SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY

AUDIT COMMITTEE
and
SPECIAL BOARD MEETING *

AGENDA

Monday, November 4, 2019
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: 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 Committee.

NEW BUSINESS:

1. **APPROVAL OF MINUTES:**
RECOMMENDATION: Approve the minutes of the May 13, 2019, regular meeting.

2. **FISCAL YEAR 2019 ANNUAL REPORT FROM THE AUDIT COMMITTEE:**
RECOMMENDATION: Staff recommends that the Audit Committee review this item and forward it to the Board with a recommendation for acceptance.
Presented by: Paul Robinson, Audit Committee Chair

3. **EXTERNAL AUDITOR'S FISCAL YEAR ENDED JUNE 30, 2019, 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

4. **REVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) FOR THE FISCAL YEAR ENDED JUNE 30, 2019:**
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

5. FISCAL YEAR 2019 ANNUAL REPORT FROM THE OFFICE OF THE CHIEF AUDITOR:
RECOMMENDATION: Staff recommends that the Audit Committee review this item and forward it to the Board with a recommendation for acceptance.
(Requires five (5) affirmative votes of the Audit Committee.)
Presented by: Lee Parravano, Chief Auditor

6. ANNUAL REVIEW OF THE CHARTER OF THE AUDIT COMMITTEE:
RECOMMENDATION: Information item only.
Presented by: Lee Parravano, Chief Auditor

7. ANNUAL REVIEW OF THE CHARTER FOR THE OFFICE OF THE CHIEF AUDITOR:
RECOMMENDATION: Information item only.
Presented by: Lee Parravano, Chief Auditor

8. AMEND AUTHORITY POLICY 1.50 – GOVERNANCE AND COMMITTEES:
RECOMMENDATION: Staff recommends that the Audit Committee request the Board to amend Policy 1.50 to specify the number of terms that public members may serve on the Audit Committee to two full terms, and that the current Audit Committee Public Members are allowed to serve out their current terms through to completion.
Presented by: Lee Parravano, Chief Auditor; Tony Russell, Director, Authority Clerk

9. REVISION TO THE FISCAL YEAR 2020 AUDIT PLAN OF THE OFFICE OF THE CHIEF AUDITOR:
RECOMMENDATION: Staff recommends that the Audit Committee accept the revised audit plan and forward it to the Board with a recommendation for approval.
(Requires five (5) affirmative votes of the Audit Committee.)
Presented by: Lee Parravano, Chief Auditor

10. FISCAL YEAR 2020 FIRST QUARTER REPORT FROM THE OFFICE OF THE CHIEF AUDITOR:
RECOMMENDATION: Staff recommends that the Audit Committee forward this item to the Board with a recommendation for acceptance.
Presented by: Lee Parravano, Chief Auditor

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 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.
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.
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 SDCRAA Building by using public transit via the San Diego Metropolitan Transit System, Route 992. For route and fare information, please call the San Diego MTS at (619) 233-3004 or 511.

ITEM 1

DRAFT

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
AUDIT COMMITEE MEETING
MINUTES
MONDAY, May 13, 2019
BOARD ROOM

CALL TO ORDER: Chair Robinson called the Audit Committee Meeting to order at 10:06 a.m., on Monday, May 13, 2019, 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), Schiavoni, Tartre, West

Absent: Committee Members: Van Sambeek

Also Present: Kimberly Becker, President/CEO; Amy Gonzalez, General Counsel; Linda Gehlken, Assistant Authority Clerk I; Deborah Harrington, Assistant Authority Clerk II

NON-AGENDA PUBLIC COMMENT:

KAMRAN HAMIDI, SAN DIEGO, provided a presentation and spoke about new technology for taxi providers to display payment information.

NEW BUSINESS:

1. **APPROVAL OF MINUTES:**
RECOMMENDATION: Approve the minutes of the February 11, 2019, regular meeting and the March 25, 2019, special meeting.

ACTION: Moved by Board Member West and seconded by Board Member Schiavoni to approve the minutes of February 11, 2019. Motion carried unanimously, noting Committee Member Van Sambeek as ABSENT and Committee Member Hollingworth and Board Member Lloyd's ABSTENTION.

ACTION: Moved by Board Member West and seconded by Board Member Schiavoni to approve the minutes of March 25, 2019. Motion carried unanimously, noting Committee Member Van Sambeek as ABSENT and Committee Members Hollingworth and Tartre's ABSTENTION.

2. REQUIRED COMMUNICATION TO THE AUDIT COMMITTEE ON THE FINANCIAL AND COMPLIANCE AUDITS FOR THE FISCAL YEAR ENDED JUNE 30, 2019:

David Coleman, Partner, BKD, LLP, provided a presentation on the required communication to the Audit Committee on the Financial and Compliance Audits for the Fiscal Year ended June 30, 2019, that included the Engagement Team; Overview; Planned Scope; Planned Timing; Approach to Planning; Revisions to Professional Standards; and Consideration of Errors or Fraud.

In response to concern expressed by Committee Member Hollingworth regarding the lack of an opinion provided by BKD on internal controls, Mr. Coleman stated that the Authority is not required to obtain an opinion on internal controls. He stated that the Audit Committee would be informed if there were concerns, and will provide additional information to the Committee regarding the internal control testing performed.

In response to Board Member Schiavoni's inquiry regarding the external auditor partner rotation, Kathy Kiefer, Senior Director, Finance & Asset Management, stated that a new partner will be introduced at the November 2019 Audit Committee meeting and that at the first 2020 meeting of the Audit Committee, there will be a discussion on who the partner staffing will be.

RECOMMENDATION: Staff recommends that the Audit Committee forward this item to the Board for information.

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

3. RESULTS FROM THE QUALITY ASSESSMENT REVIEW OF THE OFFICE OF THE CHIEF AUDITOR:

Lee Parravano, Chief Auditor, and Paula Ward, CPA, Association of Local Government and Auditors (ALGA), provided a presentation on the results from the Quality Assessment Review (QAR) of the Office of the Chief Auditor that included: Purpose of a QAR; QAR Requirements; QAR Team; QAR Testing Timeline; QAR Results; QAR Strengths Identified; and QAR Observations.

In response to Committee Member Tartre regarding when a review of staff efficiencies gets performed, Ms. Ward stated that would need to be a separate consulting engagement, and noted the QAR observations have already been addressed and corrected by the Office of the Chief Auditor.

Lee Parravano, Chief Auditor, stated that staff would provide the Committee with information from the Association of Local Government Auditors (ALGA) Survey.

In response to Board Member West regarding what improvements to the internal audit process are planned, Mr. Parravano stated that staff will perform peer reviews in exchange for this QAR, and will determine whether there are process improvements that can be incorporated into the audit programs.

In response to Board Member Schiavoni's inquiry on optimal time for considering another peer review assessment efficiency audit, Ms. Ward provided her opinion that two years should be allowed, to give sufficient time under the new Chief Auditor.

RECOMMENDATION: Staff recommends that the Audit Committee forward this item to the Board for information.

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 as ABSENT.

4. FISCAL YEAR 2019 THIRD QUARTER ACTIVITY REPORT AND AUDIT RECOMMENDATIONS ISSUED BY THE OFFICE OF THE CHIEF AUDITOR:
Fred Bolger, Manager, Audit Services, presented the Fiscal Year 2019 Third Quarter Activity Report and Audit Recommendations that included the Fiscal Year 2019 Performance Measures; Audit Plan Completion – Projects; Audit Plan Completion – Hours; Revenue/Savings Identified; Auditor Utilization; Project Budgets; Recommendation Acceptance; Recommendation Follow-Up; Customer Satisfaction, and Summary of Ethics Inquiries.

In response to Committee Member Tartre regarding the financial cost when audits are over budget, the benefit relative to the hours spent on the audits; and, whether there is a plan to address the backlog of audits to be performed going into the next fiscal year, Lee Parravano, Chief Auditor, stated that the number of staff hours spent on an audit depends on the nature of the audit and the subject risk. He stated that steps have been taken to implement a Risk and Control Matrix as a way to identify the audit scope and to standardize the steps for an audit plan to be conducted.

Board Member West recommended that staff review the questions in the Customer Satisfaction Survey and reduce the number asked, to make it more meaningful.

RECOMMENDATION: Staff recommends that the Audit Committee forward this item to the Board for information.

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

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

Lee Parravano, Chief Auditor, provided a presentation on the reasons for the revision to the Fiscal Year 2019 Audit Plan that included the requirement to reflect the change in responsibilities of the Aircraft Rescue and Fire Fighting Billings audit and the San Diego Unified Port District Billings audit, and to reflect the request from the Accounting Department for training on the reconciliation process.

RECOMMENDATION: Staff recommends that the Audit Committee accept the revised audit plan and forward it to the Board with a recommendation for approval.

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

6. FISCAL YEAR 2020 RISK ASSESSMENT AND PROPOSED AUDIT PLAN OF THE OFFICE OF THE CHIEF AUDITOR:

Lee Parravano, Chief Auditor, provided a presentation on the Fiscal Year 2020 Risk Assessment and Proposed Audit Plan of the OCA that included Risk Assessment Methodology; Risk Assessment Framework; Definition of the Audit Universe; Identifying and Ranking Risks; Interpreting the Risk Assessment Results; and Audit Plan Development.

Committee Member Hollingworth suggested being mindful of the overhead costs charged to the Authority by other agencies, to minimize potential cost overruns.

Lee Parravano, Chief Auditor, stated that staff plans to utilize what other agencies have included in their billings, for further review and to analyze potential errors noted or areas of concern.

In response to concern expressed by Chair Robinson regarding the City Fire Department staff overhead costs, Kim Becker, President/CEO, noted that the fire department charges a blended rate for firefighters and officers working at the Airport.

Board Member West recommended there be a tracking process on the overhead charges.

In response to Committee Member Tartre on the Risk Assessment Process, Mr. Parravano stated that staff identifies the higher risk audits to make best use of how audit hours are spent.

In response to Committee Member Tartre regarding percentage of proposed administrative staff time, Mr. Parravano noted that the administrative time hours includes vacation and hours allocated to utilizing data analytics. He stated that staff is developing procedures to improve the audit process.

RECOMMENDATION: Staff recommends that the Audit Committee accept the proposed audit plan and forward it to the Board with a recommendation for approval.

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

7. FISCAL YEAR 2020 PROPOSED BUDGET OF THE CHIEF AUDITOR AND FISCAL YEAR 2021 PROPOSED CONCEPTUAL BUDGET EXPENSE SUMMARY:

Lee Parravano, Chief Auditor, provided information on the Fiscal Year 2020 Proposed Budget and Fiscal Year 2021 Proposed Conceptual Budget Expense Summary.

In response to Committee Member Tartre regarding the increase in benefit expenses listed in FY2018 to FY2019, Scott Brickner, Vice President/CFO, noted that the increase in benefits is primarily related to an increase in the retirement mortality rate benefit. He stated that there is a chance that the cost of the retirement benefit may decrease in the future due to the change in retirement benefits for employees hired after 2013.

Committee Member Tartre requested that more information on the benefit expenses be provided next year.

RECOMMENDATION: Staff recommends that the Audit Committee accept the proposed budget and forward it to the Board as part of the Authority's Fiscal Year 2020 Budget process with a recommendation for approval.

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

CLOSED SESSION: The Committee recessed into Closed Session at 11:38 a.m. to discuss Item 8.

8. PUBLIC EMPLOYEE PERFORMANCE EVALUATION:

(Government Code Section 54957)
Title: Chief Auditor

REPORT ON CLOSED SESSION: The Committee adjourned out of Closed Session at 12:45 p.m. There was no reportable action.

COMMITTEE MEMBER COMMENTS: None. **ADJOURNMENT:** The meeting adjourned at 12:45 p.m.

APPROVED BY A MOTION OF THE AUDIT COMMITTEE OF THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY THIS 9TH DAY OF SEPTEMBER, 2019.

____
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 4, 2019**

Subject:

Fiscal Year 2019 Annual Report from the Audit Committee

Recommendation:

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

Background/Justification:

The Audit Committee's authority, role, duties, and oversight responsibilities are presented in the Charter of the Audit Committee and further detailed in Authority Policy Article 1, Section 1.50 (5)(c)(ii).

The Charter of the Audit Committee was instituted by Board Resolution No. 2003-061 on October 2, 2003, and was most recently revised by Board Resolution No. 2018-0116 on October 4, 2018.

In accordance with the Charter of the Audit Committee, the Committee shall annually provide a summary of its activities and recommendations to the Board covering how it discharged its duties and met its oversight responsibilities during the previous year.

The Audit Committee's Annual Report for the period July 1, 2018, through June 30, 2019, is presented for review as Attachment A.

Any revisions requested by the Audit Committee during its November 4, 2019, meeting will be incorporated prior to the report's submittal to the Board.

Fiscal Impact:

None

Authority Strategies/Focus Areas:

This item supports one or more of the following *(select at least one under each area)*:

Strategies

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

Focus Areas

☐ Advance the Airport Development Plan ☐ Transform the Customer Journey ☒ Optimize Ongoing Business

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

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

ATTACHMENT A

November 4, 2019

April Boling, Chairman
San Diego County Regional Airport Authority
P.O. Box 82776
San Diego, CA 92138-2776

Dear. Ms. Boling:

This communication is the Audit Committee's Fiscal Year 2019 Annual Report detailing activities and duties performed by the Audit Committee for the period July 1, 2018, through June 30, 2019.

Six Audit Committee Meetings were held during Fiscal Year 2019. The meeting minutes for these public sessions are on file with the San Diego County Regional Airport Authority (Authority) Clerk's office and may also be found on the San Diego International Airport website www.san.org. The Audit Committee Meetings that took place in Fiscal Year 2019 are listed below.

- September 10, 2018 – *Regular Meeting*
- November 5, 2018 – *Regular Meeting*
- November 5, 2018 – *Special Meeting (Audit Committee Training)*
- February 11, 2019 – *Regular Meeting*
- March 25, 2019 – *Special Meeting (Process and Selection of the External Auditor)*
- May 13, 2019 – *Regular Meeting*

Fiscal Year 2019 began the first full year for Mr. Lee Parravano as the new Chief Auditor. Lee joined the Authority on April 4, 2018. During Fiscal Year 2019, an examination of adherence to Authority Codes and Policies, Charters, *IIA Standards*, regulations, and procedure manuals, etc., not only covered the Office of the Chief Auditor (OCA), but encompassed a thorough examination of the Charter of the Audit Committee. As a result, the Audit Committee performs its responsibilities with a renewed confidence that was provided as a result of this work, and the corresponding revisions to procedures, to align with best practices.

Of note, on November 5, 2018, the Audit Committee was provided with training presented by the accounting firm BKD, LLP, which was designed to increase the Audit Committee's knowledge on effective Audit Committee practices. Due to the significant role that the Audit Committee has in monitoring and reducing risk to the Authority, offering periodic training is a practice that will be made routine going forward.

A review of the Authority's audited financials is an important part of the Audit Committee's responsibilities. The Authority's financial audit for Fiscal Year Ended June 30, 2018, was performed by BKD, LLP. The following audited financial reports were presented by BKD, LLP, on November 5, 2018, to the Audit Committee:

- Audited Financial Statements
- Compliance (single audit) Report
- Passenger Facility Charge (PFC) Compliance Report
- Customer Facility Charge (CFC) Compliance Report
- Report to the Audit Committee
- 2018 Comprehensive Annual Financial Report (CAFR)

The Audit Committee understands the execution of Authority operations, in part, through the audits performed by the OCA. During Audit Committee Meeting open discussions the Committee reviewed 29 audit reports issued by the OCA and 35 recommendations provided to Authority management in Fiscal Year 2019.

On May 13, 2019, the Audit Committee received the results of the Quality Assessment Review of the OCA for the five (5) year period from July 1, 2013, through June 30, 2018. This external quality assessment evaluated the OCAs conformance with internal audit *Standards*. The external quality assessment determined that the OCA is providing reasonable assurance of compliance with the *Standards*. This is the highest level of conformance an internal audit function can achieve.

The Audit Committee obtains assurance with respect to the adequacy and effectiveness of the Authority's internal controls, including the Authority's responsiveness to risks within its Information Technology (IT) system of networks and systems. The Audit Committee has received updates and information from the Chief Auditor, certain IT staff, and Authority management regarding IT related matters.

Additionally, the Audit Committee reviewed, approved, or received as information, the following reports and presentations during Fiscal Year 2019:

- Fiscal Year 2018 Annual Report of the OCA
- Fiscal Year 2019 Quarterly Reports and corresponding audit recommendations
- OCA Audit Reports issued during Fiscal Year 2019, totaling 29
- OCA Recommendations issued during Fiscal Year 2019, totaling 35
- Revisions to the Fiscal Year 2019 OCA Audit Plan
- Fiscal Year 2020 Risk Assessment, Audit Plan, and Proposed Budget for the OCA
- Cybersecurity Updates
- Ethics Program and Confidential Hotline Updates
- Public Employee Performance Evaluation Goal Setting for the Chief Auditor

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

The Audit Committee will continue to perform its responsibilities to obtain the greatest assurance that best practices are in place throughout the Authority and are being practiced.

Sincerely,

Paul Robinson
Audit Committee Chair

PR/LP/sro

cc: SDCRAA Board Members
SDCRAA Audit Committee Members
Kimberly J. Becker, President/CEO

SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY

Item No.
3

AUDIT COMMITTEE

Meeting Date: **NOVEMBER 4, 2019**

Subject:

External Auditors Fiscal Years Ended June 30, 2019 Report: A) Audited Financial Statements, B) Single Audit Reports, C) Passenger Facility Charges 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 (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 annual reports, and 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 April 4, 2019, the Board adopted Resolution No. 2019-0035, 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 4, 2019, the Authority's external auditor, BKD, LLP, will present the fiscal year ended June 30, 2019, 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 2020 and conceptually approved Fiscal Year 2021 Operating Expense Budgets within the Accounting Department, Services – Auditing line item.

Authority Strategies/Focus Areas:

This item supports one or more of the following *(select at least one under each area)*:

Strategies

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

Focus Areas

☒ Advance the Airport Development Plan ☐ Transform the Customer Journey ☒ Optimize Ongoing Business

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, ACCOUNTING AND AIRLINE RELATIONS

Attachment A

San Diego County Regional Airport Authority

Financial Statements

For the Fiscal Years Ended

June 30, 2019 and 2018

San Diego County Regional Airport Authority

June 30, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018, 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.

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 7, 2019

Management's Discussion and Analysis

For The Years Ended June 30, 2019 and 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).

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 (2017 – 2019)

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 2017	FY 2018	**FY 2019**
Enplaned passengers	10,596,483	11,731,559	**12,356,286**
% increase	3.8%	10.7%	**5.3%**
Total passengers	21,140,067	23,433,018	**24,691,673**
% increase	3.6%	10.8%	**5.4%**
Aircraft operations	201,011	218,671	**228,092**
% increase (decrease)	3.9%	8.8%	**4.3%**
Freight and mail (in tons)	188,607	191,347	**186,469**
% increase	1.6%	1.5%	**-2.5%**
Landed weight (in thousands)	12,616	13,770	**14,481**
% increase	4.7%	9.1%	**5.2%**

Overall, the strong economy is reflected in the FY 2019 Airport Activities results at SDIA. There was a substantial increase in enplaned passengers in fiscal year 2019 of 5.3 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 .9 percent in 2017, was followed by a larger 3.4 percent increase in 2018, and was followed by another large increase of 5.4 percent in 2019. The following is a summary of the statements of revenues, expenses and changes in net position (in thousands):

	FY 2017	FY 2018	**FY 2019**
Operating revenues	$ 248,847	$ 266,079	**$ 293,679**
Operating expenses	(258,955)	(274,651)	**(301,548)**
Nonoperating revenues, net	15,428	21,528	**43,033**
Capital contributions and grants	1,904	13,079	**8,213**
Increase (decrease) in net position	7,224	26,035	**43,377**
Net position, beginning of year	775,949	783,173	**809,925**
Prior-period adjustment GASB 68	-	717	**-**
Net position, end of year	$ 783,173	$ 809,925	**$ 853,302**

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 75 caused prior-period adjustments in fiscal year 2018. The cumulative changes in accounting for post-retirement benefits liabilities are reflected in these adjustments.

FINANCIAL HIGHLIGHTS

Operating Revenues (in thousands)

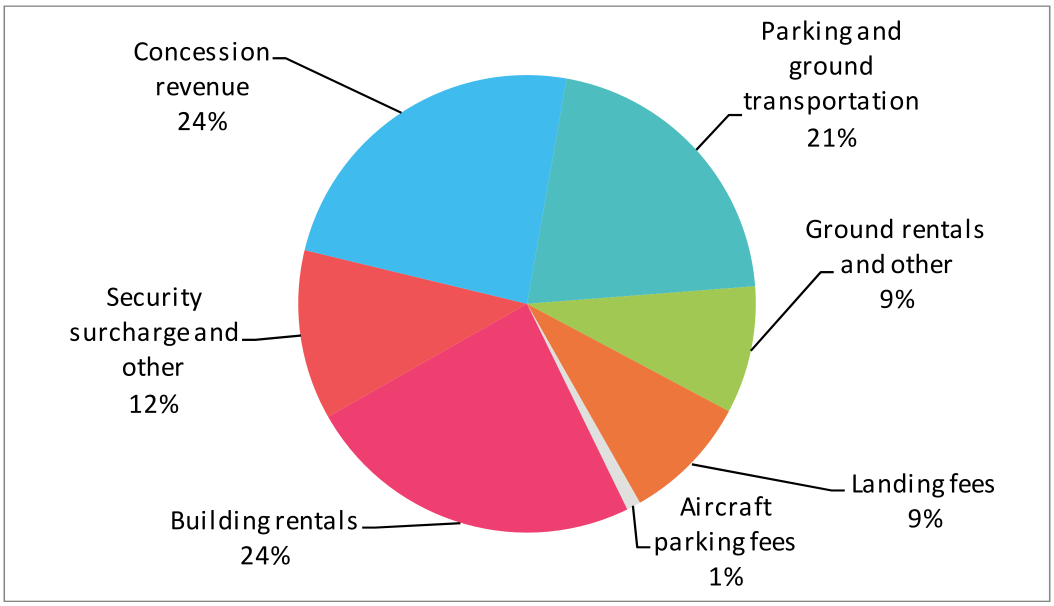
	FY 2018	FY 2019	From 2018 to 2019 Increase (Decrease)	From 2018 to 2019 % Change
Airline revenue:				
Landing fees	$ 23,900	**$ 24,816**	$ 916	3.8%
Aircraft parking fees	3,236	**3,471**	235	7.3%
Building rentals	62,241	**70,912**	8,671	13.9%
Security surcharge	32,303	**33,559**	1,256	3.9%
Other aviation revenue	1,477	**1,596**	119	8.1%
Total airline revenue	123,157	**134,354**	11,197	9.1%
Concession revenue	65,610	**71,256**	5,646	8.6%
Parking and ground transportation revenue	53,254	**62,818**	9,564	18.0%
Ground rentals	22,109	**22,810**	701	3.2%
Other operating revenue	1,949	**2,441**	492	25.2%
Total operating revenue	$ 266,079	**$ 293,679**	$ 27,600	10.4%

	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	1,949	199	11.4%
Total operating revenue	$ 248,847	$ 266,079	$ 17,232	6.9%

***Fiscal year 2019 compared to 2018**:* Total airline revenues increased by $11.2 million, or 9.1 percent, primarily due to an increased cost recovery for the airlines which was higher in fiscal year 2019, compared to 2018. Landing fees increased by $916 thousand or 3.8 percent due to higher airfield-related costs. Aircraft parking fees increased by $235 thousand or 7.3 percent due to additional overnight aircraft parking positions, with the increased service from Alaska Airlines. Building rentals increased by $8.7 million or 13.9 percent due to increased cost recovery from airline rents, higher exclusive use square footage and higher employee shuttle services expenses. Security surcharge increased by $1.3 million or 3.9 percent, primarily due to increased terminal security charges by the Harbor Police increased wages and benefits. Other aviation revenue increased by $119 thousand or 8.1 percent, mostly due to the recovery of higher common use cost charges. Concession revenue increased by $5.6 million or 8.6 percent, reflecting increased enplanements. Parking and ground transportation increased by $9.6 million or 18 percent, due to higher enplanements, a full year of our new Terminal 2 Parking Plaza and higher trip fees from transportation network companies due to increased transactions. Ground and non-airline terminal rentals increased by $701 thousand or 3.2 percent. This increase was primarily due to scheduled CPI rent increases. Other operating revenue increased by $492 thousand or 25.2 percent, primarily due to two new revenue sources; telecom services offered to terminal tenants and revenue generated by the Innovation Lab.

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. Other operating revenue increased by $199 thousand or 11.4 percent, primarily due to an increase in planning grant funding.

San Diego County Regional Airport Authority
Fiscal Year Ended June 30, 2019
Operating Revenues



Operating Expenses (in thousands)

	FY 2018	**FY 2019**	From 2018 to 2019 Increase (Decrease)	From 2018 to 2019 % Change
Salaries and benefits	$ 47,866	**$ 49,578**	$ 1,712	3.6%
Contractual services	45,249	**49,903**	4,654	10.3%
Safety and security	30,733	**31,397**	664	2.2%
Space rental	10,190	**10,191**	1	0.0%
Utilities	12,509	**13,194**	685	5.5%
Maintenance	12,603	**13,436**	833	6.6%
Equipment and systems	598	**375**	(223)	(37.3%)
Materials and supplies	655	**656**	1	0.2%
Insurance	1,098	**1,200**	102	9.3%
Employee development and support	1,248	**1,045**	(203)	(16.3%)
Business development	3,246	**2,630**	(616)	(19.0%)
Equipment rentals and repairs	3,124	**3,614**	490	15.7%
Total operating expenses before depreciation	169,119	**177,219**	8,100	4.8%
Depreciation	105,532	**124,329**	18,797	17.8%
Total operating expense	$ 274,651	**$ 301,548**	26,897	9.8%

	FY 2017	FY 2018	From 2017 to 2018 Increase (Decrease)	From 2017 to 2018 % 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	655	44	7.2%
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	169,119	5,393	3.3%
Depreciation	95,229	105,532	10,303	10.8%
Total operating expense	$ 258,955	$ 274,651	$ 15,696	6.1%

Fiscal year 2019 compared to 2018: Total fiscal year 2019 operating expenses increased by $26.9 million or 9.8 percent. Salaries and benefits increased by $1.7 million or 3.6 percent, due to planned wage and benefit increases, higher overtime and increased head count. Contractual services increased by $4.7 million or 10.3 percent, mainly due to higher expenses in shuttle services, janitorial services, and temporary services. Safety and security increased by $664 thousand or 2.2 percent due to increased salaries and benefits for law enforcement and emergency services. Utilities increased by $685 thousand or 5.5 percent, due to higher usage as a result of the increase in total passengers. Maintenance expenses increased $833 thousand, or 6.6 percent, due to replacement of carpet in Terminal 1, and retrofitting electronic signs to LED. Insurance increased by $102 thousand or 9.3 percent, primarily due to larger terminal square footage with the completion of the Federal Inspection Station.

Equipment rentals and repairs were increased by $490 thousand and 15.7 percent, due to expanded IT computers, office equipment, repairs and systems support.

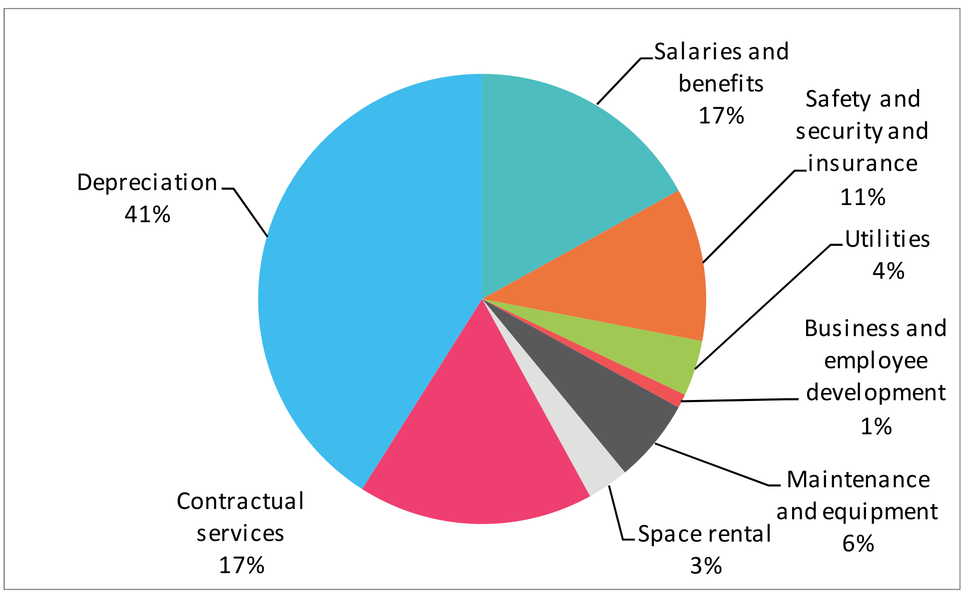
Depreciation increased by $18.8 million or 17.8 percent, due to a full year of deprecation for the Parking Plaza and international passenger area (FIS) being placed in service.

Offsetting this increase in operating expenses was the following decreases: Equipment and systems decreased by $223 thousand or 37.3 percent, mainly due to scheduled replacement of computer equipment occurred in prior year. Employee development and support decreased by $203 thousand and 16.3 percent due to more conservative approval processes. Business development decreased by $616 thousand or 19.0 percent, mainly due to decrease in sponsorship and marketing.

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.

San Diego County Regional Airport Authority
Fiscal Year Ended June 30, 2019
Operating Expenses



Nonoperating Revenues (Expenses) (in thousands)

	FY 2018	**FY 2019**	From 2018 to 2019 Increase (Decrease)	From 2018 to 2019 % Change
Passenger facility charges	$ 46,953	**$ 49,198**	$ 2,245	4.8%
Customer facility charges	41,036	**41,918**	882	2.1%
Quieter Home Program, net	(2,747)	**(3,192)**	(445)	(16.2%)
Joint studies program	(114)	**(99)**	15	13.2%
Investment income	9,426	**25,533**	16,107	170.9%
Interest expense, net	(63,745)	**(69,815)**	(6,070)	(9.5%)
Other nonoperating income (expenses)	(9,281)	**(510)**	8,771	94.5%
Nonoperating revenues, net	$ 21,528	**$ 43,033**	$ 21,505	99.9%

	FY 2017	FY 2018	From 2017 to 2018 Increase (Decrease)	From 2017 to 2018 % Change
Passenger facility charges	$ 42,200	$ 46,953	$ 4,753	11.3%
Customer facility charges	36,528	41,036	4,508	12.3%
Quieter Home Program, net	(785)	(2,747)	(1,962)	(249.9%)
Joint studies program	-	(114)	(114)	0.0%
Investment income	5,689	9,426	3,737	65.7%
Interest expense, net	(53,528)	(63,745)	(10,217)	(19.1%)
Other nonoperating income (expenses)	(14,676)	(9,281)	5,395	36.8%
Nonoperating revenues, net	$ 15,428	$ 21,528	$ 6,100	39.5%

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 1949 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 Rental Car Center (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 multi-family 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 2019, the Airport Authority has spent $216.2 million and received reimbursement for $173.8 million.

Investment Income is derived from interest earned by the Airport Authority on investments and notes receivable and unrealized gain (loss) on investments.

Interest expense includes interest paid and accrued on the Bonds, Variable Debt, and Lease Interest. For fiscal year 2018, this was 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 year ended June 30, 2018 was $7.2 million. In fiscal year 2019, the Airport Authority implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This standard requires prospective implementation which resulted in expensing of all interest costs in fiscal year 2019. As of June 30, 2019 interest expense was $80.2 million and the interest expense that was not capitalized for June 30, 2018 was $74.1 million. 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, 2019 and 2018 was $4.7 million.

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

Fiscal year 2019 compared to 2018: Nonoperating revenues (net) increased by $21.5 million or 99.9 percent. Passenger facility charges increased by $2.2 million or 4.8 percent, due to a 5.2 percent increase in enplaned passengers. Customer facility charges increased by $882 thousand or 2.1 percent, due to a corresponding increase in rental car transactions. Investment income increased by $16.1 million or 170.9 percent, due to higher investment returns. Other nonoperating expense decreased by $8.8 million or 94.5 percent, primarily due to a nonrecurring loss on disposal of capital assets related to the Terminal 2 construction projects in 2018.

The increase in nonoperating income was offset by a Quieter Home Program expenses (net) increase of $445 thousand or 16.2 percent, due to higher sound attenuation activity. Interest expense (net) was higher by $6 million or 9.5 percent, due to a full year of interest from the SE 2017 bond issuance.

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. Investment income increased by $3.7 million or 65.7 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 $5.4 million or 36.8 percent, primarily due to a decrease from loss on fixed asset disposals resulting from the new Parking Plaza in 2017.

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 SE 2017 bond issuance.

Capital Grant Contributions (in thousands)

			From 2018 to 2019	
	FY 2018	**FY 2019**	Increase (Decrease)	% Change
Federal grants	$ 13,079	**$ 8,213**	$ (4,866)	(37.2%)

			From 2017 to 2018	
	FY 2017	FY 2018	Increase (Decrease)	% Change
Federal grants	$ 1,904	$ 13,079	$ 11,175	586.9%

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 2019 capital grant contributions decreased by $4.9 million or 37.2 percent compared to fiscal year 2018. Additionally in fiscal year 2018, capital grant contributions increased by $11.2 million or 586.9 percent, compared to fiscal year 2017. This was due to the completion in 2018 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, 2017, 2018 and 2019, is as follows:

	FY 2017	FY 2018	**FY 2019**
Assets and Deferred Outflows of Resources			
Current assets	$ 191,307	$ 223,610	**$ 244,592**
Capital assets, net	1,544,909	1,704,141	**1,722,150**
Noncurrent assets	494,040	643,474	**598,156**
Total assets	2,230,256	2,571,225	**2,564,898**
Deferred outflows of resources	20,246	24,196	**26,681**
Total assets and deferred outflows of resources	2,250,502	2,595,421	**2,591,579**
Liabilities and Deferred Inflows of Resources			
Current liabilities	104,422	145,942	**131,085**
Long-term liabilities	1,361,090	1,635,326	**1,600,230**
Total liabilities	1,465,512	1,781,268	**1,731,315**
Deferred inflows of resources	1,815	4,228	**6,961**
Total liabilities and deferred inflows of resources	1,467,327	1,785,496	**1,738,276**
Net Position			
Net investment in capital assets	263,952	294,937	**281,491**
Restricted	225,088	230,954	**246,508**
Unrestricted	294,133	284,034	**325,303**
Total net position	$ 783,173	$ 809,925	**$ 853,302**

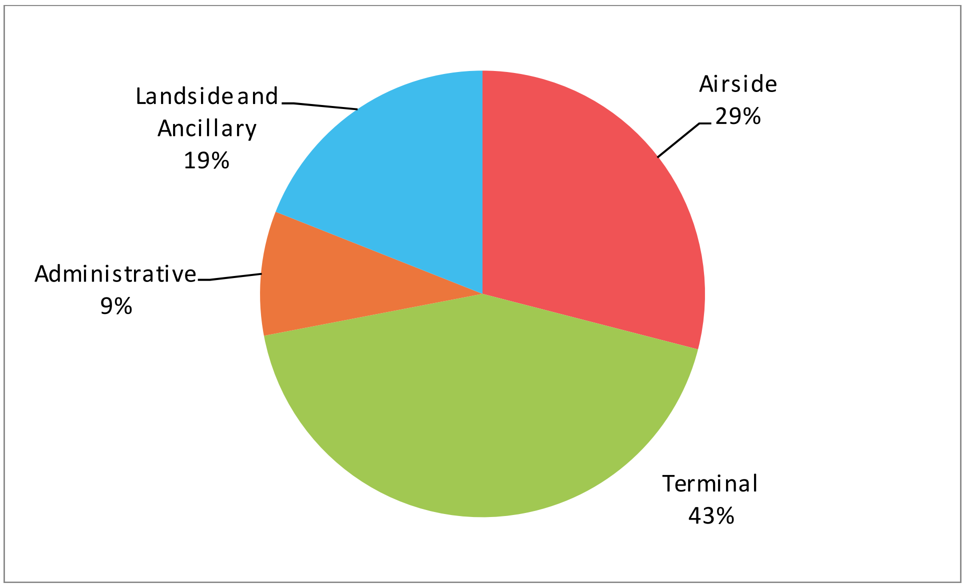
As of June 30, 2019, the Airport Authority's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $853.3 million. This reflects a $43.4 million or 5.4 percent increase in net position from June 30, 2018. The Airport Authority uses the capital assets to provide 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 $325.3 million as of June 30, 2019, may be used to meet any of the Airport Authority's ongoing obligations. As of June 30, 2019, 2018 and 2017, management has designated unrestricted funds in the amount of $26.2 million, $39.3 million, and $25.8 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 revolving lines of credit and Drawdown Bonds.

The current Capital Program, which includes projects through 2024, consists of $281.3 million for airside projects, $175.9 million for landside and ancillary projects, $415.6 million for terminal projects, and $82.6 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. Interest expense for the fiscal year ended June 30, 2019 amounted to $29.7 million, including accrued interest of $14.9 million. As of June 30, 2019, the principal balance on the subordinate Series 2010 Bonds was $527.1 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, 2019, amounted to $18.17 million, including accrued interest of $9.08 million. The principal balance on the Series 2013 Bonds as of June 30, 2019 was $371.0 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 and (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. Interest expense for the fiscal year ended June 30, 2019, amounted to $16.2 million, including accrued interest of $8.1 million. As of June 30, 2019, the principal balance on the Series 2014 Bonds was $299.7 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, 2019, amounted to $14.3 million, including accrued interest of $7.16 million. As of June 30, 2019, the principal balance on the Series 2017 was $286.3 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, 2019, the Airport Authority's outstanding debt under this agreement consists of $13.7 million of Series B (AMT).

In April of 2018 the Airport Authority established a Subordinate Drawdown Bond program with Royal Bank of Canada (RBC) Municipal Products of up to $100 million. On April 1, 2018, the Airport Authority and RBC Municipal Products agreed upon a Bondholders Agreement and on April 19, 2018, the Airport 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. As of June 30, 2019 no Subordinate Drawdown Bonds were outstanding. Subsequent to fiscal year-end 2019, on July 18, 2019 the Airport Authority made Subordinate Drawdown Bond draws of $11.1 million on Series A (Non-AMT) and $22.9 million on Series B (AMT). It is anticipated that these Subordinate Drawdown Bonds will be refunded with a future bond issuance.

The revolving line of credit and the 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.

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 February 1, 2040.

FAA entitlement and discretionary grants are awarded on a federal fiscal year running October 1 through September 30. The Airport Authority has received approximately $24.5 million in grant awards for the federal fiscal year ended September 30, 2019, as compared to $25.4 million for 2018. 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, 2019 and 2018

Assets and Deferred Outflows of Resources	2019	2018
Current Assets		
Unrestricted:		
Cash and cash equivalents (*Note 2*)	$ 10,286,307	$ 7,243,688
Investments (*Notes 2 and 11*)	124,558,161	85,690,254
Tenant lease receivables, net	12,491,101	10,837,699
Grants receivable	4,148,758	10,955,228
Note receivable, current portion (*Note 3*)	2,006,052	1,903,323
Other current assets	7,111,124	7,329,052
Total unrestricted current assets	160,601,503	123,959,244
Restricted cash, cash equivalents and investments with trustees (*Notes 2 and 5*)	83,990,603	99,650,564
Total current assets	244,592,106	223,609,808
Noncurrent Assets		
Restricted assets (*Notes 2 and 5*):		
Restricted cash, cash equivalents and investments not with trustees	205,979,093	191,304,621
Restricted investments with trustees	162,164,029	228,598,834
Passenger facility charges receivable (*Note 1*)	6,959,982	6,635,273
Customer facility charges receivable (*Note 1*)	4,339,192	4,097,757
Other restricted assets	5,315,982	5,310,167
Total restricted assets	384,758,278	435,946,652
Other noncurrent assets:		
Investments, noncurrent (*Note 2*)	157,461,822	136,796,912
Note receivable, long-term portion (*Note 3*)	29,332,710	31,338,762
Cash and cash equivalents designated for specific capital projects and other commitments (*Notes 2 and 11*)	26,208,561	39,294,169
Net OPEB asset (*Note 9*)	394,547	97,418
Total other noncurrent assets	213,397,640	207,527,261
Capital assets (*Note 4*):		
Land and land improvements	135,850,387	135,086,590
Buildings and structures	1,709,304,802	1,692,102,858
Machinery and equipment	131,172,226	112,464,060
Runways, roads and parking lots	698,595,118	646,939,284
Construction in progress	144,432,325	110,520,200
	2,819,354,858	2,697,112,992
Less accumulated depreciation	(1,097,205,313)	(992,971,931)
Capital assets, net	1,722,149,545	1,704,141,061
Total noncurrent assets	2,320,305,463	2,347,614,974
Total assets	2,564,897,569	2,571,224,782
Deferred outflows of resources		
Deferred pension outflows *(Notes 6 and 7)*	25,602,589	23,113,159
Deferred OPEB outflows *(Note 9)*	1,078,263	1,082,904
Total deferred outflows of resources	26,680,852	24,196,063
Total assets and deferred outflows of resources	$ 2,591,578,421	$ 2,595,420,845

See Notes to Financial Statements.

(Continued)

Statements of Net Position, Continued
June 30, 2019 and 2018

Liabilities, Deferred Inflows of Resources and Net Position	2019	2018
Current Liabilities		
Payable from unrestricted assets:		
Accounts payable	$ 5,671,003	$ 2,589,715
Accrued liabilities	29,101,867	28,508,254
Compensated absences, current portion (*Note 5*)	2,978,157	3,093,379
Other current liabilities	9,020,385	11,777,067
Capital leases, current portion (*Note 5*)	323,242	323,514
Total payable from unrestricted assets	47,094,654	46,291,929
Payable from restricted assets:		
Accounts payable	7,093,105	51,585
Accrued liabilities	14,798,425	37,247,974
Long-term debt, current portion (*Note 5*)	22,865,000	22,650,000
Accrued interest on variable rate debt and bonds (*Note 5*)	39,234,073	39,701,005
Total payable from restricted assets	83,990,603	99,650,564
Total current liabilities	131,085,257	145,942,493
Long-Term Liabilities		
Compensated absences, net of current portion (*Note 5*)	572,054	183,209
Other noncurrent liabilities	648,372	626,423
Long-term debt, net of current portion (*Note 5*)	1,578,980,028	1,614,294,048
Net pension liability (*Notes 6 and 7*)	20,029,343	20,222,458
Total long-term liabilities	1,600,229,797	1,635,326,138
Total liabilities	1,731,315,054	1,781,268,631
Deferred inflows of resources		
Deferred pension inflows *(Notes 6 and 7)*	6,453,432	3,685,838
Deferred OPEB inflows *(Note 9)*	507,578	541,669
Total deferred inflows of resources	6,961,010	4,227,507
Total liabilities and deferred inflows of resources	1,738,276,064	1,785,496,138
Net Position		
Net investment in capital assets (*Note 1*)	281,491,126	294,937,128
Restricted:		
Debt Service	71,952,864	71,618,324
Construction	150,466,640	135,691,506
OPEB	394,547	97,418
Operation and maintenance expenses	14,377,942	14,236,540
Small business bond guarantee	4,000,000	4,000,000
OCIP loss reserve	5,315,982	5,310,166
Total restricted net position	246,507,975	230,953,954
Unrestricted net position	325,303,256	284,033,625
Total net position	$ 853,302,357	$ 809,924,707

See Notes to Financial Statements.

Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2019 and 2018

	2019	2018
Operating revenues:		
Airline revenue:		
Landing fees	$ 24,816,308	$ 23,900,414
Aircraft parking fees	3,471,363	3,235,788
Building rentals (*Note 12*)	70,911,568	62,241,252
Security surcharge	33,558,621	32,303,267
Other aviation revenue	1,596,275	1,476,479
Concession revenue	71,256,293	65,609,858
Parking and ground transportation revenue	62,817,901	53,254,030
Ground and non-airline terminal rentals (*Note 12*)	22,810,139	22,108,637
Other operating revenue	2,440,464	1,949,405
Total operating revenues	293,678,932	266,079,130
Operating expenses before depreciation:		
Salaries and benefits (*Notes 6, 7 and 8*)	49,578,048	47,865,727
Contractual services (*Note 14*)	49,902,811	45,248,939
Safety and security	31,397,062	30,733,076
Space rental (*Note 13*)	10,190,910	10,189,836
Utilities	13,194,014	12,509,607
Maintenance	13,435,562	12,602,987
Equipment and systems	375,089	597,859
Materials and supplies	656,501	655,698
Insurance	1,199,555	1,097,868
Employee development and support	1,045,116	1,248,355
Business development	2,630,038	3,245,967
Equipment rentals and repairs	3,614,053	3,124,471
Total operating expenses before depreciation	177,218,759	169,120,390
Income from operations before depreciation	116,460,173	96,958,740
Depreciation expense	124,328,880	105,531,703
Operating loss	(7,868,707)	(8,572,963)

(Continued)

See Notes to Financial Statements.

Statements of Revenues, Expenses and Change in Net Position, Continued
For the Fiscal Years Ended June 30, 2019 and 2018

	2019	2018
Nonoperating revenues (expenses):		
Passenger facility charges	$ 49,197,716	$ 46,952,755
Customer facility charges	41,918,554	41,036,526
Quieter Home Program grant revenue (*Note 1*)	11,550,178	8,389,249
Quieter Home Program expenses (*Note 1*)	(14,742,390)	(11,135,808)
Joint Studies Program	(98,601)	(114,387)
Investment Income	25,533,268	9,426,328
Interest expense (*Note 5*)	(74,501,336)	(68,411,379)
Build America Bonds subsidy (*Note 5*)	4,686,174	4,666,190
Other revenues (expenses), net	(510,440)	(9,281,255)
Nonoperating revenue, net	43,033,123	21,528,219
Income before federal grants	35,164,416	12,955,256
Federal grants (*Note 1*)	8,213,234	13,079,164
Change in net position	43,377,650	26,034,420
Net position, beginning of year	809,924,707	783,890,287
Net position, end of year	$ 853,302,357	$ 809,924,707

See Notes to Financial Statements.

Statements of Cash Flows
For the Fiscal Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows From Operating Activities		
Receipts from customers	$ 286,895,333	$ 267,462,006
Payments to suppliers	(107,008,045)	(164,900,528)
Payments to employees	(50,553,389)	(49,265,624)
Other receipts	2,555,497	2,292,761
Net cash provided by operating activities	131,889,396	55,588,615
Cash Flows From Noncapital Financing Activities		
Settlement receipts (payments)	(1,177,331)	168,442
Quieter Home Program grant receipts	14,204,701	5,424,925
Quieter Home Program payments	(14,742,390)	(11,135,808)
Joint Studies Program payments	(98,601)	(114,387)
Net cash used in noncapital financing activities	(1,813,621)	(5,656,828)
Cash Flows From Capital and Related Financing Activities		
Capital outlay	(172,486,803)	(212,327,613)
Proceeds on Build America Bonds subsidy	4,686,174	4,666,190
Proceeds from variable rate debt	-	-
Payment of variable rate debt	(6,444,000)	(38,835,000)
Federal grants received (excluding Quieter Home Program)	12,365,181	8,442,656
Proceeds from passenger facility charges	48,873,007	46,473,100
Proceeds from customer facility charges	41,677,119	40,656,344
Payment of principal on bonds	(22,650,000)	(11,585,000)
Proceeds from issuance of Series 2017 Bonds	-	339,633,688
Payment of capital lease	(323,514)	(298,449)
Interest and debt fees paid	(80,694,774)	(67,174,633)
Net cash provided by (used in) capital and related financing activities	(174,997,610)	109,651,283
Cash Flows From Investing Activities		
Sales and maturities of investments	248,392,203	467,359,490
Purchases of investments	(240,504,726)	(625,758,198)
Interest received on investments and note receivable	25,088,046	7,015,998
Principal payments received on notes receivable	1,903,323	1,801,694
Net cash provided by (used in) investing activities	34,878,846	(149,581,016)
Net increase (decrease) in cash and cash equivalents	(10,042,989)	10,002,054
Cash and cash equivalents, beginning of year	46,537,857	36,535,803
Cash and cash equivalents, end of year	$ 36,494,868	$ 46,537,857

(Continued)

See Notes to Financial Statements.

Statements of Cash Flows, Continued
For the Fiscal Years Ended June 30, 2019 and 2018

	2019	2018
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Unrestricted cash and cash equivalents	$ 10,286,307	$ 7,243,688
Cash and cash equivalents designated for specific capital projects and other commitments	26,208,561	39,294,169
Total cash and cash equivalents	$ 36,494,868	$ 46,537,857
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	$ (7,868,707)	$ (8,572,963)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense	124,328,880	105,531,703
Change in pensions/OPEB liability/asset	(490,244)	718,394
Change in deferred outflows related to pensions/OPEB	(2,484,789)	(1,938,110)
Change in deferred inflows related to pensions/OPEB	2,733,503	2,412,067
Changes in assets and liabilities:		
Tenant lease receivables	(1,653,402)	(1,515,759)
Other assets	657,335	(3,003,518)
Accounts payable	18,489,317	(49,176,177)
Accrued liabilities	593,613	8,102,069
Compensated absences	273,623	45,562
Other liabilities	(2,689,733)	2,985,347
Net cash provided by operating activities	$ 131,889,396	$ 55,588,615
Supplemental Disclosure of Noncash Investing, Capital and Financing Activities		
Additions to capital assets included in accounts payable	$ 21,891,530	$ 37,299,559

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.

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.

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

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 fair 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, 2019 and 2018, the Airport Authority recovered $8,213,234 and $13,079,164, respectively, for approved capital projects and $11,550,178 and $8,389,249, 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, 2019 and 2018, accrued PFC receivables totaled $6,959,982 and $6,635,273, respectively, and there were $96,034,369 and $80,297,022 PFC amounts collected but not yet applied for approved capital projects as of June 30, 2019 and 2018, 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 into 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.

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

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, 2019 and 2018, accrued CFC receivables totaled $4,339,192 and $4,097,757, respectively. CFC amounts collected, including interest, but not yet applied for approved capital projects as of June 30, 2019 and 2018, were $43,133,096 and $44,661,454 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, 2019 and 2018, the Airport Authority capitalized interest of $0 and $7,218,861, respectively. This change resulted from the adoption of GASB No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period,* eliminating the requirement to capitalized interest; see *Note 1* for additional information on accounting pronouncements adopted.

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.

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

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 includes 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, 2019 and 2018 includes designations of net position that represent tentative management plans that are subject to change, consisting of:

	2019	2018
Operating contingency	**$ 2,000,000**	$ 2,000,000
Insurance contingency	**10,967,958**	10,249,962
Capital projects and other commitments	**13,240,603**	27,044,207
Total designated net position	**$ 26,208,561**	$ 39,294,169

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.

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

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:

	2019	2018
Southwest Airlines	**37.7%**	38.0%
Alaska	**13.8%**	13.4%
United Airlines	**12.9%**	12.7%
Delta	**12.2%**	10.6%
American Airlines	**11.9%**	12.8%

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, 2019:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, effective for the Airport Authority's year ending June 30, 2019. Implementation of this statement had no effect on beginning net position.
- GASB Statement No. 88, *Certain Disclosures related to Debt, including Direct Borrowings and Direct Placements*, effective for the Airport Authority's year ended June 30, 2019. Implementation of this statement had no effect on beginning net position.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for the Airport Authority's year ended June 30, 2019. Implementation of this statement had no effect on beginning net position.

The implementation of Statement No. 89 requires governmental entities to expense interest incurred before the end of a construction period. On adoption, interest costs incurred after the beginning of the first reporting period in which this statement was implemented should not be capitalized. Additionally, application of this statement requires prospective application and had no effect on previously capitalized interest costs.

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

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. 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. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*, effective for the Airport Authority's year ended June 30, 2020.
- GASB Statement No. 91, *Conduit Debt Obligations*, effective for the Airport Authority's year ended June 30, 2022.

Reclassifications: Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 presentation. The reclassifications had no effect on the changes in net position.

Net Position Revision: Fiscal year 2018 has been revised for a misclassification in ending net position. This revision resulted in an increase in net investment in capital assets from $281,703,129 to $294,937,128 or $13,233,999 and a decrease in restricted for debt service from $84,852,323 to $71,618,324 or ($13,233,999). This revision had no impact on unrestricted net position or total 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:

	2019	2018
Unrestricted and undesignated:		
Cash and cash equivalents	$ 10,286,307	$ 7,243,688
Current investments	124,558,161	85,690,254
Noncurrent investments	157,461,822	136,796,912
Total unrestricted and undesignated	292,306,290	229,730,854
Designated for specific capital projects and other commitments: cash and cash equivalents	26,208,561	39,294,169
Restricted:		
Current cash, cash equivalents and investments, with trustees	83,990,603	99,650,564
Noncurrent cash, cash equivalents and investments, not with trustees	205,979,093	191,304,621
Noncurrent investments, with trustees	162,164,029	228,598,834
Total restricted cash, cash equivalents and investments	452,133,725	519,554,019
Total cash, cash equivalents and investments	$ 770,648,576	$ 788,579,042

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

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

	2019	2018
Restricted cash, cash equivalents and investments:		
Bond reserves:		
Operation and maintenance reserve subaccount	$ 43,133,828	$ 42,709,622
Operation and maintenance subaccount	14,377,942	14,236,540
Renewal and replacement account	5,400,000	5,400,000
Total reserves	62,911,770	62,346,162
Passenger facility charges unapplied	96,034,369	80,297,022
Customer facility charges unapplied	43,133,096	44,661,454
Small business development bond guarantee	4,000,000	4,000,000
2010 Series debt service reserve fund	52,163,004	51,974,951
2010 Series debt service account	25,493,536	25,312,063
2013 Series construction fund	2,397	2,323
2013 Series debt service reserve fund	34,246,502	33,573,756
2013 Series debt service account	11,575,069	11,430,643
2014 Series construction fund	1,941	1,969
2014 Series debt service reserve fund	22,368,760	22,347,589
2014 Series debt service account	13,853,720	13,781,497
2014 Series rolling coverage fund	6,905,072	6,769,427
2014 Series renew and replace	5,431,585	3,825,876
2017 Series construction fund	47,288,403	131,388,973
2017 Series debt service reserve fund	14,993,717	15,154,803
2017 Series debt service account	11,730,784	12,685,511
Total restricted cash, cash equivalents and investments	$ 452,133,725	$ 519,554,019

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.

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

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 fair 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:

	2019				
		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	$ 115,560,531	$ 25,307,938	$ 32,706,596	$ 57,545,997	N/A
U.S. agency securities	134,911,223	56,506,418	14,699,205	63,705,600	AA+
Supranationals	7,127,201	2,994,180	2,136,241	1,996,780	AAA
	5,485,835	-	-	5,485,835	Not rated
Negotiable certicates of deposit	3,988,200	-	3,988,200	-	AA
	14,763,063	14,763,063	-	-	A+
Medium-term notes	2,974,470	-	-	2,974,470	AAA
	22,796,245	7,490,315	-	15,305,930	AA
	40,834,801	5,498,975	6,333,965	29,001,861	A
Money market mutual funds	81,861	81,861	-	-	AAA
Local Agency Investment Fund	50,140,691	50,140,691	-	-	Not rated
San Diego County Investment Pool	211,235,432	211,235,432	-	-	Not rated(1)
CalTrust Fund	15,952,044	15,952,044	-	-	AA
Total investments subject to credit and interest rate risk:	625,851,597	$ 389,970,917	$ 59,864,207	$ 176,016,473	
Investments not subject to credit or interest rate risk:					
Nonnegotiable certificates of deposit	15,920,692				
Total Investments	$ 641,772,289				

	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	N/A
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	-	-	Not rated
San Diego County Investment Pool	234,006,333	234,006,333	-	-	Not rated(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				

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, 2019 and 2018.

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, 2019 and 2018, the balance of the note receivable was $31,338,762 and $33,242,085, 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
2020	$ 2,006,052
2021	2,123,843
2022	2,243,644
2023	2,370,203
2024	2,500,653
2025-2029	14,801,696
2030-2031	5,292,671
	$ 31,338,762

Notes to Financial Statements
June 30, 2019 and 2018

Note 4. Capital Assets

Capital asset activity for the years ended June 30, 2019 and 2018, are as follows:

	Balance at June 30, 2018	Increases	Decreases	**Balance at June 30, 2019**
Nondepreciable assets:				
Land	$ 22,167,594	$ -	$ -	**$ 22,167,594**
Construction in progress	110,520,200	141,915,811	(108,003,686)	**144,432,325**
Intangible asset	440,000	-	-	**440,000**
Total nondepreciable assets	133,127,794	141,915,811	(108,003,686)	**167,039,919**
Depreciable assets:				
Land improvements	112,918,996	763,797	-	**113,682,793**
Buildings and structures (1)	1,691,662,858	34,154,487	(16,952,543)	**1,708,864,802**
Machinery and equipment (2)	112,464,060	21,197,185	(2,489,019)	**131,172,226**
Runw ays, roads and parking lots	646,939,284	52,976,659	(1,320,825)	**698,595,118**
Total capital assets being depreciated	2,563,985,198	109,092,128	(20,762,387)	**2,652,314,939**
Less accumulated depreciation for:				
Land improvements	(20,695,006)	(7,606,817)	-	**(28,301,823)**
Building and structures	(610,550,433)	(77,152,640)	16,952,544	**(670,750,529)**
Machinery and equipment	(63,186,253)	(11,398,817)	2,031,618	**(72,553,452)**
Runw ays, roads and parking lots	(298,540,239)	(28,170,606)	1,111,336	**(325,599,509)**
Total accumulated depreciation	(992,971,931)	(124,328,880)	20,095,498	**(1,097,205,313)**
Total capital assets being depreciated, net	1,571,013,267	(15,236,752)	(666,889)	**1,555,109,626**
Capital assets, net	$ 1,704,141,061	$ 126,679,059	$ (108,670,575)	**$ 1,722,149,545**

(1) Includes capitalized lease of building w ith a net present value of future lease payments of $6,766,536

(2) Includes capitalized leases of office equipment w ith a net present value of future lease payments of $53,815

	Balance at June 30, 2017	Increases	Decreases	Balance at June 30, 2018
Nondepreciable assets:				
Land	$ 22,167,594	$ -	$ -	$ 22,167,594
Construction in progress	171,498,033	272,511,934	(333,489,767)	110,520,200
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
Runw ays, 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)
Runw ays, 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 w ith a net present value of future lease payments of $7,012,496

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

Notes to Financial Statements
June 30, 2019 and 2018

Note 5. Long-Term Liabilities

The following is a summary of changes in the long-term liability activity for the years ended June 30, 2019 and 2018:

	Principal Balance at June 30, 2018	Additions/ New Issuances	Reductions/ Repayments	**Principal Balance at June 30, 2019**	Due Within One Year
Variable Rate Debt					
Series B tax-exempt	$ 14,794,000	$ -	$ (1,075,000)	**$ 13,719,000**	$ -
Series C taxable	5,369,000	-	(5,369,000)	**-**	-
Total variable rate debt	20,163,000	-	(6,444,000)	**13,719,000**	-
Bonds payable:					
Series 2010 Bonds	536,990,000	-	(9,890,000)	**527,100,000**	10,365,000
Series 2013 Bonds	373,310,000	-	(2,240,000)	**371,070,000**	2,320,000
Series 2014 Bonds	305,285,000	-	(5,580,000)	**299,705,000**	5,720,000
Series 2017 Bonds	291,210,000	-	(4,940,000)	**286,270,000**	4,460,000
Bond premiums	103,165,697	-	(5,681,778)	**97,483,919**	-
Total bonds payable	1,609,960,697	-	(28,331,778)	**1,581,628,919**	22,865,000
Capital Leases	7,143,865	-	(323,514)	**6,820,351**	323,242
Total debt obligations	1,637,267,562	-	(35,099,292)	**1,602,168,270**	23,188,242
Compensated absences	3,276,588	3,251,781	(2,978,158)	**3,550,211**	2,978,157
Total long-term liabilities	$ 1,640,544,150	$ 3,251,781	$ (38,077,450)	**$ 1,605,718,481**	$ 26,166,399

	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
Total long-term liabilities	$ 1,357,273,838	$ 342,772,629	$ (59,502,317)	$ 1,640,544,150	$ 26,066,893

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, 2019 and 2018, the amount held in escrow by the trustee was $10,396,042 and $15,516,704, respectively, and the amount of the defeased Series 2005 Bonds still outstanding was $9,990,000 and $14,605,000, 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, 2019 and 2018, was $18,174,150 and $18,263,750, respectively, including accrued interest of $9,087,075 and $9,131,875 for fiscal years ending June 30, 2019 and 2018, respectively. The principal balance on the Series 2013 Bonds as of June 30, 2019 and 2018, was $371,070,000 and $373,310,000, 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, 2019 and 2018, the amount held by the trustee was $45,823,968 and $45,006,722, 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 2019 and 2018 was $62,911,770 and $62,346,162, respectively. The public ratings of the Series 2013 Bonds as of June 30, 2019, 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
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	9,170,000	16,603,850	25,773,850
2025-2029	53,155,000	75,547,025	128,702,025
2030-2034	38,740,000	63,204,425	101,944,425
2035-2039	36,645,000	55,408,875	92,053,875
2040-2044	206,075,000	32,900,375	238,975,375
	$ 371,070,000	$ 314,203,975	$ 685,273,975

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, 2019 and 2018, amounted to $4,686,174 and $4,666,190, 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, 2019 and 2018, amounted to $29,780,849 and $30,259,748, respectively, including accrued interest of $14,890,425 and $15,129,875, respectively. The principal balance on the subordinate Series 2010 Bonds as of June 30, 2019 and 2018, was $527,100,000 and $536,990,000, 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
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	12,550,000	27,281,298	39,831,298
2025-2029	72,780,000	126,152,054	198,932,054
2030-2034	126,555,000	102,133,609	228,688,609
2035-2039	184,500,000	54,968,046	239,468,046
2040-2041	86,110,000	5,269,210	91,379,210
	$ 527,100,000	$ 430,697,466	$ 957,797,466

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 years ended June 30, 2019 and 2018, amounted to $14,313,501 and $13,245,096, respectively, including accrued interest of $7,156,750 and $7,268,650, respectively. The principal balance on the subordinate Series 2017 Bonds as of June 30, 2019 and 2018, was $286,270,000 and $291,210,000, respectively.

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
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	5,585,000	13,190,125	18,775,125
2025-2029	32,405,000	61,360,125	93,765,125
2030-2034	41,365,000	52,182,375	93,547,375
2035-2039	52,785,000	40,469,375	93,254,375
2040-2044	67,380,000	25,520,000	92,900,000
2045-2048	67,075,000	6,911,625	73,986,625
	$ 286,270,000	$ 254,990,750	$ 541,260,750

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, 2019 and 2018, the amount held by the trustee was $151,669,446 and $236,516,301, 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, 2019, 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, 2019 and 2018, the Authority had an outstanding principal balance on Series A Revolving Obligations of $0. At June 30 2019 and 2018, the outstanding principal balances of the Series B Revolving Obligations were $13,719,000 and $14,794,000, 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 2019 and 2018, were $0 and $5,369,000 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, 2019 and 2018, was $16,199,645 and $16,341,210, respectively, including accrued interest of $8,099,823 and $8,170,605, respectively. The principal balance on the Series 2014 Bonds for fiscal years ended June 30, 2019 and 2018 was $299,705,000 and $305,285,000, respectively.

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, 2019 and 2018, the amount held by the trustee was $48,561,078 and $46,726,358, 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, 2019, 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
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	6,670,000	15,060,682	21,730,682
2025-2029	39,395,000	69,100,925	108,495,925
2030-2034	51,720,000	56,433,452	108,153,452
2035-2039	67,890,000	39,804,447	107,694,447
2040-2044	89,135,000	17,999,292	107,134,292
2045	20,875,000	521,875	21,396,875
	$ 299,705,000	$ 262,101,630	$ 561,806,630

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, 2019, nothing had been drawn on the line of credit and there are no outstanding letters of credit.

Note 5. Long-Term Liabilities (Continued)

The Airport Authority had the following used and unused balances in line of credit type debt instruments as of June 30, 2019 and 2018:

	June 30, 2019		June 30, 2018	
	Used	Unused	Used	Unused
Revolving line of credit	13,719,000	111,281,000	20,163,000	104,837,000
Drawdown bonds	-	100,000,000	-	100,000,000
Letter of Credit	-	4,000,000	-	4,000,000
	13,719,000	215,281,000	20,163,000	208,837,000

Event of Default: In the event of default of all general airport revenue bonds issued by the Airport Authority, acceleration is not a remedy. For privately placed variable rate debt and for the Letter of Credit and Reimbursement Agreement, an event of default could result in either an acceleration or an interest rate increase of 3%-7% in addition to the base rate. Other than this, there are no significant finance-related consequences in the event of default on other debt instruments. The Authority's Letter of Credit and Reimbursement Agreement is collateralized with a $4,000,000 negotiable certificate of deposit held with US Bank. Excluding general airport revenue bonds, privately placed variable rate debt, special facility bonds and capital leases, no other assets have been pledged or collateralized for and any other debt instruments. General Airport revenue bonds and privately placed variable rate debt are secured by a pledge of Net Revenues which are generally defined as all revenues and other cash receipts of the Airport Authority's operations less amounts required to pay for operations and maintenance expenses of the airport (net revenues do not include cash received from PFC's CFC's or Federal Grants). The special facility bonds are secured by a pledge of the Trust Estate.

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.

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, 2019:

Years Ending June 30,	Amount
2020	$ 932,090
2021	877,298
2022	877,298
2023	877,298
2024	877,298
2025-2029	4,386,489
2030-2033	2,997,434
Total lease payments	11,825,205
Less amount representing interest	(5,004,854)
Present value of future lease payments	$ 6,820,351

Note 6. Defined Benefit Plan

Introduction: The Airport Authority has two defined benefit pension plans which cumulatively represent the net pension liability and related deferred inflows and deferred outflows of resource balances as reported on the statement of net position. The below schedule represents aggregating information as of June 30, 2019 and 2018:

	Defined Benefit Plan (GASB 68)	Benefits Trust Plan (GASB No. 73)	Total
Balances as of 6/30/19			
Net pension liability	$ 18,373,281	$ 1,656,062	$ 20,029,343
Deferred outlflows of resources	25,046,571	556,018	25,602,589
Deferred inflows of resources	6,235,495	217,937	6,453,432
Balances as of 6/30/18			
Net pension liability	$ 18,743,453	$ 1,479,005	$ 20,222,458
Deferred outlflows of resources	22,607,833	505,326	23,113,159
Deferred inflows of resources	3,506,867	178,971	3,685,838

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, 2018 and June 30, 2017, Plan membership was as follows:

	2018	2017
Active employees	405	394
Inactive employees entitled to but not yet receiving benefits	139	119
Inactive employees or beneficiaries currently receiving benefits	101	107
Total	645	620

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, 2019, the actuarially determined contribution rates for plan sponsors and members were developed in the June 30, 2017, 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, 2019 and 2018, employees contributed $3,162,781 and $2,990,317 respectively, and the Airport Authority contributed $7,318,546 and $5,480,984, 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 9.55% 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, 2019, is measured as the total pension liability, less the pension plan's fiduciary net position. The total pension liability as of June 30, 2019, is measured as of June 30, 2018. The annual valuation used is as of June 30, 2017, rolled forward to June 30, 2018, 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, 2018 and 2017, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	June 30, 2018	June 30, 2017
Valuation date	June 30, 2017	June 30, 2016
Measurement date	June 30, 2018	June 30, 2017
Actuarial 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)	6.50%	6.75%
Projected salary increase (2)	3.05%	3.05%
Cost-of-living adjustment	1.9% per annum, compounded	1.9% per annum, compounded
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
Further details about the actuarial assumptions can be found in the SDCERS June 30, 2018 and June 30 , 2017 actuarial reports.

Note 6. Defined Benefit Plan (Continued)

Discount Rate: For the June 30, 2018 and 2017 actuarial valuations, the discount rates used to measure the total pension liability were 6.50 percent and 6.75 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 Expected Real Rates of Return	Long-term Expected Nominal Rates of Return
Domestic equity	18.0%	4.1%	6.5%
International equity	15.0%	5.1%	7.5%
Global equity	8.0%	4.8%	7.2%
Domestic fixed income	22.0%	0.7%	3.1%
Emerging market debt	5.0%	3.1%	5.5%
Real estate	11.0%	3.6%	6.0%
Private equity and infrastructure	13.0%	6.0%	8.4%
Opportunity fund	8.0%	4.0%	6.4%
	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, 2019, were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of 6/30/18	$ 185,541,212	$ 166,797,759	$ 18,743,453
Changes for the year:			
Service cost	7,390,428	-	7,390,428
Interest on total pension liability	12,621,227	-	12,621,227
Difference between expected and actual experience	(2,630,285)	-	(2,630,285)
Changes in assumptions	6,416,088	-	6,416,088
Employer contributions	-	7,318,546	(7,318,546)
Member contributions	-	3,162,781	(3,162,781)
Net investment income	-	14,036,710	(14,036,710)
Benefit payments	(4,462,751)	(4,462,751)	-
Administrative expense	-	(350,407)	350,407
Net changes	19,334,707	19,704,879	(370,172)
Balances as of 6/30/19	$ 204,875,919	$ 186,502,638	$ 18,373,281

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

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 6.50 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, 2019:

	1% Decrease 5.50%	Current Discount Rate 6.50%	1% Increase 7.50%
Total pension liability	$ 234,008,749	$ 204,875,918	$ 180,956,456
Plan fiduciary net position	186,502,637	186,502,637	186,502,637
Net pension liability	$ 47,506,112	$ 18,373,281	$ (5,546,181)
Plan fiduciary net position as a percentage of the total pension liability	79.7%	91.0%	103.1%

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Plan: For the years ended June 30, 2019 and 2018, the Airport Authority recognized pension expense, as measured in accordance with GASB Statement No. 68, of $7,774,562 and $7,491,437, respectively. At June 30, 2019 and 2018, the Airport Authority reported deferred outflows of resources and deferred inflows of resources related to the plan from the following sources:

June 30, 2019	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 2,765,239	$ 3,281,160
Net difference between projected and actual earnings	-	2,954,335
Changes in assumptions	14,497,834	-
Employer contributions made subsequent to June 30, 2018 measurement date	7,783,498	-
Total	$ 25,046,571	$ 6,235,495

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

Note 6. Defined Benefit Plan (Continued)

The deferred outflows of resources, at June 30, 2019 and 2018, 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, 2020 and 2019, respectively.

Other amounts reported as deferred outflows/inflows of resources related to the plan at June 30, 2019, will be recognized in pension expense as follows:

Fiscal Year-end	
2020	$ 4,189,313
2021	3,109,669
2022	1,318,544
2023	1,779,074
2024	630,978
	$ 11,027,578

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 years ended June 30, 2019 and 2018, were $31,329 and $0, respectively. The POB is unfunded and provides benefits on an annual basis as determined by SDCERS.

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

As of the measurement dates of June 30, 2018 and 2017, Plan membership was as follows:

	2018	2017
Inactive employees or beneficiaries currently receiving benefits	1	1
Active employees	2	3
	3	4

Total Pension Liability: The Airport Authority's total pension liability as of June 30, 2019 and 2018, was $1,656,062 and $1,479,005, respectively. The pension liability as of June 30, 2019, is measured as of June 30, 2018, using an annual actuarial valuation as of June 30, 2017, rolled forward to June 30, 2018, 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, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	June 30, 2018	June 30, 2017
Valuation date	June 30, 2017	June 30, 2016
Measurement date	June 30, 2018	June 30, 2017
Actuarial cost method	Entry-age normal	Entry-age normal
Actuarial assumptions:		
Discount rate	3.87%	3.58%
Inflation rate	3.05%	3.05%
Interest credited to member contributions	6.50%	7.00%
Projected salary increases	3.05%	3.05%

Changes in the Total Pension Liability: Changes in the total pension liability through the year ended June 30, 2019, was as follows:

	Total Pension Liability
Balances as of 6/30/18	$ 1,479,005
Changes for the year:	
Service cost	51,775
Interest on total pension liability	53,311
Difference between expected and actual experience	193,013
Changes in assumptions	(89,713)
Benefit payments	(31,329)
Net changes	177,057
Balances as of 6/30/19	$ 1,656,062

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

Changes in the total pension liability through the year ended June 30, 2018, was as follows:

	Total Pension Liability
Balances as of 6/30/17	$ 1,209,124
Changes for the year:	
Service cost	60,994
Interest on total pension liability	35,323
Difference between expected and actual experience	388,329
Changes in assumptions	(214,765)
Benefit payments	-
Net changes	269,881
Balances as of 6/30/18	$ 1,479,005

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 year ended June 30, 2019:

	1% Decrease 2.87%	Current Discount Rate 3.87%	1% Increase 4.87%
Total Pension Liability	$ 1,995,283	$ 1,656,062	$ 1,391,459

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the POB: For the year ended June 30, 2019 and 2018, the Airport Authority recognized pension expense, as measured in accordance with GASB Statement No. 73, of $347,712 and $1,177,544. At June 30, 2019 and 2018, the Airport Authority reported deferred outflows of resources and deferred inflows of resources related to the plan from the following sources:

June 30, 2019	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected & actual experience	$ 419,729	$ -
Change of assumptions	136,289	217,937
Total	$ 556,018	$ 217,937

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

June 30, 2018	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

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
2020	$ 91,575
2021	91,575
2022	91,574
2023	46,141
2024	17,216
	$ 338,081

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

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 years ended June 30, 2019 and 2018, the Airport Authority's contributions were $603,003 and $461,859, respectively.

A measurement date of June 30, 2018 and 2017, was used for the June 30, 2019 and June 2018, OPEB assets and expenses. The information that follows was determined as of a valuation date of July 1, 2018 and July 1, 2017, respectively. Assumptions used in the July 1, 2018 valuation were rolled forward from the July 1, 2017 valuation.

Membership in the OPEB by membership class at June 30, 2018 and 2017, is as follows:

	2018	2017
Active employees	161	173
Inactive employees or beneficiaries currently receiving benefits	69	61
Total	230	234

Note 9. Other Postemployment Benefits (Continued)

Actuarial Assumptions: The total OPEB liability in the July 1, 2018 and 2017, actuarial valuations 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	5 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 June 30, 2018 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.

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:

Note 9. Other Postemployment Benefits (Continued)

Asset Class	Target Allocation	Long-term Expected Real Rates of Return
Public Equity	59%	5.98%
Fixed Income	25%	2.62%
REITs	8%	5.00%
TIPS	5%	1.46%
Commodities	3%	2.87%
	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 asset through the year ended June 30, 2019, were as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Fiduciary Net Position (b)	Net OPEB Asset (a) - (b)
Balances as of 6/30/18	$ 24,217,840	$ 24,315,258	$ (97,418)
Changes for the year:			
Service cost	436,501	-	436,501
Interest on total OPEB liability	1,772,578	-	1,772,578
Difference between expected and actual experience	-	-	-
Changes in assumptions	-	-	-
Employer contributions	-	622,425	(622,425)
Member contributions	-	-	-
Net investment income	-	1,896,351	(1,896,351)
Benefit payments	(622,425)	(622,425)	-
Administrative expense	-	(12,568)	12,568
Net changes	1,586,654	1,883,783	(297,129)
Balances as of 6/30/19	$ 25,804,494	$ 26,199,041	$ (394,547)

Note 9. Other Postemployment Benefits (Continued)

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)

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 (asset) using a discount rate 1% higher and 1% lower than the current discount rate.

	1% Decrease 6.28%	Current Rate 7.28%	1% Increase 8.28%
Total pension liability	$ 29,575,709	$ 25,804,494	$ 22,721,952
Plan fiduciary net position	26,199,041	26,199,041	26,199,041
Net pension liability (asset)	$ 3,376,668	$ (394,547)	$ (3,477,089)

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 (asset) 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	$ 22,392,652	$ 25,804,494	$ 29,995,650
Plan fiduciary net position	26,199,041	26,199,041	26,199,041
Net OPEB liability (asset)	$ (3,806,389)	$ (394,547)	$ 3,796,609

Note 9. Other Postemployment Benefits (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the OPEB: For the years ended June 30, 2019 and 2018, the Airport Authority recognized OPEB expense, as measured in accordance with GASB Statement No. 75, of $436,990 and $540,459, respectively, 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	$ -	$ (507,578)
Changes in assumptions	475,260	-
Employer contributions subsequent to June 30, 2018 measurement date	603,003	-
Total	$ 1,078,263	$ (507,578)

	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)

The deferred outflows of resources at June 30, 2019 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, 2020. Amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2019, related to the OPEB will be recognized in OPEB expense as follows:

Years Ending June 30,	Amount
2020	$ (14,964)
2021	(14,964)
2022	(14,964)
2023	12,574
Total	$ (32,318)

Note 10. Risk Management

The Airport Authority has a comprehensive Risk Management Program comprised of commercial insurance, self-insurance, loss mitigation/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 $1 billion 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, 2019 and 2018, the Airport Authority has designated $10,967,958 and $10,249,962, 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 risk analyst, a safety manager and two safety analysts. In addition, third party loss control engineers conduct safety surveys on an annual basis. Employees receive regular safety training and claims are monitored using a claims information system.

During fiscal year 2019, 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

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

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, 2019 and 2018:

June 30, 2019	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	$ 115,560,531	$ 115,560,531	$ -	$ -
U.S. agency securities	134,911,223	-	134,911,223	-
Non-U.S Securities	12,613,036	12,613,036	-	-
Negotiable certicates of deposit	18,751,263	-	18,751,263	-
Medium-term notes	66,605,516	-	66,605,516	-
Total investments by fair value level	348,441,569	$ 128,173,567	$ 220,268,002	$ -
Investment measured at amortized cost				
Money market mutual funds	81,861			
Non-negotiable certificate of deposit	15,920,692			
Investment measured at net asset value				
CalTrust Fund	15,952,044			
Local Agency Investment Fund	50,140,691			
San Diego County Investment Pool	211,235,432			
Total investments	$ 641,772,289			

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	$ -
Investment measured at amortized cost				
Money market mutual funds	93,517			
Non-negotiable certificate of deposit	15,639,415			
Investment measured at net asset value				
CalTrust Fund	15,522,832			
Local Agency Investment Fund	48,733,079			
San Diego County Investment Pool	234,006,333			
Total investments	$ 603,607,067			

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.

The five-year Airline Operating Lease Agreement (AOLA) expired June 30, 2018, and was in hold over status as of June 30, 2019. The Authority finalized a new ten year AOLA effective July 1, 2019 through June 30, 2029. This new agreement is substantially similar to the expired agreement.

Other capital assets are leased to concessionaires. As of June 30, 2019, the Airport Authority had 84 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 a non-cancellable lease and will convert to Facility Rent when the bonds are repaid.

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, 2019, are as follows:

Years Ending June 30,	Amount
2020	$ 32,805,411
2021	27,517,999
2022	26,608,481
2023	25,921,183
2024	22,615,559
2025-2029	74,037,195
2030-2034	77,848,013
2035-2039	85,693,285
2040-2044	95,011,008
2045-2049	82,313,305
2050-2054	724,440
2055-2059	724,440
2060-2064	724,440
2065-2069	651,996
	$ 553,196,755

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.

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

Years Ending June 30,	Amount
2020	$ 10,176,660
2021	10,176,660
2022	10,176,660
2023	10,176,660
2024	10,176,660
2025-2029	50,883,300
2030-2034	50,883,300
2035-2039	50,883,300
2040-2044	50,883,300
2045-2049	50,883,300
2050-2054	50,883,300
2055-2059	50,883,300
2060-2064	50,883,300
2065-2069	45,794,970
	$ 503,744,670

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

	2019	2018
Rental payments made	**$ 10,190,910**	$ 10,189,944

Note 14. Commitments and Contingencies

Commitments: As of June 30, 2019 and 2018, 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, 2019 and 2018, these funds totaled approximately $13.2 million and $27 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, 2019 and 2018, the Airport Authority expensed $ 19,291,981 and $19,337,603 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, 2019, were $39 million for parking management services and $47.5 million for airport shuttle services. These contracts were completed as of September 2018.

iv. In fiscal year 2019, the Board approved two new contracts with Ace Parking Management Inc., for parking management services in the amount of $38 million and airport shuttle services in the amount of $45 million. As of June 30, 2019, $3.9 million has been spent for parking management services and $4.7 million for shuttle services.

v. 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. In fiscal year 2019 the Board approved an additional $14.6 million. As of June 30, 2019, $27 million had been spent and the contract is due to be completed in fiscal year 2021.

vi. 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, 2019, $64.8 million had been spent and the contract is due to be completed in fiscal year 2019.

Note 14. Commitments and Contingencies (Continued)

vii. In fiscal year 2019, the Board approved a $19.5 million contract with AECOM Technical Services, Inc. for on call program management, staffing support and consulting services. The contract is due to be completed in fiscal year 2024. As of June 30, 2019 no funds had been spent.

viii. 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 and 2019, the Board approved an additional $1.6 million and $5.3 million respectively. As of June 30, 2019, $170.4 million had been spent and the contract is due to be completed in fiscal year 2020.

ix. 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, 2019, $18 million had been spent and the contract was completed in fiscal year 2019.

x. In fiscal year 2019, the Board approved a $40.9 million contract with Granite Construction Company to provide a new hydrant fueling infrastructure on the north side of the runway. As of June 30, 2019, $7.3 million had been spent and the contract is due to be completed in fiscal year 2021.

xi. In fiscal year 2019, the Board approved a $150.5 million contract with Sundt Construction, Inc. for the design and construction of Airport Support Facilities. As of June 30, 2019, $16.9 million had been spent and the contract is scheduled for completion in fiscal year 2020.

Contingencies: As of June 30, 2019, 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

On July 1, 2019, a new Airline Operating and Lease Agreement (AOLA) became effective. The AOLA is a 10-year agreement, beginning July 1, 2019, and terminating at the close of business on June 30, 2029. The agreement is with the twelve passenger airlines and three all-cargo carriers operating at the Airport. The AOLA contains new provisions to enhance the Authority's ability to meet its financial obligations and fund future capital improvements.

On July 18, 2019, the Authority issued $11.1 million of Subordinate Airport Revenue Drawdown Bonds Series A (Non-AMT) and $22.9 million of Subordinate Airport Revenue Drawdown Bonds Series B (AMT). The proceeds of the Drawdown bonds were used to fund various projects including the Airport Support Facilities, Airline relocations and ADP programmatic documents. It is the Authority's intention to refund these Drawdown Bonds with proceeds from a General Airport Revenue Bond issuance expected later in 2019.

Required Supplementary Information (Unaudited)
Fiscal Year Ended June 30, 2019

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

Defined Benefit Plan

	2019	2018	2017	2016	2015
Total Pension Liability:					
Service cost	**$ 7,390,428**	$ 6,996,180	$ 6,205,263	$ 6,154,579	$ 6,099,481
Interest (includes interest on service cost)	**12,621,226**	11,416,679	10,277,610	9,327,538	8,465,485
Differences between expected and actual experience	**(2,630,285)**	3,975,029	(2,178,527)	345,661	-
Effect of changes of assumptions	**6,416,088**	5,871,218	10,473,890	-	-
Benefit payments, including refunds of member contributions	**(4,462,751)**	(4,669,787)	(3,023,391)	(2,482,523)	(2,913,221)
Net change in total pension liability	**19,334,706**	23,589,319	21,754,845	13,345,255	11,651,745
Total pension liability - beginning	**185,541,212**	161,951,893	140,197,048	126,851,793	115,200,048
Total pension liability - ending	**$ 204,875,918**	$ 185,541,212	$ 161,951,893	$ 140,197,048	$ 126,851,793
Plan Fiduciary Net Position:					
Contributions - employer	**$ 7,318,546**	$ 5,480,984	$ 4,047,780	$ 3,897,545	$ 3,924,988
Contributions - employee	**3,162,781**	2,990,317	2,967,269	2,840,236	2,765,079
Net investment income	**14,036,710**	19,480,875	1,651,283	4,390,185	18,302,683
Benefit payments, including refunds of member contributions	**(4,462,751)**	(4,669,786)	(3,023,391)	(2,482,523)	(2,913,221)
Administrative expense	**(350,408)**	(325,042)	(318,817)	(332,290)	(332,645)
Net change in plan fiduciary net position	**19,704,878**	22,957,348	5,324,124	8,313,153	21,746,884
Plan fiduciary net position - beginning	**166,797,759**	143,840,411	138,516,287	130,203,134	108,456,250
Plan fiduciary net position - ending	**$ 186,502,637**	$ 166,797,759	$ 143,840,411	$ 138,516,287	$ 130,203,134
Net pension liability (asset) - ending	**$ 18,373,281**	$ 18,743,453	$ 18,111,482	$ 1,680,761	$ (3,351,341)
Plan fiduciary net position as a percentage of the total pension liability	**91.03%**	89.90%	88.82%	98.80%	102.64%
Covered payroll	**$ 31,628,301**	$ 31,131,795	$ 29,189,357	$ 27,955,455	$ 26,380,323
Net pension liability as a percentage of covered payroll	**58.09%**	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, 2019

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

Defined Benefit Plan

	2019	2018	2017	2016	2015
Actuarially determined contribution	**$ 5,740**	$ 5,416	$ 3,765	$ 3,666	$ 3,823
Contributions in relation to the actuarially determined contribution	**7,783**	7,247	5,421	3,948	3,823
Contribution deficiency (excess)	**$ (2,043)**	$ (1,831)	$ (1,656)	$ (282)	$ -
Covered payroll	**$ 31,864**	$ 30,848	$ 31,506	$ 29,189	$ 27,955
Contributions as a percentage of covered payroll	**24.43%**	23.49%	17.21%	13.53%	13.68%

	2014	2013	2012	2011	2010
Actuarially determined contribution	$ 2,900	$ 2,600	$ 3,800	$ 4,300	$ 3,000
Contributions in relation to the actuarially determined contribution	3,728	2,600	3,800	4,300	7,600
Contribution deficiency (excess)	$ (828)	$ -	$ -	$ -	$ (4,600)
Covered payroll	$ 26,380	$ 24,840	$ 25,148	$ 25,596	$ 24,693
Contributions as a percentage of covered payroll	14.13%	10.47%	15.11%	16.80%	30.78%

* This schedule is presented for the fiscal year.

