund. This is managed by California Public Employees Retirement System (CalPERS). CalPERS administers pension and health benefits for approximately 1.5 million California public employees, retirees and their families. CalPERS was founded in 1932 and is the largest public pension fund in the United States, managing more than $250 billion in assets for more than 2,500 California employers. In 1988 and 2007, enabling statutes and regulations were enacted which permitted CalPERS to form the CERBT fund, an irrevocable Section 115 Trust, for the purpose of receiving employer contributions that will prefund health and other postemployment benefit costs for retirees and their beneficiaries. Financial statements for CERBT may be obtained from CalPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

FUNDING POLICY:
CERBT requires a valuation of the liabilities and annual costs for benefits by an approved actuarial consulting firm. It is the Airport Authority's intent to budget and prefund the annual required contributions (ARCs). As of May 9, 2009, the agreement with CERBT was approved. The retirees' contribution rate was raised from 5 percent to 10 percent of plan costs for single coverage and the entire cost of vision benefits, lowering the OPEB liabilities of the Airport Authority. Annually, the Airport Authority's goal is to fund 100 percent of the actuarially calculated ARC for its OPEB. In previous years, the Airport Authority has made contributions above the annual ARC which has resulted in a net OPEB asset. During the fiscal year ended June 30, 2018, the Airport Authority's contributions were $461,859.

ANNUAL OPEB COST AND ACTUARIAL METHODS AND ASSUMPTIONS:
The Airport Authority's annual OPEB cost is calculated based on the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 45. The Airport

NOTE 9.

OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Authority has elected to perform an actuarial valuation of the OPEB on a biennial basis, the most recent of which is dated as of July 1, 2017. According to the July 1, 2015, actuarial valuation, the ARC was $ 2,013,000 for fiscal year 2017. The ARC was determined using the entry age normal cost method with amortization of the unfunded accrued liability occurring over a 30-year period ending June 30, 2037.

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial values of assets, consistent with the long-term perspective of the calculations. The actuarial assumptions used by CERBT include (a) a 7.28 percent investment rate of return, (7.36 percent was used in the prior valuations), net of administrative expenses, RP-2015 Mortality Tables with fully generational projection using MP-2015 scale and (b) projected salary increases of 3.00 percent. The annual healthcare cost trend rate ranged from 4.5 to 9.0 percent for medical and assumes a 5.0 percent rate for dental. In establishing the discount rate, an inflation rate of 2.75 percent was used. The 2015 actuarial valuation included a 10 percent retirees' contribution of plan costs for single coverage; previously it was 5 percent.

The entry age normal cost method spreads plan costs for each participant from entry date to the expected retirement date. Under the entry age normal cost method, the plan's normal cost is developed as a level percentage of payroll spread over the participants' working lifetime. The actuarial accrued liability is the cumulative value, on the valuation date, of prior service costs. For retirees, the actuarial accrued liability is the present value of all projected benefits.

The plan costs are derived by making certain specific assumptions as to the rates of interest, mortality, turnover and the like, which are assumed to hold for many years into the future. Actual experience may differ somewhat from the assumptions and the effect of such differences is spread over all periods. Due to these differences, the costs determined by the valuation must be regarded as estimates of the true plan costs.

Development of the net OPEB obligation (NOO/Asset) and annual OPEB cost for the past three years is as follows (dollars in thousands):

Actuarial Valuation Date	Fiscal Year	ARCs	Employer Contribution	NOO/(Asset) End of Year	Interest on NOO/(Asset)	Adjustment to the ARC	Annual OPEB Cost
7/1/13	14/15	$ 2,403	$ 2,403	$ (59)	$ (4)	$ 4	$ 2,403
7/1/15	15/16	1,959	1,959	(59)	(4)	4	1,959
7/1/17	16/17	2,013	2,013	(59)	(4)	4	2,013

NOTE 9.

OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The Airport Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for 2017, 2016 and 2015, were as follows (dollars in thousands):

Fiscal Year Ended	Annual OPEB Costs	Employer Contribution	Percentage of OPEB Cost Contributed	NOO/ (Asset)
6/30/15	$ 2,403	$ 2,403	100.0%	$ (59)
6/30/16	1,959	1,959	100.0%	(59)
6/30/17	2,013	2,013	100.0%	(59)

FUNDED STATUS AND PROGRESS:
The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the accompanying notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits

The funded status of the Plan based on the most recent biennial actuarial valuation for the plan, dated as of July 1, 2015, was as follows (dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll	Interest Rate	Salary Scale
7/1/15	$ 18,917	$ 34,587	$ 15,670	54.7%	$ 16,809	93.2%	7.3%	3.0%

GASB 75
GASB Statement No. 75 was used to account for the June 30, 2018, net OPEB asset. A measurement date of June 30, 2017, was used for the June 30, 2018, OPEB asset and expense. The information that follows was determined as of a valuation date of July 1, 2017.

Membership in the OPEB by membership class at June 30, 2017, is as follows:

	2017
Active employees	173
Inactive employees or beneficiaries currently receiving benefits	61
Total	234

NOTE 9.

OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

ACTUARIAL ASSUMPTIONS:

The total OPEB liability in the July 1, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all period included in the measurement:

Inflation	2.75%
Projected salary increase	3.00%
Investment rate of return	7.28%, net of OPEB plan investment expense, including inflation.
Actuarial cost method	Entry Age Normal, with amortization of 7/1/2017 unfunded liability over the period ending 6/30/2037 and amortization of subsequent unanticipated changes in liability over 15-year periods.
Asset valuation method	6 year asset smoothing
Retirement age	Rates used are the same as used in the June 30, 2019 San Diego City Employees' Retirements System actuarial valuation.
Mortality	RP-2006 Mortality Table projected with future improvements from 2006 using fully generational projection Scale MP-2017.

Health care cost trends rates

	Medical		
Year	Pre-65	Post-65	Dental
2017	7.6%	8.7%	5.0%
2018	7.2%	8.2%	5.0%
2019	6.8%	7.7%	5.0%
2020	6.4%	7.2%	5.0%
2021	6.0%	6.6%	5.0%
2022	5.5%	6.1%	5.0%
2023	5.0%	5.5%	5.0%
2024	4.7%	5.0%	5.0%
2025	4.5%	4.5%	5.0%

Following the implementation of GASB Statement No. 75 through the June 30, 2017 actuarial report, changes of assumptions were made from the June 30, 2015 actuarial report. These changes include updated assumptions for mortality, disability, retirement, plan participation, spouse election and baseline trends. These changes resulted in a deferred outflow of resources signifying an expectation of increased future OPEB costs.

DISCOUNT RATE:

The discount rate used to measure the total OPEB liability (asset) was 7.28 percent. Based on those assumptions, the OPEB Plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

NOTE 9.

OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The long-term expected rate of return on the OPEB Plan investments was based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

The target allocation and best estimates of rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rates of Return
Public Equity	57%	5.71%
Fixed Income	27%	2.40%
REITs	8%	7.88%
TIPS	5%	2.25%
Commodies	3%	4.95%
	100%	

Changes in the Net OPEB Liability (Asset): Changes in the total OBEP liability, plan fiduciary net position and the net OPEB liability (asset) through the year ended June 30, 2018, were as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Fiduciary Net Position (b)	Net OPEB Liability/ (Asset) (a) - (b)
Balances as of 6/30/17	$ 21,884,188	$ 20,589,024	
Changes for the year:			
Service cost	411,052	-	411,052
Interest on total OPEB liability	1,606,959	-	1,606,959
Difference between expected and actual experience	-	-	-
Changes in assumptions	766,830	-	766,830
Employer contributions	-	2,012,419	(2,012,419)
Member contributions	-	-	-
Net investment income	-	2,175,582	(2,175,582)
Benefit payments	(451,189)	(451,189)	-
Administrative expense	-	(10,578)	10,578
Net changes	2,333,652	3,726,234	(1,392,582)
Balances as of 6/30/18	$ 24,217,840	$ 24,315,258	$ (1,392,582)

NOTE 9.

OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

SENSITIVITY OF THE NET OPEB LIABILITY TO CHANGES IN THE DISCOUNT RATE AND HEALTH CARE COST TREND RATES:
The net OPEB liability of the Authority has been calculated using a discount rate of 7.28%. The following presents the net OPEB liability using a discount rate 1% higher and 1% lower than the current discount rate.

	1% Decrease	Current Discount	1% Increase
Total OPEB liability	$ 27,874,346	$ 24,217,840	$ 21,237,345
Plan fiduciary net position	24,315,258	24,315,258	24,315,258
Net OPEB liability (asset)	$ 3,559,088	$ (97,418)	$ (3,077,913)

The net OPEB liability of the Authority has been calculated using health care cost trend rates of 8.7% decreasing to 4.5% in 2025 and thereafter. The following presents the net OPEB liability using health care cost trend rates 1% higher and 1% lower than the current health care cost trend rates.

	1% Decrease	Trend Rate	1% Increase
Total OPEB liability	$ 21,100,042	$ 24,217,840	$ 28,046,331
Plan fiduciary net position	24,315,258	24,315,258	24,315,258
Net OPEB liability (asset)	$ (3,215,216)	$ (97,418)	$ 3,731,073

OPEB EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO THE OPEB:
For the year ended June 30, 2018, the Airport Authority recognized OPEB expense, as measured in accordance with GASB Statement No. 75, of $540,459, and reported deferred inflows of resources and deferred outflows of resources related to the OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings	$ -	$ (541,669)
Changes in assumptions	621,045	-
Employer contributions made subsequent to June 30, 2017 measurement date	461,859	-
Total	$ 1,082,904	$ (541,669)

NOTE 9.

OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The deferred outflows of resources at June 30, 2018 related to OPEB resulting from Airport Authority contributions subsequent the measurement date and prior to year-end will be recognized as an addition to the net OPEB asset at June 30, 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2018, related to the OPEB will be recognized in OPEB expense as follows:

Years ended June 30,	
2019	$ 10,368
2020	10,368
2021	10,368
2022	10,368
2023	37,904
Total	$ 79,376

NOTE 10.

RISK MANAGEMENT

The Airport Authority has a comprehensive Risk Management Program comprised of commercial insurance, self-insurance, loss prevention, loss control, and claims administration. The Airport Authority's coverage includes a variety of retentions or deductibles.

COMMERCIALLY ISSUED INSURANCE:

- The Airport Authority maintains a minimum of $500 million in limits for general liability insurance.
- The Airport Authority maintains a property insurance policy with minimum limits of $750 million providing all risk and flood coverage for physical assets.
- The Airport Authority also maintains policies for workers' compensation, commercial auto, fiduciary liability, privacy and network security, crime, and public entity and employment practices liability, among others.

SELF-INSURANCE:
Due to the exorbitant cost of earthquake insurance, the Airport Authority self-insures for losses due to earthquake damage. Effective July 1, 2007, the Airport Authority removed the purchase of commercial earthquake insurance from the Risk Management Program and increased reliance on the laws designed to assist public entities through the Federal Emergency Management Agency and the California Disaster Assistance Act. As of June 30, 2018 and 2017, the Airport Authority has designated $10,249,962 and $9,531,966, respectively, from its net position, as an insurance contingency.

A $2,000,000 reserve has been established within unrestricted net position by the Airport Authority's management to respond to uninsured and underinsured catastrophic losses. This fund is maintained pursuant to Board action only; there is no requirement that it be maintained.

LOSS PREVENTION:
The Airport Authority has an active loss prevention program, staffed by a full-time risk manager, one senior risk analyst, a safety manager and two safety analysts. In addition, third party loss control engineers conduct safety surveys on a periodic basis. Employees receive regular safety training and claims are monitored using a claims information system.

During fiscal year 2018, there were no significant reductions in insurance coverage from the prior year. For each of the past three fiscal years, settlements have not exceeded insurance coverage.

NOTE 11.

DISCLOSURES ABOUT FAIR VALUE OF ASSETS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs.

There is a hierarchy of three levels of inputs that may be used to measure fair value:

LEVEL 1 Quoted prices in active markets for identical assets or liabilities

LEVEL 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

LEVEL 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

RECURRING MEASUREMENTS

The following table presents the fair value measurements of assets recognized in the accompanying financial statements measured at the fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2018 and 2017:

June 30, 2018	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
U.S. Treasury obligations	$ 124,032,939	$ 124,032,939	$ -	$ -
U.S. agency securities	67,281,728	-	67,281,728	-
Non-U.S Securities	13,315,083	13,315,083	-	-
Negotiable certicates of deposit	34,553,157	-	34,553,157	-
Medium-term notes	50,428,984	-	50,428,984	-
Total investments by fair value level	$ 289,611,891	$ 137,348,022	$ 152,263,869	$ -
Investments measured at amortized cost	93,517			
Investments measured at net asset value	15,522,832			
Non-negotiable certificate of deposit	15,639,415			
Local Agency Investment Fund	48,733,079			
San Diego County Investment Pool	234,006,333			
Total investments	$ 603,607,067			

NOTE 11.

DISCLOSURES ABOUT FAIR VALUE OF ASSETS (CONTINUED)

June 30, 2017	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
U.S. Treasury obligations	$ 85,201,348	$ 85,201,348	$ -	$ -
U.S. agency securities	109,436,513	-	109,436,513	-
Non-U.S Securities	5,982,120	5,982,120	-	-
Commercial paper	8,485,280	-	8,485,280	-
Negotiable certicates of deposit	46,592,680	-	46,592,680	-
Medium-term notes	39,564,537	-	39,564,537	-
Total investments by fair value level	$ 295,262,478	$ 91,183,468	$ 204,079,010	$ -
Investments measured at amortized cost	630,996			
Investments measured at net asset value	15,297,173			
Non-negotiable certificate of deposit	15,413,828			
Local Agency Investment Fund	48,182,813			
San Diego County Investment Pool	157,252,092			
Total investments	$ 532,039,380			

NOTE 12.

LEASE REVENUES

Substantially all capital assets held by the Airport Authority are for the purpose of rental and related use.

Certain capital assets, such as loading bridges, airfield, and building space, are leased to signatory airlines under the Airline Operating leases. The Airport Authority's Airline Operating leases are governed by a policy statement issued by the Federal Aviation Administration and as such rates are determined each year based upon a combination of residual and compensatory rate setting methodologies, which do not exceed actual costs of operating the airport. Such costs are allocated to each signatory airline based upon factors such as landed weights, enplanements, square footage, acres, etc. These regulated leases are not included in the schedule below.

Other capital assets are leased to concessionaires. As of June 30, 2018, the Airport Authority had 83 terminal food service and retail concession locations as part of a comprehensive concessions program designed to provide a world class shopping and dining experience for the millions of passengers who use SDIA. Concession lease payments for space within the terminals are typically based on the greater of the percentage of tenant sales or an agreed upon minimum guarantee. The amounts exceeding the minimum guarantee are not included in the schedule below.

The Airport Authority's CFC revenues and Bonds funded construction of the Rental Car Center facility (RCC), which was completed and placed in service on January 20, 2016. The RCC facility sits on 24.85 acres of land and houses all the major and small operator rental car tenants. The land rent leases for the RCC commenced on the opening date of the facility and will continue until the Bonds are repaid or defeased. This land rent is non-cancellable lease and will convert to Facility Rent when bonds are repaid.

NOTE 12.

LEASE REVENUES (CONTINUED)

The minimum future lease payments to be received under the Airport Authority's non-cancelable lease agreements, including known minimum escalations, as of June 30, 2018, are as follows:

Years Ending June 30,	Amount
2019	$ 32,717,960
2020	29,755,952
2021	26,095,603
2022	25,200,507
2023	24,558,480
2024-2028	79,615,734
2029-2033	75,306,013
2034-2038	82,885,986
2039-2043	91,888,617
2044-2048	88,902,848
2049-2053	13,140,114
2054-2058	724,440
2059-2063	724,440
2064-2068	724,440
2069-2073	72,444
Total	**$ 572,313,578**

NOTE 13.

LEASE COMMITMENTS

OPERATING LEASES

GENERAL DYNAMICS LEASE:
The Airport Authority is required, by legislation mandating the transfer of airport operations from the District, to lease from the District 89.75 acres of the former General Dynamics property on Pacific Highway adjacent to SDIA for 66 years commencing January 1, 2003. The lease agreement as amended calls for rent payments of $6,750,000 annually through December 31, 2068. A portion of the land is leased back to the District for employee parking at the same fair market value rent paid by the Airport Authority.