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Required Supplementary Information (Unaudited)
Fiscal Year Ended June 30, 2019

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

Preservation of Benefits Trust Plan

	2019	2018	2017
Total Pension Liability			
Service cost	$ 51,774	$ 60,994	$ 29,270
Interest cost	53,311	35,323	34,173
Differences between expected and actual experience	193,013	388,329	-
Changes of assumptions	(89,712)	(214,765)	272,579
Benefit Payments	(31,329)	-	-
Net Change in Total Pension Liability	177,057	269,881	336,022
Total pension liability -beginning	1,479,005	1,209,124	873,102
Total pension liability - ending	$ 1,656,062	$ 1,479,005	$ 1,209,124
Covered payroll	31,628,301	31,131,795	29,189,357
Total Pension Liability as a percentage of covered payroll	5.2%	4.8%	4.1%

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, 2019

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

Preservation of Benefits Trust Plan

	2019	2018	2017
Actuarially determined contribution	**$ -**	$ -	$ -
Contributions in relation to the actuarially determined contribution	**182,381**	56,513	-
Contribution deficiency (excess)	**$ (182,381)**	$ (56,513)	$ -
Covered payroll	**$ 31,319,921**	$ 30,828,256	$ 31,628,301
Contributions as a percentage of covered payroll	**0.58%**	0.18%	0.00%

*** 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, 2019

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

Other Postemployment Benefits

	2019	2018
Total OPEB Liability		
Service Cost	$ 436,501	$ 411,052
Interest Cost	1,772,578	1,606,959
Changes of Assumptions	-	766,830
Benefit Payments	(622,425)	(451,189)
Net Change in Total OPEB Liability	1,586,654	2,333,652
Total OPEB Liability (Beginning)	24,217,840	21,884,188
Total OPEB Liability (Ending)	$ 25,804,494	$ 24,217,840
Plan Fiduciary Net Position		
Contributions—Employer	$ 622,425	$ 2,012,419
Net Investment Income	1,896,351	2,175,582
Benefit Payments	(622,425)	(451,189)
Administrative Expense	(12,568)	(10,578)
Net Change in Plan Fiduciary Net Position	1,883,783	3,726,234
Plan Fiduciary Net Position (Beginning)	24,315,258	20,589,024
Plan Fiduciary Net Position (Ending)	$ 26,199,041	$ 24,315,258
Net OPEB Asset	(394,547)	(97,418)
Net Position as a Percentage of OPEB Liability	101.53%	100.40%
Covered Payroll	16,625,857	16,141,609
Net OPEB Liability as a Percentage of Covered Payroll	(2.37%)	(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, 2019

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

Other Postemployment Benefits

	2019	2018
Actuarially determined contribution	**$ 486**	$ 472
Contributions in relation to the actuarially determined contribution	**339**	462
Contribution deficiency (excess)	**$ 147**	$ 10
Covered payroll	**$ 13,869**	$ 15,674
Contributions as a percentage of covered payroll	**2.44%**	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

June 30, 2019

San Diego County Regional Airport Authority

June 30, 2019

Contents

San Diego County Regional Airport Authority

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

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		$ -	$ 138,573
Airport Improvement Program (AIP)	20.106		-	7,447,405
Airport Improvement Program (AIP)	20.106		-	158,142
Airport Improvement Program (AIP)	20.106		-	1,385,900
Airport Improvement Program (AIP)	20.106		-	1,619,506
Airport Improvement Program (AIP)	20.106		-	6,457,698
Airport Improvement Program (AIP)	20.106		-	106,030
Airport Improvement Program (AIP)	20.106		-	2,344,696
Airport Improvement Program (AIP)	20.106		-	263,606
Total U.S. Department of Transportation - Federal Aviation Administration			-	19,921,556
Total Federal Awards Expended			$ -	$ 19,921,556

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, 2019. 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.

BKD
CPAs & Advisors

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

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

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, 2019, 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 7, 2019.

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 7, 2019

BKD
CPAs & Advisors

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

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

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, 2019. 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, 2019.

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, 2019, and have issued our report thereon dated October 7, 2019, 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 7, 2019

San Diego County Regional Airport Authority
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

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

San Diego County Regional Airport Authority
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2019

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, 2019

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, 2019

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, 2019

(With Independent Auditor's Report Thereon)

San Diego County Regional Airport Authority
Passenger Facility Charge Program
June 30, 2019

Contents

San Diego County Regional Airport Authority

Passenger Facility Charge Program

Schedule of Passenger Facility Charge Collections and Expenditures

Year Ended June 30, 2019

Revenues	Date Approved	Amount Approved For Use	Cumulative Total - June 30, 2018	Quarter Ended September 30, 2018	Quarter Ended December 31, 2018	Quarter Ended March 31, 2019	Quarter Ended June 30, 2019	Year Ended June 30, 2019	Cumulative Total - June 30, 2019
Passenger facility charge collections			$ 696,973,802	$ 12,449,748	$ 11,886,777	$ 11,548,447	$ 12,988,034	$ 48,873,006	$ 745,846,808
Interest earned			13,896,152	330,094	361,107	399,370	423,753	1,514,324	15,410,476
Total passenger facility charge revenue received			$ 710,869,954	$ 12,779,842	$ 12,247,884	$ 11,947,817	$ 13,411,787	$ 50,387,330	$ 761,257,284
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	228,906,823	7,501,335	7,501,335	7,501,335	7,501,335	30,005,340	258,912,163
Application 12-10-C-00-SAN	7/3/2012	27,835,280	24,557,559	860,653	439,921	-	-	1,300,574	25,858,133
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	18,013,458	407,271	1,217,756	650,154	1,068,991	3,344,172	21,357,630
Total passenger facility charge revenue expended		$1,554,985,893	$ 630,573,496	$ 8,769,259	$ 9,159,012	$ 8,151,489	$ 8,570,326	$ 34,650,086	$ 665,223,582

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, 2019

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, 2019.

BKD
CPAs & Advisors

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

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

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, 2019.

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, 2019.

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, 2019, and have issued our report thereon dated October 7, 2019, 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 7, 2019

San Diego County Regional Airport Authority
Passenger Facility Charge Audit Summary
Year Ended June 30, 2019

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, 2019

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, 2019

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, 2019

(With Independent Auditor’s Report Thereon)

San Diego County Regional Airport Authority

Customer Facility Charge Program

June 30, 2019

Contents

San Diego County Regional Airport Authority

Customer Facility Charge Program

Schedule of Customer Facility Charge Collections and Expenditures

Year Ended June 30, 2019

Description	Beginning Balance, Unapplied CFC	CFC Collections	Interest Earned	Expenditures	Ending Balance, Unapplied CFC
Collections and expenditures, quarter ended September 30, 2018	$ 44,758,587	$ 11,462,213	$ 189,228	$ 9,113,272	$ 47,296,756
Collections and expenditures, quarter ended December 31, 2018	47,296,756	9,974,418	221,789	9,682,706	47,810,257
Collections and expenditures, quarter ended March 31, 2019	47,810,257	9,409,218	230,419	15,793,994	41,655,900
Collections and expenditures, quarter ended June 30, 2019	41,655,900	10,831,271	234,643	9,552,707	43,169,107
		$ 41,677,120	$ 876,079	$ 44,142,679	

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, 2019

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, 2019.

BKD
CPAs & Advisors

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

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 1949* (Code) that could have a direct and material effect on the customer facility charge program for the year ended June 30, 2019.

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, 2019.

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, 2019, and have issued our report thereon, dated October 7, 2019, 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 7, 2019

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, 2019, 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 1949* (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 (consolidated) 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 postemployment benefit plans
- Disclosures about fair value of assets
- Commitments and contingencies

Audit Adjustments

No matters are reportable.

Auditor's Judgments About the Quality of the Airport Authority's Accounting Principles

No matters are reportable.

Difficulties Encountered in Performing the Audit

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.

Other Material Communications

Listed below are other material communications 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.

GASB Statement No. 84, Fiduciary Activities

GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

GASB 84 is effective for the Authority's fiscal year ending June 30, 2020.

GASB Statement No. 87, *Leases* (GASB 87)

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 the Authority's fiscal year ending June 30, 2021. 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.

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 7, 2019

SAN DIEGO
INTERNATIONAL AIRPORT
LET'S GO.

October 7, 2019

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, 2019 and 2018 and your audit of our compliance with requirements applicable to our major federal awards program and passenger facility charge and customer facility charge programs as of and for the year ended June 30, 2019. 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 dated May 8, 2019, 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 reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.
5. 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.

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(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.

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

7. 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.

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 related party 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 affiliate 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) Sales/lease/service commitments, including those unable to be fulfilled.

(c) 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. The Airport Authority has revised net position balances of the 2018 financial statements to conform with accounting principles generally accepted in the United States of America. Management has provided you with all relevant information regarding the revision. We are not aware of any other known matters that require correction in the financial statements.

18. 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.

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

20. 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.

21. With respect to any nonattest services you have provided us during the year, including assisting with the preparation of the comprehensive annual financial report (CAFR) and assistance with submission of our data collection form to the Federal Audit Clearinghouse:

    (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.

    (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.

    (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.

    (d) We have evaluated the adequacy of the services performed and any findings that resulted.

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

23. 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.

24. 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.

25. 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.

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

27. 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.

28. 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; matching, procurement and suspension and debarment; reporting; and special tests and provisions that are applicable to our federal awards program. 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), the *Passenger Facility Charge Audit Guide for Public Agencies*, and *California Code 1949*, as applicable to our Customer Facility Charge program.

   (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.

29. 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 could 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.

30. 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.

31. 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.

32. 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.

Scott

Scott Brickner, Vice President / Chief Financial Officer

Kathryn Kiefer

Kathryn Kiefer, Senior Director, Finance, Accounting and Airline Relations

SAN DIEGO
INTERNATIONAL AIRPORT
LET'S GO.

Report to the Audit Committee

November 4, 2019

Annual Audit - Year Ended June 30, 2019

Presentated by:

David Coleman, CPA
Nikki Kubly, CPA
Andrew Sherwood, CPA

experience BKD LLP
CPAs & Advisors

2019 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 2019, the Airport Authority received its Certificate of Achievement for Excellence in Financial Reporting for its 2018 CAFR. This was the 16th 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 2019, 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.

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2019 Highlights (Cont.)

- **Asset highlights:** Restricted Cash, cash equivalents and investments decreased $67 million primarily as a result of payments on capital projects. Capital assets, net, increased by $18 million due to ongoing construction on terminal projects; this is net of depreciation expense of $124 million. Grants receivable decreased by $7 million or 62% resulting from collection of fiscal 2018 Quieter Home Program receivables during fiscal 2019.

- **Liability highlights:** Restricted accounts payable and accrued liabilities decreased by $15 million or 41% related to a decrease in terminal projects invoicing outstanding at June 30, 2019 from 2018. Long-term debt decreased by $35 million or 2% as a result of annual debt service. Accrued interest payable decreased slightly in line with decreasing outstanding principle balances.

- **Net position highlights:** Net investment in capital assets decrease by $13 million, which is primarily resulting from a decrease in unspent bond proceeds. Amounts restricted for construction increased $15 million resulting from increased reserves for the Passenger Facility Charge program. Unrestricted net position increased by $41 million or 15%, which is primarily due to the increases in unrestricted investments.

- **Revenue highlights:** Airline revenue grew by $11 million or 9%, reflecting higher cost recovery from the airlines in 2019. Concession revenue increased by $6 million or 9%, primarily stemming from the Airport Authority's expanded concession program and an increase in enplaned passengers. Parking and ground transportation revenue rose by $10 million or 18% due to higher enplanements and higher trip fees from transportation network companies.

- **Expense highlights:** Salaries and benefits increased $2 million or 4% due to planned wage and benefit increases. Contractual services increased by $5 million or 10% due to increased activity in fiscal 2019 related to Terminal 2 projects. Interest expense increased by $6 million or 9% primarily due to the Authority's adoption of GASB No. 89 which stopped interest expense from being capitalized during fiscal 2019. In fiscal 2018 approximately $7 million in interest expense was capitalized.

- **Cash flow highlights:** Cash flows from operating activities continue to grow and reflect a strong trend and unrestricted liquid reserves ($319 million), representing 98% 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. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This statement requires business-type governmental to stop capitalizing interest costs as of the year adopted. In fiscal 2018 capitalized interest costs were approximately $7 million; these costs of fiscal 2019 were not capitalized and are included in interest expense prospectively from fiscal 2019 going forward.

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Future Change in Accounting Principles

- **For the fiscal year ended June 30, 2020, the Airport Authority will implement the following accounting principle:**

  - *GASB Statement No. 84, Fiduciary Activities*

    This Statement was issued to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. By laying out a series of criteria, Statement No. 84, *Fiduciary Activities* , clarifies whether a local government has a fiduciary responsibility.

    This Statement is effective for financial statements for fiscal years beginning after December 15, 2018. Earlier application is encouraged. GASB 89 should be applied retroactively by restating financial statements, if practicable, for all prior periods presented. If not practicable to restate the prior period, the notes to the financial statements should disclose the reasoning as well as the restatement for the period implemented.

- **For the fiscal year ended June 30, 2021, the Airport Authority will implement the following accounting principle:**

  - **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. This Statement will be implemented for the Airport Authority's June 30, 2021 fiscal year end.

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Internal Control Considerations - Cash Inflows

- **Audit consideration and testwork of cash inflows is developed through the following process:**

  - *Identify and understand cash collection points of the Airport Authority*

    - *Cash collections are materially received through payments received from mailed checks and through parking operations*

  - *Analyze internal control questionnaires completed by the Accounting team*

    - *From completed questionnaires, BKD reviews responses to gain internal control design understanding and identify of key controls.*

    - *These key controls are deemed KEY to ensure accounting records are complete and accurate and to prevent financial misappropriation.*

  - *Test identified key controls identified through the above process. These are referred to as, "internal control walkthroughs," and are performed on one selected test item like a review of a reconciliation of cash receipts.*

    - *From key controls tested, errors where the control did not operate as designed are accumulated and reported to management or the Audit Committee based on the level of significance of each individual item.*

    - *Following audit procedures over key controls related to cash inflows, no internal control issues or lapses in operation were identified.*

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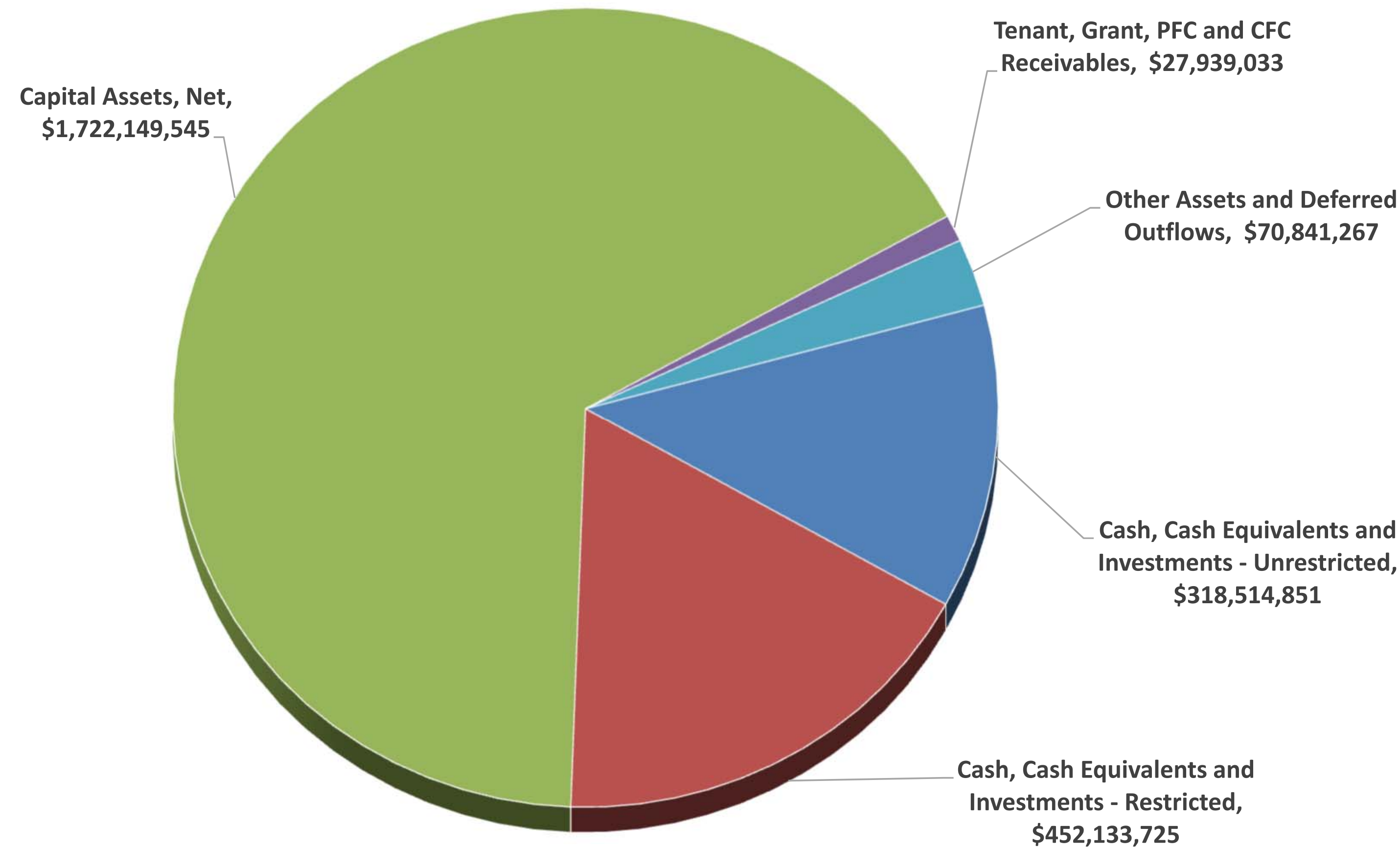
Assets and Deferred Outflows Composition for the Year Ended June 30, 2019

Total: $2,591,578,421



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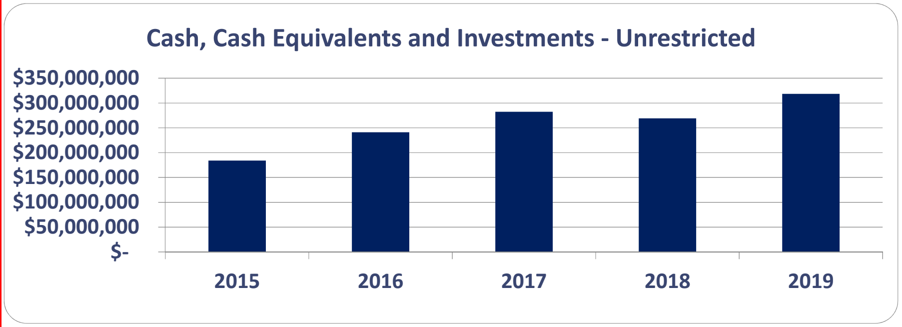
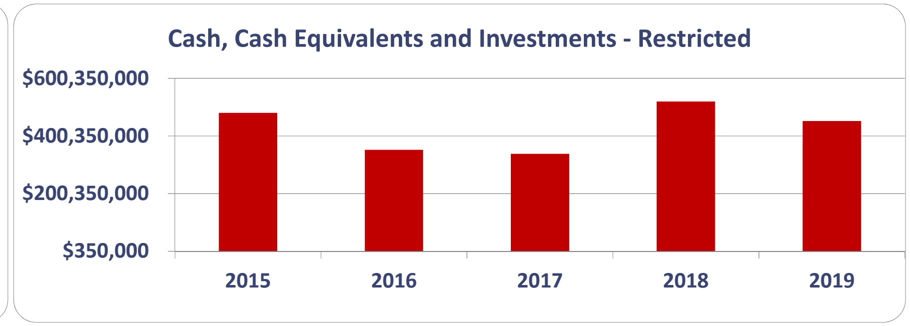
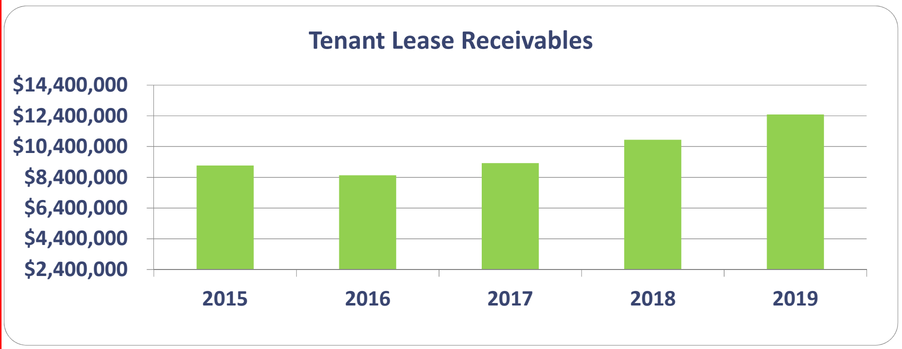
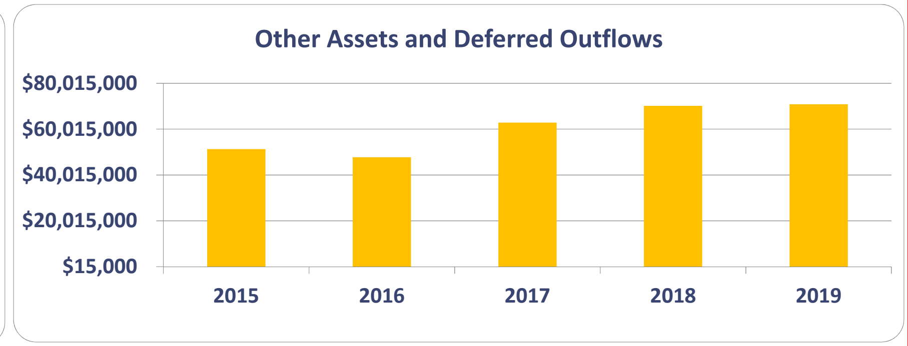
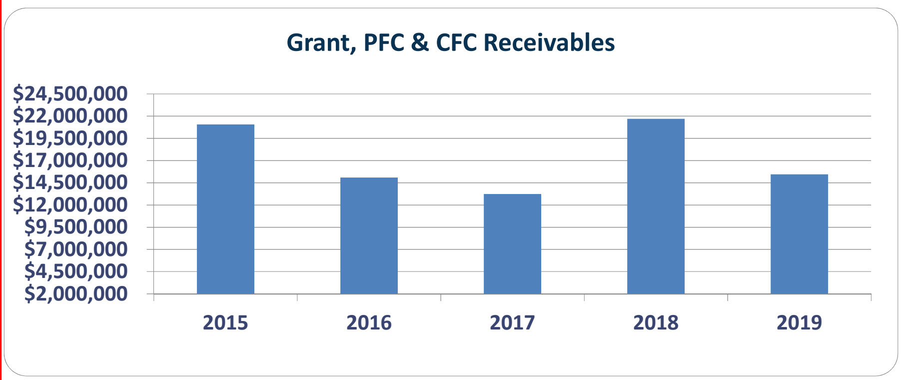
Assets and Deferred Outflows Composition Trends

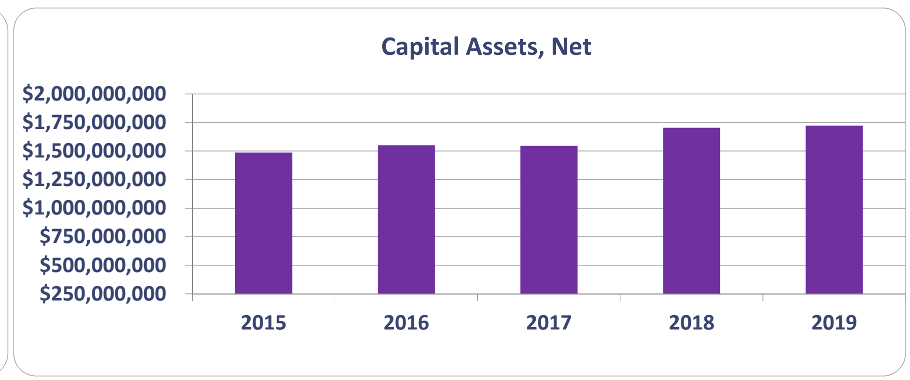












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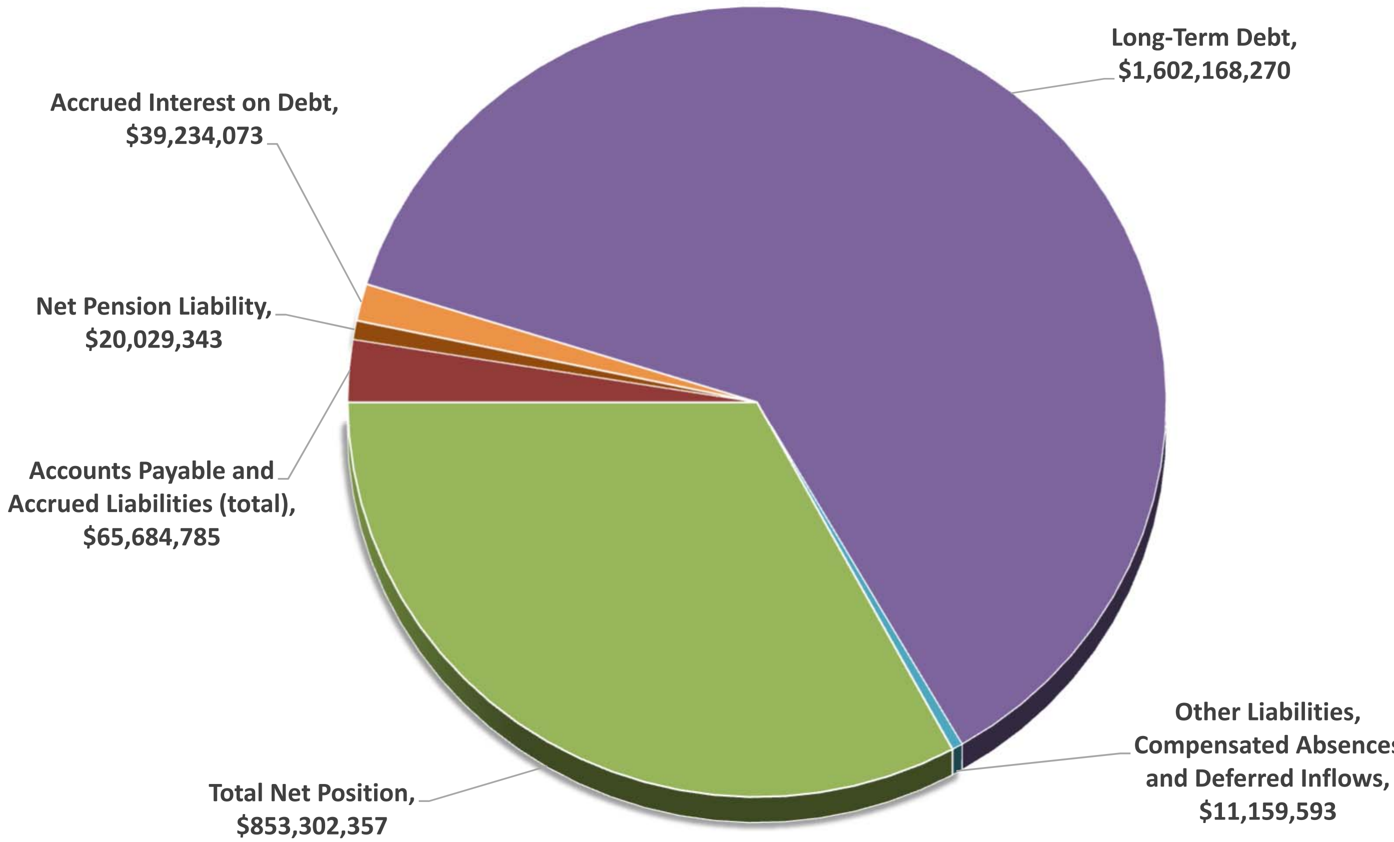
Liabilities, Deferred Inflows and Net Position Composition for the Year Ended June 30, 2019

Total: $2,591,578,421



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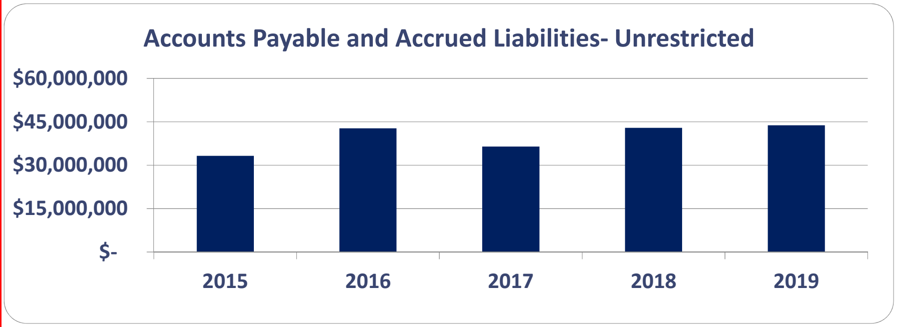
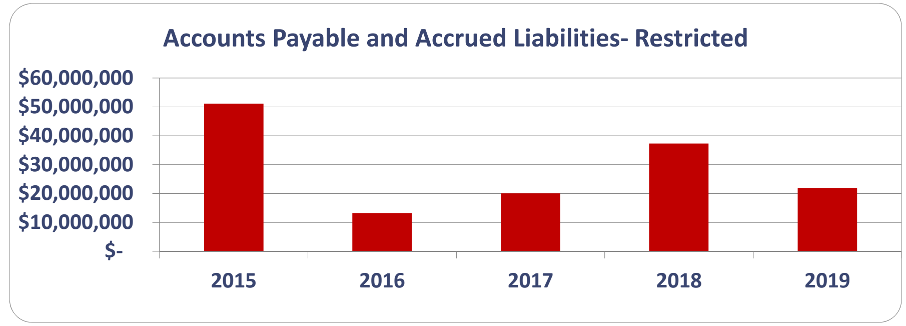
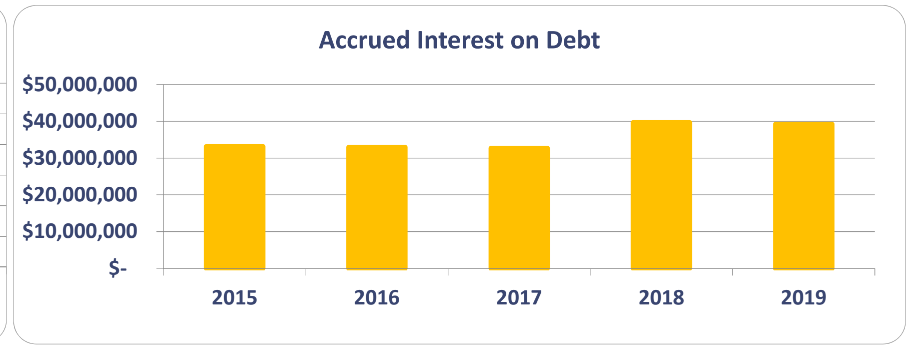
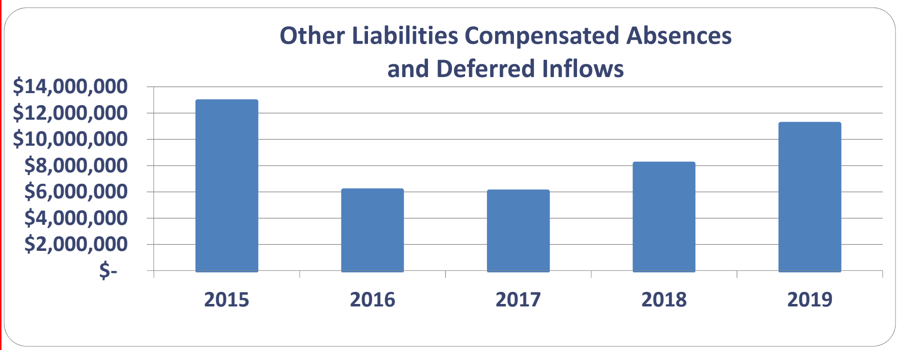
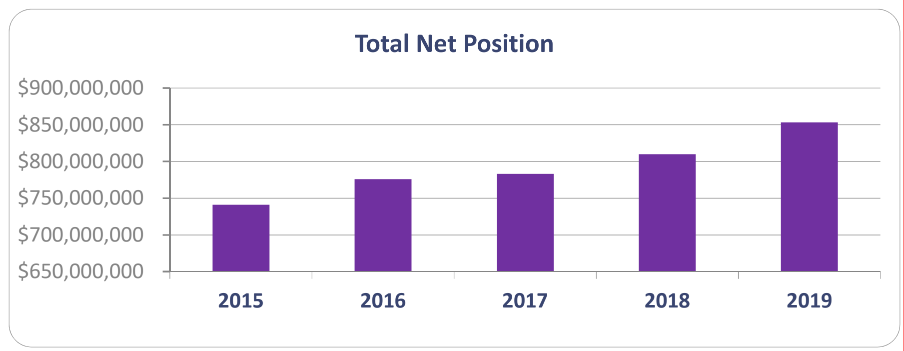
Liabilities, Deferred Inflows and Total Net Position Composition Trends











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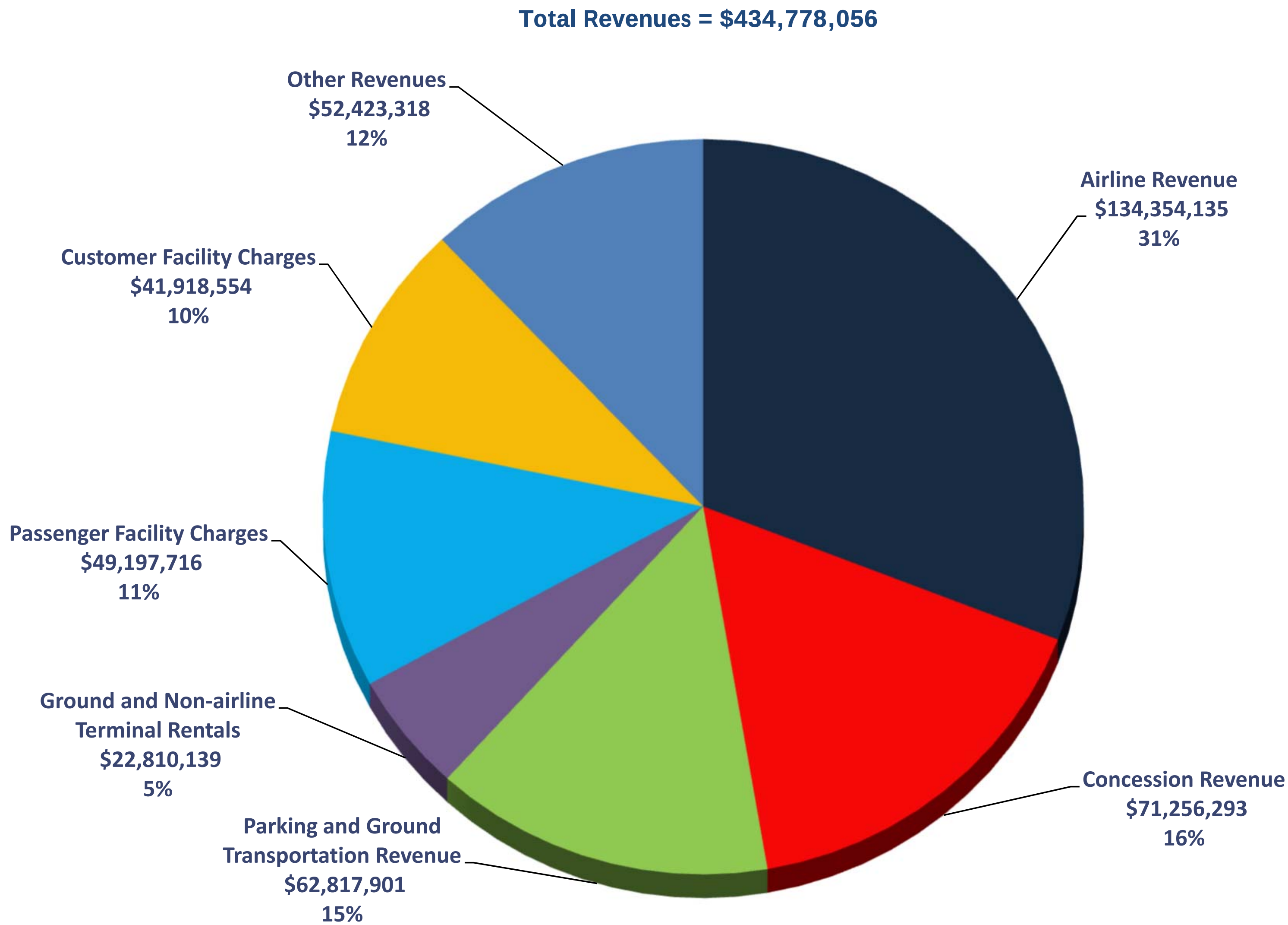
Total Revenues and Capital Contributions Composition for the Year Ended June 30, 2019



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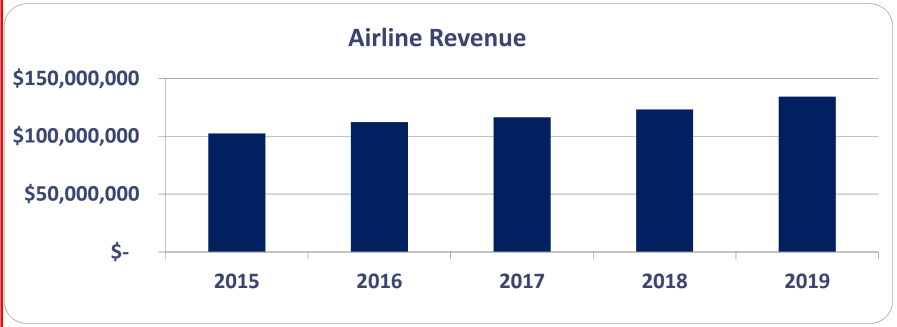
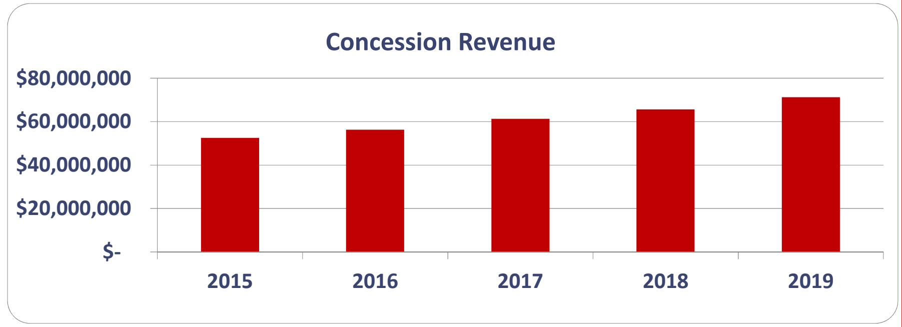
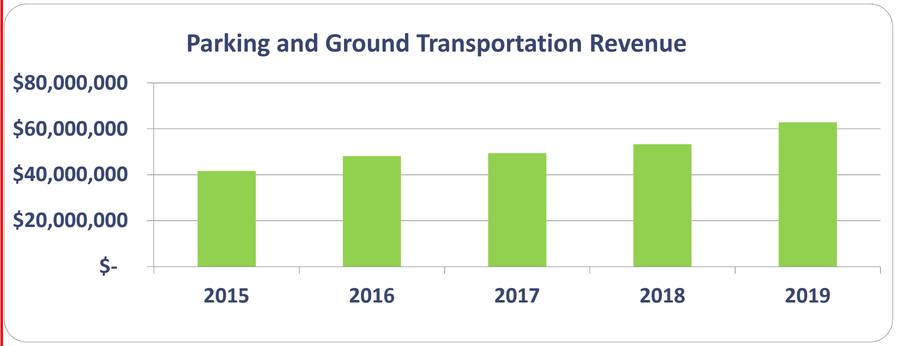
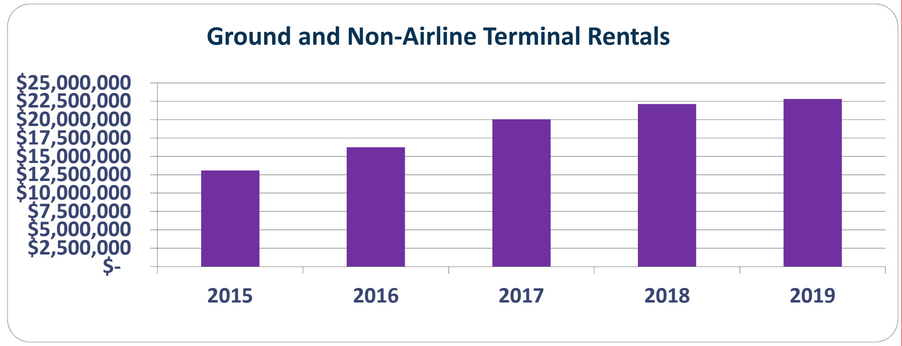
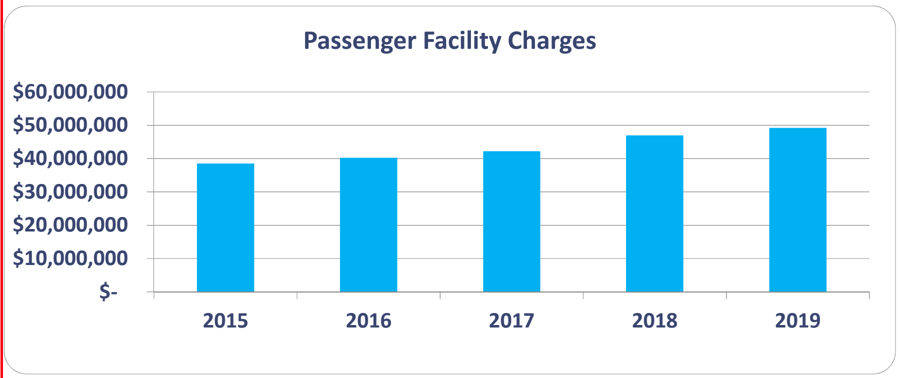
Total Revenues and Capital Contributions Trends

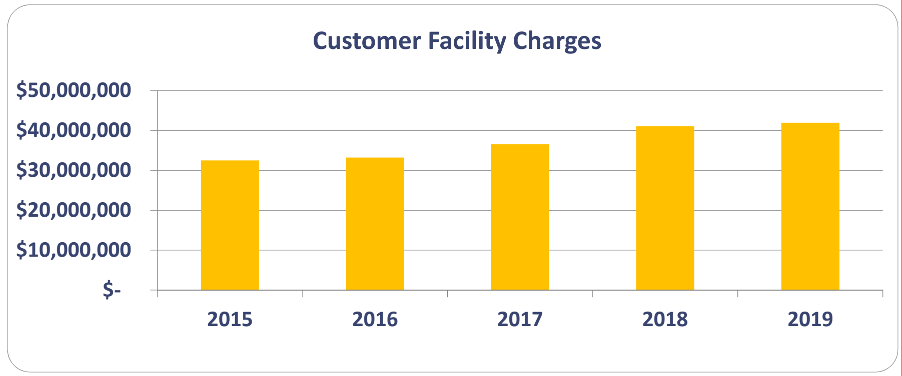












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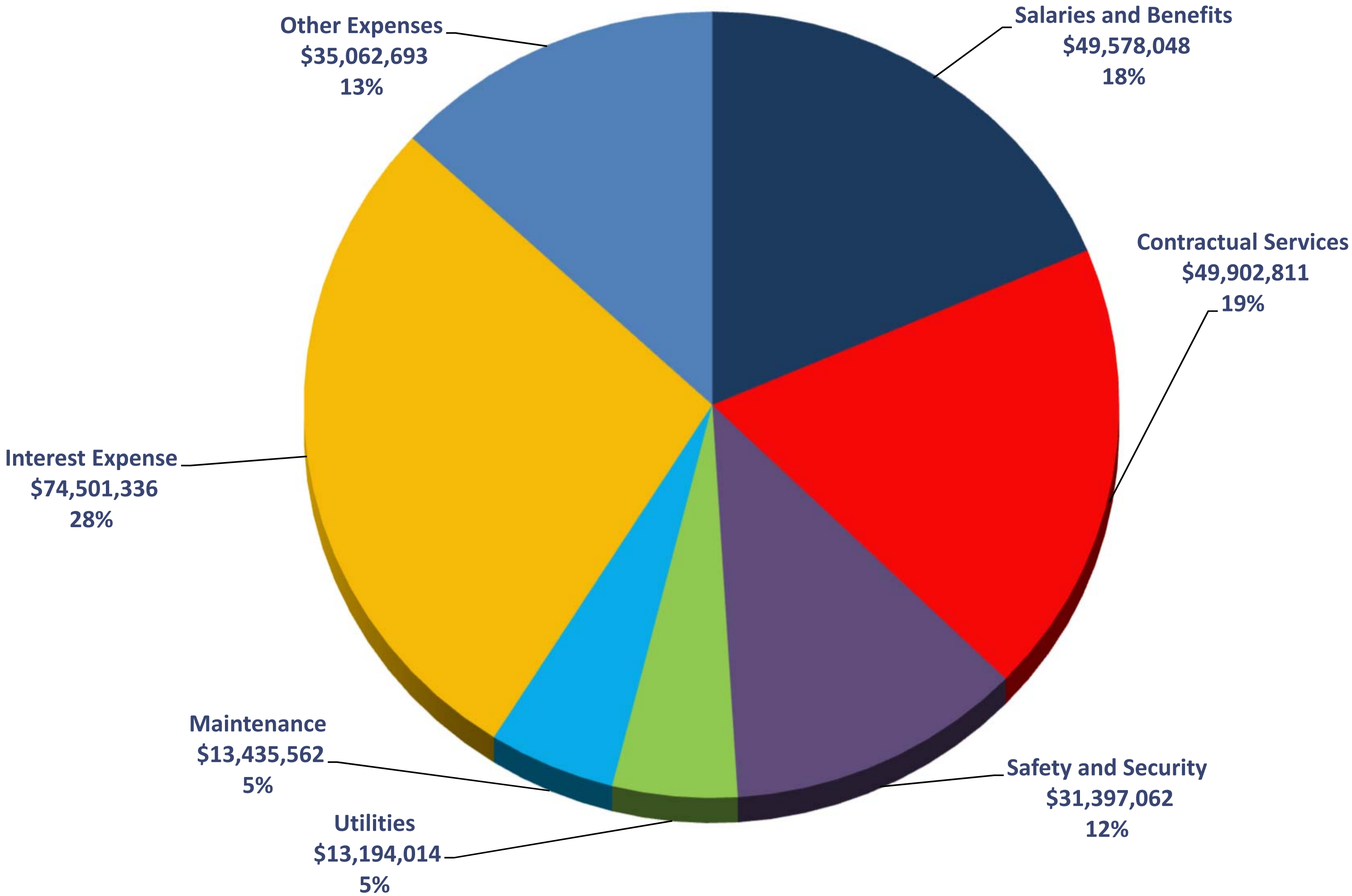
Expense Composition for the Year Ended June 30, 2019
(Excl. Depreciation)