SDIA LEASE:
The Airport Authority is leasing from the District 480 acres of land on North Harbor Drive for an annual rent of $1 per year under a lease that expires December 31, 2068.

TELEDYNE RYAN LEASE:
The Airport Authority is leasing from the District 46.88 acres on North Harbor Drive referred to as the Teledyne Ryan lease that commenced on January 1, 2005 and expires December 31, 2068, for $3 million in annual rent.

Under current law, in the event SDIA is relocated and the District leases are no longer used by the Airport Authority for airport purposes, all District leases will terminate and use of the property will revert to the District.

NOTE 13.

LEASE COMMITMENTS (CONTINUED)

The minimum future lease payments to be paid under the Airport Authority's non-cancelable lease agreements, including known minimum escalations, as of June 30, 2018, are as follows:

Years Ending June 30,	Amount
2019	$ 10,176,660
2020	10,176,660
2021	10,176,660
2022	10,176,660
2023	10,176,660
2024-2028	50,883,300
2029-2033	50,883,300
2034-2038	50,883,300
2039-2043	50,883,300
2044-2048	50,883,300
2049-2053	50,883,300
2054-2058	50,883,300
2059-2063	50,883,300
2064-2068	50,883,300
2069-2073	5,088,330
	$ 513,921,330

The future rental commitment under the above operating lease agreements as of June 30 are due as follows:

	2018	2017
Rental payments made	**$ 10,189,944**	**$ 10,189,944**

NOTE 14.

COMMITMENTS AND CONTINGENCIES

COMMITMENTS:
As of June 30, 2018 and 2017, the Airport Authority had significant commitments for capital expenditures and other matters as described below:

i. The Airport Authority has funds which have been classified as current assets, primarily for the unpaid contractual portion of capital projects that are currently in progress, and will not be funded by grants or additional debt, but will be funded through Airport Authority cash. These amounts are for the estimated cost of capital projects that have been authorized by the Board for construction planning to proceed and for the contractual costs of upgrading certain major equipment. At June 30, 2018 and 2017, these funds totaled approximately $27 million and $14.3 million, respectively, and are classified on the accompanying statements of net position as cash and investments designated for specific capital projects and other commitments.

ii. Support services. As part of the MOU, services provided by the District Harbor Police are required to be purchased by the Airport Authority as long as SDIA continues to operate at the current location. At the time of the transfer, the Airport Authority entered into a Master Services Agreement, a Police Services Agreement and a Communications Services Agreement with the District, which described the services that the Airport Authority could purchase and the manner of calculating the payments for such services. The largest amount that became payable under any of these agreements is under the Police Services Agreement, which is for Harbor Police services. The District provides monthly billings to the Airport Authority, with payment generally due 30 days after the date of the invoice, and provision of appropriate supporting documentation. During the years ended June 30, 2018 and 2017, the Airport Authority expensed $19,337,603 and $17,799,133 respectively for these services.

iii. In fiscal year 2012, the Board approved two contracts with Ace Parking Management Inc., for parking management services in the amount of $29.7 million and airport shuttle services in the amount of $31.3 million. In fiscal year 2017, the Board approved an additional $9.9 million for parking management services and $19.7 million for shuttle services. The total amounts spent as of June 30, 2018, were $35.9 million for parking management services and $44.2 million for airport shuttle services. These contracts are scheduled for completion in October 2018.

iv. In fiscal year 2015, the Board approved a $29.2 million contract with SP Plus Corporation to transport rental car companies' customers between the Rental Car Center facility and the terminals. The contract scope also includes the operation, management and maintenance of the shuttle vehicles. In fiscal year 2016, the Board approved an additional $1.2 million. As of June 30, 2018, $17.7 million had been spent and the contract is due to be completed in fiscal year 2021.

v. In fiscal year 2015, the Board approved a $60 million contract with AECOM Technical Services, Inc. for on call program management services. In fiscal year 2018, the Board approved an additional $8 million. As of June 30, 2018, $48.2 million had been spent and the contract is due to be completed in fiscal year 2019.

vi. In fiscal year 2016, the Board approved a $12 million contract with Swinerton Builders for a design-build for the T2 Parking Plaza. In fiscal year 2018 and 2017, the Board approved an additional $2 million and $85.7 million respectively. As of June 30, 2018, $82.2 million had been spent and the contract is due to be completed in fiscal year 2019.

vii. In fiscal year 2017, the Board approved a $186.6 million contract with Turner-PCL A Joint Venture for Terminal 2 West Federal Inspection Station build out. In fiscal year 2018, the Board

NOTE 13.

LEASE COMMITMENTS (CONTINUED)

approved an additional $1.6 million. As of June 30, 2018, $129.1 million had been spent and the contract is due to be completed in fiscal year 2020.

viii. In fiscal year 2017, the Board approved a $3.3 million contract with Vasquez Construction Company to replace terminal seating in Terminal 1 and 2. In fiscal year 2018, the Authority added an additional $82,000. As of June 30, 2018, $3.3 million had been spent and the contract was completed in fiscal year 2018.

ix. In fiscal year 2018, the Board approved a $3.4 million contract with Prava Construction Services, Inc. for Terminal 2 East improvements. As of June 30, 2018, $3.3 million had been spent and the contract was completed in fiscal year 2018.

x. In fiscal year 2018, the Board approved a $5.8 million contract with Granite Construction Company to clear objects from object free area (OFA) on existing taxiway B. As of June 30, 2018, $3.9 million had been spent and the contract is due to be completed in early fiscal year 2019.

xi. In fiscal year 2018, the Board approved a $20.4 million contract with Granite Construction Company to rehabilitate runway 9-27 & cross taxiway B-1, B4-7, C3 & C6. As of June 30, 2018, $15.4 million had been spent and the contract is due to be completed in fiscal year 2019.

CONTINGENCIES:
As of June 30, 2018, the Airport Authority is subject to contingencies arising from legal matters as described below:

The Airport Authority has leases and operating agreements with various tenants. These agreements typically include provisions requiring the tenants/operators to indemnify the Airport Authority for any damage to property or losses to the Airport Authority as a result of the tenant's operations. Also, the leases and operating agreements typically require the Airport Authority to be named as an additional insured under certain insurance policies of the tenants/operators. The Airport Authority also tenders these claims to its own insurers once they become asserted claims. When these types of claims are asserted against the Airport Authority, the Airport Authority not only vigorously opposes them but also vigorously seeks contribution and/or indemnity from all tenants/operators involved, from the tenants'/operators' insurers and from its own insurers. The Airport Authority's legal counsel cannot predict the net exposure to the Airport Authority with respect to these matters, or the probability or remoteness of any outcome.

NOTE 15.

SUBSEQUENT EVENTS

AIRLINE OPERATING AND LEASE AGREEMENT:
The five year Airline Operating and Lease Agreement went into hold over effective July 1, 2018. The agreement expired on June 30, 2018. Pursuant to Section 28.01 of the agreement, the Authority approved the airlines' holding over its tenancy on all of the leased premises beyond June 30, 2018. The holding over is on a month-to–month basis. The airlines will continue to pay all of the airline rent, fees and charges required by the agreement. A new agreement is being negotiated with the airlines. It is expected to be completed by March 2019 with an effective date of July 1, 2019.

SCHEDULE OF OPEB FUNDING PROGRESS FOR THE AIRPORT AUTHORITY IS AS FOLLOWS (DOLLARS IN THOUSANDS)*:

Actuarial Valuation Date*	Actuarial Value of Assets	Actuarial Accrued Liability AAL	Unfunded Actuarial Accrued Liability UAAL	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll	Interest Rate	Salary Scale
7/1/09	$ 2,674	$ 12,206	$ 9,532	21.9%	$ 19,514	48.8%	7.75%	3.25%
7/1/10	4,474	14,149	9,675	31.6%	20,148	48.0%	7.75%	3.25%
7/1/11	7,604	22,197	14,593	34.3%	18,728	77.9%	7.60%	3.25%
7/1/13	12,667	31,553	18,886	40.1%	17,567	107.5%	7.36%	3.00%
7/1/15	18,917	34,587	15,670	54.7%	16,809	93.2%	7.36%	3.00%

* In accordance with GASB Statement No. 45, the Airport Authority has an actuarial valuation completed biennially.

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS LAST 10 FISCAL YEARS (PLAN YEAR REPORTED IN SUBSEQUENT FISCAL YEAR)

	2018	2017	2016	2015
Total Pension Liability:				
Service cost	$ 6,996,180	$ 6,205,263	$ 6,154,579	$ 6,099,481
Interest (includes interest on service cost)	11,416,679	10,277,610	9,327,538	8,465,485
Differences between expected and actual experience	3,975,029	(2,178,527)	345,661	-
Effect of changes of assumptions	5,871,218	10,473,890	-	-
Benefit payments, including refunds of member contributions	(4,669,787)	(3,023,391)	(2,482,523)	(2,913,221)
Net change in total pension liability	23,589,319	21,754,845	13,345,255	11,651,745
Total pension liability - beginning	161,951,893	140,197,048	126,851,793	115,200,048
Total pension liability - ending	$ 185,541,212	$ 161,951,893	$ 140,197,048	$ 126,851,793
Plan Fiduciary Net Position:				
Contributions - employer	$ 5,480,984	$ 4,047,780	$ 3,897,545	$ 3,924,988
Contributions - employee	2,990,317	2,967,269	2,840,236	2,765,079
Net investment income	19,480,875	1,651,283	4,390,185	18,302,683
Benefit payments, including refunds of member contributions	(4,669,786)	(3,023,391)	(2,482,523)	(2,913,221)
Administrative expense	(325,042)	(318,817)	(332,290)	(332,645)
Net change in plan fiduciary net position	22,957,348	5,324,124	8,313,153	21,746,884
Plan fiduciary net position - beginning	143,840,411	138,516,287	130,203,134	108,456,250
Plan fiduciary net position - ending	$ 166,797,759	$ 143,840,411	$ 138,516,287	$ 130,203,134
Net pension liability (asset) - ending	$ 18,743,453	$ 18,111,482	$ 1,680,761	$ (3,351,341)
Plan fiduciary net position as a percentage of the total pension liability	89.90%	88.82%	98.80%	102.64%
Covered payroll	$ 31,131,795	$ 29,189,357	$ 27,955,455	$ 26,380,323
Net pension liability as a percentage of covered payroll	60.21%	62.05%	6.01%	(12.70%)

Note to schedule: This schedule is intended to display the most recent 10 years of data for the annual charges in the net pension liability. Until such time has elapsed afer implementing GASB Statement No. 68, this schedule will only present information from the years that are available.

SCHEDULE OF CONTRIBUTIONS LAST 10 FISCAL YEARS (IN THOUSANDS) (GASB STATEMENT NO. 68):

	2018	2017	2016	2015	2014
Actuarially determined contribution	$ 5,416	$ 3,765	$ 3,666	$ 3,823	$ 2,900
Contributions in relation to the actuarially determined contribution	7,247	5,421	3,948	3,823	3,728
Contribution deficiency (excess)	$ (1,831)	$ (1,656)	$ (282)	$ -	$ (828)
Covered payroll	$ 30,848	$ 31,506	$ 29,189	$ 27,955	$ 26,380
Contributions as a percentage of covered payroll	23.49%	17.21%	13.53%	13.68%	14.13%

	2013	2012	2011	2010	2009
Actuarially determined contribution	$ 2,600	$ 3,800	$ 4,300	$ 3,000	$ 3,000
Contributions in relation to the actuarially determined contribution	2,600	3,800	4,300	7,600	3,035
Contribution deficiency (excess)	$ -	$ -	$ -	$ (4,600)	$ (35)
Covered payroll	$ 24,840	$ 25,148	$ 25,596	$ 24,693	$ 23,488
Contributions as a percentage of coveredpayroll	10.47%	15.11%	16.80%	30.78%	12.92%

* This schedule is presented for the fiscal year.

Note to schedule: This schedule is intended to display the most recent 10 years of data for the annual pension contributions.

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS LAST 10 FISCAL YEARS (PLAN YEAR REPORTED IN SUBSEQUENT FISCAL YEAR)

	2018
Total Pension Liability	
Service cost	$ 60,994
Interest cost	35,323
Differences between expected and actual experience	388,329
Changes of assumptions	(214,765)
Net Change in Total Pension Liability	269,881
Total pension liability -beginning	1,209,124
Total pension liability - ending	$ 1,479,005
Covered payroll	31,131,795
Net Pension Liability as a percentage of payroll	4.8%

Note to schedule: This schedule is intended to display the most recent 10 years of data for the annual charges in the net pension liability. Until such time has elapsed afer implementing GASB Statement No. 68, this schedule will only present information from the years that are available.

SCHEDULE OF CONTRIBUTIONS (PENSIONS), LAST 10 FISCAL YEARS:

	2018
Actuarially determined contribution	$ -
Contributions in relation to the actuarially determined contribution	56,513
Contribution deficiency (excess)	$ (56,513)
Covered payroll	$ 30,828,256
Contributions as a percentage of covered payroll	0.18%

* This schedule is presented for the fiscal year.

Note to schedule: This schedule is intended to display the most recent 10 years of data for the annual pension contributions. Until such time has elapsed afer implementing GASB Statement No. 73, this schedule will only present information from the years that are available.

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY (ASSET) AND RELATED RATIOS LAST 10 FISCAL YEARS (PLAN YEAR REPORTED IN SUBSEQUENT FISCAL YEAR)

	2018
Total OPEB Liability	
Service Cost	$ 411,052
Interest Cost	1,606,959
Changes of Assumptions	766,830
Benefit Payments	(451,189)
Net Change in Total OPEB Liability	2,333,652
Total OPEB Liability (Beginning)	21,884,188
Total OPEB Liability (Ending)	$ 24,217,840
Plan Fiduciary Net Position	
Contributions—Employer	$ 2,012,419
Net Investment Income	2,175,582
Benefit Payments	(451,189)
Administrative Expense	(10,578)
Net Change in Plan Fiduciary Net Position	3,726,234
Plan Fiduciary Net Position (Beginning)	20,589,024
Plan Fiduciary Net Position (Ending)	$ 24,315,258
Net OPEB Asset	(97,418)
Net Position as a Percentage of OPEB Liability	100.40%
Covered Payroll	16,141,609
Net OPEB Liability as a Percentage of Payroll	(0.6%)

Note to schedule: This schedule is intended to display the most recent 10 years of data for the annual OPEB contributions. Until such time has elapsed afer implementing GASB Statement No. 75, this schedule will only present information from the years that are available.

SCHEDULE OF CONTRIBUTIONS (OPEB), LAST 10 FISCAL YEARS (DOLLARS IN THOUSANDS):

	2018
Actuarially determined contribution	$ 472
Contributions in relation to the actuarially determined contribution	462
Contribution deficiency (excess)	$ 10
Covered payroll	$ 15,674
Contributions as a percentage of covered payroll	2.95%

Note to schedule: This schedule is intended to display the most recent 10 years of data for the annual OPEB contributions. Until such time has elapsed afer implementing GASB Statement No. 75, this schedule will only present information from the years that are available.

STATISTICAL SECTION

The Statistical Section is divided into five areas: financial trend data; revenue capacity data; operating information; demographic and economic information, and debt capacity data.