Total Expenses (Excl. Depreciation of $124,432,880) = $267,071,526



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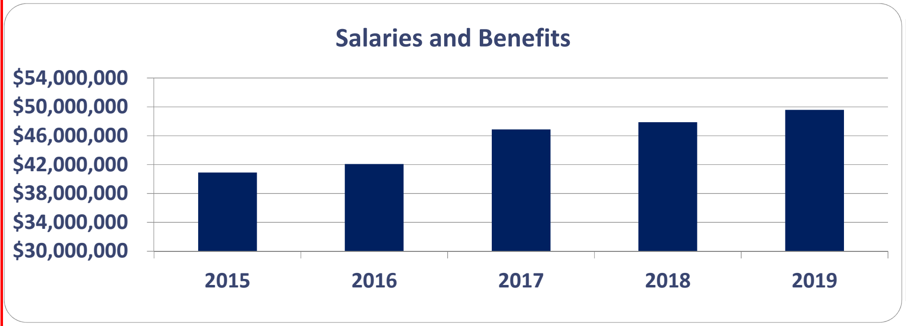
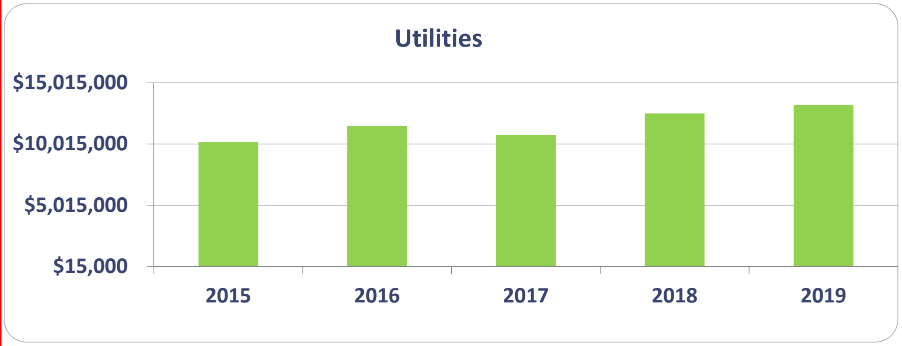
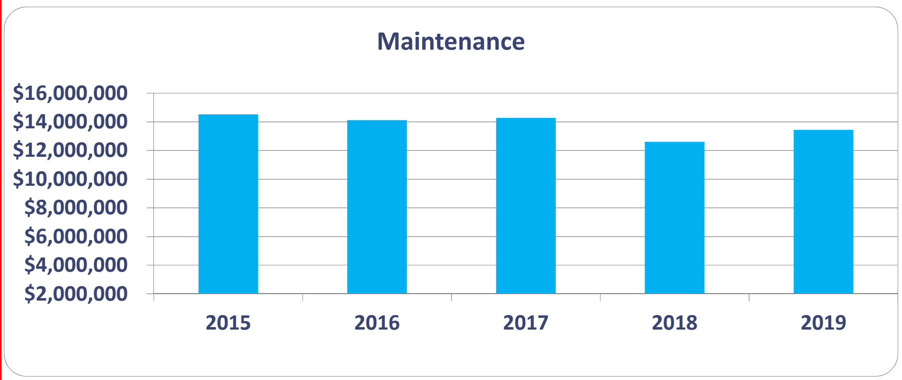
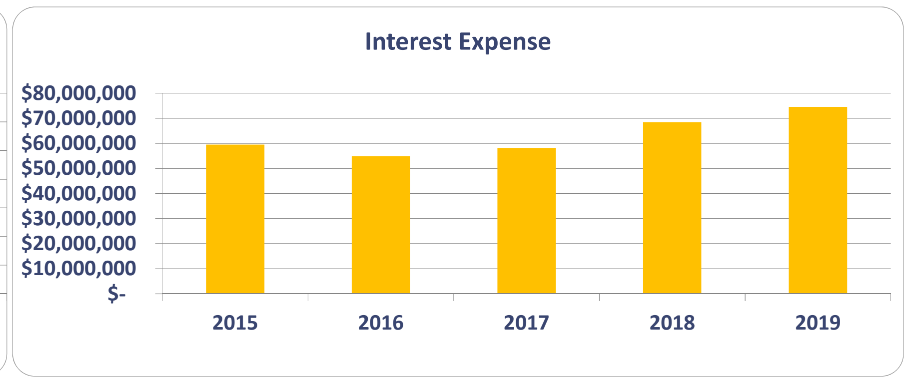
Expense Trends









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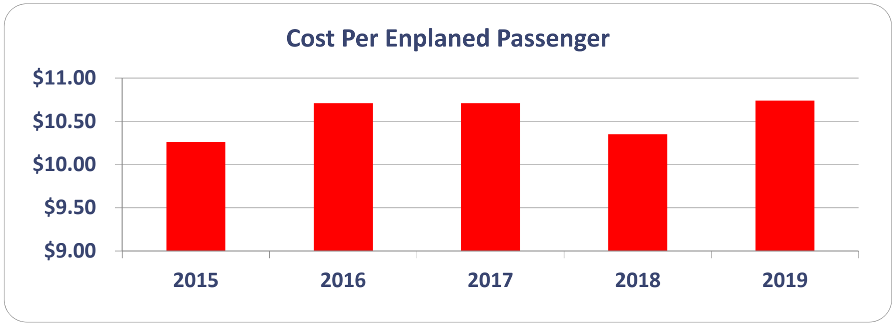
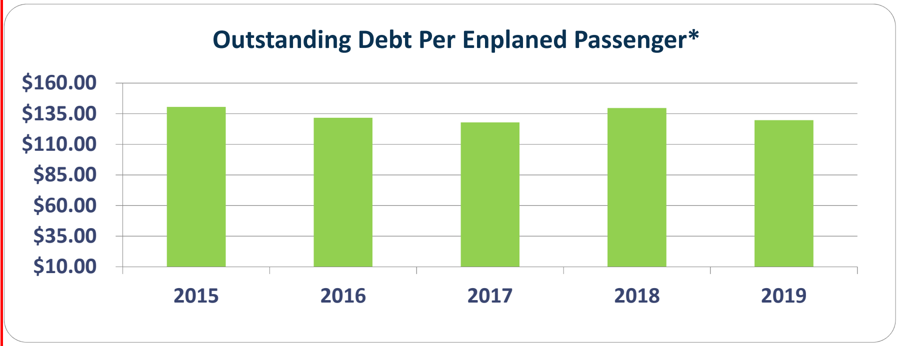
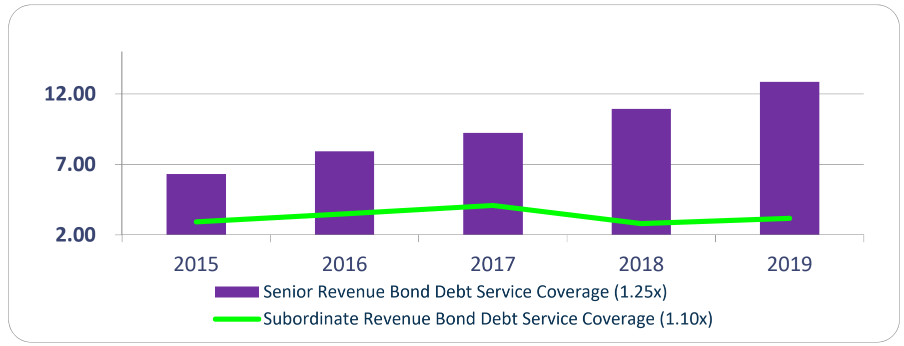
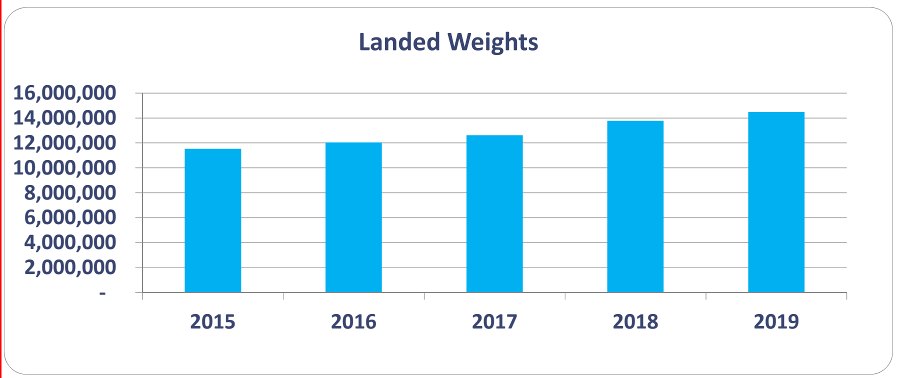
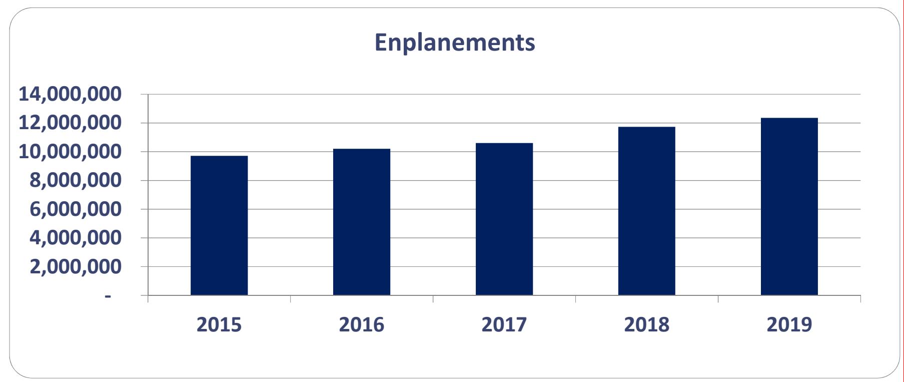
Other Relevant Trends











* Includes outstanding CFC Bond Debt

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SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY

Item No.
4

AUDIT COMMITTEE

Meeting Date: **NOVEMBER 4, 2019**

Subject:

Review of the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2019

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, 2019, is submitted as Attachment A.

Fiscal Impact:

Adequate funding for the audit conducted by BKD, LLP is included in the adapted Fiscal Year 2020 and conceptually approved Fiscal Year 2021 Operating Expense Budgets within the Accounting Department Services – Other line item.

Authority Strategies/Focus Areas:

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

Strategies

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

Focus Areas

☒ Advance the Airport Development Plan	☐ Transform the Customer Journey	☒ Optimize Ongoing Business

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:

SCOTT BRICKNER
CHIEF FINANCIAL OFFICER

KATHY KIEFER
SENIOR DIRECTOR, FINANCE, ACCOUNTING AND AIRLINE RELATIONS

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

SAN DIEGO, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEARS ENDED JUNE 30, 2019 & 2018

SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY

SAN DIEGO, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEARS ENDED JUNE 30, 2019 & 2018

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, Accounting, and Airline Relations

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
SAN DIEGO, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED JUNE 30, 2019 & 2018

TABLE OF CONTENTS

INTRODUCTORY SECTION

LETTER OF TRANSMITTAL

AUTHORITY ORGANIZATION CHART

AUTHORITY BOARD MEMBERS AND EXECUTIVE STAFF

GFOA CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

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 7, 2019
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, 2019 and 2018. 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 position, 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, 2019 and 2018.

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 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. Despite global economic challenges and trade disputes, the U.S. economy has continued its path of moderate growth, with Gross Domestic Product (GDP) increasing 2.9% during 2019.

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 3.35 million as of January 1, 2019. 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 (42 percent), Chula Vista (8 percent), Oceanside (5 percent), Escondido (5 percent), Carlsbad (3 percent), El Cajon (3 percent), and Vista (3 percent). The combined San Diego/Tijuana metropolitan population is estimated to be approximately 5.4 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 2019 was 3.3 percent compared to June 2018, at 3.7 percent. California's unemployment rate was 4.2 percent in June 2019 and 4.5 percent in June 2018, and the national unemployment rate was 3.8 percent as of June 2019 compared to 4.2 percent as of June 2018. See the Statistical Section for additional economic information.

SAN's enplaned passengers grew a very robust 5.3 percent in fiscal year 2019, reflecting continuing economic and industry strength. Total enplaned passengers were 12.4 million, compared to 11.7 million in fiscal year 2018. See the MD&A section of the Financial Section of this report for further discussion of the current year activity.

MAJOR INITIATIVES, AWARDS, AND ACCOMPLISHMENTS

SAN DIEGO INTERNATIONAL AIRPORT CONTRIBUTES NEARLY $12 BILLION TO REGIONAL ECONOMY

An Economic Impact Study completed for San Diego International Airport (SAN) in late 2018 indicated a dramatic increase in regional employment, payroll and economic impact as a result of the airport. The study quantified the airport's total economic contributions to the region at nearly $12 billion annually.

This study highlighted the airport's role as far more than a vital transportation resource for the San Diego region. SAN is a regional asset that is also a major economic driver and job creator, constantly looking at ways to improve the passenger experience and help the region become increasingly global.

Total employment supported by the airport has increased by 31 percent over the past five years. In 2017 nearly 118,000 residents in the region were employed directly or indirectly due to the activities at SAN, generating nearly $3.9 billion in total annual payroll.

Business and leisure visitors spend money while visiting the region, thereby helping support additional economic impacts. According to the San Diego Tourism Authority, visitors arriving by air spend an average of $835 per person per trip. In 2017, it is estimated that more than 5.9 million visitors to the region spent nearly $5 billion in the regional economy.

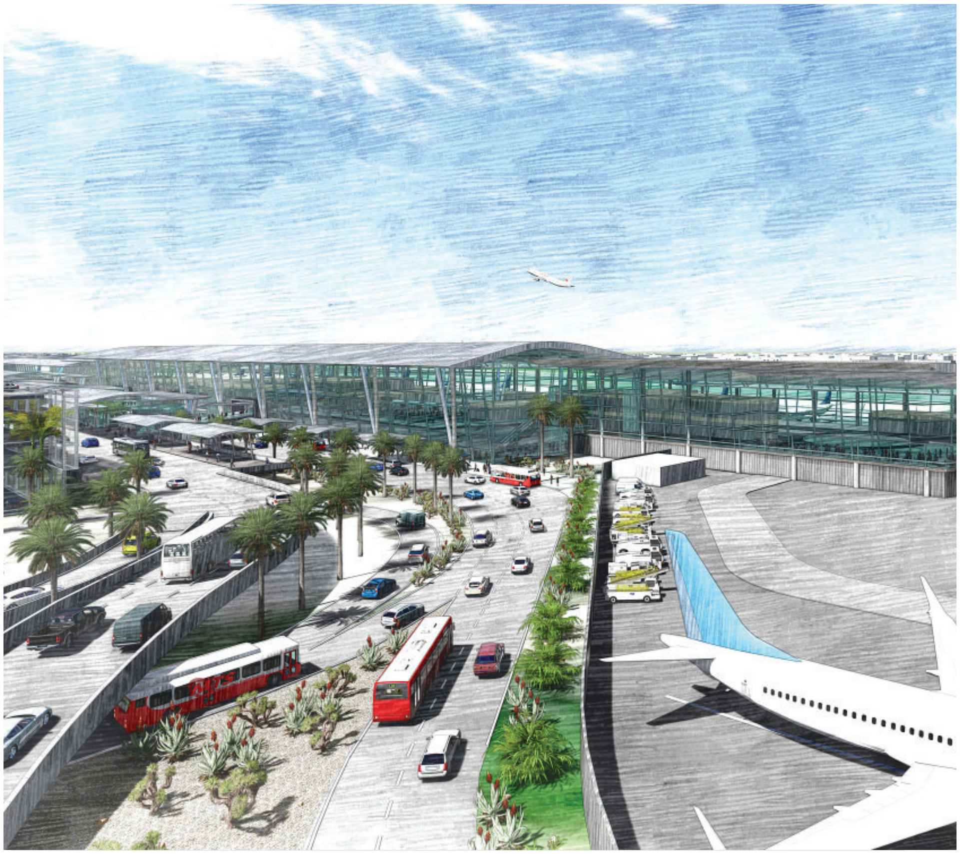
The full Economic Impact Study is available online at www.san.org/news/economic-impact-study.

SAN DIEGO INTERNATIONAL AIRPORT BREAKS PASSENGER TRAFFIC RECORD FOR FIFTH CONSECUTIVE YEAR

SAN served 24 million passengers in calendar year 2018, a record-high total and a nearly 10 percent increase over the previous calendar year. Of the 24 million passengers, more than 1 million were international passengers – a 19 percent increase over 2017. That is also a record for the airport. In addition to a strong economy and robust tourism industry, several factors contributed to the increase in 2018, including:

- Air Canada adding a third daily flight to Vancouver
- Lufthansa beginning service to Frankfurt
- Japan Airlines filling more seats per flight, a measurement known as “load factor.” The San Diego flight operated at one of the highest load factors of any mainland US-Tokyo flight in their system
- Edelweiss carrying 49 percent more passengers to Zurich in 2018 than they did in 2017
- Southwest adding Puerto Vallarta service in 2018 and increasing service to Cabo

Overall, 16 new routes were added in 2018, and all but two of the 17 airlines serving SAN experienced an increase in passenger traffic. Southwest added the most passengers, carrying 794,401 more in 2018 than in 2017, followed by Alaska Airlines with 456,360 and United with 306,837.



AIRPORT DEVELOPMENT PLAN MOVING FORWARD

Over the past year, the San Diego County Regional Airport Authority has been working with stakeholders to refine the Airport Development Plan (ADP), which envisions the replacement of Terminal 1 with a more modern efficient facility featuring more gates, larger gate-area hold rooms, more shops and restaurants, and more security checkpoint lanes. It also includes related improvements around the terminal and on the airfield as well as transportation and transit access improvements.

The Airport Authority's goal is to provide a first-class customer experience and maintain the airport's role as a major economic driver, while serving as a collaborative regional partner. To that end, the Airport Authority has held over 85 meetings with a wide range of stakeholders to gather input and feedback and collaborate on ways to improve the ADP. Major topic areas discussed in stakeholder meetings included improving transportation/transit connectivity, reducing parking, addressing climate change and sea-level rise, and updating the passenger forecast.

AIRPORT AUTHORITY AND AIRLINES FINALIZE A TEN YEAR AGREEMENT

In an ongoing effort to improve the customer experience, the Airport Authority has reached a new 10-year agreement with its airline partners. Highlights of the agreement include a new major maintenance fund to be used for future capital projects, a guaranteed minimum debt service coverage ratio of 1.40, no sharing of airport revenue, and pre-approval from the airlines for the Airport Authority to contribute over a half-billion dollars to help alleviate traffic congestion and make it easier for everyone to access San Diego International Airport.

This agreement provides the financial foundation for the Airport Authority to proceed with the ADP and ensures that the Airport Authority will have the means to effectively partner with other regional agencies to improve access to the airport through transportation and transit projects.

AIRPORT AND ENGIE STORAGE CONTRACT TO FURTHER AIRPORT'S STRATEGIC ENERGY INITIATIVE

San Diego International Airport will employ a battery system to store energy generated from its solar arrays. ENGIE Storage will install the system, which will be the first of its kind at an airport in the U.S.

The battery storage system will allow the airport to realize additional significant financial benefits from its campus-wide system of photovoltaic panels. The airport is continuously exploring ways to operate more efficiently and reduce its carbon footprint as energy and demand costs rise. This system becomes an important tool in that effort by helping to harness onsite renewable energy opportunities and maximize their benefits well into the future. The airport will be using GridSynergy®, a comprehensive, software-driven energy storage solution. The GridSynergy cloud-based software will draw on past and present energy generation and usage data at the airport to calculate optimal charge and discharge cycles for the lithium-ion batteries.

SAN WINS 'AIRPORTS GOING GREEN' AWARD FOR EMISSIONS REDUCTION, CARBON OFFSET AND FOOD WASTE PROGRAMS

San Diego International Airport (SAN) has won an international award for three innovative programs aimed at reducing greenhouse gases, offsetting carbon emissions and diverting food waste from landfills.

SAN was one of only eight airports worldwide to win an Airports Going Green Award, presented by the Chicago Department of Aviation in late 2018. The three programs at SAN that were recognized by the award are:

TNC GREENHOUSE GAS REDUCTION PROGRAM

This novel program reduces greenhouse gas emissions from rideshare companies such as Uber and Lyft operating at SAN. It offers incentives for these companies to reduce emissions by using more fuel-efficient vehicles, and trip reduction (i.e. carpool and re-match).

THE GOOD TRAVELER

Launched by SAN in 2015, this nonprofit collaboration of airports allows air travelers to purchase carbon offsets that help balance out the environmental impact of their flight. Each $2 purchase offsets 1,000 miles of air travel, with the proceeds going toward projects such as wind farms, wetlands restoration and forestation that help keep greenhouse gases out of the atmosphere.

FOOD RECOVERY PROGRAM

This program diverts food waste from the landfill and donates edible food to those in need. This is accomplished through an airport-wide composting effort that collected more than 365 tons of food waste in 2017. Additionally, more than 54,000 pounds of food were donated to worthy causes, equaling more than 4,000 meals.

SAN ARTS PROGRAM LAUNCHES 2019 PROGRAMS

San Diego International Airport's (SAN) Arts Program has launched its 2019 collective experience for airport travelers and visitors. The Arts Program aims to infuse the airport with light, levity, comfort and enriching experiences. The program highlights the region's rich cultural community through three components: Temporary Exhibitions, Performing Arts and Public Art. A new Arts Master Plan will carry these focus areas into the future with guidelines for the program's continued innovation.

PERFORMING ARTS

The airport's spring 2019 Performing Arts Residency group, San Diego Dance Theatre, created, rehearsed and performed new routines in the terminals. Dances, movement patterns, and music selection were influenced by the artworks in the airport's public art collection as well as the history and geography of the San Diego region.

PUBLIC ART

Oh lovely desert, I worry about you, by San Diego-based artist Adriene Hughes, is the latest work in the Admiral Boland Way mural series. Located on the north side of the airport campus, the temporary mural offers a dramatic, panoramic view of the Anza Borrego desert using infrared photography. The 144' long mural is composed of 45 separate photographs digitally stitched together to create a sprawling collage that references the tradition of landscape photography. The mural will be on display through February 2020.

For more information about the Airport Arts Program, visit http://arts.san.org/.

SAN DIEGO INTERNATIONAL AIRPORT WINS INNOVATION AWARD

The Airport Innovation Accelerator established by American Association of Airport Executives (AAAE) has recognized and awarded San Diego International Airport (SAN) as the 2018 Most Innovative Large Hub Airport award.

SAN highlighted its innovations in environmental sustainability, as well setting up a unique Airport Innovation Lab in the decommissioned former Commuter Terminal.

SAN's location next to San Diego Bay drives its commitment to environmental stewardship. And operating on a small, 661-acre footprint inspires new ways to fund necessary improvements, while always enhancing the passenger experience.

Two of SAN's unique environmental innovations are its air conditioning condensate water collection and its Good Traveler carbon-offset programs. The former captures water that drips onto the airfield, posing safety and run-off risks, and recycles it for non-potable water uses. The Good Traveler program – which has already been adopted by other airports – allows the purchase of credits to offset air travel.

The Airport Innovation Lab is a working terminal space where pre-existing ideas can be tested and accelerated, potentially leading to contracts with SAN, as well as entry to other airports.

AIRPORT INNOVATION LAB'S THIRD GROUP OF INNOVATORS AT WORK

The Airport Innovation Lab at San Diego International Airport is building momentum, with a third group of innovators now well into a 16-week accelerator program.

The newest group is participating in one of two opportunity areas. One is an Interactive Children's Entertainment Solution, and the other is termed a "wild card." The former could be mobile, pop-up and/or temporary entertainment that could be sited next to food-and-beverage concessions. Successful ideas will provide engagement, entertainment and movement to add fun to children's airport experiences. The latter is more wide open to welcome ideas that may not previously have been thought of, but that are viable solutions.

At the end of the program, successful innovators have the potential to win a contract from the San Diego County Regional Airport Authority, and/or gain entrance to other airports and analogous businesses including other transportation hubs, convention centers, shopping malls and other large venues such as ball parks, theme parks and hotels.


35
STONE

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 2019 with operating income (before depreciation) of $116.5 million. Fiscal year 2019 also grew as compared to fiscal year 2018, with enplanements increasing 5.3 percent, and aircraft operations 4.3 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 Marketing staff. 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

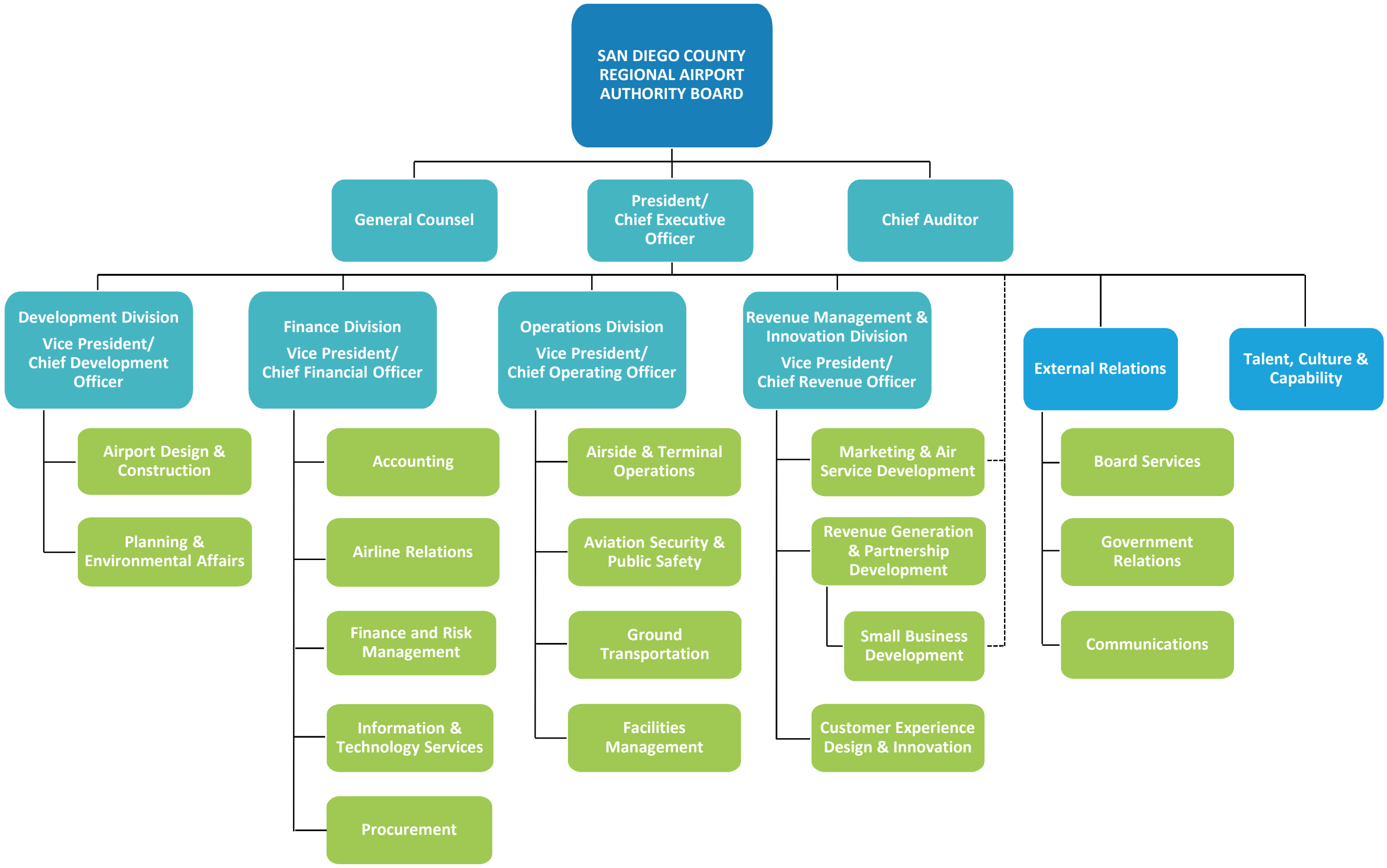
Scott Brickner, CPA

Vice President | Chief Financial Officer

ORGANIZATION CHART

AS OF JUNE 30, 2019

SDCRAA Organizational Structure



AUTHORITY BOARD MEMBERS AND EXECUTIVE STAFF

AS OF JUNE 30, 2019

AIRPORT AUTHORITY BOARD

EXECUTIVE COMMITTEE MEMBERS:

C. APRIL BOLING, BOARD CHAIRMAN

PAUL ROBINSON, VICE CHAIR

MICHAEL SCHUMACHER

GENERAL MEMBERS:

GREG COX

JIM DESMOND

MARK KERSEY

ROBERT T. LLOYD

JOHANNA SCHIAVONI

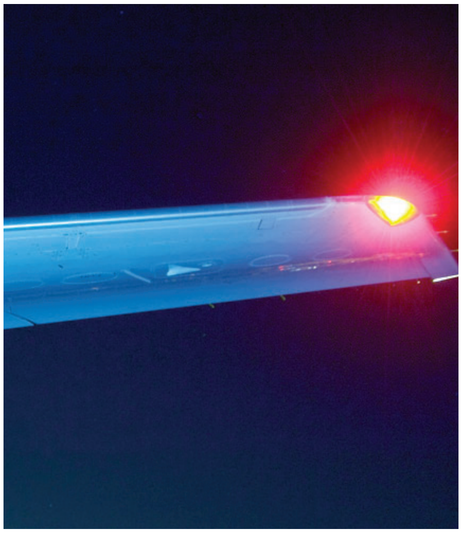
MARK B. WEST

EX-OFFICIO MEMBERS

COY BINNS

GAYLE MILLER

COL. CHARLES B. DOCKERY



EXECUTIVE STAFF

KIMBERLY J. BECKER, PRESIDENT/CHIEF EXECUTIVE OFFICER

SCOTT M. 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

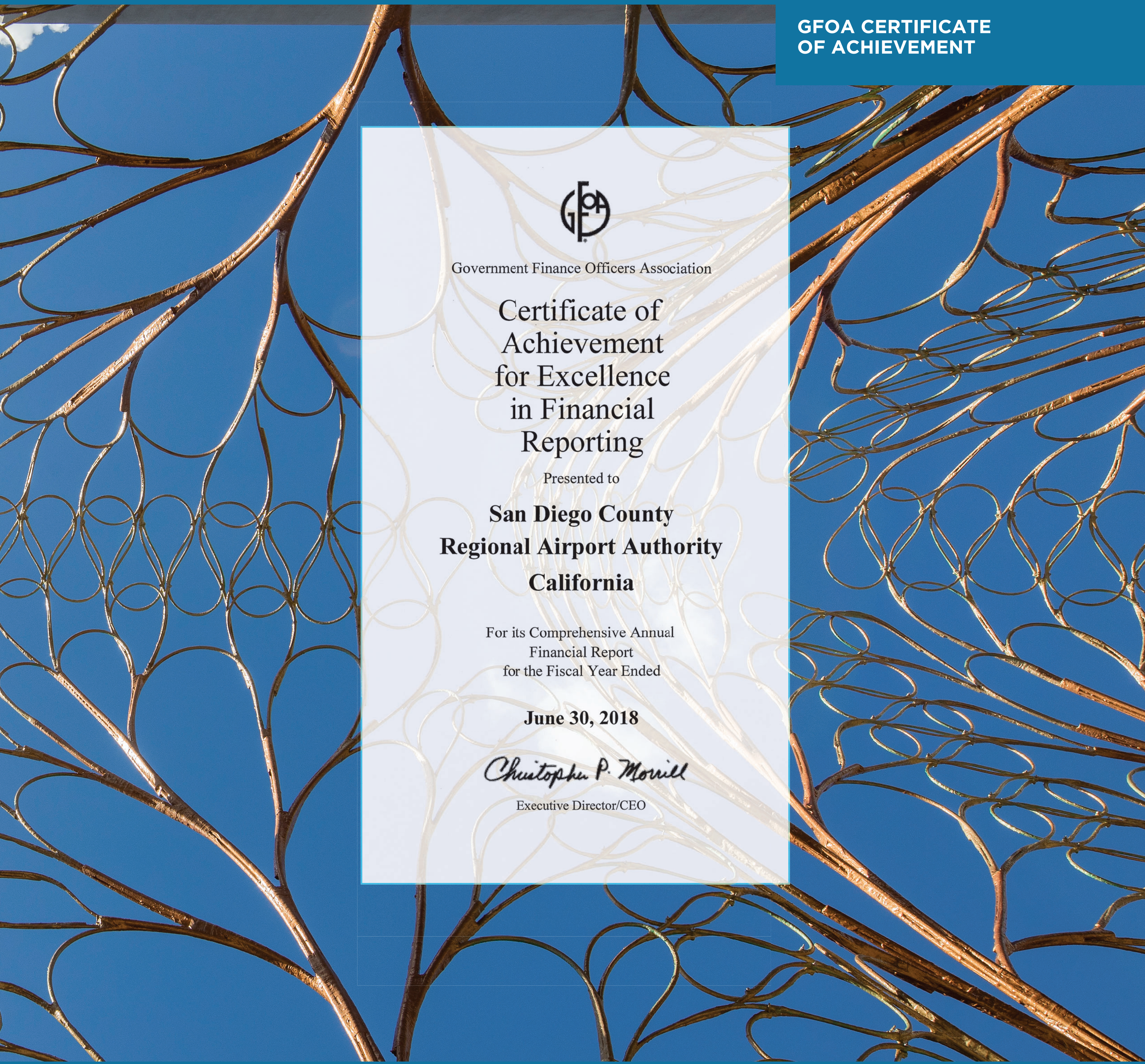
LEE PARRAVANO, CHIEF AUDITOR

GFOA CERTIFICATE OF ACHIEVEMENT

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, 2018. This is the sixteenth 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, 2018

Christopher P. Morrill

Executive Director/CEO


JLG

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, 2019 and 2018, 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, 2019 and 2018, 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.

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

Other Matters

Required Supplementary Information

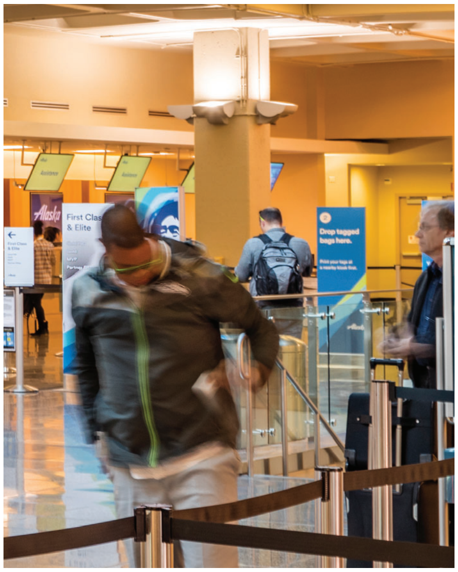
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension and other postemployment benefit information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although 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 financial statements that collectively comprise the San Diego County Regional Airport Authority's basic financial statements. The Introductory and Statistical Sections as 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 7, 2019

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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 (2017 – 2019)

AIRPORT ACTIVITIES HIGHLIGHTS (2017 – 2019)

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 2017	FY 2018	**FY 2019**
Enplaned passengers	10,596,483	11,731,559	**12,356,286**
% increase	3.8%	10.7%	**5.3%**
Total passengers	21,140,067	23,433,018	**24,691,673**
% increase	3.6%	10.8%	**5.4%**
Aircraft operations	201,011	218,671	**228,092**
% increase	3.9%	8.8%	**4.3%**
Freight and mail (in tons)	188,607	191,347	**186,469**
% increase	1.6%	1.5%	**-2.5%**
Landed weight (in thousands)	12,616	13,770	**14,481**
% increase	4.7%	9.1%	**5.2%**

Overall, the strong economy is reflected in the FY 2019 Airport Activities results at SDIA. There was a substantial increase in enplaned passengers in fiscal year 2019 of 5.3 percent. New airline routes also factored into the sizable increases of aircraft operations and landed weight.

OPERATING REVENUES
(IN THOUSANDS)

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 .9 percent in 2017, was followed by a larger 3.4 percent increase in 2018, and was followed by another large increase of 5.4 percent in 2019.

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

	FY 2017	FY 2018	**FY 2019**
Operating revenues	$ 248,847	$ 266,079	**$ 293,679**
Operating expenses	(258,955)	(274,651)	**(301,548)**
Nonoperating revenues, net	15,428	21,528	**43,033**
Capital contributions and grants	1,904	13,079	**8,213**
Increase in net position	7,224	26,035	**43,377**
Net position, beginning of year	775,949	783,173	**809,925**
Prior-period adjustment	-	717	**-**
Net position, end of year	$ 783,173	$ 809,925	**$ 853,302**

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 75 caused prior-period adjustments in fiscal year 2018. The cumulative changes in accounting for post- retirement benefits liabilities are reflected in these adjustments.

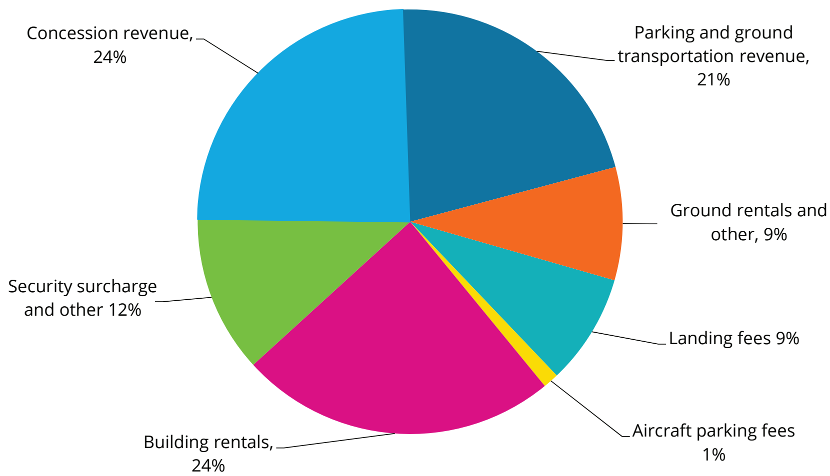
OPERATING REVENUES (IN THOUSANDS)

	FY 2018	**FY 2019**	From 2018 to 2019 Increase (Decrease)	% Change
Airline revenue:				
Landing fees	$ 23,900	**$ 24,816**	$ 916	3.8%
Aircraft parking fees	3,236	**3,471**	235	7.3%
Building rentals	62,241	**70,912**	8,671	13.9%
Security surcharge	32,303	**33,559**	1,256	3.9%
Other aviation revenue	1,477	**1,596**	119	8.1%
Total airline revenue	123,157	**134,354**	11,197	9.1%
Concession revenue	65,610	**71,256**	5,646	8.6%
Parking and ground transportation revenue	53,254	**62,818**	9,564	18.0%
Ground and non-airline terminal rentals	22,109	**22,810**	701	3.2%
Other operating revenue	1,949	**2,441**	492	25.2%
Total operating revenue	$ 266,079	**$ 293,679**	$ 27,600	10.4%

	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	1,949	199	11.4%
Total operating revenue	$ 248,847	$ 266,079	$ 17,232	6.9%

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
FISCAL YEAR ENDED JUNE 30, 2019 | OPERATING REVENUES

OPERATING REVENUES (CONTINUED)



FISCAL YEAR 2019 COMPARED TO 2018:
Total airline revenues increased by $11.2 million, or 9.1 percent, primarily due to an increased cost recovery for the airlines which was higher in fiscal year 2019, compared to 2018. Landing fees increased by $916 thousand or 3.8 percent due to higher airfield-related costs. Aircraft parking fees increased by $235 thousand or 7.3 percent due to additional overnight aircraft parking positions, with the increased service from Alaska Airlines. Building rentals increased by $8.7 million or 13.9 percent due to increased cost recovery from airline rents, higher exclusive use square footage and higher employee shuttle services expenses. Security surcharge increased by $1.3 million or 3.9 percent, primarily due to increased terminal security charges by the Harbor Police increased wages and benefits. Other aviation revenue increased by $119 thousand or 8.1 percent, mostly due to the recovery of higher common use cost charges. Concession revenue increased by $5.6 million or 8.6 percent, reflecting increased enplanements. Parking and ground transportation increased by $9.6 million or 18 percent, due to higher enplanements, a full year of our new Terminal 2 Parking Plaza and higher trip fees from transportation network companies due to increased transactions. Ground and non-airline terminal rentals increased by $701 thousand or 3.2 percent. This increase was primarily due to scheduled CPI rent increases. Other operating revenue increased by $492 thousand or 25.2 percent, primarily due to two new revenue sources; telecom services offered to terminal tenants and revenue generated by the Innovation Lab.

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. Other operating revenue increased by $199 thousand or 11.4 percent, primarily due to an increase in planning grant funding.

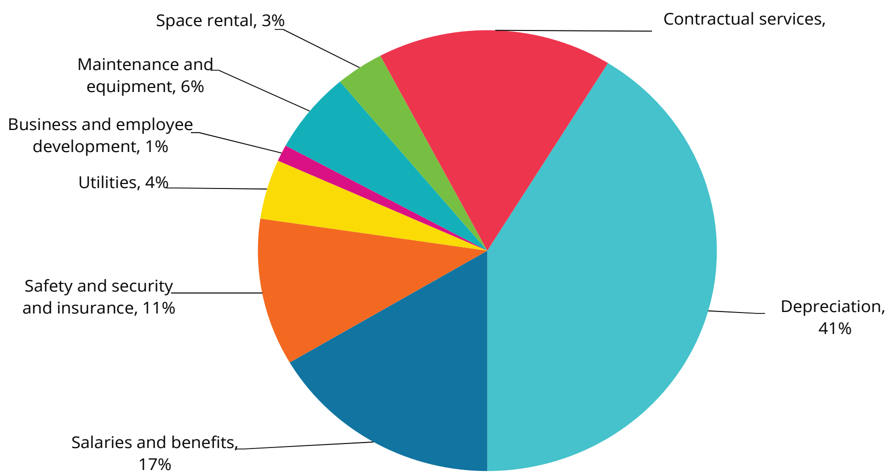
OPERATING EXPENSES (IN THOUSANDS)

	FY 2018	**FY 2019**	From 2018 to 2019 Increase (Decrease)	From 2018 to 2019 % Change
Salaries and benefits	$ 47,866	**$ 49,578**	$ 1,712	3.6%
Contractual services	45,249	**49,903**	4,654	10.3%
Safety and security	30,733	**31,397**	664	2.2%
Space rental	10,190	**10,191**	1	0.0%
Utilities	12,509	**13,194**	685	5.5%
Maintenance	12,603	**13,436**	833	6.6%
Equipment and systems	598	**375**	(223)	(37.3%)
Materials and supplies	655	**656**	1	0.2%
Insurance	1,098	**1,200**	102	9.3%
Employee development and support	1,248	**1,045**	(203)	(16.3%)
Business development	3,246	**2,630**	(616)	(19.0%)
Equipment rentals and repairs	3,124	**3,614**	490	15.7%
Total operating expenses before depreciation	169,119	**177,219**	8,100	4.8%
Depreciation	105,532	**124,329**	18,797	17.8%
Total operating expense	$ 274,651	**$ 301,548**	$ 26,897	9.8%

	FY 2017	FY 2018	From 2017 to 2018 Increase (Decrease)	From 2017 to 2018 % 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	655	44	7.2%
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	169,119	5,393	3.3%
Depreciation	95,229	105,532	10,303	10.8%
Total operating expense	$ 258,955	$ 274,651	$ 15,696	6.1%

OPERATING REVENUES (CONTINUED)

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
FISCAL YEAR ENDED JUNE 30, 2019 | OPERATING EXPENSES



FISCAL YEAR 2019 COMPARED TO 2018:
Total fiscal year 2019 operating expenses increased by $26.9 million or 9.8 percent. Salaries and benefits increased by $1.7 million or 3.6 percent, due to planned wage and benefit increases, higher overtime and increased head count. Contractual services increased by $4.7 million or 10.3 percent, mainly due to higher expenses in shuttle services, janitorial services, and temporary services. Safety and security increased by $664 thousand or 2.2 percent due to increased salaries and benefits for law enforcement and emergency services. Utilities increased by $685 thousand or 5.5 percent, due to higher usage as a result of the increase in total passengers. Maintenance expenses increased $833 thousand, or 6.6 percent, due to replacement of carpet in Terminal 1, and retrofitting electronic signs to LED. Insurance increased by $102 thousand or 9.3 percent, primarily due to larger terminal square footage with the completion of the Federal Inspection Station.