FINANCIAL TRENDS DATA:
- Authority operating revenues and O&M expenses
- Authority net position by component
- Authority changes in net position
- Authority largest sources of revenue

REVENUE CAPACITY DATA :
- Authority landing fee rate
- Terminal rates billed to airlines
- Airline cost per enplaned passenger

OPERATING INFORMATION:
- Authority employee head count
- Aircraft operations
- Aircraft landed weights
- Aircraft landed weights by airline
- Passenger enplanements
- Enplanement market share by airline by fiscal year
- Capital assets

ECONOMIC INFORMATION:
- Population and per capita personal income - San Diego County
- Principal employers in San Diego County
- Labor force, employment, and unemployment rates

DEBT INFORMATION:
- Debt service coverage
- Debt service coverage - Series 2014 CFC Bonds
- Debt per enplaned passenger

EXHIBIT S-1
AUTHORITY REVENUES AND O&M EXPENSES ($000)

Fiscal Years Ended June 30,

Operating Revenues

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Airline revenue										
Landing fees	$ 18,689	$ 18,672	$ 18,579	$ 18,419	$ 19,658	$ 19,107	$ 21,390	$ 23,985	$ 24,612	$ 23,900
Aircraft parking fees	3,221	3,406	2,921	3,134	3,191	2,503	2,716	2,701	2,927	3,236
Building rentals	23,057	23,835	26,980	30,633	41,840	46,001	48,153	53,536	56,575	62,241
Security surcharge	10,204	11,900	14,886	18,649	23,360	25,777	25,180	29,223	29,468	32,303
Other aviation revenue	1,565	1,585	1,597	1,595	1,591	4,488	4,893	2,760	2,799	1,476
Concession revenue	36,280	36,249	37,103	40,427	42,041	47,770	52,496	29,249	32,624	65,610
Parking and ground transportation revenue	31,492	30,296	31,645	31,470	35,750	38,959	41,633	75,131	78,039	53,254
Ground rentals	5,776	5,923	8,656	8,044	9,162	9,603	13,074	16,226	20,053	22,109
Other operating revenue	693	1,829	1,640	1,179	905	1,529	971	1,183	1,750	1,701
Total Operating Revenues	$ 130,977	$ 133,695	$ 144,007	$ 153,550	$ 177,498	$ 195,737	$ 210,505	$ 233,994	$ 248,847	$ 265,830

Operating Expenses Before Depreciation

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Salaries and benefits	$ 34,741	$ 35,386	$ 38,267	$ 37,237	$ 38,092	$ 39,135	$ 39,211	$ 42,025	$ 46,874	$ 47,866
Contractual services	27,464	27,999	26,113	26,906	29,284	31,559	32,422	38,215	44,927	45,249
Safety and security	19,930	20,131	21,344	22,625	23,994	24,151	23,464	28,721	28,422	30,733
Space rental	10,888	10,906	10,906	11,415	10,897	10,478	10,433	10,367	10,206	10,190
Utilities	6,912	6,871	6,413	6,674	6,659	8,680	10,152	11,480	10,736	12,509
Maintenance	8,002	9,231	8,174	8,497	11,204	13,982	14,516	14,122	14,270	12,603
Equipment and systems	678	891	570	403	469	643	1,805	708	502	598
Materials and supplies	641	413	345	304	406	440	519	536	651	656
Insurance	1,096	1,166	1,066	764	795	988	1,145	949	956	1,098
Employee development and support	1,030	990	1,041	916	1,235	1,171	1,136	1,242	1,393	1,248
Business development	2,509	2,033	2,275	2,093	2,444	2,661	2,493	2,390	2,351	3,246
Equipment rentals and repairs	1,387	1,271	1,327	1,335	1,317	2,932	2,951	2,852	2,438	3,124
Total Operating Expenses Before Depreciation	$ 115,278	$ 117,288	$ 117,841	$ 119,169	$ 126,796	$ 136,821	$ 140,250	$ 153,608	$ 163,726	$ 169,120

Source: San Diego County Regional Airport Authority

EXHIBIT S-2
AUTHORITY NET POSITION BY COMPONENT ($000)

Fiscal Years Ended June 30,

	2009	2010*	2011	2012	2013	2014	2015	2016**	2017	2018***
Net investment in capital assets	$ 249,498	$ 274,769	$ 352,276	$ 339,467	$ 359,640	$ 312,780	$ 316,250	$ 310,339	$ 263,952	$ 281,703
Other restricted net position	167,827	139,672	147,513	172,076	167,384	204,642	215,968	214,533	225,088	244,188
Unrestricted net position	95,858	145,224	102,466	149,346	200,040	209,594	210,522	251,076	294,133	284,034
Total net position	$ 513,183	$ 559,664	$ 602,255	$ 660,889	$ 727,064	$ 727,016	$ 742,740	$ 775,949	$ 783,173	$ 809,925

* Amounts for 2010 and after were restated as per GASB 65
** Amounts for 2016 were restated as per GASB 68
*** Amounts for 2018 were restated as per GASB 75
Source: San Diego County Regional Airport Authority

EXHIBIT S-3
AUTHORITY CHANGES IN NET POSITION ($000)

Fiscal Years Ended June 30,

	2009	2010*	2011	2012	2013	2014	2015	2016**	2017	2018***
Operating revenues:										
Airline revenue:										
Landing fees	$ 18,689	$ 18,672	$ 18,579	$ 18,419	$ 19,658	$ 19,107	$ 21,390	$ 23,985	$ 24,612	$ 23,900
Aircraft parking fees	3,221	3,406	2,921	3,134	3,191	2,503	2,716	2,701	2,927	3,236
Building rentals	23,057	23,835	26,980	30,633	41,840	46,001	48,153	53,536	56,575	62,241
Security surcharge	10,204	11,900	14,886	18,649	23,360	25,777	25,180	29,223	29,468	32,303
Other aviation revenue	1,565	1,584	1,597	1,595	1,591	4,488	4,893	2,760	2,799	1,476
Concession revenue	36,280	36,249	37,103	40,427	42,041	47,770	52,496	29,249	32,624	65,610
Parking and ground transportation	31,492	30,296	31,645	31,470	35,750	38,959	41,633	75,131	78,039	53,254
Ground rentals	5,776	5,923	8,656	8,044	9,162	9,603	13,074	16,226	20,053	22,109
Other operating revenue	693	1,829	1,640	1,179	905	1,529	971	1,183	1,750	1,701
Total operating revenues	130,977	133,695	144,007	153,550	177,498	195,737	210,505	233,994	248,847	265,830
Operating expenses:										
Salaries and benefits	34,741	35,386	38,267	37,237	38,092	39,135	39,211	42,025	46,874	47,866
Contractual services	27,464	27,999	26,113	26,906	29,284	31,559	32,422	38,215	44,927	45,249
Safety and security	19,930	20,131	21,344	22,625	23,994	24,151	23,464	28,721	28,422	30,733
Space rental	10,888	10,906	10,906	11,415	10,897	10,478	10,433	10,367	10,206	10,190
Utilities	6,912	6,871	6,413	6,674	6,659	8,680	10,152	11,480	10,736	12,510
Maintenance	8,002	9,231	8,174	8,497	11,204	13,982	14,516	14,122	14,270	12,603
Equipment and systems	678	891	570	403	469	643	1,805	708	502	598
Materials and supplies	641	413	345	304	406	440	519	536	651	655
Insurance	1,096	1,166	1,066	764	795	988	1,145	949	956	1,098
Employee development and support	1,030	990	1,041	916	1,235	1,171	1,136	1,242	1,393	1,248
Business development	2,509	2,033	2,275	2,093	2,444	2,661	2,493	2,390	2,351	3,246
Equipment rentals and repairs	1,387	1,271	1,327	1,335	1,317	2,932	2,951	2,852	2,438	3,124
Total operating expenses before depreciation	115,278	117,288	117,841	119,169	126,796	136,821	140,250	153,608	163,726	169,120
Income from operations before depreciation	15,699	16,407	26,166	34,381	50,702	58,916	70,255	80,386	85,121	96,710
Depreciation	38,423	42,651	50,435	46,164	46,100	81,598	81,887	87,821	95,229	105,532
Operating income (loss)	(22,724)	(26,244)	(24,269)	(11,783)	4,602	(22,682)	(11,632)	(7,435)	(10,108)	(8,822)
Nonoperating revenues (expenses):										
Passenger facility charges	33,219	34,049	33,998	34,639	35,437	35,770	38,517	40258	42,200	46,953
Customer facility charges	1,695	10,783	10,986	11,487	19,117	27,545	32,465	33208	36,528	41,037
Quieter Home Program, net	(5,573)	(1,629)	(3,359)	(3,531)	(1,589)	(2,750)	(2,811)	(3698)	(785)	(2,748)
Joint Studies Program	(180)	(244)	(129)	(73)	(55)	(152)	(145)	(101)		(114)
Interest income	9,434	6,667	6,408	5,492	4,140	5,211	5,747	5999	8,134	13,374
Interest expense	(2,771)	(3,245)	(10,998)	(395)	(12,054)	(51,983)	(55,187)	(50,636)	(58,179)	(68,411)
Build America Bonds Rebate	-	-	3,691	4,996	4,779	4,636	4,631	4656	4,651	4,666 -
Other revenues (expenses), net	316	(1,004)	(92)	(3,032)	(4,279)	434	1,367	2247	(17,121)	(13,229)
Nonoperating revenue, net	36,140	45,376	40,505	49,583	45,496	18,711	24,584	31,933	15,428	21,528
Income before capital grant contributions	13,416	19,132	16,236	37,800	50,098	(3,971)	12,952	24,498	5,321	12,706
Capital grant contributions	4,646	27,350	26,355	20,834	16,077	3,924	10,765	10,477	1,904	13,329
Change in net position	18,062	46,482	42,591	58,634	66,175	(47)	23,717	34,975	7,224	26,035
Prior Period Adjustment	-	-	-	-	-	-	(7,995)	(1,767)		717
Net position, beginning of year	495,121	513,183	559,664	602,255	660,889	727,064	727,017	742,740	775,949	783,173
Net position, end of year	$ 513,183	$ 559,666	$ 602,255	$ 660,889	$ 727,064	$ 727,017	$ 742,740	$ 775,949	$ 783,173	$ 809,925

* Amounts for 2010 and after were restated as per GASB 65
** Amounts for 2016 were restated as per GASB 68
*** Amounts for 2018 were restated as per GASB 75
Source: San Diego County Regional Airport Authority

EXHIBIT S-4
AUTHORITY LARGEST SOURCES OF REVENUE ($000)

Fiscal Years Ended June 30,

Tenant	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018 % of Total Operating Revenue
Southwest Airlines	$ 17,658,629	$ 19,428,103	$ 21,306,108	$ 23,357,007	$ 27,598,908	$ 29,548,565	$ 33,107,335	$ 33,838,686	$ 35,960,638	$ 38,403,919	14.4%
United Airlines	6,344,127	7,905,284	9,280,812	10,931,601	15,817,886	15,364,094	15,687,045	14,518,119	16,227,363	17,520,412	6.6%
Delta Airlines	4,647,333	6,663,671	8,003,895	8,911,886	10,898,540	12,005,146	13,560,515	14,418,056	16,123,110	17,007,240	6.4%
American Airlines*	9,022,521	11,449,947	11,510,696	12,585,537	15,173,458	15,785,140	15,888,023	15,321,505	17,075,112	16,581,217	6.2%
Alaska Airlines**	2,754,173	2,951,554	3,482,098	4,265,739	6,167,257	8,008,057	9,712,564	10,612,367	11,705,334	16,352,834	6.2%
Enterprise Rent-A-Car	2,501,720	2,517,682	4,431,129	7,290,392	6,934,784	7,162,116	7,998,222	9,451,127	11,188,393	12,285,652	4.6%
Hertz Rent-A-Car	5,816,230	5,861,737	5,635,151	5,795,690	5,961,730	6,149,759	6,236,082	8,225,179	11,142,905	11,017,486	4.1%
Avis Budget Rent-A-Car Group	5,505,770	3,378,607	3,842,594	4,507,266	4,697,455	4,822,212	5,131,645	5,540,949	6,174,859	6,021,091	2.3%
SSP America	-	-	-	-	-	-	-	4,476,873	5,004,393	5,869,320	2.2%
Landmark Aviation	-	-	-	-	-	2,027,308	5,042,672	5,536,511	5,675,514	5,867,379	2.2%

* On December 9, 2013, AMR Corporation (American Airlines) merged with US Airways Group, forming American Airlines Group. A single operating certificate was issued by the FAA and operational integration was on April 7, 2015. Data for US Airways and American Airlines have been combined in this table.

** Alaska Airlines and Virgin America received their single operating certificate from the FAA on January 11, 2018 and began operating as Alaska Airlines on April 25, 2018. Data for Alaska Airlines and Virgin America habe been combined in this table.

Source: San Diego County Regional Airport Authority

EXHIBIT S-5
AUTHORITY LANDING FEE RATE ($ PER 1,000 LBS)

Fiscal Years Ended June 30,

AUTHORITY LANDING FEE RATE

Source: San Diego County Regional Airport Authority

Landing Fees are the revenues from passenger and cargo air carriers for landing aircraft at SDIA.

EXHIBIT S-6
TERMINAL RATES BILLED TO AIRLINES

Fiscal Years Ended June 30,

Fiscal Year	Terminal Rates Per Sq. Ft. $ (1)	% Change
2009	$57.38	-13.9%
2010	$59.53	3.7%
2011	$73.09	22.8%
2012	$83.31	14.0%
2013	$117.00	40.4%
2014	$109.61	-6.3%
2015	$113.01	3.1%
2016	$125.79	11.3%
2017	$133.95	6.5%
2018	$150.19	12.1%

(1) Net of janitorial credit

TERMINAL RATE PER SQUARE FOOT

Source: San Diego County Regional Airport Authority
Information presented reflects those years that the Airport Authority was in operation.

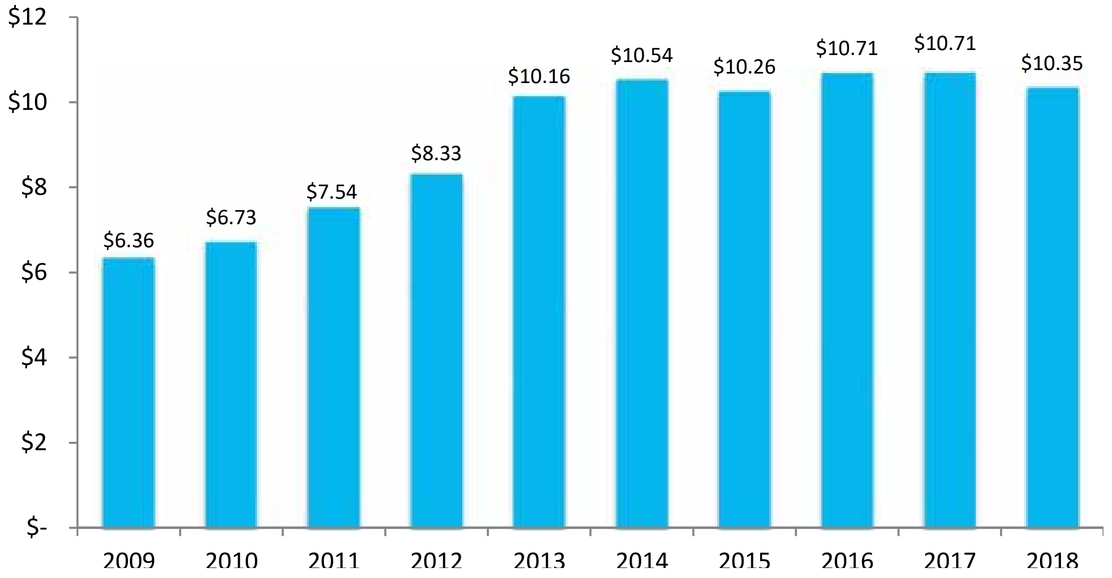
Landing Fees are the revenues from passenger and cargo air carriers for landing aircraft at SDIA.