Equipment rentals and repairs were increased by $490 thousand and 15.7 percent, due to expanded IT computers, office equipment, repairs and systems support.

Depreciation increased by $18.8 million or 17.8 percent, due to a full year of depreciation for the Parking Plaza and international passenger area (FIS) being placed in service.

Offsetting this increase in operating expenses was the following decreases: Equipment and systems decreased by $223 thousand or 37.3 percent, mainly due to scheduled replacement of computer equipment occurred in prior year. Employee development and support decreased by $203 thousand and 16.3 percent due to more conservative approval processes. Business development decreased by $616 thousand or 19.0 percent, mainly due to decrease in sponsorship and marketing.

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 to 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.

NONOPERATING REVENUES (EXPENSES) (IN THOUSANDS)

						From 2018 to 2019	
						Increase	
		FY 2018		**FY 2019**		(Decrease)	% Change
Passenger facility charges	$	46,953	**$**	**49,198**	$	2,245	4.8%
Customer facility charges		41,036		**41,918**		882	2.1%
Quieter Home Program, net		(2,747)		**(3,192)**		(445)	(16.2%)
Joint studies program		(114)		**(99)**		15	13.2%
Investment income		9,426		**25,533**		16,107	170.9%
Interest expense, net		(63,745)		**(69,815)**		(6,070)	(9.5%)
Other nonoperating income (expenses)		(9,281)		**(510)**		8,771	94.5%
Nonoperating revenues, net	$	21,528	**$**	**43,033**	$	21,505	99.9%

						From 2017 to 2018	
						Increase	
		FY 2017		FY 2018		(Decrease)	% Change
Passenger facility charges	$	42,200	$	46,953	$	4,753	11.3%
Customer facility charges		36,528		41,036		4,508	12.3%
Quieter Home Program, net		(785)		(2,747)		(1,962)	(249.9%)
Joint studies program		-		(114)		(114)	0.0%
Investment income		5,689		9,426		3,737	65.7%
Interest expense, net		(53,528)		(63,745)		(10,217)	(19.1%)
Other nonoperating income (expenses)		(14,676)		(9,281)		5,395	36.8%
Nonoperating revenues, net	$	15,428	$	21,528	$	6,100	39.5%

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 1949 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 Rental Car Center. 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 multi-family 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 2019, the Airport Authority has spent $216.2 million and received reimbursement for $173.8 million.

INVESTMENT INCOME is derived from interest earned by the Airport Authority on investments and notes receivable, and unrealized gain (loss) on investments.

INTEREST EXPENSE includes interest paid and accrued on the Bonds, Variable Debt, and Lease Interest. For fiscal year 2018, this was 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 year ended June 30, 2018 was $7.2 million. In fiscal year 2019, the Airport Authority implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This standard requires prospective implementation which resulted in expensing of all interest costs in fiscal year 2019. As of June 30, 2019 interest expense was $80.2 million and the interest expense that was not capitalized for June 30, 2018 was $74.1 million. 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, 2019 and 2018 was $4.7 million.

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

FISCAL YEAR 2019 COMPARED TO 2018: Nonoperating revenues (net) increased by $21.5 million or 99.9 percent. Passenger facility charges increased by $2.2 million or 4.8 percent, due to a 5.3 percent increase in enplaned passengers. Customer facility charges increased by $882 thousand or 2.1 percent, due to a corresponding increase in rental car transactions. Investment income increased by $16.1 million or 170.9 percent, due to higher investment returns. Other nonoperating expense decreased by $8.8 million or 94.5 percent, primarily due to a nonrecurring loss on disposal of capital assets related to the Terminal 2 construction projects in 2018.

The increase in nonoperating income was offset by a Quieter Home Program expenses (net) increase of $445 thousand or 16.2 percent, due to higher sound attenuation activity. Interest expense (net) was higher by $6 million or 9.5 percent, due to a full year of interest from the SE 2017 bond issuance.

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. Investment income increased by $3.7 million or 65.7 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 $5.4 million or 36.8 percent, primarily due to a decrease from loss on fixed asset disposals resulting from the new Parking Plaza in 2017.

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 SE 2017 bond issuance.

CAPITAL GRANT CONTRIBUTION (IN THOUSANDS)

			From 2018 to 2019	
	FY 2018	**FY 2019**	Increase (Decrease)	% Change
Federal grants	$ 13,079	**$ 8,213**	$ (4,866)	(37.2%)

			From 2017 to 2018	
	FY 2017	FY 2018	Increase (Decrease)	% Change
Federal grants	$ 1,904	$ 13,079	$ 11,175	586.9%

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 2019 capital grant contributions decreased by $4.9 million or 37.2 percent compared to fiscal year 2018. Additionally in fiscal year 2018, capital grant contributions increased by $11.2 million or 568.9 percent, compared to fiscal year 2017. This was due to the completion in 2018 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, 2017, 2018 and 2019, is as follows:

	FY 2017	FY 2018	**FY 2019**
Assets and Deferred Outflows of Resources			
Current assets	$ 191,307	$ 223,610	**$ 244,592**
Capital assets, net	1,544,909	1,704,141	**1,722,150**
Noncurrent assets	494,040	643,474	**598,156**
Total assets	2,230,256	2,571,225	**2,564,898**
Deferred outflows of resources	20,246	24,196	**26,681**
Total assets and deferred outflows of resources	2,250,502	2,595,421	**2,591,579**
Liabilities and Deferred Inflows of Resources			
Current liabilities	104,422	145,942	**131,085**
Long-term liabilities	1,361,090	1,635,326	**1,600,230**
Total liabilities	1,465,512	1,781,268	**1,731,315**
Deferred inflows of resources	1,815	4,228	**6,961**
Total liabilities and deferred inflows of resources	1,467,327	1,785,496	**1,738,276**
Net Position			
Net investment in capital assets	263,952	294,937	**281,491**
Restricted	225,088	230,954	**246,508**
Unrestricted	294,133	284,034	**325,303**
Total net position	$ 783,173	$ 809,925	**$ 853,302**

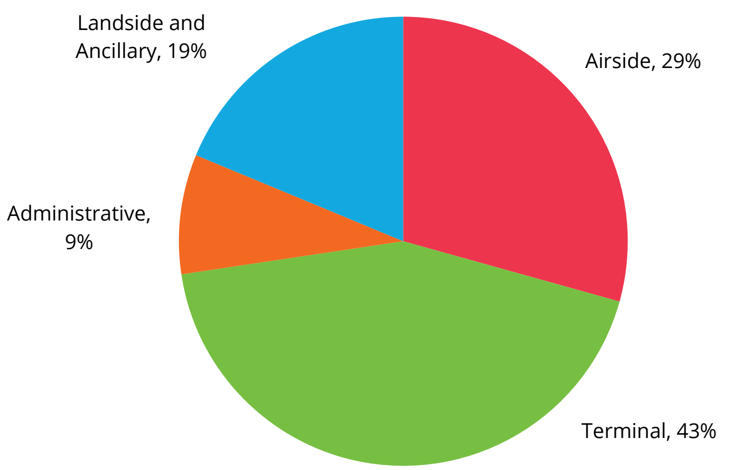
As of June 30, 2019, the Airport Authority's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $853.3 million. This reflects a $43.4 million or 5.4 percent increase in net position from June 30, 2018. The Airport Authority uses the capital assets to provide 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 $325.3 million as of June 30, 2019, may be used to meet any of the Airport Authority's ongoing obligations. As of June 30, 2019, 2018 and 2017, management has designated unrestricted funds in the amount of $26.2 million, $39.3 million, and $25.8 million, respectively, for capital contract commitments funded by Airport Authority cash, earthquake insurance and operating contingency.

CAPITAL PROGRAM

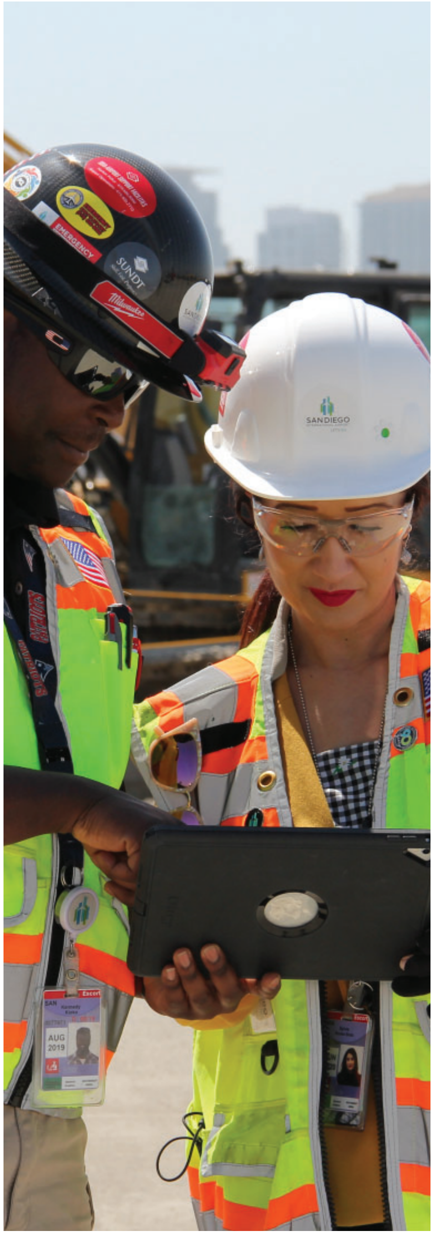
The Capital Program is a rolling five-year program that provides critical improvements and asset additions. The program includes capital projects that address federal security requirements, airfield security, environmental remediation, terminal upgrades and development. Funding sources for the projects 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 revolving lines of credit and drawdown bonds.

The current Capital Program, which includes projects through 2024, consists of $281.3 million for airside projects, $175.9 million for landside and ancillary projects, $415.6 million for terminal projects, and $82.6 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. Interest expense for the fiscal year ended June 30, 2019 amounted to $29.7 million, including accrued interest of $14.9 million.

As of June 30, 2019, the principal balance on the subordinate Series 2010 Bonds was $527.1 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, 2019, amounted to $18.17 million, including accrued interest of $9.08 million. The principal balance on the Series 2013 Bonds as of June 30, 2019 was $371.0 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 and (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. Interest expense for the fiscal year ended June 30, 2019, amounted to $16.2 million, including accrued interest of $8.1 million. As of June 30, 2019, the principal balance on the Series 2014 Bonds was $299.7 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, 2019, amounted to $14.3 million, including accrued interest of $7.16 million. As of June 30, 2019, the principal balance on the Series 2017 was $286.3 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, 2019, the Airport Authority's outstanding debt under this agreement consists of $13.7 million of Series B (AMT).

In April of 2018 the Airport Authority established a Subordinate Drawdown Bond program with Royal Bank of Canada (RBC) Municipal Products of up to $100 million. On April 1, 2018, the Airport Authority and RBC Municipal Products agreed upon a Bondholders Agreement and on April 19, 2018, the Airport 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. As of June 30, 2019 no Subordinate Drawdown Bonds were outstanding. Subsequent to fiscal year end 2019, on July 18, 2019 the Airport Authority made Subordinate Drawdown Bond draws of $11.1 million on Series A (Non-AMT) and $22.9 million on Series B (AMT). It is anticipated that these Subordinate Drawdown Bonds will be refunded with a future bond issuance.

The revolving line of credit and the 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.

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 February 1, 2040.

FAA entitlement and discretionary grants are awarded on a federal fiscal year running October 1 through September 30. The Airport Authority has received approximately $24.5 million in grant awards for the federal fiscal year ended September 30, 2019, as compared to $25.4 million for 2018. 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, 2019 AND 2018

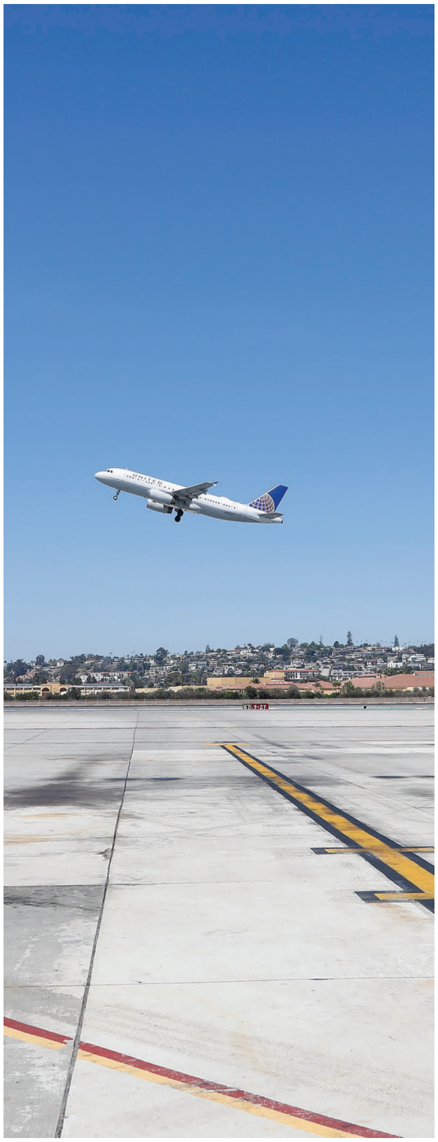
Assets and Deferred Outflows of Resources	**2019**	2018
Current Assets		
Unrestricted:		
Cash and cash equivalents (*Note 2*)	**$ 10,286,307**	$ 7,243,688
Investments (*Notes 2 and 11*)	**124,558,161**	85,690,254
Tenant lease receivables, net	**12,491,101**	10,837,699
Grants receivable	**4,148,758**	10,955,228
Note receivable, current portion (*Note 3*)	**2,006,052**	1,903,323
Other current assets	**7,111,124**	7,329,052
Total unrestricted current assets	**160,601,503**	123,959,244
Restricted cash, cash equivalents and investments with trustees (*Notes 2 and 5*)	**83,990,603**	99,650,564
Total current assets	**244,592,106**	223,609,808
Noncurrent Assets		
Restricted assets (*Notes 2 and 5*):		
Restricted cash, cash equivalents and investments not with trustees	**205,979,093**	191,304,621
Restricted investments with trustees	**162,164,029**	228,598,834
Passenger facility charges receivable (*Note 1*)	**6,959,982**	6,635,273
Customer facility charges receivable (*Note 1*)	**4,339,192**	4,097,757
Other restricted assets	**5,315,982**	5,310,167
Total restricted assets	**384,758,278**	435,946,652
Other noncurrent assets:		
Investments, noncurrent (*Note 2*)	**157,461,822**	136,796,912
Note receivable, long-term portion (*Note 3*)	**29,332,710**	31,338,762
Cash and cash equivalents designated for specific capital projects and other commitments (*Notes 2 and 11*)	**26,208,561**	39,294,169
Net OPEB asset (*Note 9*)	**394,547**	97,418
Total other noncurrent assets	**213,397,640**	207,527,261
Capital assets (*Note 4*):		
Land, land improvements and nondepreciable assets	**135,850,387**	135,086,590
Buildings and structures	**1,709,304,802**	1,692,102,858
Machinery and equipment	**131,172,226**	112,464,060
Runways, roads and parking lots	**698,595,118**	646,939,284
Construction in progress	**144,432,325**	110,520,200
	2,819,354,858	2,697,112,992
Less accumulated depreciation	**(1,097,205,313)**	(992,971,931)
Capital assets, net	**1,722,149,545**	1,704,141,061
Total noncurrent assets	**2,320,305,463**	2,347,614,974
Total assets	**2,564,897,569**	2,571,224,782
Deferred outflows of resources:		
Deferred pension outflows (*Note 6 and 7)*	**25,602,589**	23,113,159
Deferred OPEB outflows *(Note 9)*	**1,078,263**	1,082,904
Total deferred outflows of resources	**26,680,852**	24,196,063
Total assets and deferred outflows of resources	**$ 2,591,578,421**	$ 2,595,420,845

See Notes to Financial Statements.

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

STATEMENTS OF NET POSITION (CONTINUED)
JUNE 30, 2019 AND 2018

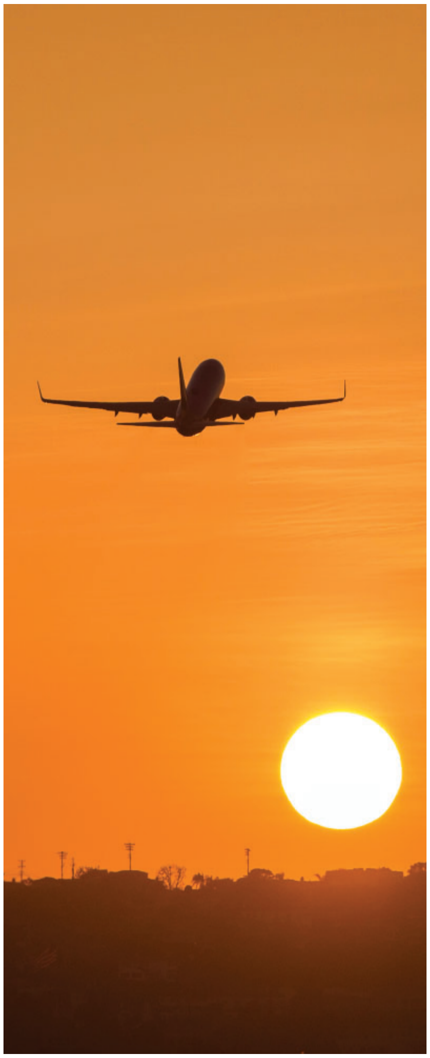
Liabilities, Deferred Inflows of Resources and Net Position	**2019**	2018
Current Liabilities		
Payable from unrestricted assets:		
Accounts payable	**$ 5,671,003**	$ 2,589,715
Accrued liabilities	**29,101,867**	28,508,254
Compensated absences, current portion (*Note 5*)	**2,978,157**	3,093,379
Other current liabilities	**9,020,385**	11,777,067
Long-term debt, current portion (*Note 5*)	**323,242**	323,514
Total payable from unrestricted assets	**47,094,654**	46,291,929
Payable from restricted assets:		
Accounts payable	**7,093,105**	51,585
Accrued liabilities	**14,798,425**	37,247,974
Long-term debt, current portion (*Note 5*)	**22,865,000**	22,650,000
Accrued interest on variable rate debt and bonds (*Note 5*)	**39,234,073**	39,701,005
Total payable from restricted assets	**83,990,603**	99,650,564
Total current liabilities	**131,085,257**	145,942,493
Long-Term Liabilities		
Compensated absences, net of current portion (*Note 5*)	**572,054**	183,209
Other noncurrent liabilities	**648,372**	626,423
Long-term debt, net of current portion (*Note 5*)	**1,578,980,028**	1,614,294,048
Net pension liability (*Note 6 and 7*)	**20,029,343**	20,222,458
Total long-term liabilities	**1,600,229,797**	1,635,326,138
Total liabilities	**1,731,315,054**	1,781,268,631
Deferred inflows of resources		
Deferred pension inflows *(Note 6 and 7)*	**6,453,432**	3,685,838
Deferred OPEB inflows *(Note 9)*	**507,578**	541,669
Total deferred inflows of resources	**6,961,010**	4,227,507
Total liabilities and deferred inflows of resources	**$ 1,738,276,064**	$ 1,785,496,138
Net Position		
Net investment in capital assets (*Note 1*)	**281,491,126**	294,937,128
Restricted:		
Debt Service	**71,952,864**	71,618,324
Construction	**150,466,640**	135,691,506
OPEB	**394,547**	97,418
Operation and maintenance expenses	**14,377,942**	14,236,540
Small business bond guarantee	**4,000,000**	4,000,000
OCIP loss reserve	**5,315,982**	5,310,166
Total restricted net position	**246,507,975**	230,953,954
Unrestricted net position	**325,303,256**	284,033,625
Total net position	**$ 853,302,357**	$ 809,924,707



See Notes to Financial Statements.

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018



	2019	2018
Operating revenues:		
Airline revenue:		
Landing fees	**$ 24,816,308**	$ 23,900,414
Aircraft parking fees	**3,471,363**	3,235,788
Building rentals (*Note 12*)	**70,911,568**	62,241,252
Security surcharge	**33,558,621**	32,303,267
Other aviation revenue	**1,596,275**	1,476,479
Concession revenue	**71,256,293**	65,609,858
Parking and ground transportation revenue	**62,817,901**	53,254,030
Ground and non-airlilne terminal rentals (*Note 12*)	**22,810,139**	22,108,637
Other operating revenue	**2,440,464**	1,949,405
Total operating revenues	**293,678,932**	266,079,130
Operating expenses:		
Salaries and benefits (*Notes 6, 7, and 8*)	**49,578,048**	47,865,727
Contractual services (*Note 14*)	**49,902,811**	45,248,939
Safety and security	**31,397,062**	30,733,076
Space rental (*Note 13*)	**10,190,910**	10,189,836
Utilities	**13,194,014**	12,509,607
Maintenance	**13,435,562**	12,602,987
Equipment and systems	**375,089**	597,859
Materials and supplies	**656,501**	655,698
Insurance	**1,199,555**	1,097,868
Employee development and support	**1,045,116**	1,248,355
Business development	**2,630,038**	3,245,967
Equipment rentals and repairs	**3,614,053**	3,124,471
Total operating expenses before depreciation	**177,218,759**	169,120,390
Income from operations before depreciation	**116,460,173**	96,958,740
Depreciation expense	**124,328,880**	105,531,703
Operating loss	**$ (7,868,707)**	$ (8,572,963)

(Continued)

See Notes to Financial Statements.

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (CONTINUED) FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Nonoperating revenues (expenses):		
Passenger facility charges	**$ 49,197,716**	$ 46,952,755
Customer facility charges	**41,918,554**	41,036,526
Quieter Home Program grant revenue (*Note 1*)	**11,550,178**	8,389,249
Quieter Home Program expenses (*Note 1*)	**(14,742,390)**	(11,135,808)
Joint Studies Program	**(98,601)**	(114,387)
Investment income	**25,533,268**	9,426,328
Interest expense (*Note 5*)	**(74,501,336)**	(68,411,379)
Build America Bonds subsidy (*Note 5*)	**4,686,174**	4,666,190
Other revenues (expenses), net	**(510,440)**	(9,281,255)
Nonoperating revenue, net	**43,033,123**	21,528,219
Income before federal grants	**35,164,416**	12,955,256
Federal grants (*Note 1*)	**8,213,234**	13,079,164
Change in net position	**43,377,650**	26,034,420
Net position, beginning of year	**809,924,707**	783,890,287
Net position, end of year	**$ 853,302,357**	$ 809,924,707

See Notes to Financial Statements.

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

STATEMENTS OF CASH FLOWS FOR THE FISCAL YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Cash Flows From Operating Activities		
Receipts from customers	$ 286,895,333	$ 267,462,006
Payments to suppliers	(107,008,045)	(164,900,528)
Payments to employees	(50,553,389)	(49,265,624)
Other receipts	2,555,497	2,292,761
Net cash provided by operating activities	131,889,396	55,588,615
Cash Flows From Noncapital Financing Activities		
Settlement receipts (payments)	(1,177,331)	168,442
Quieter Home Program grant receipts	14,204,701	5,424,925
Quieter Home Program payments	(14,742,390)	(11,135,808)
Joint Studies Program payments	(98,601)	(114,387)
Net cash used in noncapital financing activities	(1,813,621)	(5,656,828)
Cash Flows From Capital and Related Financing Activities		
Capital outlay	(172,486,803)	(212,327,613)
Proceeds on Build America Bonds subsidy	4,686,174	4,666,190
Payment of variable rate debt	(6,444,000)	(38,835,000)
Federal grants received (excluding Quieter Home Program)	12,365,181	8,442,656
Proceeds from passenger facility charges	48,873,007	46,473,100
Proceeds from customer facility charges	41,677,119	40,656,344
Payment of principal on bonds	(22,650,000)	(11,585,000)
Proceeds from issuance of Series 2017 Bonds	-	339,633,688
Payment of capital lease	(323,514)	(298,449)
Interest and debt fees paid	(80,694,774)	(67,174,633)
Net cash provided by (used in) capital and related financing activities	(174,997,610)	109,651,283
Cash Flows From Investing Activities		
Sales and maturities of investments	248,392,203	467,359,490
Purchases of investments	(240,504,726)	(625,758,198)
Interest received on investments and note receivable	25,088,046	7,015,998
Principal payments received on notes receivable	1,903,323	1,801,694
Net cash provided by (used in) investing activities	34,878,846	(149,581,016)
Net increase (decrease) in cash and cash equivalents	(10,042,989)	10,002,054
Cash and cash equivalents, beginning of year	46,537,857	36,535,803
Cash and cash equivalents, end of year	$ 36,494,868	$ 46,537,857

(Continued)

See Notes to Financial Statements.

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

STATEMENTS OF CASH FLOWS, (CONTINUED)
FOR THE FISCAL YEARS ENDED
JUNE 30, 2019 AND 2018

	2019	2018
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Unrestricted cash and cash equivalents	**$ 10,286,307**	$ 7,243,688
Cash and cash equivalents designated for specific capital projects and other commitments	**26,208,561**	39,294,169
Total cash and cash equivalents	**$ 36,494,868**	$ 46,537,857
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	**$ (7,868,707)**	$ (8,572,963)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense	**124,328,880**	105,531,703
Change in pensions/OPEB liability/asset	**(490,244)**	718,394
Change in deferred outflows related to pensions/OPEB	**(2,484,789)**	(1,938,110)
Change in deferred inflows related to pensions/OPEB	**2,733,503**	2,412,067
Changes in assets and liabilities:		
Tenant lease receivables	**(1,653,402)**	(1,515,759)
Net pension asset	**-**	-
Other assets	**657,335**	(3,003,518)
Accounts payable	**18,489,317**	(49,176,177)
Accrued liabilities	**593,613**	8,102,069
Compensated absences	**273,623**	45,562
Other liabilities	**(2,689,733)**	2,985,347
Net cash provided by operating activities	**$ 131,889,396**	$ 55,588,615
Supplemental Disclosure of Noncash Investing, Capital and Financing Activities		
Additions to capital assets included in accounts payable	**$ 21,891,530**	$ 37,299,559

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 (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 fair 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, 2019 and 2018, the Airport Authority recovered $8,213,234 and $13,079,164, respectively, for approved capital projects and $11,550,178 and $8,389,249, 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 (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, 2019 and 2018, accrued PFC receivables totaled $6,959,982 and $6,635,273, respectively, and there were $96,034,369 and $80,297,022 PFC amounts collected but not yet applied for approved capital projects as of June 30, 2019 and 2018, 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 into 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, 2019 and 2018, accrued CFC receivables totaled $4,339,192 and $4,097,757, respectively. CFC amounts collected, including interest, but not yet applied for approved capital projects as of June 30, 2019 and 2018, were $43,133,096 and $44,661,454 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)

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, 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, 2019 and 2018, the Airport Authority capitalized interest of $0 and $7,218,861, respectively. This change resulted from the adoption of GASB No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period, eliminating the requirement to capitalize interest; see Note 1 for additional information on accounting pronouncements adopted.

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.

NOTE 1.

NATURE OF ORGANIZATION & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 includes 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, 2019 and 2018 includes designations of net position that represent tentative management plans that are subject to change, consisting of:

	2019	2018
Operating contingency	**$ 2,000,000**	$ 2,000,000
Insurance contingency	**10,967,958**	10,249,962
Capital projects and other commitments	**13,240,603**	27,044,207
Total designated net position	**$ 26,208,561**	$ 39,294,169

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:

	2019	2018
Southwest Airlines	**37.7%**	38.0%
Alaska	**13.8%**	13.4%
United Airlines	**12.9%**	12.7%
Delta	**12.2%**	10.6%
American Airlines	**11.9%**	12.8%

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, 2019:

- GASB Statement No. 83, Certain Asset Retirement Obligations, effective for the Airport Authority's year ending June 30, 2019. Implementation of this statement had no effect on beginning net position.
- GASB Statement No. 88, Certain Disclosures related to Debt, including Direct Borrowings and Direct Placements, effective for the Airport Authority's year ended June 30, 2019. Implementation of this statement had no effect on beginning net position.
- GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period, effective for the Airport Authority's year ended June 30, 2019. Implementation of this statement had no effect on beginning net position.

The implementation of Statement No. 89 requires governmental entities to expense interest incurred before the end of a construction period. On adoption, interest costs incurred after the beginning of the first reporting period in which this statement was implemented should not be capitalized. Additionally, application of this statement requires prospective application and had no effect on previously capitalized interest costs.

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. 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. 90, Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61, effective for the Airport Authority's year ended June 30, 2020
- GASB Statement No. 91, Conduit Debt Obligations, effective for the Airport Authority's year ended June 30, 2022

RECLASSIFICATIONS:
Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 presentation. The reclassifications had no effect on the changes in net position.

NET POSITION REVISION:
Fiscal year 2018 has been revised for a misclassification in ending net position. This revision resulted in an increase in net investment in capital assets from $281,703,129 to $294,937,128 or $13,233,999 and a decrease in restricted for debt service from $84,852,323 to $71,618,324 or ($13,233,999). This revision had no impact on unrestricted net position or total net position.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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:

	2019	2018
Unrestricted and Undesignated:		
Cash and cash equivalents	**$ 10,286,307**	$ 7,243,688
Current investments	**124,558,161**	85,690,254
Noncurrent investments	**157,461,822**	136,796,912
Total unrestricted and undesignated	**292,306,290**	229,730,854
Designated for specific capital projects and other commitments: cash and cash equivalents	**26,208,561**	39,294,169
Restricted:		
Current cash, cash equivalents and investments, with trustees	**83,990,603**	99,650,564
Noncurrent cash, cash equivalents and investments, not with trustees	**205,979,093**	191,304,621
Noncurrent investments, with trustees	**162,164,029**	228,598,834
Total restricted cash, cash equivalents and investments	**452,133,725**	519,554,019
Total cash, cash equivalents and investments	**$ 770,648,576**	$ 788,579,042

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

	2019	2018
Restricted cash, cash equivalents and investments:		
Bond reserves:		
Operation and maintenance reserve subaccount	**$ 43,133,828**	$ 42,709,622
Operation and maintenance subaccount	**14,377,942**	14,236,540
Renewal and replacement account	**5,400,000**	5,400,000
Total bonds reserves	**62,911,770**	62,346,162
Passenger facility charges unapplied	**96,034,369**	80,297,022
Customer facility charges unapplied	**43,133,096**	44,661,454
Small business development bond guarantee	**4,000,000**	4,000,000
2010 Series debt service reserve fund	**52,163,004**	51,974,951
2010 Series debt service account	**25,493,536**	25,312,063
2013 Series construction fund	**2,397**	2,323
2013 Series debt service reserve fund	**34,246,502**	33,573,756
2013 Series debt service account	**11,575,069**	11,430,643
2014 Series construction fund	**1,941**	1,969
2014 Series debt service reserve fund	**22,368,760**	22,347,589
2014 Series debt service account	**13,853,720**	13,781,497
2014 Series rolling coverage fund	**6,905,072**	6,769,427
2014 Series renew and replace	**5,431,585**	3,825,876
2017 Series construction fund	**47,288,403**	131,388,973
2017 Series debt service reserve fund	**14,993,717**	15,154,803
2017 Series debt service account	**11,730,784**	12,685,511
Total restricted cash, cash equivalents and investments	**$ 452,133,725**	$ 519,554,019

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	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 & 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				

*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

NOTE 2.

CASH, CASH EQUIVALENTS & INVESTMENTS (CONTINUED)

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 fair 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.

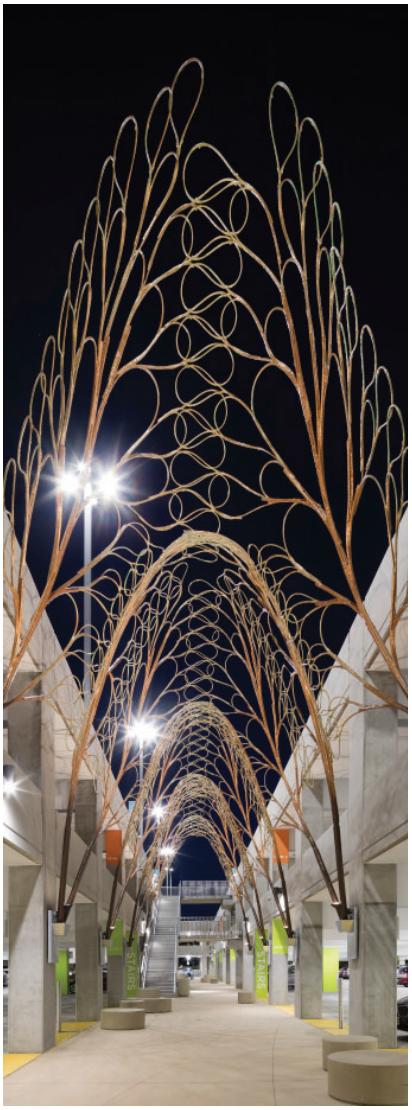
Insurance through the Federal Deposit Insurance Corporation (FDIC) may be applicable to the first $250,000 of institutional deposit accounts, with any balance above this amount covered by the collateralization requirement. Certificates of deposit held by the Airport Authority's third-party custodians 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)



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

2019

Investment Type	Total	Investment Maturities (in Years) 0 - 1	1 - 2	2 - 5	Ratings
Investments subject to credit and interest rate risk:					
U.S. Treasury obligations	$ 115,560,531	$ 25,307,938	$ 32,706,596	$ 57,545,997	N/A
U.S. agency securities	134,911,223	56,506,418	14,699,205	63,705,600	AA+
Supranationals	7,127,201	2,994,180	2,136,241	1,996,780	AAA
	5,485,835	-	-	5,485,835	Not rated
Negotiable certicates of deposit	3,988,200	-	3,988,200	-	AA
	14,763,063	14,763,063	-	-	A+
Medium-term notes	2,974,470	-	-	2,974,470	AAA
	22,796,245	7,490,315	-	15,305,930	AA
	40,834,801	5,498,975	6,333,965	29,001,861	A
Money market mutual funds	81,861	81,861	-	-	AAA
Local Agency Investment Fund	50,140,691	50,140,691	-	-	Not rated
San Diego County Investment Pool	211,235,432	211,235,432	-	-	Not rated(1)
CalTrust Fund	15,952,044	15,952,044	-	-	AA
Total investments subject to credit and interest rate risk:	625,851,597	389,970,917	59,864,207	176,016,473	
Investments not subject to credit or interest rate risk:					
Nonnegotiable certificates of deposit	15,920,692				
Total Investments	$ 641,772,289				

Ratings per Standard and Poor's

(1) Investment rated AAA by Fitch

2018

Investment Type	Total	Investment Maturities (in Years) 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	N/A
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	-	-	Not rated
San Diego County Investment Pool	234,006,333	234,006,333	-	-	Not rated(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				

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, 2019 and 2018.

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, 2019 and 2018, the balance of the note receivable was $31,338,762 and $33,242,085, 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
2020	$	2,006,052
2021		2,123,843
2022		2,243,644
2023		2,370,203
2024		2,500,653
2025-2029		14,801,696
2030-2031		5,292,671
	$	31,338,762

NOTE 4.

CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2019 and 2018 are as follows:

	Balance at June 30, 2018	Increases	Decreases	**Balance at June 30, 2019**
Nondepreciable assets:				
Land	$ 22,167,594	$ -	$ -	**$ 22,167,594**
Construction in progress	110,520,200	$ 141,915,811	$ (108,003,686)	**144,432,325**
Intangible asset	440,000	-	-	**440,000**
Total nondepreciable assets	133,127,794	141,915,811	(108,003,686)	**167,039,919**
Depreciable assets:				
Land improvements	112,918,996	763,797	-	**113,682,793**
Buildings and structures (1)	1,691,662,858	34,154,487	(16,952,543)	**1,708,864,802**
Machinery and equipment (2)	112,464,060	21,197,185	(2,489,019)	**131,172,226**
Runways, roads and parking lots	646,939,284	52,976,659	(1,320,825)	**698,595,118**
Total capital assets being depreciated	2,563,985,198	109,092,128	(20,762,387)	**2,652,314,939**
Less accumulated depreciation for:				
Land improvements	(20,695,006)	(7,606,817)	-	**(28,301,823)**
Building and structures	(610,550,433)	(77,152,640)	16,952,544	**(670,750,529)**
Machinery and equipment	(63,186,253)	(11,398,817)	2,031,618	**(72,553,452)**
Runways, roads and parking lots	(298,540,239)	(28,170,606)	1,111,336	**(325,599,509)**
Total accumulated depreciation	(992,971,931)	(124,328,880)	20,095,498	**(1,097,205,313)**
Total capital assets being depreciated, net	1,571,013,267	(15,236,752)	(666,889)	**1,555,109,626**
Capital assets, net	$ 1,704,141,061	$ 126,679,059	$ (108,670,575)	**$ 1,722,149,545**

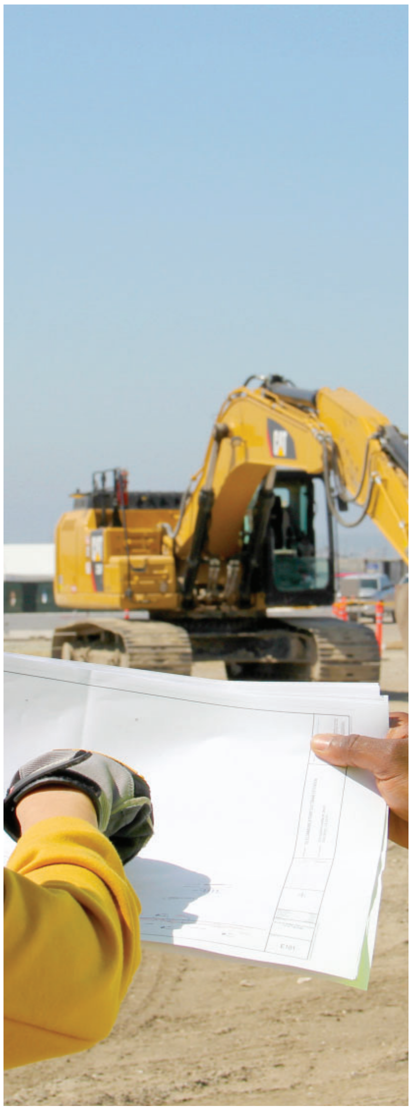
(1) Includes capitalized lease of building with a net present value of future lease payments of $6,766,536

(2) Includes capitalized leases of office equipment with a net present value of future lease payments of $53,815

	Balance at June 30, 2017	Increases	Decreases	Balance at June 30, 2018
Nondepreciable assets:				
Land	$ 22,167,594	$ -	$ -	$ 22,167,594
Construction in progress	171,498,033	272,511,934	(333,489,767)	110,520,200
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



NOTE 5.

LONG-TERM LIABILITIES

The following is a summary of changes in the long-term liability activity for the years ended June 30, 2019 and 2018:

	Principal Balance at June 30, 2018	Additions /New Issuances	Reductions/ Repayments	**Principal Balance at June 30, 2019**	Due Within One Year
Variable Rate Debt					
Series B tax-exempt	14,794,000	-	(1,075,000)	**13,719,000**	-
Series C taxable	5,369,000	-	(5,369,000)	**-**	-
Total variable rate debt	20,163,000	-	(6,444,000)	**13,719,000**	-
Bonds payable:					
Series 2010 Bonds	536,990,000	-	(9,890,000)	**527,100,000**	10,365,000
Series 2013 Bonds	373,310,000	-	(2,240,000)	**371,070,000**	2,320,000
Series 2014 Bonds	305,285,000	-	(5,580,000)	**299,705,000**	5,720,000
Series 2017 Bonds	291,210,000	-	(4,940,000)	**286,270,000**	4,460,000
Bond premiums	103,165,697	-	(5,681,778)	**97,483,919**	-
Total bonds payable	1,609,960,697	-	(28,331,778)	**1,581,628,919**	22,865,000
Capital leases	7,143,865	-	(323,514)	**6,820,351**	323,242
Total debt obligations	1,637,267,562	-	(35,099,292)	**1,602,168,270**	23,188,242
Compensated absences	3,276,588	3,251,781	(2,978,158)	**3,550,211**	2,978,157
Total long-term liabilities	$ 1,640,544,150	$ 3,251,781	$ (38,077,450)	**$ 1,605,718,481**	$ 26,166,399

	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
Total long-term liabilities	$ 1,357,273,838	$ 342,772,629	$ (59,502,317)	$ 1,640,544,150	$ 26,066,893

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 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 the 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, 2019 and 2018, the amount held in escrow by the trustee was $10,396,042 and $15,516,704, respectively, and the amount of the defeased Series 2005 Bonds still outstanding was $9,990,000 and $14,605,000, 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, 2019 and 2018, was $18,174,150 and $18,263,750, respectively, including accrued interest of $9,087,075 and $9,131,875 for fiscal years ending June 30, 2019 and 2018, respectively. The principal balance on the Series 2013 Bonds as of June 30, 2019 and 2018, was $371,070,000 and $373,310,000, 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; and (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, 2019 and 2018, the amount held by the trustee was $45,823,968 and $45,006,722, 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 2019 and 2018 was $62,911,770 and $62,346,162, respectively. The public ratings of the Series 2013 Bonds as of June 30, 2019, 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:

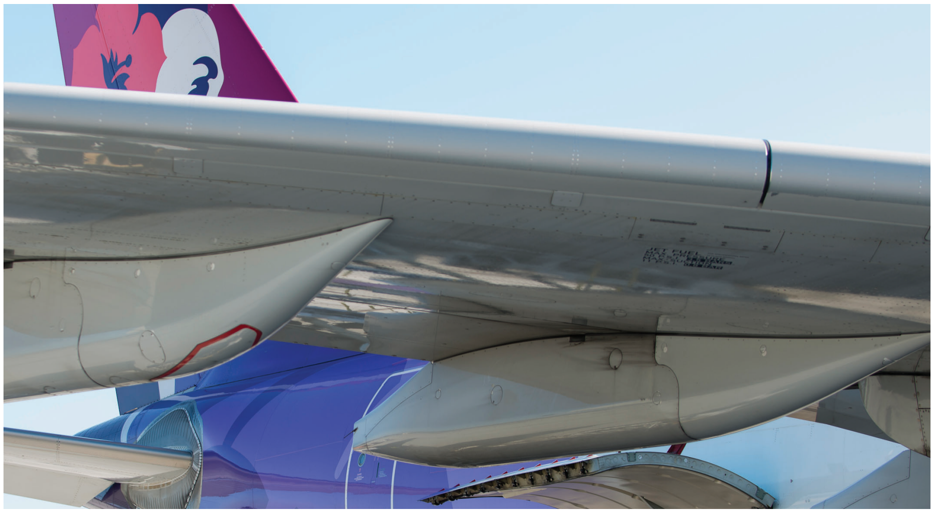
Years Ending June 30,	Principal	Interest	Total
2020	$ 2,320,000	$ 18,127,750	$ 20,447,750
2021	7,925,000	17,883,225	25,808,225
2022	8,315,000	17,477,225	25,792,225
2023	8,725,000	17,051,225	25,776,225
2024	9,170,000	16,603,850	25,773,850
2025-2029	53,155,000	75,547,025	128,702,025
2030-2034	38,740,000	63,204,425	101,944,425
2035-2039	36,645,000	55,408,875	92,053,875
2040-2044	206,075,000	32,900,375	238,975,375
	$ 371,070,000	$ 314,203,975	$ 685,273,975

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.