EXHIBIT S-7
AIRLINE COST PER ENPLANED PASSENGER

Fiscal Years Ended June 30,

Fiscal Year	Enplaned Passengers[(1)]	Cost per Enplaned Passenger
2009	8,536	$6.36
2010	8,454	$6.73
2011	8,441	$7.54
2012	8,575	$8.33
2013	8,738	$10.16
2014	9,082	$10.54
2015	9,713	$10.26
2016	10,206	$10.71
2017	10,596	$10.71
2018	11,729	$10.35

COST PER ENPLANED PASSENGER



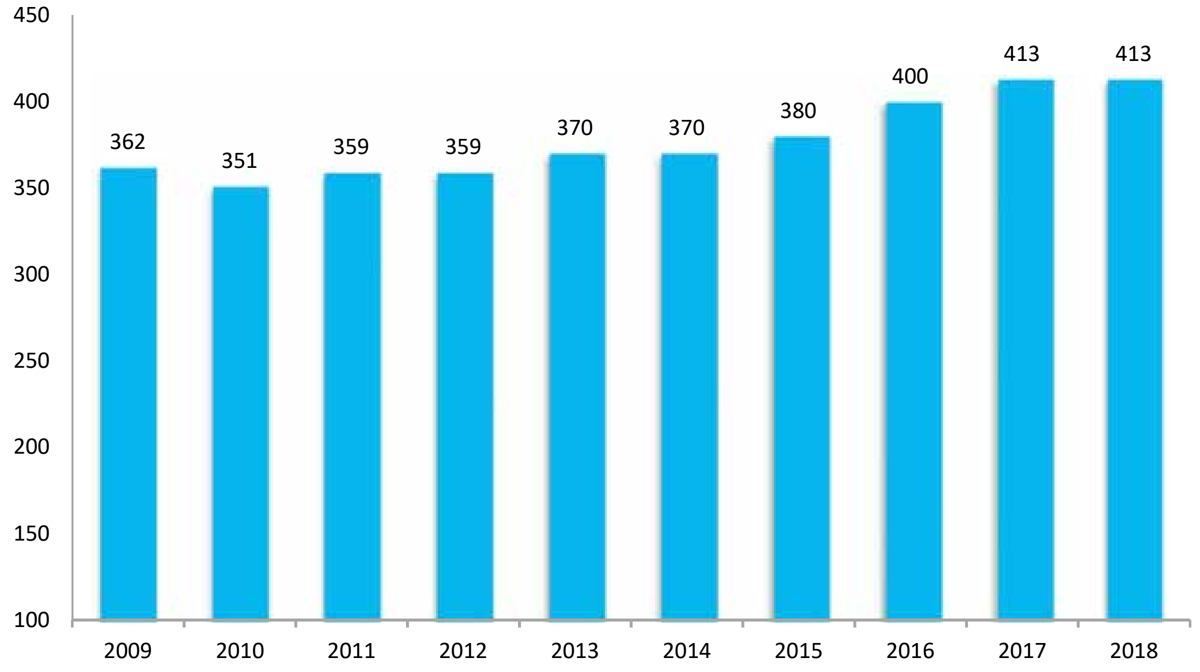
Source: San Diego County Regional Airport Authority

Airline Cost per Enplaned Passenger is the total annual cost of fees and charges paid by the airlines divided by the total fiscal year enplanements.

EXHIBIT S-8
AUTHORITY EMPLOYEE HEAD COUNT

Fiscal Years Ended June 30,

AUTHORITY EMPLOYEE HEAD COUNT



Source: San Diego County Regional Airport Authority

The Airport Authority does not have part-time employees. This chart reflects the average number of employees for the fiscal years shown above.

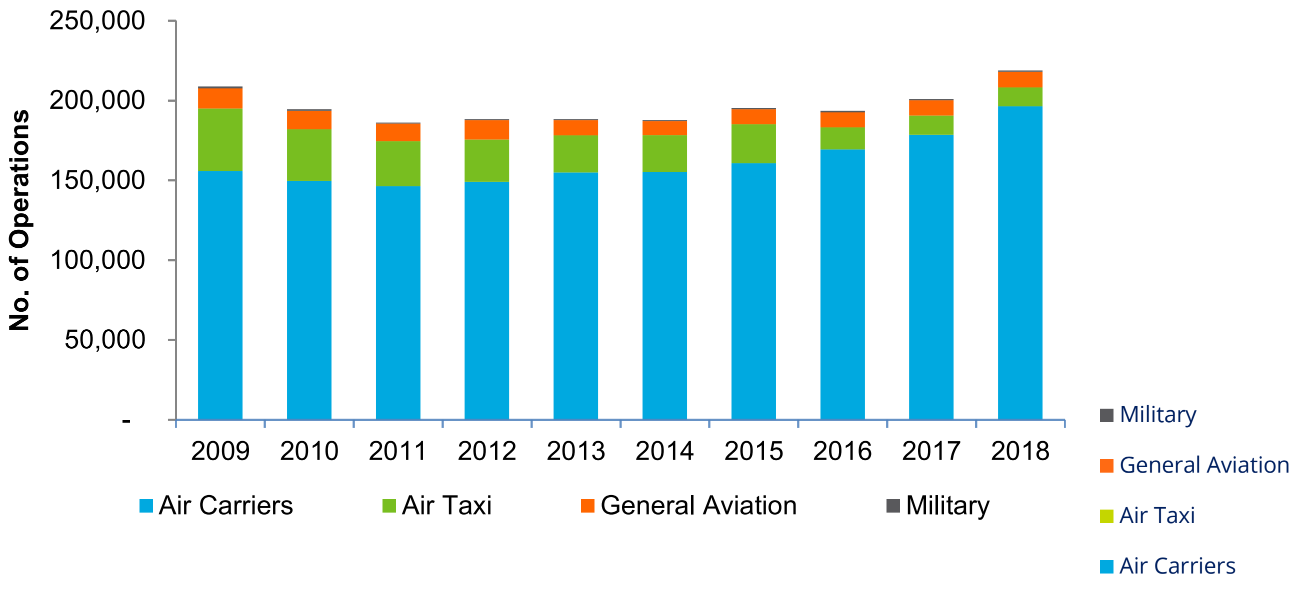
EXHIBIT S-9
AIRCRAFT OPERATIONS (TAKEOFFS & LANDINGS)

Fiscal Years Ended June 30,

Fiscal Year	Air Carriers	Air Taxi	General Aviation	Military	Total
2009	155,766	39,122	12,721	1,174	208,783
2010	149,718	32,100	11,674	1,017	194,509
2011	146,215	28,273	10,938	755	186,181
2012	149,104	26,398	12,120	658	188,280
2013	154,781	23,370	9,586	567	188,304
2014	155,310	22,953	8,930	597	187,790
2015	160,726	24,336	9,534	669	195,265
2016	169,365	13,741	9,439	906	193,451
2017	178,579	11,899	9,719	814	201,011
2018	196,253	11,903	9,816	699	218,671

Source: FAA ATADS Report: Air Operations Standard Report (itinerant only)

AIRCRAFT OPERATIONS



Source: San Diego County Regional Airport Authority

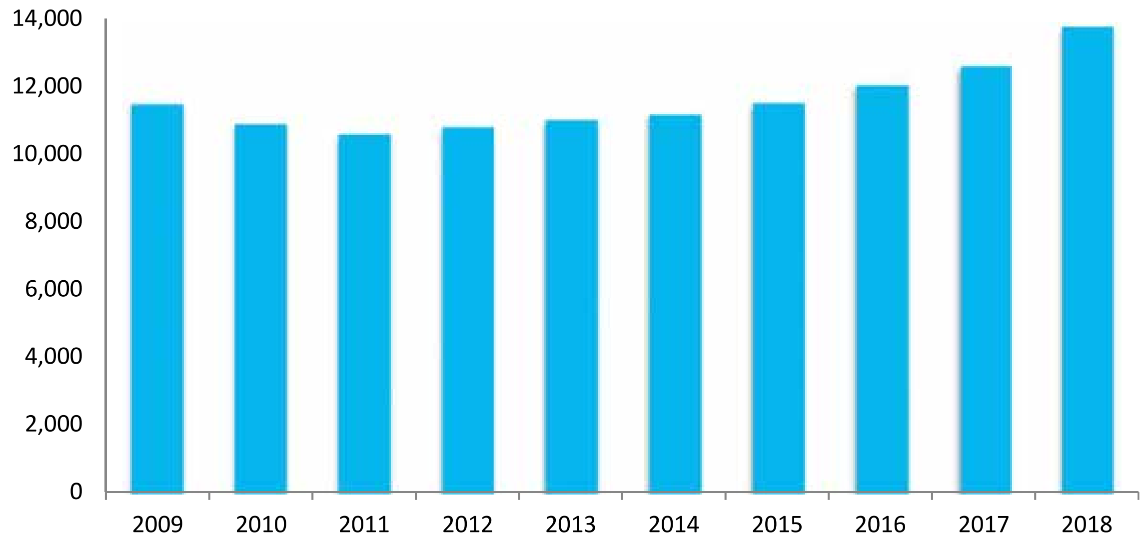
Aircraft Operations are the takeoffs and landings at SDIA.
They represent the level of demand for air service by the airlines operating at SDIA.

EXHIBIT S-10
AIRCRAFT LANDED WEIGHTS (IN MILLIONS LBS)

Fiscal Years Ended June 30,

Fiscal Year	Aircraft Landed Weight	% Change
2009	11,497	(8.0)%
2010	10,893	(5.3)%
2011	10,606	(2.6)%
2012	10,820	2.0 %
2013	11,016	1.8 %
2014	11,187	1.6 %
2015	11,524	3.0 %
2016	12,048	4.6 %
2017	12,616	4.7 %
2018	13,770	9.1 %

AIRCRAFT LANDED WEIGHTS (IN MILLIONS LBS)



Source: San Diego County Regional Airport Authority

Landed Weight is the maximum gross certificated landed weight in one million pound units as stated in the airlines' flight operational manual. Landed weight is used to calculate landing fees for both airline and general aviation aircraft operated at the airport.

EXHIBIT S-11
AIRCRAFT LANDED WEIGHTS BY AIRLINE (THOUSAND POUNDS)

Fiscal Years Ended June 30,

Airline	Landed Weight (in thousands) 2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Southwest Airlines	4,415,780	4,068,974	4,001,530	3,953,536	3,907,554	3,925,362	4,214,314	4,257,162	4,470,104	4,924,451
United Airlines [1]	1,670,479	1,662,541	1,583,372	1,502,203	1,387,854	1,340,736	1,227,974	1,250,500	1,355,185	1,492,873
American Airlines [2]	1,532,867	1,392,660	1,275,498	1,344,140	1,339,751	1,349,554	1,359,911	1,467,922	1,428,538	1,471,318
Delta Airlines	713,622	893,467	1,062,254	1,047,068	1,023,608	1,016,878	1,077,103	1,153,074	1,175,285	1,183,702
Alaska Airlines [3]	536,281	511,813	595,238	648,359	750,000	884,727	888,065	924,310	999,875	1,131,807
Skywest Airlines	219,416	332,408	338,812	306,789	428,595	396,054	408,608	359,197	465,023	627,038
Federal Express	402,665	400,303	421,239	452,453	451,797	419,127	384,686	444,038	390,716	388,782
Spirit Airlines	-	-	-	98,931	208,200	245,669	296,925	351,977	286,162	328,424
Compass Airlines	-	-	-	-	-	10,979	172,754	307,793	296,581	312,883
JetBlue Airlines	297,340	201,071	167,369	166,232	168,080	189,979	193,848	199,232	244,364	293,160
Frontier Airlines	237,269	227,847	249,492	208,936	196,614	192,493	153,880	115,238	167,590	232,794
Virgin America [3]	221,333	205,348	173,686	208,253	235,934	232,136	240,781	281,411	278,741	231,087
British Airways	-	-	13,800	167,440	163,760	166,980	166,980	183,760	217,360	208,926
Hawaiian Airlines	137,145	121,600	134,080	118,088	140,637	147,325	146,284	147,406	147,568	161,486
United Parcel	127,900	118,874	120,158	120,454	118,180	121,742	127,660	135,318	146,778	143,678
Subtotal	**10,512,097**	**10,136,906**	**10,136,528**	**10,342,881**	**10,520,566**	**10,639,741**	**11,059,773**	**11,578,336**	**12,069,869**	**13,132,409**
All Others	984,661	755,961	469,632	477,021	495,150	547,024	463,947	469,806	546,199	637,537
Total	**11,496,758**	**10,892,867**	**10,606,160**	**10,819,902**	**11,015,716**	**11,186,766**	**11,523,720**	**12,048,142**	**12,616,068**	**13,769,945**
Annual % Change	-8.0%	-5.3%	-2.6%	2.0%	1.8%	1.6%	3.0%	4.6%	4.7%	9.1%

Source: San Diego County Regional Airport Authority

[1] United and Continental completed their merger on October 1, 2010 and began operating as United on November 30, 2011. The enplanements are combined for the purpose of this table.

[2] US Airways merged with American Airlines on December 9, 2013. A single operating certificate was issued by the FAA and operational integration was on April 7, 2015. The enplanements are combined for the purpose of this table.

[3] Alaska Airlines and Virgin America received their single operating certificate from the FAA on January 11, 2018 and began operating as Alaska Airlines on April 25, 2018. The enplanements are combined for the purose of this table.

EXHIBIT S-11
AIRCRAFT LANDED WEIGHTS BY AIRLINE (THOUSAND POUNDS)

Fiscal Years Ended June 30,

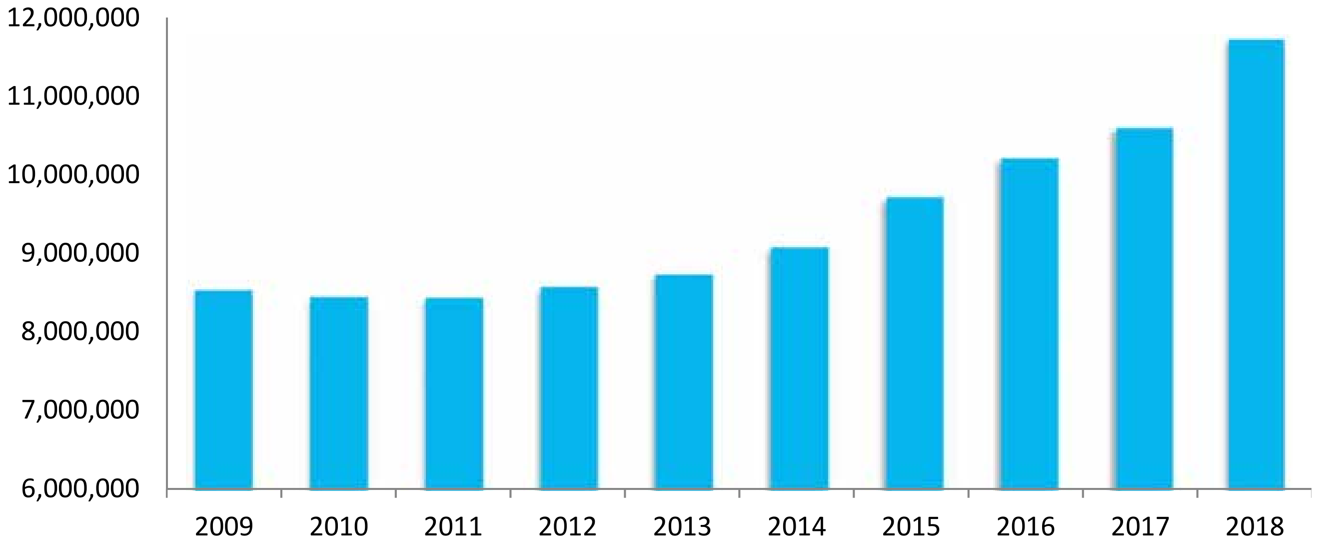
Airline	Market Share 2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Southwest Airlines	38.4%	37.4%	37.7%	36.5%	35.5%	35.1%	36.6%	35.3%	35.4%	35.8%
United Airlines [1]	14.5%	15.3%	14.9%	13.9%	12.6%	12.0%	10.7%	10.4%	10.7%	10.8%
American Airlines [2]	13.3%	12.8%	12.0%	12.4%	12.2%	12.1%	11.8%	12.2%	11.3%	10.7%
Delta Airlines	6.2%	8.2%	10.0%	9.7%	9.3%	9.1%	9.3%	9.6%	9.3%	8.6%
Alaska Airlines [3]	4.7%	4.7%	5.6%	6.0%	6.8%	7.9%	7.7%	7.7%	7.9%	8.2%
Skywest Airlines	1.9%	3.1%	3.2%	2.8%	3.9%	3.5%	3.5%	3.0%	3.7%	4.6%
Federal Express	3.5%	3.7%	4.0%	4.2%	4.1%	3.7%	3.3%	3.7%	3.1%	2.8%
Spirit Airlines	0.0%	0.0%	0.0%	0.9%	1.9%	2.2%	2.6%	2.9%	2.3%	2.4%
Compass Airlines	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	1.5%	2.6%	2.4%	2.3%
JetBlue Airlines	2.6%	1.8%	1.6%	1.5%	1.5%	1.7%	1.7%	1.7%	1.9%	2.1%
Frontier Airlines	2.1%	2.1%	2.4%	1.9%	1.8%	1.7%	1.3%	1.0%	1.5%	1.7%
Virgin America [3]	1.9%	1.9%	1.6%	1.9%	2.1%	2.1%	2.1%	2.3%	2.2%	1.7%
British Airways	0.0%	0.0%	0.1%	1.5%	1.5%	1.5%	1.4%	1.5%	1.7%	1.5%
Hawaiian Airlines	1.2%	1.1%	1.3%	1.1%	1.3%	1.3%	1.3%	1.2%	1.2%	1.2%
United Parcel	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.2%	1.0%
Subtotal	**91.4%**	**93.1%**	**95.6%**	**95.6%**	**95.5%**	**95.1%**	**96.0%**	**96.1%**	**95.7%**	**95.4%**
All Others	8.6%	6.9%	4.4%	4.4%	4.5%	4.9%	4.0%	3.9%	4.3%	4.6%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

EXHIBIT S-12
PASSENGER ENPLANEMENTS

Fiscal Years Ended June 30,

FiscalYear	Enplaned Passengers	% Change SAN	% Change US Average
2009	8,535,774	(9.1)%	(7.9)%
2010	8,453,886	(1.0)%	(0.1)%
2011	8,441,120	(0.2)%	3.0 %
2012	8,575,475	1.6 %	1.1 %
2013	8,737,617	1.9 %	0.2 %
2014	9,082,244	3.9 %	1.6 %
2015	9,713,066	6.9 %	3.3 %
2016	10,206,222	5.1 %	5.0 %
2017	10,596,483	3.8 %	2.7 %
2018	11,728,880	10.7 %	5.8 %

PASSENGER ENPLANEMENTS



Source: San Diego County Regional Airport Authority

Enplaned Passenger is any revenue passenger boarding at the airport, including any passenger that previously disembarked from another aircraft (i.e. connecting passenger).

EXHIBIT S-13
ENPLANEMENT MARKET SHARE BY AIRLINE BY FISCAL YEAR

Fiscal Years Ended June 30,

Air Carrier	Enplanements 2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Aeromexico	27,772	24,335	-	-	-	-	-	-	-	-
Air Canada	27,255	46,959	58,539	56,470	45,058	36,636	41,175	48,985	74,018	60,337
Air Canada Jazz	-	13,982	-	-	-	-	-	-	19,256	50,347
AirTran Airways	66,475	37,530	17,978	-	-	-	-	-	-	-
Alaska Airlines [1]	428,515	435,722	514,498	579,457	673,731	830,349	871,775	902,705	918,841	1,031,337
Allegiant Airlines	21,309	32,803	18,416	18,099	15,466	7,859	7,406	16,825	49,480	44,934
American Airlines [2]	735,067	704,909	658,752	664,466	650,826	693,995	747,493	1,369,003	1,339,489	1,366,634
British Airways	-	-	6,912	81,437	81,534	84,600	84,263	89,723	90,200	82,543
Condor	-	-	-	-	-	-	-	-	3,902	7,815
Continental Airlines [3]	503,242	507,443	496,100	-	-	-	-	-	-	-
Delta Air Lines	618,127	900,510	919,323	935,777	904,734	915,907	992,498	1,061,889	1,088,647	1,126,873
Edelweiss	-	-	-	-	-	-	-	-	1,215	6,990
Frontier Airlines	203,689	196,628	219,008	198,708	184,020	185,270	150,595	118,990	180,235	254,760
Hawaiian Airlines	100,626	90,874	98,887	86,211	94,283	98,667	96,963	102,462	107,776	108,971
Japan Airlines	-	-	-	-	18,249	54,213	59,372	59,647	59,916	62,034
JetBlue Airways	235,199	167,031	141,684	147,051	152,571	173,282	178,590	182,605	224,700	248,325
Lufthansa	-	-	-	-	-	-	-	-	-	13,037
Midwest Airlines	8,380	-	-	-	-	-	-	-	-	-
Northwest Airlines	272,684	-	-	-	-	-	-	-	-	-
Southwest Airlines	3,122,090	3,183,084	3,277,931	3,252,290	3,253,225	3,352,870	3,736,688	3,840,455	3,967,487	4,457,984
Spirit Airlines	-	-	-	77,873	164,189	201,414	252,219	327,183	287,208	317,387
Sun Country Airlines	35,885	24,984	24,175	15,889	23,836	27,276	28,732	34,886	40,109	41,983
United Airlines [3]	927,023	920,960	878,307	1,266,007	1,175,869	1,167,661	1,113,510	1,165,565	1,266,055	1,405,663
US Airways [2]	563,392	512,558	523,378	535,906	560,738	554,244	523,034	-	-	-
Virgin America [1]	155,649	151,110	133,377	166,326	168,297	156,729	175,973	211,075	212,158	183,672
Volaris	-	-	-	45,589	30,885	23,285	20,004	21,343	3,948	-
WestJet	1,526	18,738	19,360	25,535	27,746	31,805	33,723	34,516	41,043	39,285
Other	2,622	-	-	-	-	-	-	-	-	-
Total Air Carrier	**8,056,527**	**7,956,178**	**8,006,625**	**8,153,091**	**8,225,257**	**8,596,062**	**9,114,013**	**9,587,857**	**9,975,683**	**10,910,911**
Regional										
Compass	-	-	-	-	-	8,563	140,012	249,723	195,126	250,947
Express Jet Airlines	36,034	-	-	-	-	-	-	-	-	-
Horizon Air	-	-	-	5,900	77,392	84,000	83,764	64,758	53,517	82,131
Mesa Airlines	7,381	18,670	6,709	12,766	206	-	-	-	-	-
Seaport Airlines	-	-	-	-	196	1,128	3,298	2,292	-	-
Skywest Airlines	203,543	271,766	272,365	263,144	352,189	341,365	371,979	301,592	372,157	484,891
Total Regional	**479,247**	**497,708**	**434,495**	**422,384**	**512,360**	**486,182**	**599,053**	**618,365**	**620,800**	**817,969**
Total Passengers	**8,535,774**	**8,453,886**	**8,441,120**	**8,575,475**	**8,737,617**	**9,082,244**	**9,713,066**	**10,206,222**	**10,596,483**	**11,728,880**

[1] Alaska Airlines and Virgin America received their single operating certificate from the FAA on January 11, 2018 and began operating as Alaska Airlines on April 25, 2018. The enplanements are combined for the purpose of this table.

[2] US Airways merged with American Airlines on December 9, 2013. A single operating certificate was issued by the FAA and operational integration was on April 7, 2015. The enplanements are combined for the purpose of this table.

[3] United and Continental completed their merger on October 1, 2010 and began operating as United on November 30, 2011. The enplanements are combined for the purpose of this table.

EXHIBIT S-13
ENPLANEMENT MARKET SHARE BY AIRLINE BY FISCAL YEAR

Fiscal Years Ended June 30,

Air Carrier	Market Share 2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Aeromexico	0.3%	0.3%	-	-	-	-	-	-	-	-
Air Canada	0.3%	0.6%	0.7%	0.7%	0.5%	0.4%	0.4%	0.5%	0.7%	0.6%
Air Canada Jazz	-	0.2%	-	-	-	-	-	-	0.2%	0.4%
AirTran Airways	0.8%	0.4%	0.2%	-	-	-	-	-	-	-
Alaska Airlines [1]	5.0%	5.2%	6.1%	6.8%	7.7%	9.1%	9.0%	8.8%	8.7%	8.8%
Allegiant Airlines	0.2%	0.4%	0.2%	0.2%	0.2%	0.1%	0.1%	0.2%	0.5%	0.4%
American Airlines [2]	8.6%	8.3%	7.8%	7.7%	7.4%	7.6%	7.7%	13.4%	12.6%	11.7%
British Airways	-	-	0.1%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.7%
Condor	-	-	-	-	-	-	-	-	0.0%	0.1%
Continental Airlines [3]	5.9%	6.0%	5.9%	-	-	-	-	-	-	-
Delta Air Lines	7.2%	10.7%	10.9%	10.9%	10.4%	10.1%	10.2%	10.4%	10.3%	9.6%
Edelweiss	-	-	-	-	-	-	-	-	0.0%	0.1%
Frontier Airlines	2.4%	2.3%	2.6%	2.3%	2.1%	2.0%	1.6%	1.2%	1.7%	2.2%
Hawaiian Airlines	1.2%	1.1%	1.2%	1.0%	1.1%	1.1%	1.0%	1.0%	1.0%	0.9%
Japan Airlines	-	-	-	-	0.2%	0.6%	0.6%	0.6%	0.6%	0.5%
JetBlue Airways	2.8%	2.0%	1.7%	1.7%	1.7%	1.9%	1.8%	1.8%	2.1%	2.1%
Lufthansa	-	-	-	-	-	-	-	-	-	0.1%
Midwest Airlines	0.1%	-	-	-	-	-	-	-	-	-
Northwest Airlines	3.2%	-	-	-	-	-	-	-	-	-
Southwest Airlines	36.6%	37.7%	38.8%	37.9%	37.2%	36.9%	38.5%	37.6%	37.4%	38.0%
Spirit Airlines	-	-	-	0.9%	1.9%	2.2%	2.6%	3.2%	2.7%	2.7%
Sun Country Airlines	0.4%	0.3%	0.3%	0.2%	0.3%	0.3%	0.3%	0.3%	0.4%	0.4%
United Airlines [3]	10.9%	10.9%	10.4%	14.8%	13.5%	12.9%	11.5%	11.4%	11.9%	12.0%
US Airways [2]	6.6%	6.1%	6.2%	6.2%	6.4%	6.1%	5.4%	-	-	-
Virgin America [1]	1.8%	1.8%	1.6%	1.9%	1.9%	1.7%	1.8%	2.1%	2.0%	1.6%
Volaris	-	-	-	0.5%	0.4%	0.3%	0.2%	0.2%	0.0%	-
WestJet	0.0%	0.2%	0.2%	0.3%	0.3%	0.4%	0.3%	0.3%	0.4%	0.3%
Other	0.0%	-	-	-	-	-	-	-	-	-
Total Air Carrier	**94.4%**	**94.1%**	**94.9%**	**95.1%**	**94.1%**	**94.6%**	**93.8%**	**93.9%**	**94.1%**	**93.0%**
Regional										
Compass	-	-	-	-	-	0.1%	1.4%	1.9%	1.8%	2.1%
Express Jet Airlines	0.4%	-	-	-	-	-	-	-	-	-
Horizon Air	-	-	-	-	0.9%	0.9%	0.9%	0.6%	0.5%	0.7%
Mesa Airlines	0.1%	0.2%	0.1%	0.1%	0.0%	-	-	-	-	-
Seaport Airlines	-	-	-	-	0.0%	0.0%	0.0%	0.0%	-	-
Skywest Airlines	2.4%	3.2%	3.2%	3.1%	4.0%	3.8%	3.8%	3.0%	3.5%	4.1%
Total Regional	**5.6%**	**5.9%**	**5.1%**	**4.9%**	**5.9%**	**5.4%**	**6.2%**	**6.1%**	**5.9%**	**7.7%**
Total Passengers	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

EXHIBIT S-14
CAPITAL ASSETS

San Diego International Airport	
Number of runways	1
Length of runway (feet)	9,401 feet
Number of gates	51
Remote aircraft parking positions	24
Terminal rentable square footage	569,920
Airport Land Area	661 acres
On airport parking spaces (public)	3,436
Off airport parking spaces (public)	3,370

Source: San Diego County Regional Airport Authority

The parking spaces shown above are controlled and operated by the Airport Authority and reported on a weighted average basis.

The terminal rentable square footage is a weighted average figure that reflects square footage changes due to construction or remodeling.

EXHIBIT S-15
POPULATION & PER CAPITA PERSONAL INCOME SAN DIEGO COUNTY

Calendar Year	Estimated Population[(1)]	% Change	Per Capita Personal Income[(1)]	% Change	Total Personal Income[(1)] *(in billions)*	% Change
2009	3,077,633	0.9 %	$48,464	(3.2)%	$137.3	(3.2)%
2010	3,102,852	0.8 %	$48,566	0.2 %	$136.6	(0.5)%
2011	3,135,806	1.1 %	$49,938	2.8 %	$145.7	6.7 %
2012	3,174,446	1.2 %	$50,670	1.5 %	$152.7	4.8 %
2013	3,208,946	1.1 %	$51,223	1.1 %	$157.8	3.3 %
2014	3,248,547	1.2 %	$52,889	3.3 %	$167.1	5.9 %
2015	3,275,084	0.8 %	$54,708	3.4 %	$175.9	5.3 %
2016	3,300,891	0.8 %	$55,797	2.0 %	$184.2	4.7 %
2017	3,327,564	0.8 %	$56,437	1.1 %	$192.5	4.5 %
2018	3,352,564	0.8 %	$57,473	1.8 %	$202.8	5.4 %

Source: California Department of Transportation - San Diego County
(1) 2017 and 2018 population, per capita personal income and personal income are estimates by the California Department of Transportation.

EXHIBIT S-16
PRINCIPAL EMPLOYERS IN SAN DIEGO COUNTY

Employer	Local Employees	Rank	Percentage of Total Industry Employment
State of California	50,200	1	3.2%
U.S. Federal Government	46,700	2	2.9%
University of California, San Diego	32,524	3	2.1%
Sharp Health Care	17,962	4	1.1%
Scripps Health	15,238	5	1.0%
Qualcomm Inc.	12,600	6	0.8%
City of San Diego	11,544	7	0.7%
Kaiser Permanente	8,965	8	0.6%
UC San Diego Health	8,923	9	0.6%
San Diego Community College District	6,817	10	0.4%
Total Civilian Labor Force in San Diego County (June 2017):			**1,585,000**

Employer	Local Employees	Rank	Percentage of Total Industry Employment
State of California	41,400	1	2.7%
U.S. Federal Government	40,800	2	2.6%
University of California, San Diego	30,078	3	1.9%
County of San Diego	16,303	4	1.1%
San Diego Unified School District	15,800	5	1.0%
Sharp Health Care	14,390	6	0.9%
Scripps Health	11,690	7	0.8%
City of San Diego	11,054	8	0.7%
Qualcomm Inc.	9,444	9	0.6%
Kaiser Permanente	7,608	10	0.5%
Total Civilian Labor Force in San Diego County (June 2008):			**1,545,800**

Source: Employers - San Diego Journal Book of Lists: 2017 & 2009
Total Industry Employment - California Employment Development Dept., Labor Market Info June 2017 - March 2017 Benchmark

EXHIBIT S-17
LABOR FORCE, EMPLOYMENT, & UNEMPLOYMENT RATES

Year	Labor Force	Employment	Unemployment	Unemployment Rate SD County	Unemployment Rate State
2009	1,553,400	1,403,400	150,000	9.7%	11.3%
2010	1,513,100	1,350,500	162,600	10.7%	12.0%
2011	1,523,000	1,360,000	163,000	10.7%	12.0%
2012	1,544,200	1,397,600	146,600	9.5%	10.6%
2013	1,548,000	1,421,000	126,900	8.2%	9.2%
2014	1,544,600	1,444,000	100,600	6.5%	7.4%
2015	1,555,900	1,473,500	82,400	5.3%	6.3%
2016	1,569,000	1,491,700	77,300	4.9%	5.6%
2017	1,584,500	1,518,100	66,300	4.2%	4.9%
2018	1,584,000	1,525,500	58,400	3.7%	4.5%

Source: California Employment Development Dept., Labor Market Information Division
Unemployment Rate and Labor Force, not seasonally adjusted