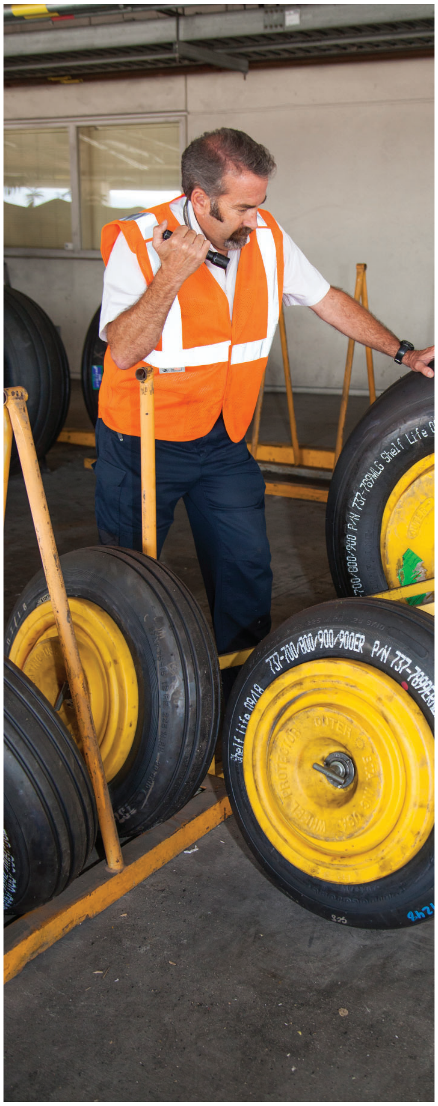
The Series 2010 A and 2010 B Bonds were structured as serial and term bonds that bear interest at rates ranging from 2.00 percent to 5.00 percent and mature in fiscal years 2012 to 2041. The Series 2010 C Bonds were issued as taxable Build America Bonds (BAB), which benefit from periodic cash subsidy payments from the U.S. Treasury. The BAB interest subsidies received by the Airport Authority for fiscal years ended June 30, 2019 and 2018, amounted to $4,686,174 and $4,666,190, 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, 2019 and 2018, amounted to $29,780,849 and $30,259,748, respectively, including accrued interest of $14,890,425 and $15,129,875, respectively. The principal balance on the subordinate Series 2010 Bonds as of June 30, 2019 and 2018, was $527,100,000 and $536,990,000, 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
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	12,550,000	27,281,298	39,831,298
2025-2029	72,780,000	126,152,054	198,932,054
2030-2034	126,555,000	102,133,609	228,688,609
2035-2039	184,500,000	54,968,046	239,468,046
2040-2041	86,110,000	5,269,210	91,379,210
	$ 527,100,000	$ 430,697,466	$ 957,797,466

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 years ended June 30, 2019 and 2018, amounted to $14,313,501 and $13,245,096, respectively, including accrued interest of $7,156,750 and $7,268,650, respectively. The principal balance on the subordinate Series 2017 Bonds as of June 30, 2019 and 2018, was $286,270,000 and $291,210,000, respectively.

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
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	5,585,000	13,190,125	18,775,125
2025-2029	32,405,000	61,360,125	93,765,125
2030-2034	41,365,000	52,182,375	93,547,375
2035-2039	52,785,000	40,469,375	93,254,375
2040-2044	67,380,000	25,520,000	92,900,000
2045-2048	67,075,000	6,911,625	73,986,625
	$ 286,270,000	$ 254,990,750	$ 541,260,750

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, 2019 and 2018, the amount held by the trustee was $151,669,446 and $236,516,301, 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, 2019, 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, 2019 and 2018, the Authority had no outstanding principal balance on Series A Revolving Obligations. At June 30 2019 and 2018, the outstanding principal balances of the Series B Revolving Obligations were $13,719,000 and $14,794,000, respectively. The 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 2019 and 2018, were $0 and $5,369,000 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

NOTE 5.

LONG-TERM LIABILITIES (CONTINUED)

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, 2019 and 2018, was $16,199,645 and $16,341,210, respectively, including accrued interest of $8,099,823 and $8,170,605, respectively. The principal balance on the Series 2014 Bonds for fiscal years ended June 30, 2019 and 2018 was $299,705,000 and $305,285,000, respectively.

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, 2019 and 2018, the

NOTE 5.

LONG-TERM LIABILITIES (CONTINUED)

amount held by the trustee was $48,561,078 and $46,726,358, 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, 2019, 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
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	6,670,000	15,060,682	21,730,682
2025-2029	39,395,000	69,100,925	108,495,925
2030-2034	51,720,000	56,433,452	108,153,452
2035-2039	67,890,000	39,804,447	107,694,447
2040-2044	89,135,000	17,999,292	107,134,292
2045	20,875,000	521,875	21,396,875
	$ 299,705,000	$ 262,101,630	$ 561,806,630

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, 2019, nothing had been drawn on the line of credit and there are no outstanding letters of credit.

The Airport Authority had the following used and unused balances in line of credit type debt instruments as of June 30, 2019 and 2018:

	June 30, 2019		June 30, 2018	
	Used	Unused	Used	Unused
Revolving line of credit	$ 13,719,000	$ 111,281,000	$ 20,163,000	$ 104,837,000
Drawdown bonds	-	100,000,000	-	100,000,000
Letter of credit	-	4,000,000	-	4,000,000
	$ 13,719,000	$ 215,281,000	$ 20,163,000	$ 208,837,000

NOTE 5.

LONG-TERM LIABILITIES (CONTINUED)

EVENT OF DEFAULT:

In the event of default of all general airport revenue bonds issued by the Airport Authority, acceleration is not a remedy. For privately placed variable rate debt and for the Letter of Credit and Reimbursement Agreement, an event of default could result in either an acceleration or an interest rate increase of 3%-7% in addition to the base rate. Other than this, there are no significant finance-related consequences in the event of default on other debt instruments. The Authority's Letter of Credit and Reimbursement Agreement is collateralized with a $4,000,000 negotiable certificate of deposit held with US Bank. Excluding general airport revenue bonds, privately placed variable rate debt, special facility bonds and capital leases, no other assets have been pledged or collateralized for any other debt instruments. General Airport revenue bonds and privately placed variable rate debt are secured by a pledge of Net Revenues which are generally defined as all revenues and other cash receipts of the Airport Authority's operations less amounts required to pay for operations and maintenance expenses of the airport (net revenues do not include cash received from PFC's, CFC's or Federal Grants). The special facility bonds are secured by a pledge of the Trust Estate.

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.

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, 2019:

Total Years Ending June 30,	Amount
2020	$ 932,090
2021	877,298
2022	877,298
2023	877,298
2024	877,298
2025-2029	4,386,489
2030-2033	2,997,434
Total Lease Payments	11,825,205
Less amount representing interest	(5,004,854)
Present value of future lease payments	$ 6,820,351

NOTE 6.

DEFINED BENEFIT PLAN

INTRODUCTION:

The Airport Authority has two defined benefit pension plans which cumulatively represent the net pension liability and related deferred inflows and deferred outflows of resource balances as reported on the statement of net position. The below schedule represents aggregating information as of June 30, 2019 and 2018:

	Defined Benefit Plan (GASB No. 68)	Preservation of Benefits Trust Plan (GASB No. 73)	Total
Balances as of 6/30/19			
Net pension liability	$ 18,373,281	$ 1,656,062	$ 20,029,343
Deferred outflows of resources	25,046,571	556,018	25,602,589
Deferred inflows of resources	6,235,495	217,937	6,453,432
Balances as of 6/30/18			
Net pension liability	$ 18,743,453	$ 1,479,005	$ 20,222,458
Deferred outflows of resources	22,607,833	505,326	23,113,159
Deferred inflows of resources	3,506,867	178,971	3,685,838

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.

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 be 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

NOTE 6.

DEFINED BENEFIT PLAN (CONTINUED)

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, 2018 and June 30, 2017, Plan membership was as follows:

	2018	2017
Active employees	405	394
Inactive employees entitled to but not yet receiving benefits	139	119
Inactive employees or beneficiaries currently receiving benefits	101	107
Total	645	620

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, 2019, the actuarially determined contribution rates for plan sponsors and members were developed in the June 30, 2017, 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, 2019 and 2018, employees contributed $3,162,781 and $2,990,317 respectively, and the Airport Authority contributed $7,318,546 and $5,480,984, respectively, to the

NOTE 6.

DEFINED BENEFIT PLAN (CONTINUED)

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 9.55% 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, 2019, is measured as the total pension liability, less the pension plan's fiduciary net position. The total pension liability as of June 30, 2019, is measured as of June 30, 2018. The annual valuation used is as of June 30, 2017, rolled forward to June 30, 2018, 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, 2018 and 2017, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	June 30, 2018	June 30, 2017
Valuation date	June 30, 2017	June 30, 2016
Measurement date	June 30, 2018	June 30, 2017
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)	6.50%	6.75%
Projected salary increase (2)	3.05%	3.05%
Cost-of-living adjustment	1.9% per annum, compounded	1.9% per annum, compounded
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
Further details about the actuarial assumptions can be found in the SDCERS June 30, 2018 and June 30, 2017 actuarial reports.

DISCOUNT RATE:
For the June 30, 2018 and 2017 actuarial valuations, the discount rates used to measure the total pension liability were 6.50 percent and 6.75 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

NOTE 6.

DEFINED BENEFIT PLAN (CONTINUED)

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 Expected Real Rates of Return	Long-term Expected Nominal Rates of Return
Domestic equity	18.0%	4.1%	6.5%
International equity	15.0%	5.1%	7.5%
Global equity	8.0%	4.8%	7.2%
Domestic fixed income	22.0%	0.7%	3.1%
Emerging market debt	5.0%	3.1%	5.5%
Real estate	11.0%	3.6%	6.0%
Private equity and infrastructure	13.0%	6.0%	8.4%
Opportunity fund	8.0%	4.0%	6.4%
	100.0%		

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, 2019, were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) - (b)
Balances as of June 30, 2018	$ 185,541,212	$ 166,797,759	$ 18,743,453
Changes for the year:			
Service cost	7,390,428	-	7,390,428
Interest on total pension liability	12,621,227	-	12,621,227
Difference between expected and actual experience	(2,630,285)	-	(2,630,285)
Changes in assumptions	6,416,088		6,416,088
Employer contributions	-	7,318,546	(7,318,546)
Member contributions	-	3,162,781	(3,162,781)
Net investment income	-	14,036,710	(14,036,710)
Benefit payments	(4,462,751)	(4,462,751)	-
Administrative expense		(350,407)	350,407
Net changes	19,334,707	19,704,879	(370,172)
Balances as of June 30, 2019	$ 204,875,919	$ 186,502,638	$ 18,373,281

NOTE 6.

DEFINED BENEFIT PLAN (CONTINUED)

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 June 30, 2017	$ 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 June 30, 2018	$ 185,541,212	$ 166,797,759	$ 18,743,453

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 6.50 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, 2019:

	1% Decrease 5.50%	Current 6.50%	1% Increase 7.50%
Total pension liability	$ 234,008,749	$ 204,875,918	$ 180,956,456
Plan fiduciary net position	186,502,637	186,502,637	186,502,637
Net pension liability (asset)	$ 47,506,112	$ 18,373,281	$ (5,546,181)
Plan fiduciary net position as a percentage of the total pension liability	79.7%	91.0%	103.1%

NOTE 6.

DEFINED BENEFIT PLAN (CONTINUED)

PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO THE PLAN:

For the years ended June 30, 2019 and 2018, the Airport Authority recognized pension expense, as measured in accordance with GASB Statement No. 68, of $7,774,562 and $7,491,437, respectively. At June 30, 2019 and 2018, the Airport Authority reported deferred outflows of resources and deferred inflows of resources related to the plan from the following sources:

For June 30, 2019	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 2,765,239	$ 3,281,160
Net difference between projected and actual earnings	-	2,954,335
Changes in assumptions	14,497,834	-
Employer contributions made subsequent to June 30, 2018 measurement date	7,783,498	-
Total	$ 25,046,571	$ 6,235,495

The deferred outflows of resources, at June 30, 2019 and 2018, 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, 2020 and 2019, respectively.

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

Other amounts reported as deferred outflows/inflows of resources related to the plan at June 30, 2019, will be recognized in pension expense as follows:

Years ended June 30,	
2020	$ 4,189,313
2021	3,109,669
2022	1,318,544
2023	1,779,074
2024	630,978
	$ 11,027,578

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 (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 years ended June 30, 2019 and 2018, were $31,329 and $0, respectively. The POB is unfunded and provides benefits on an annual basis as determined by SDCERS.

As of the measurement dates of June 30, 2018 and 2017, Plan membership was as follows:

	2018	2017
Active employees	2	3
Inactive employees or beneficiaries currently receiving benefits	1	1
Total	3	4

TOTAL PENSION LIABILITY:

The Airport Authority's total pension liability as of June 30, 2019 and 2018, was $1,656,062 and $1,479,005, respectively. The pension liability as of June 30, 2019, is measured as of June 30, 2018, using an annual actuarial valuation as of June 30, 2017, rolled forward to June 30, 2018, 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, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	June 30, 2018	June 30, 2017
Valuation date	June 30, 2017	June 30, 2016
Measurement date	June 30, 2018	June 30, 2017
Actuarial cost method	Entry-age normal	Entry-age normal
Actuarial assumptions:		
Discount rate	3.87%	3.58%
Inflation rate	3.05%	3.05%
Interest credited to member contributions	6.50%	7.00%
projected salary increases	3.05%	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 through the year ended June 30, 2019, was as follows:

	Total Pension Liability
Balances as of June 30, 2018	$ 1,479,005
Changes for the year:	
Service cost	51,775
Interest on total pension liability	53,311
Difference between expected and actual experience	193,013
Changes in assumptions	(89,713)
Benefit payments	(31,329)
Net changes	177,057
Balances as of June 30, 2019	$ 1,656,062

Changes in the total pension liability through the year ended June 30, 2018, was as follows:

	Total Pension Liability
Balances as of June 30, 2017	$ 1,209,124
Changes for the year:	
Service cost	60,994
Interest on total pension liability	35,323
Difference between expected and actual experience	388,329
Changes in assumptions	(214,765)
Benefit payments	-
Net changes	269,881
Balances as of June 30, 2018	$ 1,479,005

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 year ended June 30, 2019:

	1% Decrease 2.87%	Current Rate 3.87%	1% Increase 4.87%
Total pension liability	$ 1,995,283	$ 1,656,062	$ 1,391,459

PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO THE POB:

For the year ended June 30, 2019 and 2018, the Airport Authority recognized pension expense, as measured in accordance with GASB Statement No. 73, of $347,712 and $1,177,544. At June 30, 2019 and 2018, the Airport Authority reported deferred outflows of resources and deferred inflows of resources related to the plan from the following sources:

For June 30, 2019	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 419,729	$ -
Changes in assumptions	136,289	217,937
Total	$ 556,018	$ 217,937

For June 30, 2018	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,	
2020	$ 91,575
2021	91,575
2022	91,574
2023	46,141
2024	17,216
	$ 338,081

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

The Airport Authority provides an agent multiple-employer defined benefit postemployment benefit plan (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 years ended June 30, 2019 and 2018, the Airport Authority's contributions were $603,003 and $461,859, respectively.

A measurement date of June 30, 2018 and 2017, was used for the June 30, 2019 and June 2018, OPEB assets and expenses. The information that follows was determined as of a valuation date of July 1, 2018 and July 1, 2017, respectively. Assumptions used in the July 1, 2018 valuation were rolled forward from the July 1, 2017 valuation.

Membership in the OPEB by membership class at June 30, 2018 and 2017, is as follows:

	2018	2017
Active employees	161	173
Inactive employees or beneficiaries currently receiving benefits	69	61
Total	230	234

NOTE 9.

OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

ACTUARIAL ASSUMPTIONS:

The total OPEB liability in the July 1, 2018 and 2017, actuarial valuations was determined using the following actuarial assumptions, applied to all periods 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	5 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 June 30, 2018 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	59%	5.98%
Fixed Income	25%	2.62%
REITs	8%	5.00%
TIPS	5%	1.46%
Commodities	3%	2.87%
	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 asset through the year ended June 30, 2019, were as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Fiduciary Net Position (b)	Net OPEB Liability/ (Asset) (a) - (b)
Balances as of June 30, 2018	$ 24,217,840	$ 24,315,258	(97,418)
Changes for the year:			
Service cost	436,501	-	436,501
Interest on total OPEB liability	1,772,578	-	1,772,578
Difference between expected and actual experience	-	-	-
Changes in assumptions	-	-	-
Employer contributions	-	622,425	(622,425)
Member contributions	-	-	-
Net investment income	-	1,896,351	(1,896,351)
Benefit payments	(622,425)	(622,425)	-
Administrative expense	-	(12,568)	12,568
Net changes	1,586,654	1,883,783	(297,129)
Balances as of June 30, 2019	$ 25,804,494	$ 26,199,041	$ (394,547)

NOTE 9.

OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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 June 30, 2017	$ 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 June 30, 2018	$ 24,217,840	$ 24,315,258	$ (97,418)

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 (asset) using a discount rate 1% higher and 1% lower than the current discount rate.

	1% Decrease 6.28%	Current Rate 7.28%	1% Increase 8.28%
Total OPEB liability	$ 29,575,709	$ 25,804,494	$ 22,721,952
Plan fiduciary net position	26,199,041	26,199,041	26,199,041
Net OPEB liability (asset)	$ 3,376,668	$ (394,547)	$ (3,477,089)

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 (asset) 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	$ 22,392,652	$ 25,804,494	$ 29,995,650
Plan fiduciary net position	26,199,041	26,199,041	26,199,041
Net OPEB liability (asset)	$ (3,806,389)	$ (394,547)	$ 3,796,609

NOTE 9.

OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the OPEB:

For the years ended June 30, 2019 and 2018, the Airport Authority recognized OPEB expense, as measured in accordance with GASB Statement No. 75, of $436,990 and $540,459, respectively, and reported deferred inflows of resources and deferred outflows of resources related to the OPEB from the following sources:

For June 30, 2019	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings	$ -	$ (507,578)
Changes in assumptions	475,260	-
Employer contributions made subsequent to June 30, 2018 measurement date	603,003	-
Total	$ 1,078,263	$ (507,578)

For June 30, 2018	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)

The deferred outflows of resources at June 30, 2019 related to OPEB resulting from Airport Authority contributions subsequent to the measurement date and prior to year-end will be recognized as an addition to the net OPEB asset at June 30, 2020. Amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2019, related to the OPEB will be recognized in OPEB expense as follows:

Years ended June 30,	
2020	$ (14,964)
2021	(14,964)
2022	(14,964)
2023	12,574
Total	$ (32,318)

NOTE 10.

RISK MANAGEMENT

The Airport Authority has a comprehensive Risk Management Program comprised of commercial insurance, self-insurance, loss mitigation/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 $1 billion 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, 2019 and 2018, the Airport Authority has designated $10,967,958 and $10,249,962, 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 risk analyst, a safety manager and two safety analysts. In addition, third party loss control engineers conduct safety surveys on an annual basis. Employees receive regular safety training and claims are monitored using a claims information system.

During fiscal year 2019, 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.

DISCLOSURE 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

NOTE 11.

DISCLOSURES ABOUT FAIR VALUE OF ASSETS

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, 2019 and 2018:

June 30, 2019	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	$ 115,560,531	$ 115,560,531	$ -	$ -
U.S. agency securities	134,911,223	-	134,911,223	-
Non-U.S Securities	12,613,036	12,613,036	-	-
Negotiable certicates of deposit	18,751,263	-	18,751,263	-
Medium-term notes	66,605,516	-	66,605,516	-
Total investments by fair value level	$ 348,441,569	$ 128,173,567	$ 220,268,002	$ -
Investments measured at amortized cost	81,861			
Investments measured at net asset value	15,952,044			
Non-negotiable certificate of deposit	15,920,692			
Local Agency Investment Fund	50,140,691			
San Diego County Investment Pool	211,235,432			
Total investments	$ 641,772,289			

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 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.

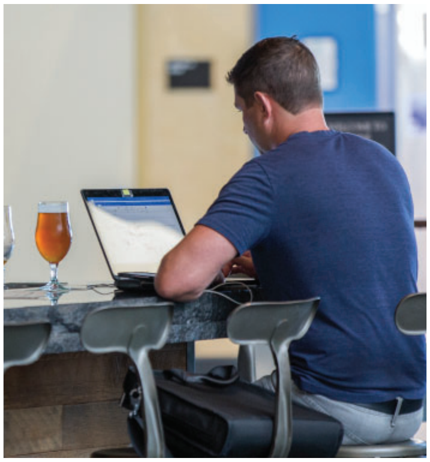
The five year Airline Operating Lease Agreement, (AOLA) expired June 30, 2018 and was in hold over status as of June 30, 2019. The Authority finalized a new ten year AOLA effective July 1, 2019 through June 30, 2029. This new agreement is substantially similar to the expired agreement.

Other capital assets are leased to concessionaires. As of June 30, 2019, the Airport Authority had 84 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 a non-cancellable lease and will convert to Facility Rent when bonds are repaid.

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, 2019, are as follows:

Years Ending June 30,		Amount
2020	$	32,805,411
2021		27,517,999
2022		26,608,481
2023		25,921,183
2024		22,615,559
2025-2029		74,037,195
2030-2034		77,848,013
2035-2039		85,693,285
2040-2044		95,011,008
2045-2049		82,313,305
2050-2054		724,440
2055-2059		724,440
2060-2064		724,440
2065-2069		651,996
Total	**$**	**553,196,755**



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.

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

Years Ending June 30,	Amount
2020	$ 10,176,660
2021	10,176,660
2022	10,176,660
2023	10,176,660
2024	10,176,660
2025-2029	50,883,300
2030-2034	50,883,300
2035-2039	50,883,300
2040-2044	50,883,300
2045-2049	50,883,300
2050-2054	50,883,300
2055-2059	50,883,300
2060-2064	50,883,300
2065-2069	45,794,970
	$ 503,744,670

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

	2019	2018
Rental payments made	**$ 10,190,910**	$ 10,189,944

NOTE 14.

COMMITMENTS AND CONTINGENCIES

COMMITMENTS:

As of June 30, 2019 and 2018, 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, 2019 and 2018, these funds totaled approximately $13.2 million and $27 million, respectively, and are classified on the accompanying statements of net position as cash and investments designated for specific capital projects and other commitments.

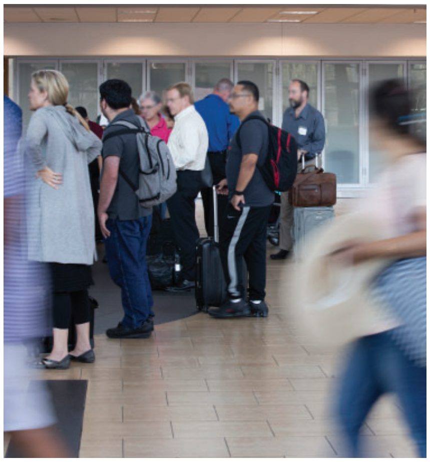
ii. Support services. As part of the MOU, services provided by the District Harbor Police are required to be purchased by the Airport Authority as long as SDIA continues to operate at the current location. At the time of the transfer, the Airport Authority entered into a Master Services Agreement, a 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, 2019 and 2018, the Airport Authority expensed $ 19,291,981 and $19,337,603 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, 2019, were $39 million for parking management services and $47.5 million for airport shuttle services. These contracts were completed as of September 2018.

iv. In fiscal year 2019, the Board approved two new contracts with Ace Parking Management Inc., for parking management services in the amount of $38 million and airport shuttle services in the amount of $45 million. As of June 30, 2019, $3.9 million has been spent for parking management services and $4.7 million for shuttle services.

v. 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. In fiscal year 2019 the Board approved an additional $14.6 million. As of June 30, 2019, $27 million had been spent and the contract is due to be completed in fiscal year 2021.

vi. 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.



NOTE 14.

COMMITMENTS AND CONTINGENCIES (CONTINUED)

As of June 30, 2019, $64.8 million had been spent and the contract is due to be completed in fiscal year 2019.

vii. In fiscal year 2019, the Board approved a $19.5 million contract with AECOM Technical Services, Inc. for on call program management, staffing support and consulting services. The contract is due to be completed in fiscal year 2024. As of June 30, 2019 no funds had been spent.

viii. 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 and 2019, the Board approved an additional $1.6 million and $5.3 million respectively. As of June 30, 2019, $170.4 million had been spent and the contract is due to be completed in fiscal year 2020.

ix. 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, 2019, $18 million had been spent and the contract was completed in fiscal year 2019.

x. In fiscal year 2019, the Board approved a $40.9 million contract with Granite Construction Company to provide a new hydrant fueling infrastructure on the north side of the runway. As of June 30, 2019, $7.3 million had been spent and the contract is due to be completed in fiscal year 2021.

xi. In fiscal year 2019, the Board approved a $150.5 million contract with Sundt Construction, Inc. for the design and construction of Airport Support Facilities. As of June 30, 2019, $16.9 million had been spent and the contract is scheduled for completion in fiscal year 2020.

CONTINGENCIES:

As of June 30, 2019, 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

On July 1, 2019 a new Airline Operating and Lease Agreement, (AOLA) became effective. The AOLA is a ten year agreement, beginning July 1, 2019 and terminating at the close of business on June 30, 2029. The agreement is with the twelve passenger airlines and three all-cargo carriers operating at the Airport. The AOLA contains new provisions to enhance the Authority's ability to meet its financial obligations and fund future capital improvements.

On July 18, 2019 the Authority issued $11.1 million of Subordinate Airport Revenue Drawdown Bonds Series A (Non-AMT) and $22.9 million of Subordinate Airport Revenue Drawdown Bonds Series B (AMT). The proceeds of the Drawdown bonds were used to fund various projects including the Airport Support Facilities, Airline relocations and ADP programmatic documents. It is the Authority's intention to refund these Drawdown Bonds with proceeds from a General Airport Revenue Bond issuance expected later in 2019.

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
LAST 10 FISCAL YEARS (PLAN YEAR REPORTED IN SUBSEQUENT FISCAL YEAR)
DEFINED BENEFIT PLAN

	2019	2018	2017	2016	2015
Total Pension Liability:					
Service cost	$ 7,390,428	$ 6,996,180	$ 6,205,263	$ 6,154,579	$ 6,099,481
Interest (includes interest on service cost)	12,621,226	11,416,679	10,277,610	9,327,538	8,465,485
Differences between expected and actual experience	(2,630,285)	3,975,029	(2,178,527)	345,661	-
Effect of changes of assumptions	6,416,088	5,871,218	10,473,890	-	-
Benefit payments, including refunds of member contributions	(4,462,751)	(4,669,787)	(3,023,391)	(2,482,523)	(2,913,221)
Net change in total pension liability	19,334,706	23,589,319	21,754,845	13,345,255	11,651,745
Total pension liability - beginning	185,541,212	161,951,893	140,197,048	126,851,793	115,200,048
Total pension liability - ending	$ 204,875,918	$ 185,541,212	$ 161,951,893	$ 140,197,048	$ 126,851,793
Plan Fiduciary Net Position:					
Contributions - employer	$ 7,318,546	$ 5,480,984	$ 4,047,780	$ 3,897,545	$ 3,924,988
Contributions - employee	3,162,781	2,990,317	2,967,269	2,840,236	2,765,079
Net investment income	14,036,710	19,480,875	1,651,283	4,390,185	18,302,683
Benefit payments, including refunds of member contributions	(4,462,751)	(4,669,786)	(3,023,391)	(2,482,523)	(2,913,221)
Administrative expense	(350,408)	(325,042)	(318,817)	(332,290)	(332,645)
Net change in plan fiduciary net position	19,704,878	22,957,348	5,324,124	8,313,153	21,746,884
Plan fiduciary net position - beginning	166,797,759	143,840,411	138,516,287	130,203,134	108,456,250
Plan fiduciary net position - ending	$ 186,502,637	$ 166,797,759	$ 143,840,411	$ 138,516,287	$ 130,203,134
Net pension liability (asset) - ending	$ 18,373,281	$ 18,743,453	$ 18,111,482	$ 1,680,761	$ (3,351,341)
Plan fiduciary net position as a percentage of the total pension liability	91.03%	89.90%	88.82%	98.80%	102.64%
Covered payroll	$ 31,628,301	$ 31,131,795	$ 29,189,357	$ 27,955,455	$ 26,380,323
Net pension liability as a percentage of covered payroll	58.09%	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.

SCHEDULE OF CONTRIBUTIONS (PENSIONS), LAST 10 FISCAL YEARS (DOLLARS IN THOUSANDS): DEFINED BENEFIT PLAN

	2019	2018	2017	2016	2015
Actuarially determined contribution	$ 5,740	$ 5,416	$ 3,765	$ 3,666	$ 3,823
Contributions in relation to the actuarially determined contribution	7,783	7,247	5,421	3,948	3,823
Contribution deficiency (excess)	$ (2,043)	$ (1,831)	$ (1,656)	$ (282)	$ -
Covered payroll	$ 31,864	$ 30,848	$ 31,506	$ 29,189	$ 27,955
Contributions as a percentage of covered payroll	24.43%	23.49%	17.21%	13.53%	13.68%

	2014	2013	2012	2011	2010
Actuarially determined contribution	$ 2,900	$ 2,600	$ 3,800	$ 4,300	$ 3,000
Contributions in relation to the actuarially determined contribution	3,728	2,600	3,800	4,300	7,600
Contribution deficiency (excess)	$ (828)	$ -	$ -	$ -	$ (4,600)
Covered payroll	$ 26,380	$ 24,840	$ 25,148	$ 25,596	$ 24,693
Contributions as a percentage of coveredpayroll	14.13%	10.47%	15.11%	16.80%	30.78%

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

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS LAST 10 FISCAL YEARS (PLAN YEAR REPORTED IN SUBSEQUENT FISCAL YEAR)
PRESERVATION OF BENIFITS TRUST PLAN

	2019	2018	2017
Total Pension Liability			
Service cost	$ 51,774	$ 60,994	$ 29,270
Interest cost	53,311	35,323	34,173
Differences between expected and actual experience	193,013	388,329	-
Changes of assumptions	(89,712)	(214,765)	272,579
Benefit Payments	(31,329)	-	-
Net Change in Total Pension Liability	177,057	269,881	336,022
Total pension liability -beginning	1,479,005	1,209,124	873,102
Total pension liability - ending	$ 1,656,062	$ 1,479,005	$ 1,209,124
Covered payroll	$ 31,628,301	$ 31,131,795	$ 29,189,357
Net Pension Liability as a percentage of payroll	5.2%	4.8%	4.1%

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.

SCHEDULE OF CONTRIBUTIONS, LAST 10 FISCAL YEARS:
PRESERVATION OF BENIFITS TRUST PLAN

	2019	2018	2017
Actuarially determined contribution	$ -	$ -	$ -
Contributions in relation to the actuarially determined contribution	182,381	56,513	-
Contribution deficiency (excess)	$ (182,381)	$ (56,513)	$ -
Covered payroll	$ 31,319,921	$ 30,828,256	$ 31,628,301
Contributions as a percentage of covered payroll	0.58%	0.18%	0.00%

* 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, 2019 (CONTINUED)

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY (ASSET) AND RELATED RATIOS LAST 10 FISCAL YEARS (PLAN YEAR REPORTED IN SUBSEQUENT FISCAL YEAR)

	2019	2018
Total OPEB Liability		
Service Cost	$ 436,501	$ 411,052
Interest Cost	1,772,578	1,606,959
Changes of Assumptions	-	766,830
Benefit Payments	(622,425)	(451,189)
Net Change in Total OPEB Liability	1,586,654	2,333,652
Total OPEB Liability (Beginning)	24,217,840	21,884,188
Total OPEB Liability (Ending)	$ 25,804,494	$ 24,217,840
Plan Fiduciary Net Position		
Contributions—Employer	$ 622,425	$ 2,012,419
Net Investment Income	1,896,351	2,175,582
Benefit Payments	(622,425)	(451,189)
Administrative Expense	(12,568)	(10,578)
Net Change in Plan Fiduciary Net Position	1,883,783	3,726,234
Plan Fiduciary Net Position (Beginning)	24,315,258	20,589,024
Plan Fiduciary Net Position (Ending)	$ 26,199,041	$ 24,315,258
Net OPEB Asset	$ (394,547)	$ (97,418)
Net Position as a Percentage of OPEB Liability	101.53%	100.40%
Covered Payroll	$ 16,625,857	$ 16,141,609
Net OPEB Liability as a Percentage of Payroll	(2.37%)	(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

SCHEDULE OF CONTRIBUTIONS (OPEB), LAST 10 FISCAL YEARS (DOLLARS IN THOUSANDS):

	2019	2018
Actuarially determined contribution	$ 486	$ 472
Contributions in relation to the actuarially determined contribution	339	462
Contribution deficiency (excess)	$ 147	$ 10
Covered payroll	$ 13,869	$ 15,674
Contributions as a percentage of covered payroll	2.44%	2.95%

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.

STATISTICAL SECTION

This part of the Airport Authority's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Financial Trends Data – These tables contain trend information to help the reader understand how the Airport Authority's financial performance and well-being have changed over time.

- Authority operating revenues and O&M expenses Exhibit S-1
- Authority net position by component Exhibit S-2
- Authority changes in net position Exhibit S-3
- Authority largest sources of revenue Exhibit S-4

Revenue Capacity – These tables contain information to help the reader assess the Airport Authority's most significant revenue sources.

- Authority landing fee rate Exhibit S-5
- Terminal rates billed to airlines Exhibit S-6
- Airline cost per enplaned passenger Exhibit S-7

Operating Information – These tables are intended to provide contextual information about the Airport Authority's operations and resources in order for readers to understand and assess its economic condition.

- Authority employee head count Exhibit S-8
- Aircraft operations Exhibit S-9
- Aircraft landed weights Exhibit S-10
- Aircraft landed weights by airline Exhibit S-11
- Passenger enplanements Exhibit S-12
- Enplanements by airline Exhibit S-13
- Capital assets Exhibit S-14

Demographic and Economic Information – These tables offer demographic and economic indicators to help the reader understand the environment within which the Airport Authority's financial activities take place.

- Population & per capita personal income – San Diego County Exhibit S-15
- Principal employers in San Diego County Exhibit S-16
- Labor force, employment and unemployment rates Exhibit S-17

Debt Capacity – These tables present information to help the reader assess the affordability of the Airport Authority's current levels of outstanding debt and the Authority's ability to issue additional debt in the future.

- Debt service coverage Exhibit S-18
- Debt services coverage – Series 2014 CFC Bonds Exhibit S-19
- Debt per enplaned passenger Exhibit S-20

EXHIBIT S-1
AUTHORITY REVENUES AND O&M EXPENSES ($000)

Fiscal Years Ended June 30,

Operating Revenues

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Airline revenue										
Landing fees	$ 18,672	$ 18,579	$ 18,419	$ 19,658	$ 19,107	$ 21,390	$ 23,985	$ 24,612	$ 23,900	$ 24,816
Aircraft parking fees	3,406	2,921	3,134	3,191	2,503	2,716	2,701	2,927	3,236	3,471
Building rentals	23,835	26,980	30,633	41,840	46,001	48,153	53,536	56,575	62,241	70,912
Security surcharge	11,900	14,886	18,649	23,360	25,777	25,180	29,223	29,468	32,303	33,559
Other aviation revenue	1,585	1,597	1,595	1,591	4,488	4,893	2,760	2,799	1,477	1,596
Concession revenue	36,249	37,103	40,427	42,041	47,770	52,496	29,249	61,256	65,610	71,256
Parking and ground transportation revenue	30,296	31,645	31,470	35,750	38,959	41,632	75,131	49,407	53,254	62,818
Ground rentals	5,923	8,656	8,044	9,162	9,603	13,074	16,226	20,053	22,109	22,810
Other operating revenue	1,829	1,640	1,179	905	1,529	971	1,183	1,750	1,949	2,441
Total Operating Revenues	$ 133,695	$ 144,007	$ 153,550	$ 177,498	$ 195,737	$ 210,505	$ 233,994	$ 248,847	$ 266,079	$ 293,679

Operating Expenses Before Depreciation

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Salaries and benefits	$ 35,386	$ 38,267	$ 37,237	$ 38,092	$ 39,135	$ 39,211	$ 42,025	$ 46,874	$ 47,866	$ 49,578
Contractual services	27,999	26,113	26,906	29,284	31,559	32,422	38,215	44,372	45,249	49,903
Safety and security	20,131	21,344	22,625	23,994	24,151	23,464	28,721	28,422	30,733	31,397
Space rental	10,906	10,906	11,415	10,897	10,478	10,433	10,367	10,190	10,190	10,191
Utilities	6,871	6,413	6,674	6,659	8,680	10,152	11,480	10,736	12,509	13,194
Maintenance	9,231	8,174	8,497	11,204	13,982	14,516	14,122	14,270	12,603	13,436
Equipment and systems	891	570	403	469	643	1,805	708	506	598	375
Materials and supplies	413	345	304	406	440	519	536	611	655	656
Insurance	1,166	1,066	764	795	988	1,145	949	956	1,098	1,200
Employee development and support	990	1,041	916	1,235	1,171	1,136	1,242	1,347	1,248	1,045
Business development	2,033	2,275	2,093	2,444	2,661	2,493	2,390	2,347	3,246	2,630
Equipment rentals and repairs	1,271	1,327	1,335	1,317	2,932	2,951	2,852	3,095	3,124	3,614
Total Operating Expenses Before Depreciation	$ 117,288	$ 117,841	$ 119,169	$ 126,796	$ 136,821	$ 140,250	$ 153,608	$ 163,726	$ 169,119	$ 177,219

Source: San Diego County Regional Airport Authority

EXHIBIT S-2
AUTHORITY NET POSITION BY COMPONENT ($000)

Fiscal Years Ended June 30,

	2010*	2011	2012	2013	2014	2015	2016**	2017	2018***	2019
Net investment in capital assets	$ 274,769	$ 352,276	$ 339,467	$ 359,640	$ 312,780	$ 316,250	$ 310,339	$ 263,952	$ 294,937	$ 281,491
Other restricted net position	139,672	147,513	172,076	167,384	204,642	215,968	214,533	225,088	230,954	246,508
Unrestricted net position	145,224	102,466	149,346	200,040	209,594	210,522	251,076	294,133	284,034	325,303
Total net position	$ 559,664	$ 602,255	$ 660,889	$ 727,064	$ 727,016	$ 742,740	$ 775,949	$ 783,173	$ 809,925	$ 853,302

* 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,

	2010*	2011	2012	2013	2014	2015	2016**	2017	2018***	2019
Operating revenues:										
Airline revenue:										
Landing fees	$ 18,672	$ 18,579	$ 18,419	$ 19,658	$ 19,107	$ 21,390	$ 23,985	$ 24,612	$ 23,900	$ 24,816
Aircraft parking fees	3,406	2,921	3,134	3,191	2,503	2,716	2,701	2,927	3,236	3,471
Building rentals	23,835	26,980	30,633	41,840	46,001	48,153	53,536	56,575	62,241	70,912
Security surcharge	11,900	14,886	18,649	23,360	25,777	25,180	29,223	29,468	32,303	33,559
Other aviation revenue	1,584	1,597	1,595	1,591	4,488	4,893	2,760	2,799	1,477	1,596
Concession revenue	36,249	37,103	40,427	42,041	47,770	52,496	56,274	61,256	65,610	71,256
Parking and ground transportation	30,296	31,645	31,470	35,750	38,959	41,632	48,106	49,407	53,254	62,818
Ground rentals	5,923	8,656	8,044	9,162	9,603	13,074	16,226	20,053	22,109	22,810
Other operating revenue	1,829	1,640	1,179	905	1,529	971	1,183	1,750	1,949	2,441
Total operating revenues	133,694	144,007	153,550	177,498	195,737	210,505	233,994	248,847	266,079	293,679
Operating expenses:										
Salaries and benefits	35,386	38,267	37,237	38,092	39,135	39,211	42,025	46,874	47,866	49,578
Contractual services	27,999	26,113	26,906	29,284	31,559	32,422	38,215	44,372	45,249	49,903
Safety and security	20,131	21,344	22,625	23,994	24,151	23,465	28,721	28,422	30,733	31,397
Space rental	10,906	10,906	11,415	10,897	10,478	10,433	10,367	10,190	10,190	10,191
Utilities	6,871	6,413	6,674	6,659	8,680	10,152	11,480	10,736	12,509	13,194
Maintenance	9,231	8,174	8,497	11,204	13,982	14,516	14,122	14,270	12,603	13,436
Equipment and systems	891	570	403	469	643	1,805	708	506	598	375
Materials and supplies	413	345	304	406	440	519	536	611	655	656
Insurance	1,166	1,066	764	795	988	1,145	949	956	1,098	1,200
Employee development and support	990	1,041	916	1,235	1,171	1,136	1,242	1,347	1,248	1,045
Business development	2,033	2,275	2,093	2,444	2,661	2,493	2,390	2,347	3,246	2,630
Equipment rentals and repairs	1,271	1,327	1,335	1,317	2,932	2,951	2,852	3,095	3,124	3,614
Total operating expenses before depreciation	117,288	117,841	119,169	126,796	136,820	140,248	153,607	163,726	169,119	177,219
Income from operations before depreciation	16,406	26,166	34,381	50,702	58,917	70,257	80,387	85,121	96,960	116,460
Depreciation	42,651	50,435	46,164	46,100	81,598	81,887	87,821	95,229	105,532	124,329
Operating income (loss)	(26,245)	(24,269)	(11,783)	4,602	(22,681)	(11,630)	(7,434)	(10,108)	(8,572)	(7,869)
Nonoperating revenues (expenses):										
Passenger facility charges	34,049	33,998	34,639	35,437	35,770	38,517	40,258	42,200	46,953	49,198
Customer facility charges	10,783	10,986	11,487	19,117	27,545	32,465	33,208	36,528	41,036	41,918
Quieter Home Program, net	(1,629)	(3,359)	(3,531)	(1,589)	(2,750)	(2,811)	(3,698)	(785)	(2,747)	(3,192)
Joint Studies Program	(244)	(129)	(73)	(55)	(152)	(145)	(101)	-	(114)	(99)
Investment income	6,667	6,408	5,492	4,140	5,211	5,747	5,999	5,689	9,426	25,533
Interest expense	(3,245)	(10,998)	(395)	(12,054)	(51,984)	(55,187)	(50,636)	(58,179)	(68,411)	(74,501)
Build America Bonds Rebate	-	3,691	4,996	4,779	4,636	4,631	4,656	4,651	4,666	4,686
Other revenues (expenses), net	(1,004)	(92)	(3,032)	(4,279)	434	1,367	2,247	(14,676)	(9,281)	(510)
Nonoperating revenue, net	45,377	40,505	49,583	45,496	18,710	24,584	31,933	15,428	21,528	43,033
Income before capital grant contributions	19,132	16,236	37,800	50,098	(3,971)	12,954	24,499	5,320	12,956	35,164
Capital grant contributions	27,350	26,355	20,834	16,077	3,924	10,765	10,477	1,904	13,079	8,213
Change in net position	46,482	42,591	58,634	66,175	(47)	23,719	34,976	7,224	26,035	43,377
Prior Period Adjustment	-	-	-	-	-	(7,993)	(1,767)		717	
Net position, beginning of year	513,183	559,664	602,255	660,889	727,064	727,016	742,740	775,949	783,173	809,925
Net position, end of year	$ 559,665	$ 602,255	$ 660,889	$ 727,064	$ 727,017	$ 742,742	$ 775,949	$ 783,173	$ 809,925	$ 853,302

* 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2019 % of Total Operating Revenue
Southwest Airlines	$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	$42,358,547	14.4%
Delta Airlines	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	18,367,799	6.3%
United Airlines	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	18,335,068	6.2%
Alaska Airlines**	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	17,436,299	5.9%
American Airlines*	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	17,073,172	5.8%
Enterprise Rent-A-Car	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	12,779,605	4.4%
Hertz Rent-A-Car	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	11,538,847	3.9%
Uber Technologies, Inc	-	-	-	-	-	-	-	-	-	8,618,750	2.9%
SSP America	-	-	-	-	-	-	4,476,873	5,004,393	5,869,320	6,798,270	2.3%
High Flying Foods	-	-	-	-	-	-	-	-	-	6,373,271	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.

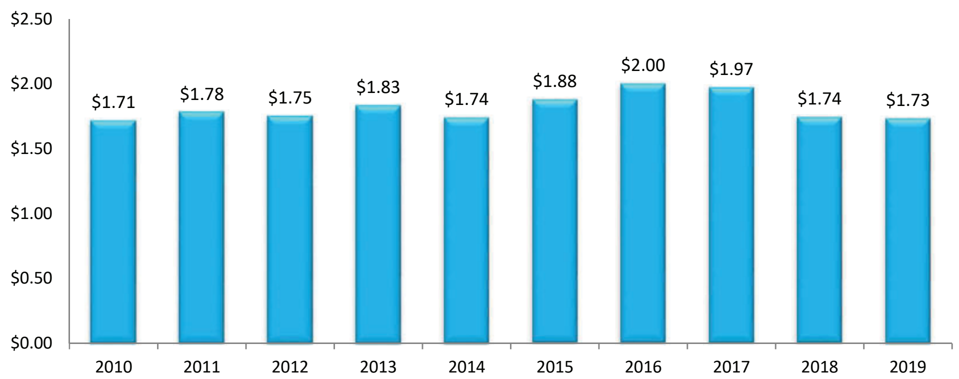
** Alaska Airlines and Virgin America received their single operating certificate from the FAA on January 11, 2018 and began operating as Alaska Airlines on April 25, 2018. Data for Alaska Airlines and Virgin America have been combined in this table.

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



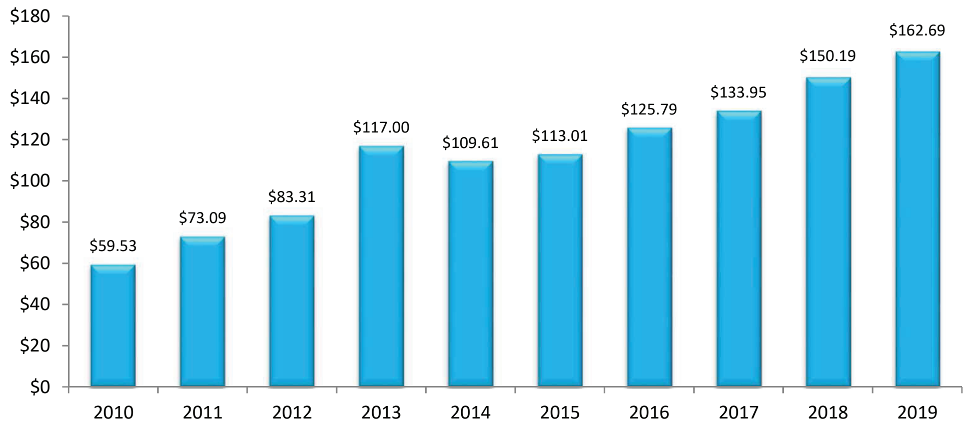
Source: San Diego County Regional Airport Authority

Landing Fees are the revenues from passenger and cargo air carriers for landing aircraft at SDIA.

EXHIBIT S-6
TERMINAL RATES BILLED TO AIRLINES

TERMINAL RATE PER SQUARE FOOT

Fiscal Years Ended June 30,



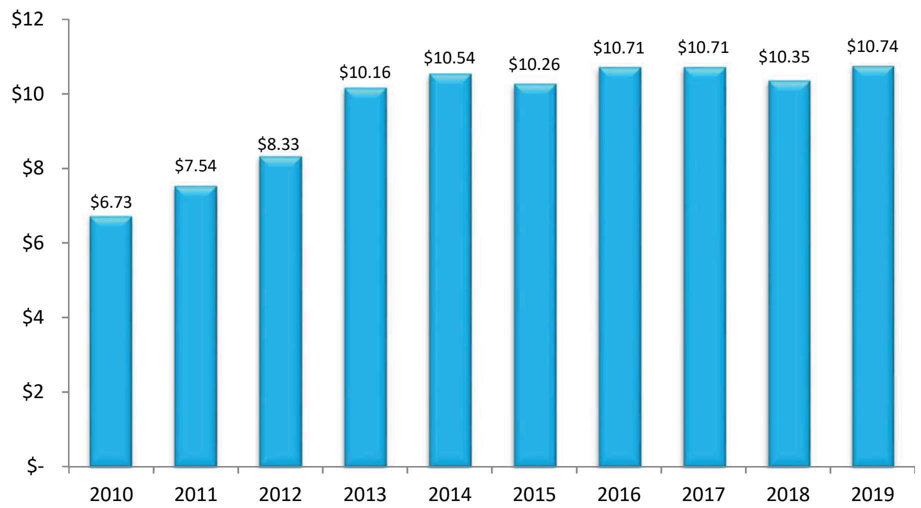
Source: San Diego County Regional Airport Authority

Terminal Rate is the rate billed to the airlines for the rent of terminal space per square foot.

EXHIBIT S-7
AIRLINE COST PER ENPLANED PASSENGER

Fiscal Years Ended June 30,

COST PER ENPLANED PASSENGER



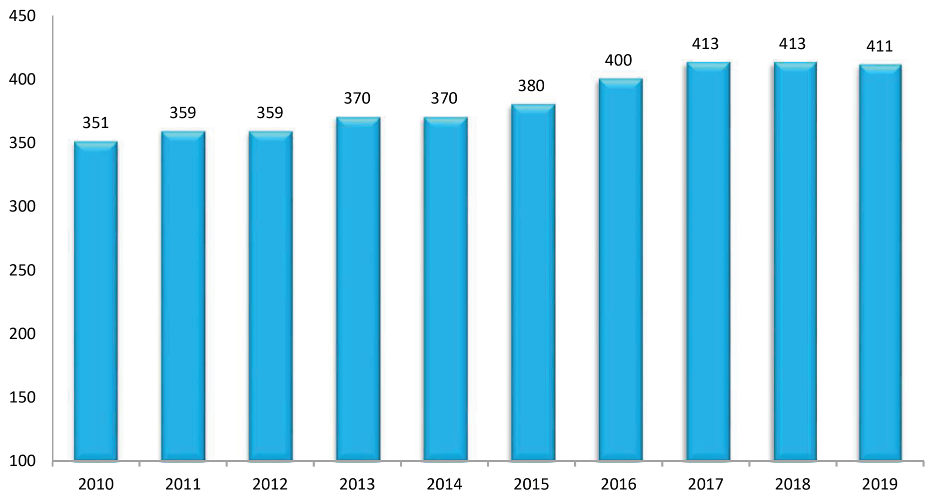
Source: San Diego County Regional Airport Authority

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.

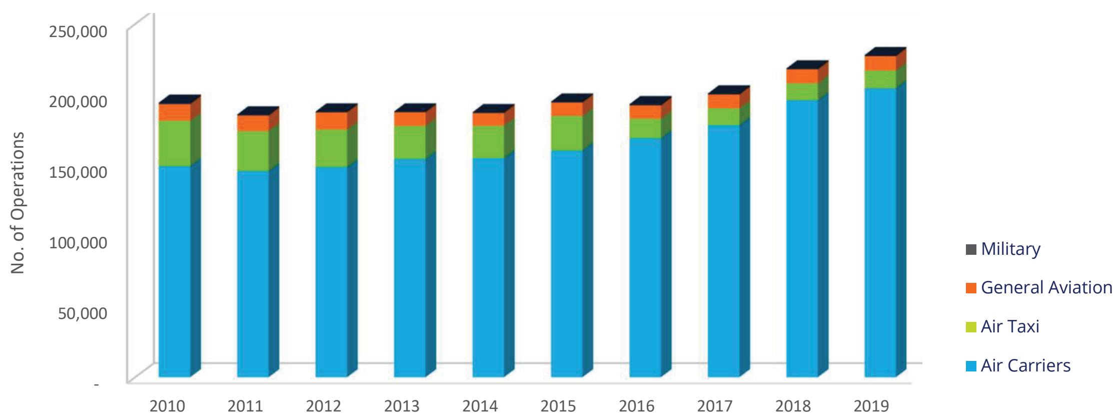
EXHIBIT S-9
AIRCRAFT OPERATIONS (TAKEOFFS & LANDINGS)

Fiscal Years Ended June 30,

Fiscal Year	Air Carriers	Air Taxi	General Aviation	Military	Total
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
2019	204,627	12,539	10,167	759	228,092

Source: FAA ATADS Report: Air Operations Standard Report (itinerant only)

AIRCRAFT OPERATIONS



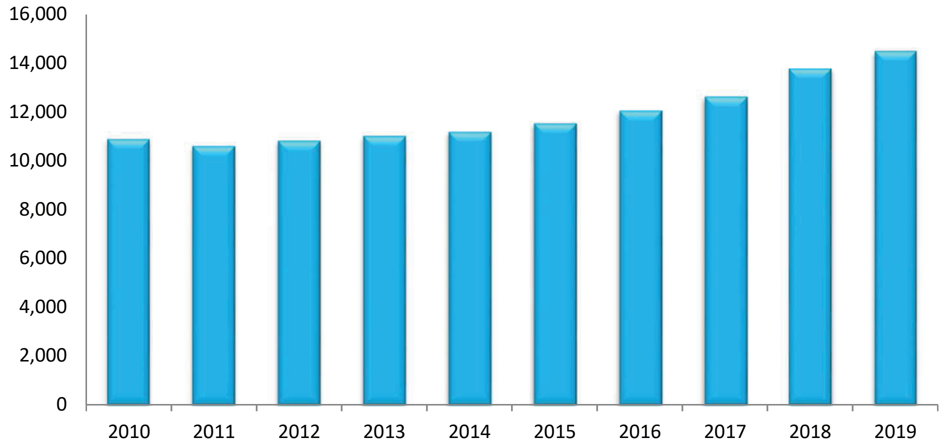
Source: San Diego County Regional Airport Authority

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,

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)									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Southwest Airlines	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	5,180,064
United Airlines [1]	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	1,566,148
American Airlines [2]	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	1,415,134
Alaska Airlines [3]	511,813	595,238	648,359	750,000	884,727	888,065	924,310	999,875	1,131,807	1,411,255
Delta Airlines	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	1,389,312
Skywest Airlines	332,408	338,812	306,789	428,595	396,054	408,608	359,197	465,023	627,038	637,117
Compass Airlines	-	-	-	-	10,979	172,754	307,793	296,581	312,883	377,941
Federal Express	400,303	421,239	452,453	451,797	419,127	384,686	444,038	390,716	388,782	375,807
Spirit Airlines	-	-	98,931	208,200	245,669	296,925	351,977	286,162	328,424	331,366
JetBlue Airlines	201,071	167,369	166,232	168,080	189,979	193,848	199,232	244,364	293,160	281,715
Frontier Airlines	227,847	249,492	208,936	196,614	192,493	153,880	115,238	167,590	232,794	247,145
Hawaiian Airlines	121,600	134,080	118,088	140,637	147,325	146,284	147,406	147,568	161,486	237,560
British Airways	-	13,800	167,440	163,760	166,980	166,980	183,760	217,360	208,926	210,432
United Parcel	118,874	120,158	120,454	118,180	121,742	127,660	135,318	146,778	143,678	138,860
Japan Airlines	-	-	-	47,125	138,700	138,700	139,080	139,626	138,745	138,700
Subtotal	**9,931,558**	**9,962,842**	**10,134,628**	**10,331,756**	**10,546,305**	**10,957,692**	**11,436,005**	**11,930,754**	**13,040,067**	**13,938,555**
All Others	961,309	643,318	685,273	683,959	640,460	566,028	612,137	685,314	729,879	542,674
Total	**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**	**14,481,229**
Annual % Change	-5.3%	-2.6%	2.0%	1.8%	1.6%	3.0%	4.6%	4.7%	9.1%	5.2%

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 purpose of this table.

EXHIBIT S-11
AIRCRAFT LANDED WEIGHTS BY AIRLINE (THOUSAND POUNDS)

Fiscal Years Ended June 30,

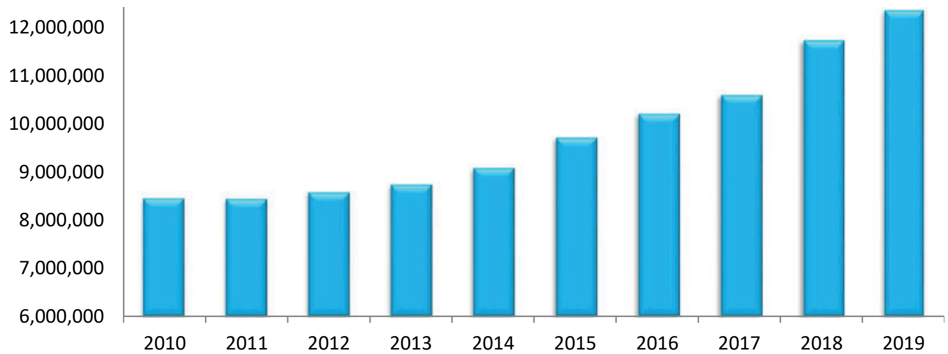
	Market Share									
Airline	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Southwest Airlines	37.4%	37.7%	36.5%	35.5%	35.1%	36.6%	35.3%	35.4%	35.8%	35.8%
United Airlines [1]	15.3%	14.9%	13.9%	12.6%	12.0%	10.7%	10.4%	10.7%	10.8%	10.8%
American Airlines [2]	12.8%	12.0%	12.4%	12.2%	12.1%	11.8%	12.2%	11.3%	10.7%	9.8%
Alaska Airlines [3]	4.7%	5.6%	6.0%	6.8%	7.9%	7.7%	7.7%	7.9%	8.2%	9.7%
Delta Airlines	8.2%	10.0%	9.7%	9.3%	9.1%	9.3%	9.6%	9.3%	8.6%	9.6%
Skywest Airlines	3.1%	3.2%	2.8%	3.9%	3.5%	3.5%	3.0%	3.7%	4.6%	4.4%
Compass Airlines	0.0%	0.0%	0.0%	0.0%	0.1%	1.5%	2.6%	2.4%	2.3%	2.6%
Federal Express	3.7%	4.0%	4.2%	4.1%	3.7%	3.3%	3.7%	3.1%	2.8%	2.6%
Spirit Airlines	0.0%	0.0%	0.9%	1.9%	2.2%	2.6%	2.9%	2.3%	2.4%	2.3%
JetBlue Airlines	1.8%	1.6%	1.5%	1.5%	1.7%	1.7%	1.7%	1.9%	2.1%	1.9%
Frontier Airlines	2.1%	2.4%	1.9%	1.8%	1.7%	1.3%	1.0%	1.5%	1.7%	1.7%
Hawaiian Airlines	1.1%	1.3%	1.1%	1.3%	1.3%	1.3%	1.2%	1.2%	1.2%	1.6%
British Airways	0.0%	0.1%	1.5%	1.5%	1.5%	1.4%	1.5%	1.7%	1.5%	1.5%
United Parcel	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.2%	1.0%	1.0%
Japan Airlines	0.0%	0.0%	0.0%	0.4%	1.2%	1.2%	1.2%	1.1%	1.0%	1.0%
Subtotal	**91.2%**	**93.9%**	**93.7%**	**93.8%**	**94.3%**	**95.1%**	**94.9%**	**94.6%**	**94.7%**	**96.3%**
All Others	8.8%	6.1%	6.3%	6.2%	5.7%	4.9%	5.1%	5.4%	5.3%	3.7%
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
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	11,731,833	10.7 %	5.8 %
2019	12,356,286	5.3 %	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).

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AIRBUS A330-200
AVIATION
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EXHIBIT S-13
ENPLANEMENTS BY AIRLINE

Fiscal Years Ended June 30,

Air Carrier	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
					Enplanements					
Aeromexico	24,335	-	-	-	-	-	-	-	-	-
Air Canada	46,959	58,539	56,470	45,058	36,636	41,175	48,985	74,018	60,337	63,302
Air Canada Jazz	13,982	-	-	-	-	-	-	19,256	50,347	67,102
AirTran Airways	37,530	17,978	-	-	-	-	-	-	-	-
Alaska Airlines [1]	435,722	514,498	579,457	673,731	830,349	871,775	902,705	918,841	1,031,537	1,253,433
Allegiant Airlines	32,803	18,416	18,099	15,466	7,859	7,406	16,825	49,480	44,934	30,750
American Airlines [2]	704,909	658,752	664,466	650,826	693,995	747,493	1,369,003	1,339,489	1,366,634	1,339,334
British Airways	-	6,912	81,437	81,534	84,600	84,263	89,723	90,200	82,543	83,492
Condor	-	-	-	-	-	-	-	3,902	7,815	-
Continental Airlines [3]	507,443	496,100	-	-	-	-	-	-	-	-
Delta Air Lines	900,510	919,323	935,777	904,734	915,907	992,498	1,061,889	1,088,647	1,126,873	1,336,885
Edelweiss	-	-	-	-	-	-	-	1,215	6,990	6,271
Frontier Airlines	196,628	219,008	198,708	184,020	185,270	150,595	118,990	180,235	254,760	277,320
Hawaiian Airlines	90,874	98,887	86,211	94,283	98,667	96,963	102,462	107,776	108,971	149,744
Japan Airlines	-	-	-	18,249	54,213	59,372	59,647	59,916	62,034	66,688
JetBlue Airways	167,031	141,684	147,051	152,571	173,282	178,590	182,605	224,700	248,325	230,909
Lufthansa	-	-	-	-	-	-	-	-	13,037	49,974
Southwest Airlines	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	4,656,029
Spirit Airlines	-	-	77,873	164,189	201,414	252,219	327,183	287,208	318,201	323,623
Sun Country Airlines	24,984	24,175	15,889	23,836	27,276	28,732	34,886	40,109	41,466	40,167
United Airlines [3]	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	1,481,166
US Airways [2]	512,558	523,378	535,906	560,738	554,244	523,034	-	-	-	-
Virgin America [1]	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	18,738	19,360	25,535	27,746	31,805	33,723	34,516	41,043	39,285	42,939
Total Air Carrier	**7,956,178**	**8,006,625**	**8,153,091**	**8,225,257**	**8,596,062**	**9,114,013**	**9,587,857**	**9,975,683**	**10,911,408**	**11,499,128**
Regional										
Compass	-	-	-	-	8,563	140,012	249,723	195,126	251,066	296,091
Horizon Air	-	-	5,900	77,392	84,000	83,764	64,758	53,517	82,131	64,135
Mesa Airlines	18,670	6,709	12,766	206	-	-	-	-	-	-
Seaport Airlines	-	-	-	196	1,128	3,298	2,292	-	-	-
Skywest Airlines	271,766	272,365	263,144	352,189	341,365	371,979	301,592	372,157	487,228	496,932
Total Regional	**497,708**	**434,495**	**422,384**	**512,360**	**486,182**	**599,053**	**618,365**	**620,800**	**820,425**	**857,158**
Total Passengers	**8,453,886**	**8,441,120**	**8,575,475**	**8,737,617**	**9,082,244**	**9,713,066**	**10,206,222**	**10,596,483**	**11,731,833**	**12,356,286**

Source: San Diego County Regional Airport Authority

[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
ENPLANEMENTS BY AIRLINE

Fiscal Years Ended June 30,

Air Carrier	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
					Market Share					
Aeromexico	0.3%	-	-	-	-	-	-	-	-	-
Air Canada	0.6%	0.7%	0.7%	0.5%	0.4%	0.4%	0.5%	0.7%	0.5%	0.5%
Air Canada Jazz	0.2%	-	-	-	-	-	-	0.2%	0.4%	0.5%
AirTran Airways	0.4%	0.2%	-	-	-	-	-	-	-	-
Alaska Airlines [1]	5.2%	6.1%	6.8%	7.7%	9.1%	9.0%	8.8%	8.7%	8.8%	10.1%
Allegiant Airlines	0.4%	0.2%	0.2%	0.2%	0.1%	0.1%	0.2%	0.5%	0.4%	0.2%
American Airlines [2]	8.3%	7.8%	7.7%	7.4%	7.6%	7.7%	13.4%	12.6%	11.6%	10.8%
British Airways	-	0.1%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.7%	0.7%
Condor	-	-	-	-	-	-	-	-	0.1%	-
Continental Airlines [3]	6.0%	5.9%	-	-	-	-	-	-	-	-
Delta Air Lines	10.7%	10.9%	10.9%	10.4%	10.1%	10.2%	10.4%	10.3%	9.6%	10.8%
Edelweiss	-	-	-	-	-	-	-	-	0.1%	0.1%
Frontier Airlines	2.3%	2.6%	2.3%	2.1%	2.0%	1.6%	1.2%	1.7%	2.2%	2.2%
Hawaiian Airlines	1.1%	1.2%	1.0%	1.1%	1.1%	1.0%	1.0%	1.0%	0.9%	1.2%
Japan Airlines	-	-	-	0.2%	0.6%	0.6%	0.6%	0.6%	0.5%	0.5%
JetBlue Airways	2.0%	1.7%	1.7%	1.7%	1.9%	1.8%	1.8%	2.1%	2.1%	1.9%
Lufthansa	-	-	-	-	-	-	-	-	0.1%	0.4%
Southwest Airlines	37.7%	38.8%	37.9%	37.2%	36.9%	38.5%	37.6%	37.4%	38.0%	37.7%
Spirit Airlines	-	-	0.9%	1.9%	2.2%	2.6%	3.2%	2.7%	2.7%	2.6%
Sun Country Airlines	0.3%	0.3%	0.2%	0.3%	0.3%	0.3%	0.3%	0.4%	0.4%	0.3%
United Airlines [3]	10.9%	10.4%	14.8%	13.5%	12.9%	11.5%	11.4%	11.9%	12.0%	12.0%
US Airways [2]	6.1%	6.2%	6.2%	6.4%	6.1%	5.4%	-	-	-	-
Virgin America [1]	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%	-	-	-
WestJet	0.2%	0.2%	0.3%	0.3%	0.4%	0.3%	0.3%	0.4%	0.3%	0.3%
Total Air Carrier	**94.1%**	**94.9%**	**95.1%**	**94.1%**	**94.6%**	**93.8%**	**93.9%**	**94.1%**	**93.0%**	**93.1%**
Regional										
Compass	-	-	-	-	0.1%	1.4%	1.9%	1.8%	2.1%	2.4%
Horizon Air	-	-	-	0.9%	0.9%	0.9%	0.6%	0.5%	0.7%	0.5%
Mesa Airlines	0.2%	0.1%	0.1%	-	-	-	-	-	-	-
Seaport Airlines	-	-	-	-	-	-	-	-	-	-
Skywest Airlines	3.2%	3.2%	3.1%	4.0%	3.8%	3.8%	3.0%	3.5%	4.2%	4.0%
Total Regional	**5.9%**	**5.1%**	**4.9%**	**5.9%**	**5.4%**	**6.2%**	**6.1%**	**5.9%**	**7.7%**	**6.9%**
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	573,858
Airport Land Area	661 acres
On airport parking spaces (public)	5,141
Off airport parking spaces (public)	2,257

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
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 %
2019	3,378,564	0.8 %	$58,623	2.0 %	$213.0	5.0 %

Source: California Department of Transportation - San Diego County

(1) 2019 population, per capita personal income and personal income are estimates based on published trends.

EXHIBIT S-16
PRINCIPAL EMPLOYERS IN SAN DIEGO COUNTY

July 2018

Employer	Local Employees	Rank	Percentage of Total Industry Employment
State of California	47,600	1	3.0%
U.S. Federal Government	46,800	2	2.9%
University of California, San Diego	34,448	3	2.1%
Sharp Health Care	18,364	4	1.1%
Scripps Health	14,941	5	0.9%
Qualcomm Inc.	11,800	6	0.7%
City of San Diego	11,462	7	0.7%
Kaiser Permanente	9,606	8	0.6%
UC San Diego Health	8,932	9	0.6%
General Atomics Aeronautical	6,791	10	0.4%
Total Civilian Labor Force in San Diego County (July 2018):	**1,602,700**		

July 2009

Employer	Local Employees	Rank	Percentage of Total Industry Employment
U.S. Federal Government	41,400	1	2.7%
State of California	41,400	2	2.7%
University of California, San Diego	29,337	3	1.9%
County of San Diego	17,189	4	1.1%
San Diego Unified School District	14,555	5	0.9%
Sharp Health Care	14,400	6	0.9%
Scripps Health	12,622	7	0.8%
City of San Diego	11,087	8	0.7%
Qualcomm Inc.	9,859	9	0.6%
US Postal Service	7,618	10	0.5%
Total Civilian Labor Force in San Diego County (July 2009):	**1,553,400**		

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	State
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%
2019	1,582,300	1,529,500	52,900	3.3%	4.2%

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	**2010**	**2011[6]**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Revenues [1]	$ 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	$ 306,683,097
Operating and Maintenance Expenses	(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)	(165,925,555)
Net Revenues [2]	$ 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	$ 140,757,542
Senior Bond Debt Service [3]										
Principal	$ 3,105,000	$ 3,265,000	$ 3,430,000	$ -	$ -	$ 2,030,000	$ 2,090,000	$ 2,155,000	$ 2,240,000	$ 2,320,000
Interest	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	18,174,150
PFCs used to pay debt service	-	-	-	(714,077)	(7,140,301)	(8,669,966)	(9,490,326)	(9,548,626)	(9,547,482)	(9,544,261)
Total Debt Service for the Senior Bond	$ 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	$ 10,949,889
Senior Bonds Debt Service Coverage	**4.08**	**5.95**	**7.35**	**30.83**	**6.65**	**6.32**	**7.93**	**9.23**	**10.93**	**12.85**
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	$ 129,807,653
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	$ 15,895,000
Interest		2,971,984	6,599,760	26,194,616	27,069,283	26,853,179	26,495,600	26,085,029	37,197,656	37,917,500
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	7,497,649
PFCs used to pay debt service		-	-	(20,061,962)	(20,718,863)	(21,554,245)	(20,331,674)	(20,456,707)	(20,457,851)	(20,461,072)
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	$ 40,849,077
Subordinate Obligations Debt Service Coverage		**5.40**	**3.93**	**4.16**	**2.89**	**2.93**	**3.48**	**4.09**	**2.80**	**3.18**
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	$ 140,757,542
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	18,215,000
Interest		5,061,209	8,525,735	28,673,105	43,714,718	44,887,754	44,910,200	44,434,979	55,461,406	56,091,650
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	7,497,649
PFC Funds Applied to Debt Service				(20,776,039)	(27,859,164)	(30,224,211)	(29,822,000)	(30,005,333)	(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	$ 32,938,389	$ 33,014,712	$ 49,861,196	$ 51,798,966
Aggregate Obligations Debt Service Coverage		**3.11**	**2.81**	**3.77**	**2.25**	**2.24**	**2.65**	**3.06**	**2.40**	**2.72**

(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

Fiscal Years Ended June 30,

	2014	2015	2016	2017	2018	2019
CFC Collections	$ 27,545,001	$ 32,464,843	$ 33,207,946	$ 36,527,853	$ 41,036,526	$41,918,554
Bond Funding Supplemental Consideration	-	-	-	-	-	-
Transfers from CFC Stabilization Fund	-	-	-	-	-	-
Interest Earnings[1]	204,194	295,726	332,761	466,134	919,740	1,544,474
Total Amounts Available	27,749,195	32,760,569	33,540,707	36,993,987	41,956,266	43,463,028
Rolling Coverage Fund Balance[2]	-	-	2,451,182	4,902,363	6,576,363	6,575,894
Total Amounts Available, plus Rolling Coverage Fund Balance	$ 27,749,195	$ 27,749,195	$ 35,991,889	$ 41,896,350	$ 48,532,629	$50,038,922
Series 2014 Debt Service Requirements	-	-	8,170,605	16,341,210	21,921,210	21,919,646
Coverage excluding Rolling Coverage Fund	N/A	N/A	4.11	2.26	1.91	1.98
Coverage including Rolling Coverage Fund	N/A	N/A	4.41	2.56	2.21	2.28

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.

EXHIBIT S-20
DEBT PER ENPLANED PASSENGER

Fiscal Years Ended June 30,

Fiscal Year	Outstanding Bond Debt [1]	Outstanding Commercial Paper Debt	Capital Leases	Total Outstanding Debt	Enplaned Passengers	Debt per Enplaned Passenger
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	11,731,833	139.56
2019	1,581,628,919	13,719,000	6,820,351	1,602,168,270	12,356,286	129.66

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


22
Travel Advisory
STERILE
AREA
EXIT
NEW. IMPROVED.
FREE WIFI.
First
TSA Pre


Transportation Security Administration
TSA Pre
First Class & Elite
First Class & Elite
Drop tagged bags here
Assistance
Assistance
Alaska
Alaska
Enter Here

SAN DIEGO
INTERNATIONAL AIRPORT™

SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY

Item No.
5

AUDIT COMMITTEE

Meeting Date: **NOVEMBER 4, 2019**

Subject:

Fiscal Year 2019 Annual Report from the Office of the Chief Auditor

Recommendation:

Staff recommends that the Audit Committee review this item and forward it to the Board with a recommendation for acceptance. ***(Requires five (5) affirmative votes of the Audit Committee.)***

Background/Justification:

As directed in the Charter for the Office of the Chief Auditor, the Chief Auditor shall annually report to the Board pertaining to audits completed, findings identified, corrective actions provided, and the implementation status on recommendations.

Additionally, the Charter for the Office of the Chief Auditor defines the role and requirements of the Office of the Chief Auditor (OCA) and outlines the working relationship and responsibilities of the Chief Auditor to the Audit Committee and to Authority management. The Charter was instituted by Board Resolution No. 2003-062 on October 2, 2003, and most recently revised on October 4, 2018, during a regular meeting of the Board, by Resolution No. 2018-0117.

The Fiscal Year 2019 OCA Annual Report is submitted to the Audit Committee as Attachment A. The report provides an account of activities and accomplishments of the OCA during the period July 1, 2018, through June 30, 2019, and includes details on all recommendations completed or in progress during the 4th Quarter of Fiscal Year 2019. In addition, the report provides required disclosures in conformance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

Fiscal Impact:

None

Authority Strategies/Focus Areas:

This item supports one or more of the following *(select at least one under each area)*:

<u>Strategies</u>

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

Focus Areas

☐	Advance the Airport Development Plan	☐	Transform the Customer Journey	☒	Optimize Ongoing Business

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

ATTACHMENT A

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

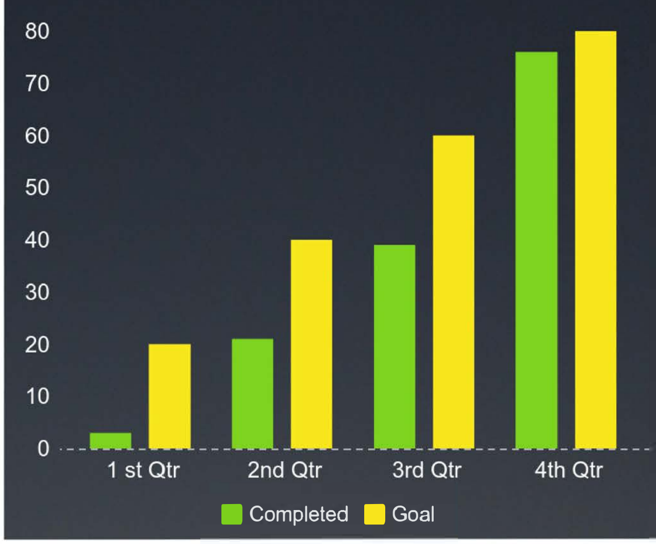
Office of the Chief Auditor

Fiscal Year 2019 Annual Report

FY 2019 Audit Plan Progress

FY 2019 Audit Plan Status

Audit Plan Completed vs Goal



FY 19 Audit Activities - By the Numbers

35
Recommendations

100%
Recommendations Accepted

$2.9M
Revenue/Savings Identified

4.6
Customer Satisfaction Rating (Out of 5)

65%
Auditor Utilization Percentage

45%
Audits Completed within Budget

SAN DIEGO
INTERNATIONAL AIRPORT
LET'S GO.

August 26, 2019

Paul Robinson, Chair
Audit Committee
San Diego County Regional Airport Authority
P.O. Box 82776
San Diego, California 92138-2776

Dear Mr. Robinson:

Subject: Fiscal Year 2019 Annual Report

The Office of the Chief Auditor (OCA) presents our Annual Report for Fiscal Year 2019. The report details the activities of the OCA and the results of the Quality Assurance and Improvement Program.

Fiscal Year 2019 was a productive year for the OCA that included the completion of 29 audits and projects, the continued monitoring of construction activities, and the management of the Airport Authority's Ethics Program.

The OCA continues to aspire to be an effective diligent contributor to the optimization of the San Diego County Regional Airport Authority.

Respectfully submitted,

Lee Parravano

Lee Parravano
Chief Auditor

LP/SE/sro

Attachment

cc: SDCRAA Audit Committee
SDCRAA Board Members
Kimberly J. Becker, President/Chief Executive Officer
Amy Gonzalez, General Counsel
Scott Brickner, Vice President/Treasurer & Chief Financial Officer
Domenico D'Ambrosio, Vice President & Chief Revenue Officer
Dennis Probst, Vice President & Chief Development Officer
Angela Shafer-Payne, Vice President & Chief Operating Officer
Matt Harris, Director, Government Relations

Fiscal Year 2019

ANNUAL REPORT

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

Issue Date: August 26, 2019

OFFICE OF THE CHIEF AUDITOR

Table of Contents

Audit Activities

Summary

The Office of the Chief Auditor's (OCA) Fiscal Year 2019 Audit Plan contained four (4) categories of audits: 1) Business Process Audits, 2) Expense Contract Audits, 3) Revenue Contract Audits, and 4) Annual Ongoing Audit Activities and Support. The Fiscal Year 2019 Audit Plan (see Appendix A) included a total of 38 audit activities: 36 planned audits and two (2) support duties consisting of managing the Ethics Program and monitoring Construction Activity at the San Diego International Airport.

In total, during Fiscal Year 2019, the OCA completed 29 audits and issued 35 recommendations. Additionally, the OCA had numerous audits that were nearing completion at the end of the fourth quarter, including two (2) draft audit reports sent to Authority management for review and comment, or that the OCA had completed fieldwork and the audit report was in draft form.

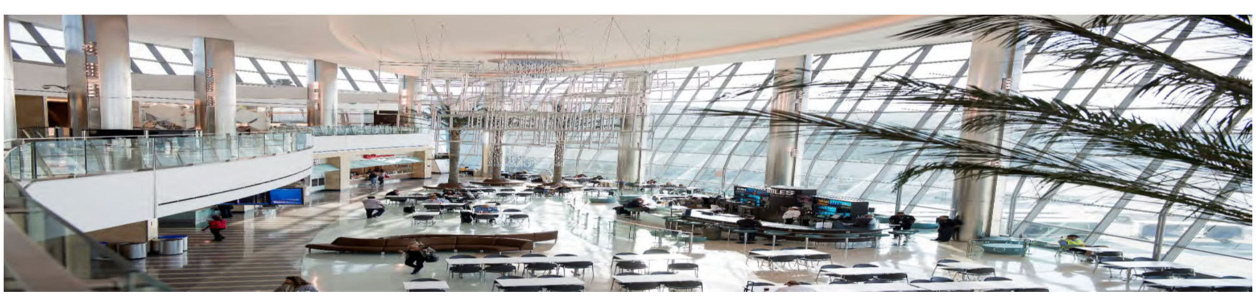
Although the OCA tried to maintain a steady pace of activity, we did not fully complete all planned audits for the fiscal year. Specifically, as of June 30, 2019, there were nine (9) planned audits that were not completed; seven (7) of which were in progress and two (2) had not been started. The OCA is carrying these nine (9) audits forward to the Fiscal Year 2020 Audit Plan.[1] Below are highlights from the OCA audits completed during Fiscal Year 2019.

Business Process Audits

The OCA issued three (3) business process audit reports during this fiscal year. This category included audits where the OCA reviews the operations of an entire Authority department, as well as conducts examinations of selected processes or projects that may span multiple Authority functions. Of particular note, the Concession Cost Recovery Program audit, report #18002, recommended that management develop a process to split the monthly trash removal services between the concessionaires in the terminals and the Authority; as the concessionaires did not pay for trash removal previously. This is estimated to save the Authority $59,849, annually.

Expense Contract Audits

This category includes audits of consulting, service, and construction contracts. During Fiscal Year 2019, the OCA completed eight (8) expenditure contract audits. The OCA ensures that expenditure contracts adhere to Authority policies, follow industry best practices, and that internal controls are established and working properly. Generally, these audits examine the procurement process for the contracts, contract monitoring, and expenditures resulting from the contracted activities. Of note, the OCA completed an audit of Turner - PCL A Joint Venture, report #19012, which contained three (3) recommendations. Those recommendations were designed to enhance the management of Disadvantaged Business Enterprises and Small Business Enterprises.



[1] Subject to amendment.

Revenue Contract Audits

This category includes audits of entities that provide some form of revenue to the Authority, with the OCA completing a total of nine (9) revenue audits for the fiscal year. Revenue audits include reviews of airline services, car rental agencies, and concessions. Six (6) revenue contract audits completed this fiscal year identified underpayments to the Authority, and as a result, we recommended that the Authority collect $430,697.

Annual Ongoing Audit Activities and Support

This category includes audit activities required in either the Authority's Policies/Codes or have been requested to be included in the Audit Plan by management or a member of the Board/Audit Committee. During Fiscal Year 2019, the OCA completed nine (9) ongoing audit activities that identified $162,739 in savings to the Authority. Annual Ongoing Audit Activities and Support include examinations of San Diego Unified Port District billings for Harbor Police, aircraft rescue and firefighting billings, and the Authority's Procurement Card Program. In addition, the Ongoing Audit Activities included management of the Ethics Program and construction monitoring, which are detailed below.

Construction Activities

Throughout Fiscal Year 2019, the OCA continued monitoring the Authority's construction activity. The OCA Construction Auditor attended payment application meetings with Turner-PCL, A Joint Venture, and Sundt Construction, Inc., to maintain an understanding of the processes and internal controls over payments for the Federal Inspection Service Facility (FIS) and the Airport Support Facilities (ASF). The knowledge and understanding of the internal controls in place over the construction activities and the payment approval processes gained at these meetings will assist the OCA team in the Fiscal Year 2020 audit of Phase 2 of the FIS project and potential future audits of the ASF project.

Ethics Program Activities

The OCA continues to run the Authority Ethics Program and confidential hotline system. During Fiscal Year 2019, one (1) reported item warranted further investigation into a potential Ethics code violation; no fraud or code violation was found. The Ethics Officer continues to receive, and respond to, numerous employee-related concerns. The main area that continues to surface is workplace practices and behavior. See Appendix C, Ethics Hotline Call Summary, for a summary of reports received during Fiscal Year 2019.

A new ethics training program, concentrating on conflicts of interest, was presented to the Authority's employees over sixteen (16) sessions in the third and fourth quarters of Fiscal Year 2019. A total of three hundred seventy-one (371) employees received the training. Five (5) ethics questions regarding the potential ethics code violations and conflicts of interest were received by the Ethics Officer in the last quarter of Fiscal Year 2019. One (1) question regarding the ethics code was received in Fiscal Year 2019 prior to the training.

Quality Assurance and Improvement Program

Background

The Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing (*Standards*) require the OCA to maintain a Quality Assurance and Improvement Program that includes internal (self) assessments and external assessments.

- External assessments, known as a Quality Assessment Review (QAR), or peer review, must be conducted at least once every five (5) years by an independent assessor or assessment team from outside the organization that is qualified in the practice of internal auditing as well as the quality assessment process. QAR results are required to be reported to the Board.

- Internal assessments are comprised of two interrelated parts: 1) ongoing monitoring, and 2) periodic self-assessments. The results of a periodic self-assessment and the level of conformance to the *Standards* must be reported to the Board at the completion of the self-assessment. The results of ongoing monitoring are required to be reported to the Board at least annually. The *Standards* also contain other mandatory reporting requirements as documented in Appendix E.

External Assessment - Quality Assessment Review

In order to fully comply with the *Standards*, the OCA requested that a peer review by the Association of Local Government Auditors (ALGA) be completed for the five (5) year period from July 1, 2013, through June 30, 2018. The peer review of the OCA was performed in April 2019, and results were presented to the Audit Committee during its May 13, 2019, meeting. The peer review determined that the OCA is providing reasonable assurance of compliance with the *Standards*. This is the highest level of conformance an internal audit function can achieve.

In a companion letter, the peer review team identified areas where the OCA excels, and offered observations and suggestions to enhance the OCAs conformance with the *Standards.* The peer review team noted that the OCA has actively addressed and corrected the observations noted.


The Association of Local Government Auditors

Awards this

Certificate of Compliance

to

San Diego County Regional Airport Authority Office of the Chief Auditor

Recognizing that the organization's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with the *International Standards for the Professional Practice of Internal Auditing* for assurance and consulting engagements during the period July 1, 2013, through June 30, 2018.

Paul Geib
ALGA Peer Review Committee Chair

Kristine Adams-Wannberg
ALGA President

Internal Assessment - On-Going Monitoring

In July 2019, the OCA conducted an assessment of its audit activities and operations, as required by the *Standards* for on-going monitoring. The results of our assessment of the 2019 Fiscal Year are provided below.

Scope and Objectives of On-Going Monitoring

The objective of ongoing monitoring is to provide assurance that the processes in place are working effectively to ensure that quality is derived on an audit-by-audit basis. The scope included:

1. Performance Measures
2. General Audit Practices
3. Engagement Planning and Supervision
4. Standard Working Practices
5. Work paper Reviews and Sign-offs
6. Report Reviews
7. Feedback from Audit Clients
8. Prior Recommendations

Results of On-Going Monitoring

There are numerous processes in place to ensure that quality is consistently delivered on each audit engagement. There were no items identified that would impact audit report quality. However, we did identify some administrative items to improve our audit process and documentation. Detailed information on performance measures and recommendations identified by the OCA are provided below.

Performance Measures

Each fiscal year the OCA develops and tracks performance measures to gauge the progress and success of the OCA. For Fiscal Year 2019, the OCA tracked seven (7) separate measures that could be used to evaluate OCA performance. The Fiscal Year-end status is presented in Table 1 below, benchmarked against the Association of Local Government Auditors (ALGA) 2016 Survey results.

Table 1: Status of Performance Measures as of June 30, 2019

Performance Measure	Goal	Actual	Benchmark
Percentage of the Audit Plan Completed Annually	80%	**76%**	64%
Percentage of Audits Completed within Budgeted Time	80%	45%	67%
Customer Satisfaction Rating	4.0	4.6	n/a
Percentage of Audit Recommendations Accepted	95%	100%	92%
Percentage of Staff Meeting Education Requirements	100%	100%	n/a
Revenue/Cost Savings Identified	n/a	$2,891,102	n/a
Percentage of Staff Time Spent on Audit Activities	70%	65% / 71% including /excluding Chief Auditor	68%[2]

[2] Some audit shops track the Chief Auditor's time, while others do not. The Benchmark may include audit shops that track time and others that do not.

The Performance Measure results for Fiscal Year 2019 are detailed below. See Appendix D for a detailed listing of the OCA Performance Measures for the past five (5) fiscal years.