EXHIBIT S-18
DEBT SERVICE COVERAGE

Fiscal Years Ended June 30,

Senior Bonds	2009	2010	2011[6]	2012	2013	2014	2015	2016	2017	2018
Revenues [1]	$ 138,334,601	$ 138,113,792	$ 148,963,673	$ 158,311,779	$ 181,051,929	$ 199,834,430	$ 214,770,544	$ 238,640,326	$ 255,540,858	$ 276,983,726
Operating and Maintenance Expenses	(115,221,068)	(116,275,132)	(117,100,946)	(118,941,148)	(126,662,546)	(136,604,105)	(142,781,639)	(151,327,220)	(154,455,699)	(157,246,523)
Net Revenues [2]	$ 23,113,533	$ 21,838,660	$ 31,862,727	$ 39,370,631	$ 54,389,383	$ 63,230,325	$ 71,988,905	$ 87,313,106	$ 101,085,159	$ 119,737,204
Senior Bond Debt Service [3]										
Principal	$ 2,950,000	$ 3,105,000	$ 3,265,000	$ 3,430,000	$ -	$ -	$ 2,030,000	$ 2,090,000	$ 2,155,000	$ 2,240,000
Interest	2,391,975	2,244,475	2,089,225	1,925,975	2,478,489	16,645,435	18,034,575	18,414,600	18,349,950	18,263,750
PFCs used to pay debt service	-	-	-	-	(714,077)	(7,140,301)	(8,669,966)	(9,490,326)	(9,548,626)	(9,547,482)
Total Debt Service for the Senior Bond	$ 5,341,975	$ 5,349,475	$ 5,354,225	$ 5,355,975	$ 1,764,412	$ 9,505,134	$ 11,394,609	$ 11,014,274	$ 10,956,324	$ 10,956,268
Senior Bonds Debt Service Coverage (x)	**4.33**	**4.08**	**5.95**	**7.35**	**30.83**	**6.65**	**6.32**	**7.93**	**9.23**	**10.93**
Subordinate Debt										
Subordinate Net Revenues [2]			$ 26,508,502	$ 34,014,656	$ 52,624,971	$ 53,725,191	$ 60,594,296	$ 76,298,832	$ 90,128,835	$ 108,780,936
Subordinate Annual Debt Service [4]										
Principal			$ 715,000	$ 980,000	$ 1,000,000	$ 5,785,000	$ 8,665,000	$ 9,000,000	$ 9,430,000	$ 14,830,000
Interest			2,971,984	6,599,760	26,194,616	27,069,283	26,853,179	26,435,600	26,085,029	37,197,656
Commercial Paper			1,220,226	1,077,867	5,519,872	6,446,951	6,736,945	6,760,189	7,000,066	7,335,123
PFCs used to pay debt service			-	-	(20,061,962)	(20,718,863)	(21,554,245)	(20,331,674)	(20,456,707)	(20,457,851)
Total Subordinate Annual Debt Service			$ 4,907,211	$ 8,657,627	$ 12,652,526	$ 18,582,371	$ 20,700,879	$ 21,864,115	$ 22,058,389	$ 38,904,928
Subordinate Obligations Debt Service Coverage (x)			**5.40**	**3.93**	**4.16**	**2.89**	**2.93**	**3.49**	**4.09**	**2.80**
Aggregate Debt										
Aggregate Net Revenues			$ 31,862,727	$ 39,370,631	$ 54,389,383	$ 63,230,325	$ 71,988,905	$ 87,313,106	$ 101,085,159	$ 119,737,204
Aggregate Annual Debt Service										
Principal			3,980,000	4,410,000	1,000,000	5,785,000	10,695,000	11,090,000	11,585,000	17,070,000
Interest			5,061,209	8,525,735	28,673,105	43,714,718	44,887,754	44,850,200	44,434,979	55,461,406
Variable Rate Debt (5)			1,220,226	1,077,867	5,519,872	6,446,951	6,736,945	6,760,189	7,000,066	7,335,123
PFC Funds Applied to Debt Service					(20,776,039)	(27,859,164)	(30,224,211)	(29,822,000)	(30,005,333)	(30,005,333)
Total Subordinate Annual Debt Service			$ 10,261,435	$ 14,013,602	$ 14,416,938	$ 28,087,505	$ 32,095,488	$ 32,878,389	$ 33,014,712	$ 49,861,196
Aggregate Obligations Debt Service Coverage			**3.11**	**2.81**	**3.77**	**2.25**	**2.24**	**2.65**	**3.06**	**2.40**

(1) Revenues are calculated pursuant to the provisions of the Master Senior Indenture and the Master Subordinate Indenture.
(2) Net Revenues and Subordinate Net Revenues are calculated pursuant to the provisions of the Master Senior Indenture and Master Subordinate Indenture, as appropriate.
(3) Debt service with respect to the Senior Bonds is calculated pursuant to the provisions of the Master Senior Indenture.
(4) Subordinate Annual Debt Service is calculated pursuant to the provisions of the Master Subordinate Indenture.
(5) Includes principal and interest.
(6) Information regarding Subordinate Obligations Debt Service Coverage provided in connection with the first fiscal year for which Subordinate Annual Debt Service was due with respect to the 2010 Bonds. Subordinate Annual Debt Service for prior years consisted of debt service on the Authority's Subordinate Commercial Paper Notes and is not presented for Fiscal Years 2009-2010.

EXHIBIT S-19
DEBT SERVICE COVERAGE - SERIES 2014 CFC BONDS

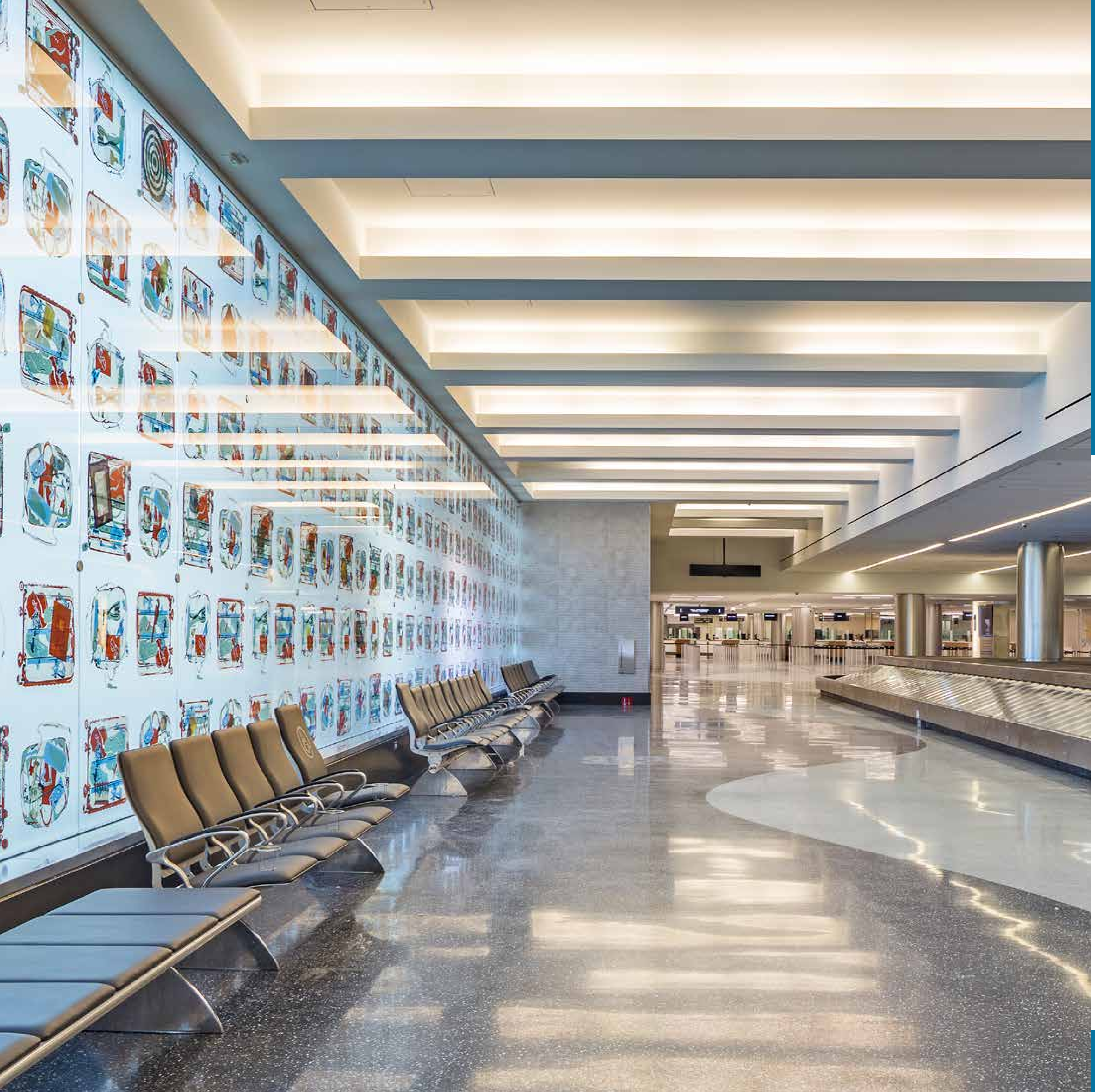
	2014	2015	2016	2017	2018
CFC Collections	$ 27,545,001	$ 32,464,843	$ 33,207,946	$ 36,527,853	$ 41,036,526
Bond Funding Supplemental Consideration	-	-	-	-	-
Transfers from CFC Stabilization Fund	-	-	-	-	-
Interest Earnings[1]	204,194	295,726	332,761	466,134	919,740
Total Amounts Available	27,749,195	32,760,569	33,540,707	36,993,987	41,956,266
Rolling Coverage Fund Balance[2]	-	-	2,451,182	4,902,363	6,576,363
Total Amounts Available, plus Rolling Coverage Fund Balance	$ 27,749,195	$ 27,749,195	$ 35,991,889	$ 41,896,350	$ 48,532,629
Series 2014 Debt Service Requirements	-	-	8,170,605	16,341,210	21,921,210
Coverage excluding Rolling Coverage Fund	N/A	N/A	4.11	2.26	1.91
Coverage including Rolling Coverage Fund	N/A	N/A	4.41	2.56	2.21

1 Includes earnings on investments in the Senior Reserve Fund, the Rolling Coverage Fund and the CFC Surplus Fund.
2 Includes amount on deposit in the Rolling Coverage Fund at the beginning of each Fiscal Year, up to an amount not to exceed 30% of the Series 2014 Debt Service Requirements for such Fiscal Year.
3 On January 1, 2014 and 2017, CFC rates changed.

EXHIBIT S-20
DEBT PER ENPLANED PASSENGER

Fiscal Year	Outstanding Bond Debt (1)	Outstanding Commercial Paper Debt	Capital Leases	Total Outstanding Debt	Enplaned Passengers	Debt per Enplaned Passenger
2009	49,779,975	84,430,000	-	134,209,975	8,535,774	15.72
2010	46,602,704	164,430,000	377,172	211,409,876	8,453,886	25.01
2011	640,920,314	21,509,000	519,866	662,949,180	8,441,120	78.54
2012	635,307,968	20,729,000	361,641	656,398,609	8,575,475	76.54
2013	1,027,411,188	50,969,000	8,152,588	1,086,532,776	8,737,617	124.35
2014 (2)	1,327,897,591	44,884,000	7,810,927	1,380,592,518	9,082,244	152.01
2015	1,317,784,291	38,705,000	7,971,993	1,364,461,284	9,713,066	140.48
2016	1,302,846,043	32,581,000	7,717,734	1,343,144,777	10,206,222	131.60
2017	1,287,602,498	58,998,000	7,442,314	1,354,042,812	10,596,483	127.78
2018	1,609,960,696	20,163,000	7,143,865	1,637,267,561	11,728,880	139.59

Source: San Diego County Regional Airport Authority
(1) Outstanding Bond Debt includes unamortized bond premium
(2) Starting in 2014, Outstanding Bond Debt includes CFC Bond issuance



SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY

SAN DIEGO, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEARS ENDED JUNE 30, 2017 & 2016

SAN DIEGO
INTERNATIONAL AIRPORT

LET'S GO.

SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY

Item No.
4

AUDIT COMMITTEE

Meeting Date: **NOVEMBER 5, 2018**

Subject:

Fiscal Year 2019 First Quarter Activities Report and Audit Recommendations Issued by the Office of the Chief Auditor

Recommendation:

Staff recommends that the Audit Committee forward this item to the Board with a recommendation for acceptance, and provide, if necessary, direction to staff on audit recommendations.

Background/Justification:

As directed in the Charter of the Office of the Chief Auditor, the Chief Auditor shall annually report to the Board on audits completed, findings discovered, corrective action taken, and the implementation status on outstanding recommendations. Therefore, the Fiscal Year 2019 First Quarter Report (Attachment A) is submitted to the Audit Committee. The report provides an account of activities accomplished by the OCA during the first quarter of Fiscal Year 2019 and details the status on recommendations still pending implementation.

Fiscal Impact:

None

Authority Strategies:

This item supports one or more of the Authority Strategies, as follows:

☐ Community Strategy ☒ Customer Strategy ☐ Employee Strategy ☒ Financial Strategy ☒ Operations Strategy

Environmental Review:

A. CEQA: This Board action is not a project that would have a significant effect on the environment as defined by the California Environmental Quality Act ("CEQA"), as amended. 14 Cal. Code Regs. §15378. This Board action is not a "project" subject to CEQA. Cal. Pub. Res. Code §21065.

B. California Coastal Act Review: This Board action is not a "development" as defined by the California Coastal Act. Cal. Pub. Res. Code §30106.

Application of Inclusionary Policies:

Not Applicable

Prepared by:

FRED BOLGER
MANAGER, AUDIT SERVICES

ATTACHMENT A

Office of the Chief Auditor

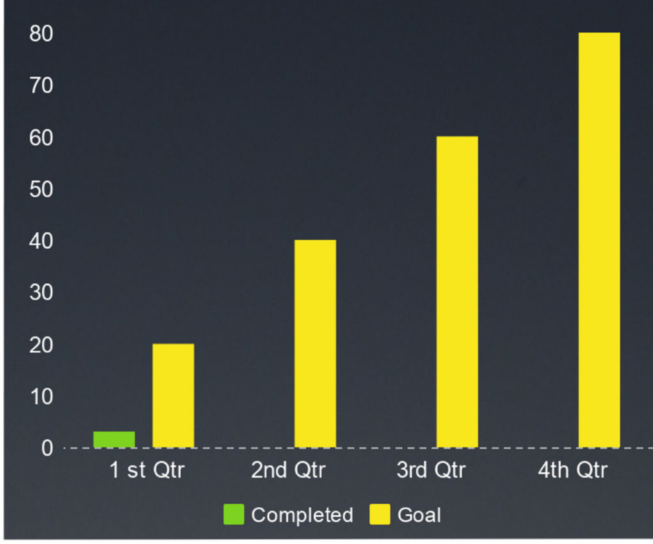
Fiscal Year 2019 1st Quarter Activities Report

celebrating 90 years SAN DIEGO INTERNATIONAL AIRPORT

FY 2019 Audit Plan Progress

FY 2019 Audit Plan Status

Audit Plan Completed vs Goal



Audit Reports - By the Numbers

3
Recommendations

100%
Recommendations Accepted

$70k
Additional Revenue Identified

5.0
Customer Satisfaction Rating (Out of 5)

59%
Auditor Utilization Percentage

0
Audits Completed within Budget

SAN DIEGO
COUNTY
REGIONAL
AIRPORT
AUTHORITY

OFFICE OF THE CHIEF AUDITOR
Fiscal Year 2019 First Quarter Activity Report

Issue Date: October 26, 2018

Audit Activities

Completed

During the first quarter, the Office of the Chief Auditor (OCA) issued a total of three (3) audit reports, as described below.

Haley and Aldrich Inc.: This expenditure contract audit examined the on-call environmental program management consulting services contract between Haley and the Authority. The audit found that the procurement and payments surrounding the contract were in compliance with Authority Policies and were appropriate. Additionally, adequate internal controls and monitoring were found to be in place a functioning properly. No issues were reported.

Signature Flight Support: This revenue contract audit of the agreements between Signature and the Authority resulted in three (3) recommendations. This audit is highlighted in Appendix C[1].

Procurement Card Program: This internal process audit examined purchases made and controls surrounding the Authority's Procurement Card Program. The audit found that the program was operating as intended and that adequate controls existed to ensure compliance and to safeguard the Authority.

In Progress

At the close of the first quarter there were a total of 15 audits activities In Progress, representing 40% of the Fiscal Year 2019 Audit Plan. Of those, one (1) was in the reporting/review stage, ten (10) were in the fieldwork stage, two (2) were in the planning or preliminary survey stage, and two (2) are ongoing activities that occur throughout the year.

Construction audit activity for the first quarter of Fiscal Year 2019 consisted of attending meetings regarding the Federal Inspection Service project, the airport support facilities, the development program, and other airport construction projects. The OCA Construction Auditor is currently completing the audit of the agreement with Turner-PCL, a Joint Venture, as part of the Fiscal Year 2019 Audit Plan. The Construction Auditor remains involved with issues identified by the Airport Design and Construction team and Authority Management, providing assistance and attending meetings specific to the aspects of the Authority's construction activity.

The OCA continues to run the Authority's Ethics Program and reporting hotline. During the first quarter of Fiscal Year 2019, six (6) tips/reports were received. However, none of the tips/reports were investigated because the details of the reports/tips did not support a potential code violation. Tips/reports that are not investigated by the OCA are forwarded to management, as appropriate. A summary of tips/reports received during the first quarter of Fiscal Year 2019 is available in Appendix B.

See Appendix A for a complete breakdown of our Fiscal Year 2019 Audit Plan status.

[1] Each quarter we will highlight a significant audit completed during that quarter.

Administrative Activities

Budget and Expenses

Department expenses totaled $267,286 for the quarter, which represents 20.8% of the Fiscal Year 2019 budget. No large and/or unexpected outlays occurred within the department during the quarter. We expect to remain on budget throughout the fiscal year.

Training

OCA staff continue obtaining CPE credits as required by their various certifications. Specifically, numerous staff attended a fraud prevention and ethics symposium. A review of CPE credits obtained and those expected to be earned by the end of the second quarter found that all staff are projected to meet their individual CPE requirements for the year.

Procedural/Supervisory

During the quarter, both the Audit Committee Charter and the OCA Charter were reviewed and revised, as presented at the September Audit Committee Meeting. The OCA provided coordination for the Audit Committee Meeting with Authority Board Services.

Additionally, a thorough review of the OCA desk manual and the department’s policies and procedures were being completed.

The department also continues seeking an Audit Intern III to fill an existing opening.

Recommendation Follow Up

To ensure audit issues are addressed in a timely manner, the OCA tracks the status of its recommendations on an on-going basis. The status of tracked recommendations is shown in Figure 1 below, along with descriptions of each designation. See Appendix D for a detailed list of each recommendation and its status.

Figure 1: Status of Recommendations as of September 30, 2018

Completed	In Progress	Not Accepted	Tracked
10	11	0	21

Completed: This designation is used for recommendations that the OCA has determined to be adequately implemented or for recommendations where alternate action is taken that adequatley addresses the risk identified.

In Progress: These recommendations have been partially addresed or partial corrective action has been taken. This category also includes when there has not been adequate time between report issuance and recommendation follow-up. If adequate progress is not being made, it will be noted as such.

Not Accepted: This designation is used for recommendations that an auditee does not accept; and, therefore, will not implement. This category can represent a failing on the part of the OCA, as all recommendations should be workable and acceptable to the affected departments.

Figure 2 below shows the status of In Progress recommendations along with the estimated implementation timeframe based on issue date of the audit report.

Figure 2: In Progress Recommendations with Estimated Implementation Timeframe

Estimated Completion Timeframe	Zero to 6 Months	7 Months to 1 Year	Over 1 Year	Total In Progress
In Progress	0	9	2	11

Adequate progress is being made with all of the tracked recommendations. Specifically, the non-completion of the "In Progress" recommendations should not have a material adverse effect on the Authority. The OCA will continue its monthly tracking of their status.

Performance Measures

Each fiscal year the OCA develops and tracks performance measures to gauge the progress and success of the Office. For Fiscal Year 2019, the OCA developed six (6) separate measures to evaluate the OCA performance. Figure 3 below outlines the OCAs performance against the selected measures.

Figure 3: Status of Performance Measures as of September 30, 2018

Performance Measure	Goal	Progress as of September 30, 2018
Percentage of the Audit Plan completed	20% (80% by Year End)	8%
Additional revenue/cost savings identified	n/a	$69,541
Percentage of staff time spent on audit activities	70%	59%
Percentage of audits completed within budget	80%	0%
Recommendations accepted by management	95%	100%
Customer satisfaction rating	4.0	5.0

The measures are detailed below along with further explanation of the OCAs performance for the fiscal year:

Percentage of the Audit Plan completed annually: During the first quarter of Fiscal year 2019, the OCA completed 8% of the Fiscal Year 2019 Audit Plan. Specifically, 3 out of 38[2] audits were finalized as issued audit reports or closed out. Additionally, there was one (1) audit that was in the report writing process.

Additional revenue/cost savings identified through audits: While the value of an audit cannot be adequately assessed by this performance measure, it does provide quantifiable values for completed audits. For the fiscal year, the OCA identified over $69,541 in new revenue as a result of an under billing identified within the audit of Signature Flight Support, see Appendix C for additional details.

Percentage of staff time spent on audit activities: This measure helps ensure that the OCA spends an adequate amount of time on audit activities rather than administrative activities. During the first quarter of Fiscal year 2019, the OCA spent 59% of staff time on audit activities. Under our goal of 70%. This was largely due to the administrative time spent on the Charter of the Audit Committee, Charter of the OCA, the OCA desk manual, and the department policies and procedures.

Percentage of audits completed within budgeted time: This category monitors how efficient audit staff is in performing their audits. Specifically, audit staff is held accountable to the internally prepared audit budgets for each project. However, it does recognize that budgets may need adjustment(s) as additional facts become known during an audit activity. In Fiscal Year 2019, the OCA has not yet completed a project under budget. This is the result of some specific complexities within the audits and difficulties in obtaining certain audit data and information.

[2] To determine the size of our audit population annually we add 1) planned audits/activities contained within the current year's Audit Plan, 2) any carry over audits/activities from the previous year, and 3) any special request audits approved by the Audit Committee.

Acceptance of Audit Recommendations: This category helps to evaluate the quality of the findings and recommendations issued by the OCA, and ensures that we have received management buy-in to anything we recommend. For the year, all recommendations have been accepted by management.

Customer Satisfaction: At the conclusion of every audit we provide a survey to the audited Authority department to determine their satisfaction with the audit process and the audit team. While an audit could be contentious, we expect that value can still be observed by the audited entity. In that regard, our goal for customer satisfaction is 4.0, on a 1 to 5 scale (With 1 being very dissatisfied and 5 being very satisfied). To date we have achieved a score of 5.0.

Appendix A - Fiscal Year 2019 Audit Plan Progress

#	Audit / Activity	Type
Completed		
1	Haley and Aldrich, Inc.[1]	Expense Contract
2	Signature Flight Support[1]	Revenue Contract
3	Procurement Card Program[1]	Annual Ongoing and Support
In Progress		
4	Concession Cost Recovery[1]	Business Process
5	Turner - PCL Joint Venture	Business Process
6	Granite Construction Company	Expense Contract
7	Leigh Fisher & Associates[1]	Expense Contract
8	Ace Parking Management, Inc.[1]	Expense Contract
9	Asset Management[1]	Business Process
10	Emergency Medical Technician - Paramedic Services[1]	Annual Ongoing and Support
11	Fox Rent A Car	Revenue Contract
12	Pneuma Enterprises Inc. dba TravCar	Revenue Contract
13	New Zoom Inc. dba ZoomSystems (RP 6)	Revenue Contract
14	Nevada Lease and Rental Inc. dba Payless Car Rental System[1]	Revenue Contract
15	San Diego Unified Port District Billing - Fiscal Year 2017[1]	Annual Ongoing and Support
16	Small Business Development[1]	Business Process
17	Ethics Program	Annual Ongoing and Support
18	Construction Audit and Monitoring Activity	Annual Ongoing and Support
Not Started		
19	Owner-Controlled Insurance Program (OCIP) Management	Business Process
20	Other Post-Employment Benefits (OPEB)	Business Process
21	Tuition Reimbursement Program	Business Process
22	Art Program	Business Process
23	Capital and Maintenance Project Selection and Planning	Business Process
24	Information Technology Acquisition and Implementation	Business Process
25	M.W. Vasquez Construction Company, Inc. dba Vasquez Construction Company	Expense Contract
26	Fordyce Construction, Inc.	Expense Contract
27	Ricondo and Associates	Expense Contract
28	Ueberall International LLC	Expense Contract
29	Enterprise Rent A Car Company (Enterprise, Alamo, National)	Revenue Contract
30	Avis Rent A Car Systems LLC (Avis, Zip Car)	Revenue Contract
31	Ace Parking	Revenue Contract
32	JCDecaux, Inc.	Revenue Contract
33	Aircraft Rescue and Fire Fighting (ARRF)	Annual Ongoing and Support
34	Rental Car Center Fund Review - 2018[1]	Annual Ongoing and Support
35	Rental Car Center Fund Review - 2019	Annual Ongoing and Support
36	Transportation Network Company Reviews and Assistance	Annual Ongoing and Support
37	ALPR System - Ace Parking	Annual Ongoing and Support
38	San Diego Unified Port District Billing - Fiscal Year 2018	Annual Ongoing and Support

1 Carried over from the Fiscal Year 2018 Audit Plan

Appendix B - Ethics Program Activities

	Number of Tips / Reports Received[3]	Preliminary Investigation Required	Full Investigation Initiated	Investigation Results Supported Code Violation (Ethics or Workplace)	Response (email or phone to non-anonymous reports)
Code of Ethics Concerns					
Prohibited Use of Position	1	1	0	0	0
General Workplace Concerns					
Workplace Practices/Behavior	5	0	0	0	0
Total	**6**	**1**	**0**	**0**	**0**

Legend:

Number of Tips / Reports Received: The total number of tips or reports received by the Ethics Officer through the hotline, direct phone line, e-mail, inter-office mail, or direct contact.

Preliminary Investigation Required: The number of tips or reports that required a preliminary investigation by the Ethics Officer.

Full Investigation Initiated: Following a preliminary investigation, the Ethics Officer determined that the tip necessitated a full investigation. As a result, the tip/report received was forwarded to the Ethics Committee for a determination on how to proceed.

Investigation Results Supported Coded Violation: Based on an investigation, these are the tips/reports that were found to have been a Code violation.

Response: This column represents the number of times the Ethics Officer responded back to the original non-anonymous tipper/reporter.

[3] All tips/reports received were anonymous during the quarter.

Appendix C - Audit Highlight

Signature Flight Support

Report Number #18020, July 2018

Background

Signature Flight Support (Signature), under BBA US Holdings, currently holds a long-term lease agreement (Lease), a Ground Handling License (License), and a Use Occupancy Permit (Permit) with the Authority that jointly allow Signature to operate as a full service fixed-base operator (FBO) at SDIA. During the audit period from October 1, 2015, to September 30, 2017, Signature paid $10,831,583 in fixed rents and $460,947 in percentage rents, late fees, and other charges, for a total of $11,292,529 to the Authority. The objective of the audit was to ensure the accuracy and reliability of the monthly gross revenue reports and payments made to the Authority, and to ensure compliance with the requirements of the Lease, License, and Permit.

Audit Results

Our audit determined that Signature complied with most of the Lease, License, and Permit requirements that were tested and reviewed. However, we identified three (3) findings that included errors in the calculation of the annual increases in fixed rents, non-compliance with corporate citizenship, and property insurance, as detailed below.

- The increase in base rent for the Lease was miscalculated for the last two rent periods.
- The investments by Signature in the Gateway improvement program have not been used per the program outlined in the Corporate Citizenship clause of the Lease.
- The current property insurance coverage policy by Signature does not meet the Lease requirement of at least 100% of full replacement value.

Recommendations

In order to address the above findings we issued three (3) recommendations, summarized as follows:

1. The Authority should bill Signature for the under billing of ground rent of $69,541 during the audit period.
2. Business Management should ensure that future Gateway Program investments are made in accordance with the Lease, or amend the Lease as needed.
3. Finance should work with Signature to ensure property insurance coverage meets the Lease requirements.

Appendix D - Status of Recommendations

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Status as of September 30, 2018
Completed				
18-21	Audit Report 18001 Issued: June 14, 2018 Title: Business and Travel Expenses Department: TALENT, CULTURE AND CAPABILITY	Low	The Talent, Culture and Capability Department (TCC) should strengthen controls to ensure that all tuition reimbursement requests are properly supported, accurately calculated, paid based on the correct calendar year, and ensure that all requirements surrounding a reimbursement are followed as outlined in the program. This ensures that the program is administered fairly and equitably for all employees. Requests lacking proper approvals or supporting documentation should be returned to employees for corrective action.	TCC updated the Standard to be consistent with our practice and intent with this employee benefit. They also revised and updated the process and forms employees submit to assure accurate processing and timing of payments in the correct calendar year. This ensures that the program is administered fairly and equitably for all employees. This was completed and implemented effective August 3, 2018.
18-22	Audit Report 18001 Issued: June 14, 2018 Title: Business and Travel Expenses Department: FINANCE	Low	Finance should ensure that the petty cash funds are properly managed and monitored. Monthly reconciliations should be prepared and submitted for review as required in the Fund Procedures. Reconciliations should be reviewed, and any differences should be reviewed, approved, and recorded to bring the funds back to the proper fund balance. Surprise cash counts should be performed to ensure that the custodians are maintaining the funds as required in the Fund Procedures.	Annual training is being instituted for all custodians, AP staff, and their supervisors. The training will place an emphasis on maintaining a uniform tracking log that is current and accurate, eligibility of reimbursable expenses, proper documentation and receipts, required submittal of a monthly reconciliation to Accounting, replenishment of funds when they fall below $250, secure handling of the funds, and the institution of surprise cash counts. Training was completed October 17th.

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Status as of September 30, 2018
Completed				
18-23	Audit Report 18026 Issued: June 21, 2018 Title: SSP America, Inc. (FSP 5R) Department: BUSINESS AND FINANCIAL MANAGEMENT	Low	The Business and Financial Management Department should correct the consumer price index (CPI) calculation for Fiscal Year 2016. Additionally, the Accounting Department should issue an invoice for $846.43 to SSP for the under billing of the CPI adjustment for Fiscal Years 2016, 2017, and 2018.	Billing completed in October.
18-24	Audit Report 18006 Issued: June 28, 2018 Title: Vehicle Fleet Management Department: AUTHORITY MANAGEMENT	Medium	Authority Management should implement uniform vehicle fleet usage procedures. These procedures should include standard vehicle check-out procedures with the assurance that any employee requesting a vehicle is an authorized driver. Ideally, the procedures should include a centralized vehicle and driver database that would integrate with the Defensive Driver Training program, which will automate the authorized driver assurance, maximize the fleet usage and mileage reporting, and automate the maintenance schedules.	A new form was developed for drivers to submit prior to using Authority vehicle. The form requires declaration that employee is an authorized driver along with manager's. signature, before being sent to FMD Fleet Supervisor for approval. Fleet Supervisor verifies that drivers name is on the centralized Authorized Drivers List database before approving.

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Status as of September 30, 2018
Completed				
18-25	Audit Report 18006 Issued: June 28, 2018 Title: Vehicle Fleet Management Department: AUTHORITY MANAGEMENT	Medium	Authority Management should implement procedures to ensure that only authorized drivers are provided the opportunity to drive Authority vehicles. Management should require all vehicle custodian departments to verify driver authorization before giving access to Authority vehicles. Risk should provide written notice to the departments requesting driver authorization regarding the status of their request, and should provide access to a centralized Authorized Drivers List database, to ensure that drivers given access to the Authority vehicles are authorized. In addition, Risk should also review the Authorized Drivers List for any inconsistencies, like missing authorized drivers, and verify that all requests for driver authorization are processed.	Authority management implemented new procedures to document authorized drivers. Drivers are authorized once the individual has been input into the DMV Pull Program and successfully completed training. Written authorization is sent to the individual's manager to confirm that they are an authorized driver. Drivers are not given access to Authority vehicles until the manager receives written notification. Risk reviews the authorized driver listing monthly against the DMV Pull report.
18-26	Audit Report 18006 Issued: June 28, 2018 Title: Vehicle Fleet Management Department: AUTHORITY MANAGEMENT	Low	Authority Management should require the Facilities Management Department (FMD) and departments with assigned vehicles to consistently track and review monthly and daily logs to verify the accuracy of logged information. Management should also require authorized drivers and/or vehicle custodians to report to FMD any vehicle malfunctions and request that these vehicles be removed from service until repaired.	Leadership in daily shift briefings has and continues to remind staff of the proper procedure to complete usage logs. All logs are collected and replaced with new logs every month by FMD Fleet Coordinator. Odometer readings and hour readings from each monthly usage log are then uploaded onto the Fleet Mileage Database for review by Fleet Supervisor each month.
18-27	Audit Report 18006 Issued: June 28, 2018 Title: Vehicle Fleet Management Department: AUTHORITY MANAGEMENT	Low	Facilities Management Department (FMD) should review the fleet inventory for accuracy and reconcile it with Accounting's asset list, on an annual basis, to verify that vehicles currently in service are listed on the asset list, and any vehicles removed from service and disposed of are retired from the Authority books. In addition, FMD should verify that retired assets are deleted from E1 as a result of the reconciliation.	The E1 vehicle asset list will be checked and verified by the FMD Fleet Supervisor at the beginning of each Fiscal Year. Upon coordination with Accounting, vehicles no longer in service with SDCRAA will be removed from the E1 list and all current vehicles will be confirmed to be on the list. Asset list crossed checked with FMD Fleet Master Listing.

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Status as of September 30, 2018
Completed				
18-28	Audit Report 18024 Issued: June 29, 2018 Title: Hudson Group (Package #2) Department: BUSINESS AND FINANCIAL MANAGEMENT	Low	The Business and Financial Management Department should correct the consumer price index (CPI) calculation for Fiscal Year 2016. Additionally, the Accounting Department should issue an invoice for $634.40 to Hudson Group for the under billing of the CPI adjustment for Fiscal Years 2016, 2017, and 2018. The Accounting Department should also invoice Hudson $112.82 for the under billing that occurred in the remainder of Fiscal Year 2018 that is outside of the audit period (January 2018 through June 2018).	Billing completed in October.
19-01	Audit Report 18020 Issued: July 30, 2018 Title: Signature Flight Support Department: BUSINESS AND FINANCIAL MANAGEMENT	Medium	We recommend that the Authority bill Signature for the under billing of $69,541 for the audit period ended September 30, 2017. Additionally, Business Management should recalculate and verify all billings pertaining to base rent, subsequent to the audit period, for accuracy. Any discrepancies should be corrected and billed as required in the Lease.	Billing completed in October.
19-03	Audit Report 18020 Issued: July 30, 2018 Title: Signature Flight Support Department: FINANCE	Medium	Finance should notify Signature that its property insurance coverage fails to meet the Lease requirements, and require Signature to obtain the necessary coverage.	Signature was notified of the issues with its insurance coverage.

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Status as of September 30, 2018	Estimated Completion
In Progress					
17-11	Audit Report 17027 Issued: February 7, 2017 Title: Spa Didacus, Inc. Department: BUSINESS AND FINANCIAL MANAGEMENT	High	The Business and Financial Management Department should develop a control to ensure that the completed Certification of Capital Investment, the related depreciation schedule, and proper supporting documentation are received from every concessionaire, as required by the lease.	Revenue Management continues to work with Airport Design & Construction on a control process.	FY 2019 4th Quarter
18-10	Audit Report 18013 Issued: February 28, 2018 Title: Chula Vista Electric Company Department: FACILITIES MANAGEMENT	Medium	Facilities Management Department (FMD) should request that the Accounting Department bill Chula Vista Electric Company (CVEC) $42,510 for reimbursement of expenses not allowed by the contract. Additionally, FMD should take steps to ensure that disallowed fees and expenses are not included in future payments to CVEC.	On track to complete by 10/31/2018. FMD will be requesting Accounting bill CVEC the amount of $21,023.71.	10/31/2018
18-12	Audit Report 18013 Issued: February 28, 2018 Title: Chula Vista Electric Company Department: FACILITIES MANAGEMENT	Medium	Facilities Management Department (FMD) should request that Chula Vista Electric Company (CVEC) provide supporting documentation for the $416,556 in expenses billed and paid. When these documents are provided, FMD should review and verify that the expenses are justified.	On track to complete by 10/31/2018. All supporting documentation provided by CVEC has been reviewed and verified to justify the $416,556 in expenses. During the course of staff's review, additional discrepancies outside of the Audit pertaining to duplicate billing, errors on hours billed, and missing receipts were found. This amounted to $6,324.37. FMD will be requesting Accounting bill CVEC the amount of $6,324.37.	10/31/2018

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Status as of September 30, 2018	Estimated Completion
In Progress					
18-14	Audit Report 18001 Issued: June 14, 2018 Title: Business and Travel Expenses Department: AUTHORITY MANAGEMENT	Medium	In addition to the current Administrator training, Authority Management should consider requiring training covering Authority Policies 3.30 and 3.40 and the more detailed Accounting guidance over travel contained in the Employee Reference Guide for all employees that incur reimbursable business or travel expenses.	As detailed below, Authority Policies are currently being reviewed and updated for Board review and approval. Once established, new guidance and procedures for employees will be created to match the Policies.	FY 2019 4th Quarter
18-15	Audit Report 18001 Issued: June 14, 2018 Title: Business and Travel Expenses Department: AUTHORITY MANAGEMENT	Medium	Administrator review of the expense reports submitted for reimbursement needs to be strengthened to ensure that all reimbursement requests submitted for approval meet Authority Policy requirements. Further, Administrators should reject reimbursements that do not adhere to Authority Policies.	Staff will continue to ensure that the Administrators are correctly approving per current Authority Policy. The Business and Travel Expense Authority Policy is under review and the revised policy will be presented to the Board in the fiscal 2019 third quarter.	FY 2019 3rd Quarter
18-16	Audit Report 18001 Issued: June 14, 2018 Title: Business and Travel Expenses Department: AUTHORITY MANAGEMENT	Medium	Authority business and travel expense Policies need to be revised and strengthened. Authority Management should consider a thorough review of the Policies to ensure the requirements are practical, consistent, and do not become too detailed with procedures. A strong business and travel expense procedures guide should be developed to cover the actual execution of the Policy requirements.	Authority Management is currently revising Authority Policies which are planned to be provided to the Board for review and comment in FY19 3rd Quarter. Once reviewed, the Policies can be approved and rolled out.	FY 2019 3rd Quarter
18-17	Audit Report 18001 Issued: June 14, 2018 Title: Business and Travel Expenses Department: AUTHORITY MANAGEMENT	Medium	Authority Management should consider eliminating the use of travel advances due to the issues noted. Additionally, Authority Management should institute a Policy whereby employees that don't follow travel advance requirements are prohibited from obtaining advances for at least one (1) year.	Authority Management is currently revising Authority Policies which are planned to be provided to the Board for review and comment in FY19 3rd Quarter. Once reviewed, the Policies can be approved and rolled out.	FY 2019 3rd Quarter

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Status as of September 30, 2018	Estimated Completion
In Progress					
18-18	Audit Report 18001 Issued: June 14, 2018 Title: Business and Travel Expenses Department: AUTHORITY MANAGEMENT	Medium	Authority Management should institute procedures to ensure that advances are issued in accordance with the Travel Advance procedures and are not issued more than seven days before travel. Alternately, Policies 3.30 and 3.40 could be amended to specify how many days prior to travel an employee can be issued a travel advance. Under IRS guidance, travel advances exceeding 30 days are in excess of a reasonable period of time, are to be treated as being paid under a non-accountable plan, and are to be reported as wages to the employee.	Authority Management is currently revising Authority Policies which are planned to be provided to the Board for review and comment in FY19 3rd Quarter. Once reviewed, the Policies can be approved and rolled out.	FY 2019 3rd Quarter
18-19	Audit Report 18001 Issued: June 14, 2018 Title: Business and Travel Expenses Department: AUTHORITY MANAGEMENT	Medium	Authority Management should consider including a limit on expenses that can be approved by an Administrator. Expenses, such as airfare, over a certain dollar threshold should require Executive Management approval. This would ensure that the Executive Management is involved in the process of verifying that each expense that is unusual in amount is reasonable, necessary, directly related to the Authority's business, and adequately supported.	Authority Management is currently revising Authority Policies which are planned to be provided to the Board for review and comment in FY19 3rd Quarter. Once reviewed, the Policies can be approved and rolled out.	FY 2019 3rd Quarter

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Status as of September 30, 2018	Estimated Completion
In Progress					
18-20	Audit Report 18001 Issued: June 14, 2018 Title: Business and Travel Expenses Department: AUTHORITY MANAGEMENT	Medium	Authority Management should consider changing Authority Policy 3.40 to require employees to use the per diem rates set each year by the GSA for meals. Amending the Policy to reimburse employees based on GSA rates would reduce staff time in processing reports, limit meal reimbursement amounts, and eliminate any supporting documentation issues related to meals. In our opinion, it is not reasonable to require GSA rates for hotels, due to issues such as conference locations and lack of hotel vacancies. However, the GSA rates should be used as a guide and Authority Management should consider requiring preapproval of hotel costs that exceed the GSA or conference rates for hotels for domestic travel destinations, and the Department of State rates for hotels for international destinations.	Authority Management is currently revising Authority Policies which are planned to be provided to the Board for review and comment in FY19 3rd Quarter. Once reviewed, the Policies can be approved and rolled out.	FY 2019 3rd Quarter
19-02	Audit Report 18020 Issued: July 30, 2018 Title: Signature Flight Support Department: BUSINESS AND FINANCIAL MANAGEMENT	Medium	Business Management should work with Signature Management to ensure that the future Gateway Program investments are made in accordance with the Lease, or amend the Lease as needed.	We are working with Signature to ensure that the investment is being used appropriately. We are also considering amending the lease to provide more flexibility.	FY 2019 3rd Quarter

ITEM 4

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INTERNATIONAL AIRPORT
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Fiscal Year 2019
First Quarter Activities Report and Audit Recommendations Issued by the Office of the Chief Auditor

July 1, 2018 through September 30, 2018

Audit Committee Meeting
November 5, 2018

Presentation Overview

Annual Report

- Audit Activities
- Recommendation Follow-up
- Performance Measures
- Summary of Ethics Inquiries

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Audit Activities

- Completed 3 audits during First Quarter
- Audit Results
  - Issued 3 recommendations during the quarter
- 15 additional projects in progress as of September 30, 2018
  - 3 audits in the reporting phase

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Audits in Progress as of September 30, 2018

Audit	Type of Audit	Status as of Nov 5, 2018
Concession Cost Recovery	Business Process	Fieldwork
Turner - PCL Joint Venture	Business Process	Reporting
Granite Construction Company	Expense Contract	Fieldwork
Leigh Fisher & Associates	Expense Contract	Fieldwork
Ace Parking Management, Inc.	Expense Contract	Reporting
Asset Management	Business Process	Reporting
Emergency Medical Technician - Paramedic Services	Annual Ongoing/Support	Fieldwork
Fox Rent A Car	Revenue Contract	Fieldwork
Pneuma Enterprises Inc. dba TravCar	Revenue Contract	Fieldwork
New Zoom Inc. dba ZoomSystems (RP 6)	Revenue Contract	Fieldwork
Nevada Lease and Rental Inc. dba Payless Car Rental System	Revenue Contract	Reporting
San Diego Unified Port District Billing - Fiscal Year 2017	Annual Ongoing/Support	Reporting
Small Business Development	Business Process	Fieldwork
Ethics Program	Annual Ongoing/Support	Ongoing
Construction Audit and Monitoring Activity	Annual Ongoing/Support	Ongoing

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Recommendation Follow-Up

Status as of September 30, 2018

Completed	In Progress	Not Accepted	Tracked
10	11	0	21

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Status of Recommendations with Estimated Implementation Timeframe

Estimated Completion Timeframe	Zero to 6 Months	7 Months to 1 Year	Over 1 Year	Total
In Progress	0	9	2	11

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Fiscal Year 2019 Performance Measures

Performance Measure	Goal	Progress
Percentage of the Audit Plan completed annually	20%	8%
Additional revenue/cost savings identified through audits	n/a	$69,541
Percentage of staff time spent on audit activities	70%	59%
Percentage of audits completed within budgeted time	80%	0%
Recommendations Accepted by Management	95%	100%
Customer Satisfaction	4.0	5.0

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Summary of Ethics Inquiries

July 1, 2018, through September 30, 2018

	Number of Tips / Reports Received	Preliminary Investigation Required	Full Investigation Initiated	Investigation Results Supported Code Violation (Ethics or Workplace)	Response (email or phone to non-anonymous reports)
Code of Ethics Concerns					
Prohibited Use of Position	1	1	0	0	0
General Workplace Concerns					
Workplace Practices/Behavior	5	0	0	0	0
Total	**6**	**1**	**0**	**0**	**0**

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QUESTIONS?

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SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY

Item No.
5

AUDIT COMMITTEE

Meeting Date: **NOVEMBER 5, 2018**

Subject:

Selection of an Independent Assessor to Perform a Quality Assessment Review of the Office of the Chief Auditor

Recommendation:

Provide direction to staff.

Background/Justification:

The Charter of the Audit Committee was first established on October 2, 2003, per Board Resolution No. 2003-061. Subsequent revisions incorporated procedural updates and relevant sections of the Public Utilities Code, and ensured that current operational practices were reflected. The most recent revision to the Audit Committee Charter took place on October 4, 2018, per Board Resolution No. 2018-0116. As stated in the Charter, a requirement of the Audit Committee's oversight function is to ensure that the Office of the Chief Auditor (OCA) has an external Quality Assurance Review (QAR) performed.

The Charter for the Office of the Chief Auditor, as approved by the Board per Resolution 2018-0117, dated October 4, 2018, requires the OCA to maintain a quality assurance and improvement program that includes an evaluation of the OCA's conformance with the Institute of Internal Auditor (IIA) *Standards.* The OCA's quality assurance and improvement program requires that a QAR be conducted at least every five years by a qualified, independent, assessor or assessment team from outside the organization to determine if the OCA conforms to the *Standards*.

The Association of Local Government Auditors (ALGA) conducted the previous external QAR in 2014 covering the period July 1, 2008, thru June 30, 2013. ALGA is a professional organization committed to supporting and improving local government auditing through advocacy, collaboration, education, and training, while upholding and promoting the highest standards of professional ethics. ALGA is comprised of audit groups from various government jurisdictions throughout the United States. As of February 2017, ALGA has performed over 500 peer reviews and currently averages 45 reviews each year.

The QAR for the period July 1, 2013, thru June 30, 2018, is currently due. The OCA considers that ALGA's high standards, promotion of collaborative support between government agencies, and professionalism in auditing, supports its recommendation that ALGA perform the required QAR.

The OCA has determined that ALGA can provide this service in a cost effective manner. ALGA's requirements and related costs to the Authority for the QAR would include:

- Travel expenses for the QAR team (including but not limited to hotel, airfare, local transportation, and meal per diem). There are typically three (3) people on a QAR team.
- Reciprocal provision that requires the OCA to volunteer its audit staff to serve on future QAR peer reviews in other organizations (three auditors to serve anytime within a five-year period).

Fiscal Impact:

Estimated cost for expenses is $10,000, and will be incurred on the line item for professional services in the OCA 2019 Fiscal Year Budget. The QAR cost, although not originally included in the OCA 2019 Fiscal Year Budget, is anticipated to be covered with other cost savings within the department. Finance has been informed of the cost of the QAR services.

Authority Strategies:

This item supports one or more of the Authority Strategies, as follows:

☒ Community Strategy ☐ Customer Strategy ☐ Employee Strategy ☒ Financial Strategy ☒ Operations Strategy

Environmental Review:

A. CEQA: This Board action is not a project that would have a significant effect on the environment as defined by the California Environmental Quality Act ("CEQA"), as amended. 14 Cal. Code Regs. §15378. This Board action is not a "project" subject to CEQA. Cal. Pub. Res. Code §21065.

B. California Coastal Act Review: This Board action is not a "development" as defined by the California Coastal Act. Cal. Pub. Res. Code §30106.

Application of Inclusionary Policies:

Not applicable

Prepared by:

LEE M. PARRAVANO
CHIEF AUDITOR

ITEM 5

Selection of an Independent Assessor to Perform a Quality Assessment Review of the Office of the Chief Auditor

Audit Committee Meeting

November 5, 2018

Purpose of a QAR

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QAR Requirement

Audit Committee Charter

Charter of the OCA

IIA *Standards*

Requirement:

Must be conducted at least every 5 years by a qualified independent assessment team.

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Prior QARs

Must be conducted at least every 5 years

2008

Assessor:
KMJ Corporation

2013

Assessor:
ALGA

2018

Assessor:
TBD

Review Period: 7/1/13-6/30/18

ALGA Qualifications

500
QARs Performed

350
Organizations

2,500
Individuals

Requirement:

Assessor must be Qualified & Independent

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QAR Costs & Commitment

Costs

- Reimburse QAR team travel expenses

Time Commitment

- Staff must volunteer to serve on future QAR peer review for another organization

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Questions?

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