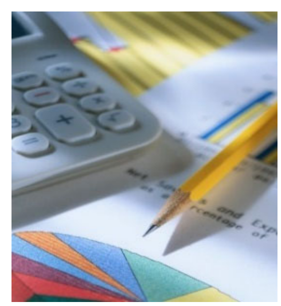
Percentage of the Audit Plan Completed Annually:
For the year, the OCA completed 76% of the Fiscal Year 2019 Audit Plan. The status of each audit is included in Appendix A. Additionally, seven (7) audits were in progress as of June 30, 2019.[3]

Percentage of Audits Completed within Budgeted Time:
This category monitors the efficiency of audit staff in performing audits. Specifically, audit staff is responsible for the internally prepared budget of audit hours for each project. In Fiscal Year 2019, the OCA completed 45% of its audits within the budgeted time, which is below the OCAs goal. During the year we encountered numerous projects that were more complicated than originally forecasted in allocated audit hours. Although 55% of audit activities were over budget, 27 of the 35 total recommendations issued during Fiscal Year 2019 were a result of these audit activities. The 35 recommendation issued in Fiscal Year 2019 exceeded the prior four year average of 22 recommendations per year. Additionally, there were five (5) audits, or 17% of the Audit Plan, that were only marginally over the budgeted time.[4]

Customer Satisfaction Rating:
Post audit surveys are sent to auditees after the completion of an engagement to obtain customer satisfaction data. The OCA received an aggregate score of 4.6, exceeding the goal of 4.0.

Percentage of Audit Recommendations Accepted:
This category helps to evaluate the quality of the findings and recommendations issued by the OCA. Additionally, it helps hold the OCA accountable for the quality of the recommendations issued. In Fiscal Year 2019, management accepted 100% of all audit recommendations.

Percentage of Staff Meeting Education Requirements:
During the year, 100% of staff met their education requirements. Additionally, the OCA began a tracking system to administer all continuing educational requirements.



Additional Revenue/Cost Savings Identified through Audit Activities:
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 $2,891,102[5] in cost savings/additional revenues.

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. The OCAs goal for Fiscal year 2019 was 70%. The OCA actually spent 65% of time on audit activities, which includes the Chief Auditor's time (71% excluding the Chief Auditor's time). The Chief Auditor began tracking his time in Fiscal Year 2019.

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[3] However, an alternative method for calculating the percentage of the Audit Plan completed, using total hours expended and total audit hours budgeted to complete the Audit Plan, results in a completion percentage of 83% through June 30, 2019. Specifically, the OCA expended 8,107 hours through June 30, 2019, on audit projects, and estimates 9,714 total audit hours will be needed to complete the FY19 Audit Plan (8,107 / 9,714 = 83%). This alternate methodology takes into consideration audits in progress, but not yet completed.

[4] These five (5) audits were over budget by an average of 26 hours.

[5] $2,891,102 is comprised of $658,762 from Audit work as detailed in Appendix A and other work of $2,232,340 related to the Amended and Restated San Diego County Regional Airport Authority Retirement Plan and Trust of 2013.

QAIP Recommendations Identified

As noted above, there were no items identified that would impact audit report quality. However, we did identify some administrative items for improvement as a result of the assessment.

1. Currently, the Audit Committee Charter and Authority Policy are silent on the number of terms that a Public Member of the Audit Committee may serve. The Audit Committee should consider recommending to the Authority Board amending Authority Policy 1.50 to include term limits for Public Members.

2. The OCA utilizes a Risk and Control Matrix on each audit engagement to link identified risks with a planned audit test step. The Risk and Control Matrix documentation could be improved by including the audit objective, budgeted audit hours, and scope on the workpaper.

3. During the audit process, the OCA may identify new risks or change existing audit procedures. Changes to risks or audit procedures are documented in the Risk and Control Matrix. Documentation of changes to the Risk and Control Matrix could be improved by retaining all versions of the Risk and Control Matrix in the electronic workpaper software utilized by the OCA.

4. The OCA is required to plan all audit engagements so that the staff assigned have the appropriate level of knowledge, skills, and experience needed to achieve the audit objectives. The OCA currently performs this; however, including staff's qualifications and experience as part of the electronic work paper files would improve audit documentation.

5. The OCA utilizes a Quality Assurance (QA) questionnaire for each audit to ensure each audit complies with the IIAs *Standards*. However, the IIA has published a new QA questionnaire, which should be utilized by OCA for future audit engagements.

6. Post audit surveys are sent to auditees after the completion of each engagement to obtain customer satisfaction data. Currently, several years of survey results are saved in one electronic workpaper. Documentation could be improved by separating and saving survey results by fiscal year.

OCA Response

As each of these items was identified through the ongoing monitoring process, we are able to immediately address and correct issues. The OCA will implement recommendations two (2) through six (6) in Fiscal Year 2020. Recommendation one (1) will be provided to the Audit Committee for consideration at its September 9, 2019, meeting.

General Audit Activities

The OCA has general audit activities that encompass essential work areas; a sampling of which are described below.

Audit Recommendation Follow up

The OCA is mandated by its Charter to track the recommendations issued in audit reports and to provide the implementation status for each to the Audit Committee on a periodic basis. The OCA tracks the status of recommendations through regular inquiries made to the audited departments or to the owners of a specific recommendation(s). These inquiries allow the OCA to determine how many recommendations have been completed, as well as to obtain the progress being made to implement the recommendations.

The OCA issued a total of 35 recommendations in Fiscal Year 2019. In addition to the recommendations issued in Fiscal Year 2019, the OCA continues tracking the status of any open recommendations issued in prior fiscal years. Appendix B contains a current status on recommendations completed or in progress during the 4th quarter of Fiscal Year 2019. The Audit Committee is updated quarterly on the status of recommendations. Recommendations issued in prior quarters, which have been remediated by management, were presented to the Audit Committee on November 5, 2018, February 11, 2019, and May 13, 2019.

Table 2 below shows the status of recommendations that were *Completed* or *In Progress* during the 4th quarter of Fiscal Year 2019, along with the estimated/actual implemetation timeframe based on the audit report issue date.

Table 2: Recommendations with Estimated/Actual Implementation Timeframe

Recommendations	Zero to 7 Months	7 Months to 1 Year	Over 1 Year	Total
Completed	10	4	2	16
In Progress	10	5	-	15

Audit Committee Support

During Fiscal Year 2019, the Audit Committee met six (6) times, which occurred on:

- September 10, 2018
- November 5, 2018
- November 5, 2018 (Special Meeting - Training)
- February 11, 2019
- March 25, 2019 (Special Meeting - Process and Selection of the External Auditor)
- May 13, 2019

Before each regular meeting of the Audit Committee the OCA coordinated all activities relating to agenda preparation and materials required.

Charter Review

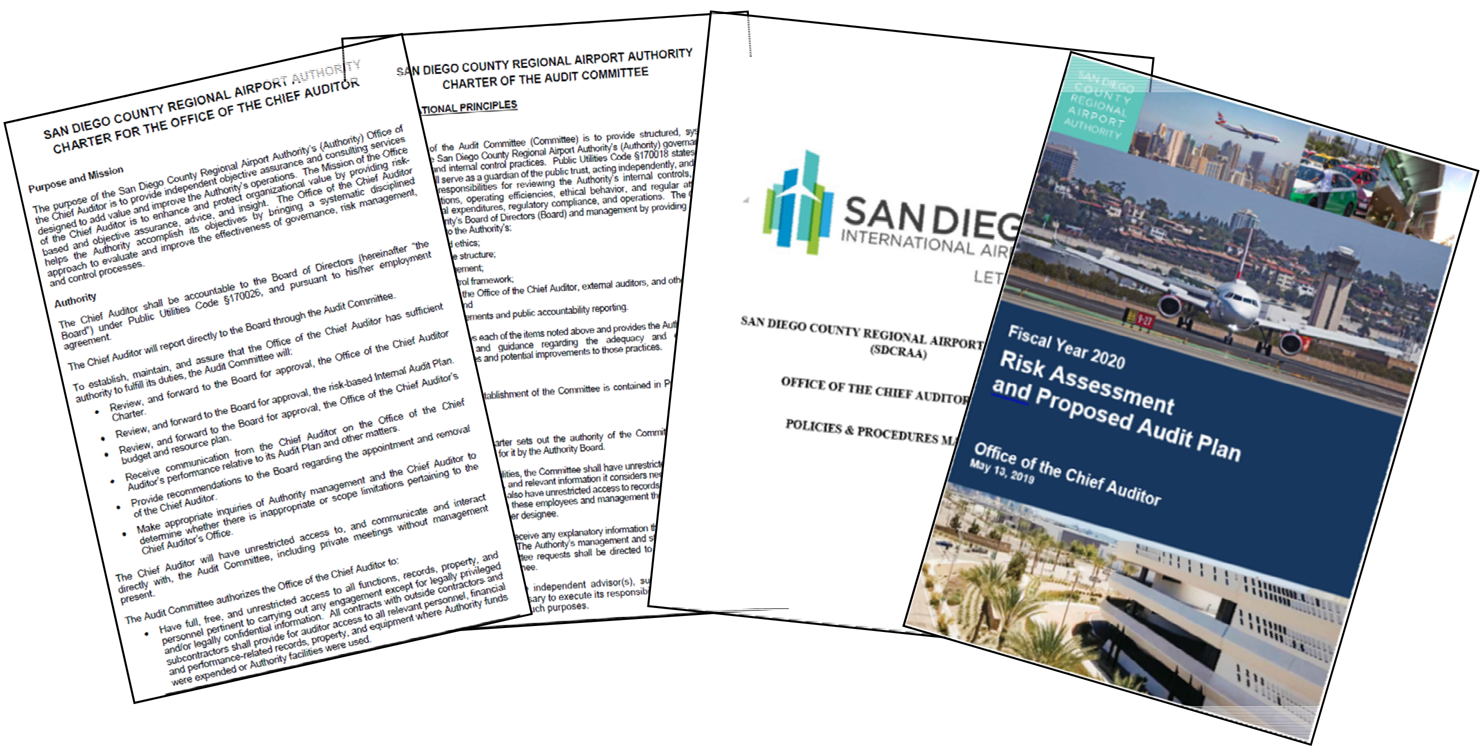
In Fiscal Year 2019, the OCA performed a thorough review of the OCA Charter and Charter of the Audit Committee. Revisions were provided to incorporate relevant sections of the Public Utilities Code, model Charter practices, and to reflect current operational practices.

Risk Assessment and Audit Plan Process

The OCA is required to submit a risked-based internal Audit Plan to the Audit Committee annually. The new Fiscal Year 2020 Risk Assessment and Audit Plan process included input from the Board, Audit Committee, Authority management, and staff. The OCA worked with Authority management to identify and rank the likelihood and impact of a risk event occurring for each Key Work Activity within the Authority. In total, 217 Key Work Activities were identified and included in the Risk Assessment. The resulting Fiscal Year 2020 Audit Plan was developed based on the results of the Risk Assessment and discussions with key stakeholders. The Fiscal Year 2020 Risk Assessment and Audit Plan was submitted to the Audit Committee on May 13, 2019.

Improvements to OCAs Policies and Procedures Manual

The OCA Policies and Procedures manual is designed to be utilized by staff to conduct audit and consulting engagements. Additionally, IIA *Standards* require the OCA to have current Policies and Procedures. In September 2018, the OCA updated all Policies and Procedures to align with the *Standards*.



Administrative

The activities that reside within this classification include meetings attended by the OCA, holiday and vacation time, and the fulfillment of Continuing Professional Education requirements.

Qualifications and Training

Proficiency and due care for the OCA are the responsibility of the Chief Auditor. Cumulatively, the OCA has over 96 years of auditing experience. OCA staff maintain various professional certifications. The types of professional certifications and number of staff with each certification are as follows:

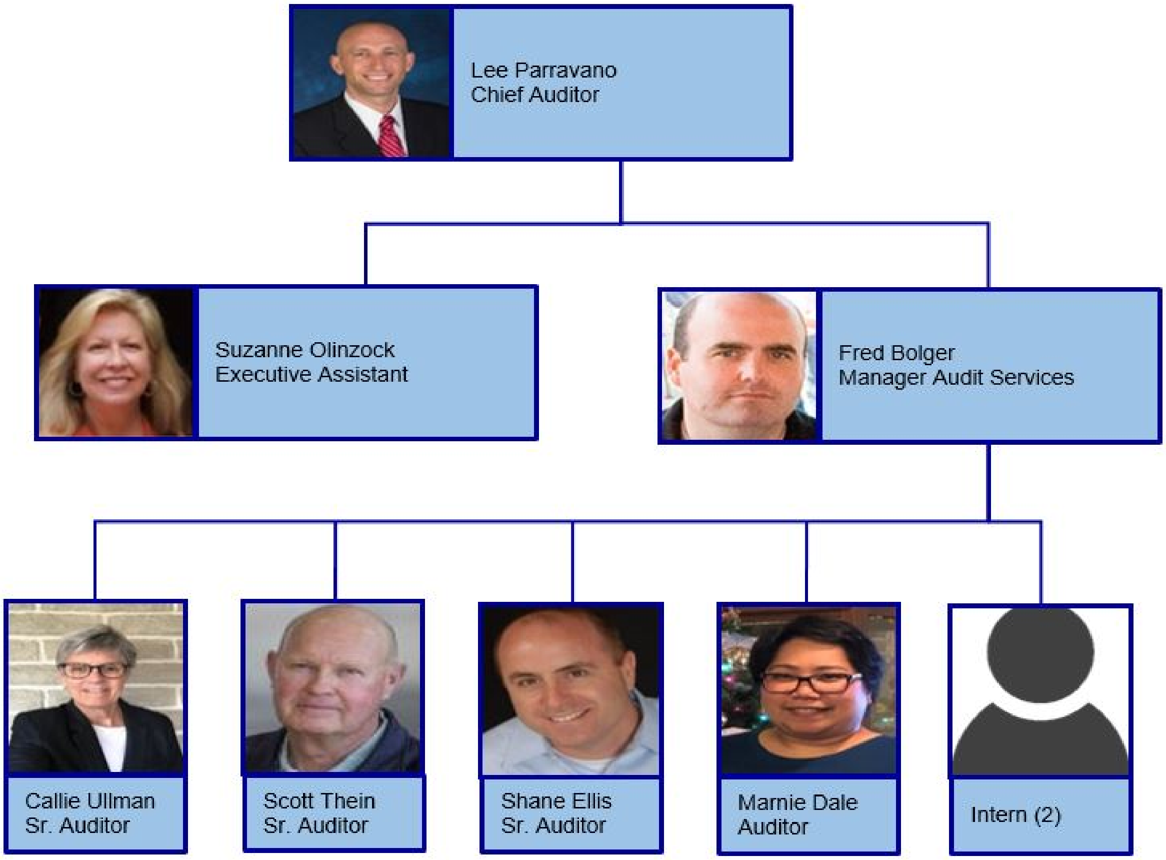
- 5 - Certified Internal Auditors (CIA)
- 2 - Certified Public Accountants (CPA)
- 2 - Certified Construction Auditors (CCA)
- 1 - Certified Information Systems Auditor (CISA)
- 1 - Certified Government Auditing Professional (CGAP)
- 1 - Certification in Risk Management Assurance (CRMA)
- 1 - Chartered Global Management Accountant (CGMA)

Each of these certifications requires that the holder complete a specified number of hours of Continuing Professional Education (CPE). As noted above, all CPE requirements were met for all OCA staff during calendar year 2018.[6]

[6] Some professional organizations track Continuing Professional Education (CPE) by calendar year, not fiscal year. As such, the OCA verifies CPE compliance on a calendar year basis.

Organization Chart

As of June 30, 2019, the OCA organizational structure was as follows.



Interns

During Fiscal Year 2019, the OCA continued to use graduate level interns to augment staff. At the close of the fiscal year the two (2) intern positions were open. Candidates have since been interviewed, offers were extended to two candidates, and we anticipate those positions will again be filled in the fall of 2019.

Appendix A – Fiscal Year 2019 Audit Plan

#	Audit	Status at 6/30/19	Over/ Under Budget	No. of Recom.	Revenue / Cost Savings Identified
	BUSINESS PROCESS AUDITS				
1	Owner-Controlled Insurance Program (OCIP) Mgmt.	Not Started	N/A	N/A	N/A
2	Other Post-Employment Benefits (OPEB)	Not Started	N/A	N/A	N/A
3	Tuition Reimbursement Program	Completed	Under	-	-
4	Art Program	In Progress	N/A	N/A	N/A
5	Capital and Maintenance Project Selection and Planning	In Progress	N/A	N/A	N/A
6	Information Technology Acquisition and Implementation	In Progress	N/A	N/A	N/A
7	Asset Management	Completed	Over	-	-
8	Concession Cost Recovery	Completed	Over	3	$59,849[7]
9	Small Business Development	In Progress	N/A	N/A	N/A
	EXPENSE CONTRACT AUDITS				
7	Turner – PCL A Joint Venture	Completed	Under	3	-
8	M.W. Vasquez Construction Company, Inc.	Completed	Under	-	-
9	Granite Construction Company	Completed	Over	-	-
10	Fordyce Construction, Inc.	Completed	Over	-	-
11	Ricondo and Associates	Completed	Over	1	-
12	Ueberall International, LLC	Completed	Over	1	-
13	Ace Parking	Completed	Over	4	5,477
14	Haley & Aldrich	Completed	Over	-	-
15	Leigh Fisher	In Progress	N/A	N/A	N/A
	REVENUE CONTRACT AUDITS				
16	Enterprise Rent A Car Company	Completed	Over	-	-
17	Avis Rent A Car System	Completed	Under	2	13,187
18	Fox Rent A Car	Completed	Over	3	58,016
19	Pneuma Enterprises Inc.	Completed	Under	1	38,177
20	Ace Parking	Completed	Over	1	53,740
21	JCDecaux, Inc.	Completed	Under	2	-
22	New Zoom Inc. (RP 6)	Completed	Over	1	-
23	Payless Rent A Car	Completed	Over	6	198,036
24	Signature Flight Support	Completed	Over	3	69,541
	ANNUAL ONGOING AUDIT ACTIVITES AND SUPPORT				
28	Aircraft Rescue and Fire Fighting - Training	Completed	Under	-	
29	Rental Car Center Fund Review FY 2019	Completed	Under	-	
30	Rental Car Center Fund Review FY 2018	Completed	Under	-	
31	Transportation Network Co. Reviews and Assistance	In Progress	N/A	N/A	N/A
32	ALPR System – Ace Parking	In Progress	N/A	N/A	N/A
33	San Diego Unified Port District Billing FY 2017	Completed	Over	4	162,739
34	Procurement Card	Completed	Over	-	-
35	Emergency Medical Technician - Paramedic	Completed	Under	-	-
36	San Diego Port District Billings - Training	Completed	Under	-	-
37	Ethics	Completed	Under	-	-
38	Construction	Completed	Under	-	-
	Totals			**35**	**$658,762**

[7] Amount was unknown when report when issued and was not included in prior quarterly activity reports. Amount is estimated to be the additional annual trash removal services that will be billed to concessionaires.

Appendix B – Status of OCA Recommendations

The following implementation report contains the status of recommendations from OCA audits that were deemed completed or remained unresolved as of the 4th Quarter of Fiscal Year 2019. In general, the OCA is satisfied with the progress that Authority departments are currently making with the implementation, as based upon our inquiries during the tracking process.

Within this report, the recommendations are classified in the following ways:

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 adequately addresses the risk identified.

In Progress: These recommendations have been partially addressed 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.

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Initial Estimated Completion Date	Status as of June 30, 2019
Completed					
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.	6/30/2018	A Settlement Agreement between SDCRAA and CVEC was fully executed May 1, 2019. The Accounting Department received the settlement payment on May 3, 2019.
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.	7/31/2018	A Settlement Agreement between SDCRAA and CVEC was fully executed May 1, 2019. The Accounting Department received the settlement payment on May 3, 2019.
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.	3/31/2019	The GM of Signature stated that they will enter into the contract by 7/31/19 and the work will be performed by Sept 2019. The Authority will be refunding to Signature Flight Support $106,440.22 from periods 3, 4 and 5.

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Initial Estimated Completion Date	Status as of June 30, 2019
Completed					
19-04	Audit Report 19012 Issued: Nov. 27, 2018 Title: Turner-PCL, A Joint Venture Department: AIRPORT DESIGN AND CONSTRUCTION	Medium	Airport Design and Construction should ensure that procedures are in place to verify that contractors obtain Disadvantaged Business Enterprise (DBE) certifications for all DBE subcontractors prior to their start of work.	6/1/2019	Prior to award of any design-build subcontract(s), the Contractor shall provide the Authority's Small Business Department with proof of the Disadvantaged Business (DBE), Small Business (SBE), Local Business, and Veteran-Owned Small Business (VOSB) certifications, and other similar designations as may be requested by the Airport Authority, for that subcontractor and its tier subcontractors. Prior to the start of work on that subcontract, the Authority's Small Business Development Department will perform random spot checks to verify that the provided certifications comply with the requirements of Board Policy 5.12. If any such tier subs are added to that subcontract after the initial award, prior to the start of work the Contractor will provide proof of their certifications to the Authority's Small Business Development Department. The Authority's Small Business Department will perform random spot checks to verify that the provided certifications comply with the requirements of Board Policy 5.12. ADC will ensure that these terms are incorporated into future design-build agreements and Outreach Implementation Plans.

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Initial Estimated Completion Date	Status as of June 30, 2019
Completed					
19-05	Audit Report 19012 Issued: Nov. 27, 2018 Title: Turner-PCL, A Joint Venture Department: AIRPORT DESIGN AND CONSTRUCTION	Medium	Airport Design and Construction should ensure that all Small Business Enterprises (SBE) reported as working on the Federal Inspection Services (FIS) project meet the definition of a small business per Authority policy.	6/1/2019	See response to 19-04, above.
19-06	Audit Report 19012 Issued: Nov. 27, 2018 Title: Turner-PCL, A Joint Venture Department: AIRPORT DESIGN AND CONSTRUCTION	Medium	Airport Design and Construction should ensure that Turner-PCL provides accurate reporting of amounts paid in the "Small-DBE Tracker" report, supported by documentation of the amounts reported in their financial system, and a reconciliation to the amounts paid per the schedule of values.	6/1/2019	The Contractor shall use a software program that is maintained by the Authority's Small Business Development Department to submit monthly reports, including a detailed accounting of the value of work performed to date by certified Disadvantaged Business Enterprises (DBEs), Small Business Enterprises (SBEs), Veteran Owned Small Businesses (VOSBs), and other similar designations as may be requested by the Airport Authority. This accounting shall include the names, addresses, description of work, the value of work performed during the preceding month, and the total value of the work performed under the Contract by each of the DBE, SBE, Local, or VOSB firms. The Authority's Small Business Development Department will perform random spot checks on the data provided by the Contractor. ADC will ensure that these terms are incorporated into future design-build agreements and Outreach Implementation Plans.

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Initial Estimated Completion Date	Status as of June 30, 2019
Completed					
19-08	Audit Report 18017 Issued: Dec. 14, 2018 Title: Nevada Lease and Rentals, Inc. dba Payless Car Rental System Department: REVENUE MANAGEMENT	Medium	The Revenue Management Department should consider charging Nevada interest for the underpayment of concession fees and for the full cost of the audit in the amount of $31,052 and $56,050, respectively.	5/31/2019	An agreement was reached between the Authority and Payless.
19-14	Audit Report 18038 Issued: Feb. 26, 2019 Title: San Diego Unified Port District Harbor Police Billings - FY2017 Department: AVIATION SECURITY AND PUBLIC SAFETY (AVSEC) and ACCOUNTING DEPARTMENT	Medium	We recommend that AVSEC and the Accounting Department notify Port staff concerning the Fiscal Year 2017 under-billing for HPD services and determine the most appropriate method for the Authority to remit the additional $770,326 owed to the Port. In addition, AVSEC and Accounting should request that the Port provide frequent updates on any notable expense variance on all actual and estimated billings that may/will affect the Authority’s share of HPD costs, to avoid significant year-end adjustments.	6/30/2019	The Authority reimbursed the Port $770,326 on April 9, 2019.

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Initial Estimated Completion Date	Status as of June 30, 2019
Completed					
19-18	Audit Report 18010R Issued: March 11, 2019 Title: Ace Parking Management, Inc. - Expenditures for Parking Management and Airport Shuttle Services Agreements, and Ground Transportation's Administration of the Parking Card Program Department: GROUND TRANSPORTATION (GT)	Medium	We recommend that GT strengthen its agreement management and invoice review process to ensure that only allowable expenses under the Parking Management and the Shuttle Agreements are paid.	3/29/2019	GT has strengthened its contract oversight process for both the Parking and Shuttle contracts, and has made improvements to the tools used for tracking compliance and internal controls. Specifically, GT has developed a set of contract management guidelines, schedule of deliverables, an updated financial tracking tool, checklist of required contract activities, and a contract abstract to assist in managing the agreement. Invoice review procedures have also been updated with an invoice review process checklist which has been implemented. GT has also detailed the process to be utilized by the contractor in reporting financial summaries to match contract budget categories.
19-22	Audit Report 18002 Issued: March 8, 2019 Title: Concession Cost Recovery Program Department: REVENUE GENERATION & MANAGEMENT (RGM)	Medium	RGM should determine an equitable percentage split of the monthly trash removal service fees between concessionaire and Authority generated trash, in order to charge concessionaires their portion of the monthly trash removal service fees under the Cost Recovery Program.	10/31/2019	The Authority will now bill concessionaires a share of trash hauling services (85% F&B and 15% retail).
19-23	Audit Report 18002 Issued: March 8, 2019 Title: Concession Cost Recovery Program Department: REVENUE GENERATION & MANAGEMENT (RGM)	Medium	RGM should obtain work order data from Facilities Management Department, on a monthly basis, in order to accurately charge Common Area Maintenance (CAM) service fees to the concessionaires operating in the food court areas.	10/31/2019	Worked with FMD to develop a billing system for CAM labor and materials.

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Initial Estimated Completion Date	Status as of June 30, 2019
Completed					
19-25	Audit Report 19018 Issued: March 22, 2019 Title: JCDecaux Airport, Inc. Department: REVENUE GENERATION & BUSINESS DEVELOPMENT	Medium	Revenue Generation & Business Development should develop a procedure for maintaining the advertising contracts with the related ad copy submitted by the advertising concessionaire. These documents should be used to verify both the advertisements that are running in the terminal during the contract periods and the sales reported monthly by the concessionaire.	3/1/2019	Staff implemented a once a month monitoring system that accomplishes the two recommendations.
19-26	Audit Report 19018 Issued: March 22, 2019 Title: JCDecaux Airport, Inc. Department: REVENUE GENERATION & BUSINESS DEVELOPMENT	Medium	Revenue Generation & Business Development should require the concessionaire to submit the Rate Cards, as required by the Concession Agreement, and compare the rates charged on the advertising contracts submitted to the current Rate Card on file for reasonableness.	12/1/2018	The JCD contract terminated 10/31/18. The new in-terminal advertising Lease is with Clear Channel Airports. Per the Lease, they are required to submit their rate card 15 days after the Commencement Date. The rate card was received and the rates are compared during monthly monitoring procedures.
19-17	Audit Report 18038 Issued: Feb. 26, 2019 Title: San Diego Unified Port District Harbor Police Billings - FY2017 Department: AVIATION SECURITY AND PUBLIC SAFETY (AVSEC)	Low	We recommend that Authority Management enhance the tracking of actual Airport worked hours by HPD Officers, using available resources to verify that the actual hours worked meet the minimum staffing hours per the SLA; that the hours reported by the Port are accurate; and, to ensure that all shifts are manned.	7/1/2019	AVSEC/PS has established a process with HPD such that we can conduct real-time verification of on-duty staffing.

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Initial Estimated Completion Date	Status as of June 30, 2019
Completed					
19-20	Audit Report 18010R Issued: March 11, 2019 Title: Ace Parking Management, Inc. - Expenditures for Parking Management and Airport Shuttle Services Agreements, and Ground Transportation's Administration of the Parking Card Program Department: GROUND TRANSPORTATION (GT)	Low	We recommend that GT request Ace to provide the reports required by the Shuttle Agreement, and review that these reports contain the pertinent information required. GT should also strengthen their mechanism for tracking any or all agreement requirements.	3/29/2019	GT has strengthened its contract oversight process for both the Parking and Shuttle contracts, and has made improvements to the tools used for tracking compliance and internal controls. Specifically, GT has developed a set of contract management guidelines, schedule of deliverables, an updated financial tracking tool, checklist of required contract activities, and a contract abstract to assist in managing the agreement. Invoice review procedures have also been updated with an invoice review process checklist which has been implemented.GT has also detailed the process to be utilized by the contractor in reporting financial summaries to match contract budget categories. Contract required reports are now submitted monthly as required, and reviewed for completeness and accuracy by GT staff.
19-28	Audit Report 19011 Issued: April 26, 2019 Title: Ueberall International, LLC Department: CUSTOMER EXPERIENCE & INNOVATION	Low	The Customer Experience & Innovation Department should amend all agreements, as needed, for changes in the deliverable requirements.	12/31/2019	The Arts Department is updating the template contracts, with General Counsel, to update the language in both Exhibit A, to address possible modifications to scope; and Exhibit B, to address compensation for services, as well as compensation and payment schedule.

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Initial Estimated Completion Date	Status as of June 30, 2019	Revised/Current Estimated Completion Date
In Progress						
19-07	Audit Report 18017 Issued: Dec. 14, 2018 Title: Nevada Lease and Rentals, Inc. dba Payless Car Rental System Department: REVENUE MANAGEMENT	Medium	The Revenue Management Department should request that the Accounting Department issue an invoice to Nevada in the amount of $78,063 for the net underpayment of concession fees.	5/31/2019	Payless has agreed to settlement terms. Payless was issued an invoice with a due date of 8/31/2019.	8/31/2019
19-15	Audit Report 18038 Issued: Feb. 26, 2019 Title: San Diego Unified Port District Harbor Police Billings - FY2017 Department: AVIATION SECURITY AND PUBLIC SAFETY (AVSEC) and ACCOUNTING DEPARTMENT	Medium	We recommend that AVSEC and the Accounting Department require the Port to provide detailed supporting documents pertaining to all direct and indirect costs associated to the Airport and to create and maintain a tracking mechanism for HPD costs billed to the Authority, to ensure that all expenses billed are in compliance with the agreements and are related to HPD services provided to the Airport.	6/30/2019	Accounting is currently preparing a reconciliation of FY18 services to ensure that expenses billed are in compliance with the agreement.	9/30/2019
19-16	Audit Report 18038 Issued: Feb. 26, 2019 Title: San Diego Unified Port District Harbor Police Billings - FY2017 Department: AVIATION SECURITY AND PUBLIC SAFETY (AVSEC)	Medium	We recommend that Authority Management, together with the Port, review and decide on the criteria and process of the classification of Workers' Compensation claims by considering the location, type of loss, and the labor hours the employee worked. In addition, Authority Management should request the Port to provide the Authority with a list of claims that include their pertinent information and their corresponding classification, as soon as the claims are reported by HPD Officers/staff, for the Authority to have a better understanding of the nature of the claims and how they should be classified.	6/30/2019	Risk Management has a meeting scheduled with the Port to develop a process. They hope to finalize this by the end of the calendar year.	12/31/2019

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Initial Estimated Completion Date	Status as of June 30, 2019	Revised/Current Estimated Completion Date
In Progress						
19-19	Audit Report 18010R Issued: March 11, 2019 Title: Ace Parking Management, Inc. - Expenditures for Parking Management and Airport Shuttle Services Agreements, and Ground Transportation's Administration of the Parking Card Program Department: GROUND TRANSPORTATION (GT)	Medium	We recommended that GT consider reviewing the expenses submitted by Ace for reimbursement during the audit period January 1, 2016, to December 31, 2017, in order to verify that all expenses submitted for reimbursement are allowable per the agreements and have the appropriate supporting documentation. GT should consider the level of effort, cost of the review, and the monetary value of any potential disallowed expenses. GT should request Ace to refund any disallowed expenses as a result of the review.	6/30/2019	GT has updated contract management procedures to ensure that all contract required reports are being submitted by Ace. GT also worked with Finance to engage BKD on an audit of these expenses. Finance informed GT that this type of review is not currently in BKDs scope of work. GT is currently evaluating other options for a review of the Ace expenses submitted. Options being considered are 1) an external auditor review, or 2) the hiring of a temporary auditor to help to examine the last two years of invoices. GT will provide cost estimates for each to Finance and determine a cost/benefit for the exercise. Expected completion has been pushed back to Sept 30. GT will keep the Audit team apprised as we move forward.	9/30/2019

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Initial Estimated Completion Date	Status as of June 30, 2019	Revised/Current Estimated Completion Date
In Progress						
19-21	Audit Report 18010R Issued: March 11, 2019 Title: Ace Parking Management, Inc. - Expenditures for Parking Management and Airport Shuttle Services Agreements, and Ground Transportation's Administration of the Parking Card Program Department: GROUND TRANSPORTATION (GT)	Medium	We recommend that GT review Authority Policy 9.30 that governs the Parking Card Program and create a department management process that complies with the administration requirements of the Policy. In addition, Authority Management should also review the Policy; specifically, the requirements and eligibility for stakeholders to obtain a Courtesy Card. Management's policy review should consider: a) that the Authority does not have the mechanism to distinguish between official business or personal travel and that individuals travelling on official business are able to be reimbursed for parking expenses through their organization, and b) the annual cost of the Courtesy Cards.	4/30/2019	GT has reviewed Authority Policy 9.30. GT has developed a formal, documented SOP and standardized forms for parking card issuance. GT is developing an SOP to ensure 1) semi-annual review of all parking cards issued, and 2) de-activation of all unauthorized parking cards. Parking cards are issued through the DSX software. Currently, there is no software mechanism to de-activate a card after one year, however, any card that is not paid up current is automatically de-activated. There is also no software mechanism to ensure that a card be used only for business and not personal uses. GT is in the process of developing an additional SOP addressing the audit considerations that - 1) all cards are reviewed on a semi-annual basis, 2) cards remain valid for one year, 3) any newly invalid cards are deactivated immediately. The SOP will include the checklist for submission of all forms, Policy 9.30 language, and process definitions. All recommended considerations are currently being examined and addressed for operational oversight and policy implementation feasibility.	8/31/2019

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Initial Estimated Completion Date	Status as of June 30, 2019	Revised/Current Estimated Completion Date
In Progress						
19-24	Audit Report 18002 Issued: March 8, 2019 Title: Concession Cost Recovery Program Department: REVENUE GENERATION & MANAGEMENT (RGM)	Medium	RGM should conduct annual reconciliations of each cost center to ensure that all cost recovery expenses under the Cost Recovery Program are recovered. As part of that reconciliation, RGM should develop and document a formal evaluation process to identify new or changing expenses.	10/31/2019	Will work with Finance to review expenses beginning July 2019.	10/31/2019
19-27	Audit Report 19019 Issued: March 27, 2019 Title: NewZoom, Inc. dba ZoomSystems Department: REVENUE GENERATION & BUSINESS DEVELOPMENT	Medium	Internal controls over the monitoring of the requirements of the Lease agreement needs to be strengthened, and the penalties for failure to follow the requirements of the Lease should be assessed to ensure continued compliance by the concessionaire.	6/30/2019	Issued New Zoom letter of non-compliance on 6/21/19 citing penalties if Annual Reports and final Capex info for Midterm Refurbishment were not received. New Zoom requested a 2 week extension through August 14 to provide documents due to staff absences.	8/14/2019
19-30	Audit Report 19015 Issued: June 25, 2019 Title: Fox Rent A Car, Inc. Department: REVENUE GENERATION AND PARTNERSHIP DEVELOPMENT (RGPD)	Medium	RGPD should request that the Accounting Department issue a credit to Fox in the amount of $22,386 for the overpayment of concession fees.	7/12/2019	Fox has requested detailed audit information. OCA has requested the Authority to release additional information to Fox from the CEO and General Counsel.	7/12/2019
19-31	Audit Report 19015 Issued: June 25, 2019 Title: Fox Rent A Car, Inc. Department: REVENUE GENERATION AND PARTNERSHIP DEVELOPMENT (RGPD)	Medium	RGPD should request that the Accounting Department issue an invoice to Fox in the amount of $36,022 for the underpayment of CFCs during the audit period.	7/12/2019	Fox has requested detailed audit information. OCA has requested the Authority to release additional information to Fox from the CEO and General Counsel.	7/12/2019

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Initial Estimated Completion Date	Status as of June 30, 2019	Revised/Current Estimated Completion Date
In Progress						
19-32	Audit Report 19015 Issued: June 25, 2019 Title: Fox Rent A Car, Inc. Department: REVENUE GENERATION AND PARTNERSHIP DEVELOPMENT (RGPD)	Medium	RGPD should consider charging Fox interest, and charging for the full cost of conducting the audit, in the amounts of $5,391, and $38,989, respectively.	7/12/2019	Fox has requested detailed audit information. OCA has requested the Authority to release additional information to Fox from the CEO and General Counsel.	7/12/2019
19-33	Audit Report 19017 Issued: June 27, 2019 Title: Ace Parking Management Department: GROUND TRANSPORTATION	Medium	The Ground Transportation Department should demand repayment of the Note and the interest due. Should Ground Transportation determine that Ace should have a change fund for parking operations, Ground Transportation should determine a new amount that is appropriate and warranted for the change fund and issue a promissory note.	8/31/2019	This recommendation was issued during the last month of the quarter. As such, no follow up activity was performed.	8/31/2019
19-34	Audit Report 19014 Issued: June 28, 2019 Title: Avis Budget Car Rental, LLC Department: REVENUE GENERATION AND PARTNERSHIP DEVELOPMENT (RGPD)	Medium	RGPD should request that the Accounting Department issue a credit to Avis in the amount of $25,889 for the overpayment of concession fees.	7/31/2019	Avis requested additional audit information. OCA forwarded said information to Avis and the Authority is now awaiting a response from Avis. Authority is also contemplating additional response to Avis in addition to the audit information forwarded to Avis.	7/31/2019

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Initial Estimated Completion Date	Status as of June 30, 2019	Revised/Current Estimated Completion Date
In Progress						
19-35	Audit Report 19014 Issued: June 28, 2019 Title: Avis Budget Car Rental, LLC Department: REVENUE GENERATION AND PARTNERSHIP DEVELOPMENT (RGPD)	Medium	RGPD should request that the Accounting Department issue an invoice to Avis in the amount of $39,076 for the underpayment of CFCs during the audit period.	7/31/2019	Avis requested additional audit information. OCA forwarded said information to Avis and the Authority is now awaiting a response from Avis. Authority is also contemplating additional response to Avis in addition to the audit information forwarded to Avis.	7/31/2019
19-09	Audit Report 18017 Issued: Dec. 14, 2018 Title: Nevada Lease and Rentals, Inc. dba Payless Car Rental System Department: REVENUE MANAGEMENT	Low	The Revenue Management Department should request that the Accounting Department issue an invoice to Nevada in the amount of $32,371 for the underpayment of CFCs during the audit period.	5/31/2019	Payless has agreed to settlement terms. Payless was issued an invoice with a due date of 8/31/2019.	8/31/2019

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Initial Estimated Completion Date	Status as of June 30, 2019	Revised/Current Estimated Completion Date
In Progress						
19-29	Audit Report 19010 Issued: May 7, 2019 Title: Ricondo & Associates Department: AIRPORT PLANNING DEPARTMENT	Low	The Airport Planning Department should strengthen internal controls over its contract management process to address the issues with invoice review and contract administration.	6/30/2019	The Airport Planning & Environmental Affairs Department has been proactively identifying opportunities to strengthen its contract management process in response to the audit feedback provided. In addition to adding a dedicated Project Analyst to our team in 2019 to lead contract-related process improvements, we have worked closely with our partners in Accounting, Procurement, and Legal to track invoice compliance, contract deliverables, and to develop best practices with respect to our Task Authorization award process and 75% contract expenditure notification requirements. Requirements are regularly communicated to our consultants and contractors, and we have seen significant improvement in submittals of compliant invoices and deliverables.	9/30/2019

Appendix C – Ethics Hotline Call Summary

	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					
Potential Misuse of Position	2	1	1	N	0
Potential Misuse of Resources	1	1	0	N	0
Non Ethics Related Concerns					
ATO Practices and Behavior	1	0	0	n/a	1
Security Issue	2	0	0	n/a	0
General Workplace Concerns					
Workplace Equitability	3	0	0	n/a	0
Workplace Practices/Behavior	15	0	0	n/a	0

Appendix D – Performance Measures Historical Data

Performance Measure	Fiscal Year					
	2014	2015	2016	2017	2018	2019
Percentage of the Audit Plan completed annually	88%	86%	84%	83%	72%	76%
Percentage of audits completed within budgeted time	81%	81%	83%	86%	52%	45%
Customer satisfaction rating[8]						4.6
Percentage of audit recommendations accepted[9]	52%	64%	72%	81%	45%	100%
Percentage of staff meeting educational requirements[10]						100%
Additional revenue/cost savings identified through audit activities	$1,110,651	$271,755	$466,845	$1,025,573	$85,382	$2,891,102
Percentage of staff time spent on audit activities	86%	86%	82%	84%	86%	65%[11]

[8] This performance measure was added in Fiscal Year 2019.
[9] Prior to Fiscal Year 2019 this performance measure was the percentage of recommendations implemented by year end.
[10] This performance measure was added in Fiscal Year 2019.
[11] Beginning in Fiscal Year 2019 all staff hours (audit, general audit hours, and administrative hours) are tracked, accounted for, and included in this measure.

Appendix E – Disclosures

The following items are being disclosed in conformance with the *Standards*.

Organizational Independence

The OCA must confirm to the Board, at least annually, the organizational independence of the internal audit activity. The OCA reports to the Audit Committee, which provides the independence necessary for the OCA to adequately perform its job function.

Impairments to Independence or Objectivity

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed. During Fiscal Year 2019, Audit 18038 – San Diego Unified Port District Billings – Fiscal Year 2017 was completed and disclosed a *possible* impairment of the objectivity and independence of the auditor, based on the International Professional Practices Framework (IPPF) Standard 1130.

Disclosure of Nonconformance

Occasionally, circumstances require the completion of projects/engagements in a manner that is not consistent with applicable standards. When this occurs, the OCA must disclose the non-conformance and the impact to senior management and the Board. During the 2019 Fiscal Year, there were no instances in which projects were performed in a manner that did not comply with the *Standards*.

Resolution of Management's Acceptance of Risks

Each audit engagement can potentially identify items that may pose risks to the Authority's operations. Some items will require management's attention, while others may be situations in which management decides to accept the risk associated with continuing the current practice. The OCA is required to disclose (to senior management and the Board) any situations in which it is believed Authority personnel has accepted a level of residual risk that may not adequately reduce/mitigate the risk of loss. There have been no such instances during the 2019 Fiscal Year.

ITEM 5

Fiscal Year 2019 Annual Report from the Office of the Chief Auditor

July 1, 2018, through June 30, 2019

SAN DIEGO INTERNATIONAL AIRPORT

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Audit Committee Meeting
November 4, 2019

Quality Assurance and Improvement Program

Internal Auditing *Standards* require the OCA to maintain a quality assurance and improvement program that includes external assessments and internal (self) assessments.

External assessment completed in April 2019

- Covered 5 year period (July 2013 – June 2018)
- Areas for improvement identified, all implemented


The Association of Local Government Auditors

Awards this

Certificate of Compliance

to

San Diego County Regional Airport Authority Office of the Chief Auditor

Recognizing that the organization's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with the *International Standards for the Professional Practice of Internal Auditing* for assurance and consulting engagements during the period July 1, 2013, through June 30, 2018.

Paul Geib
ALGA Peer Review Committee Chair

Kristine Adams-Wannberg
ALGA President

Quality Assurance and Improvement Program

Fiscal Year 2019 Internal Assessment – "On-going" Monitoring

- OCA conducted the assessment in July 2019
- The objective is to provide assurance that the processes in place are working effectively to ensure quality is derived on an audit-by-audit basis

The scope included:

1 - Performance Measures

2 - General Audit Practices

3 - Engagement Planning and Supervision

4 - Standard Working Practices

5 - Workpaper Review and Sign-offs

6 - Report Reviews

7 - Feedback from Audit Clients

8 - Prior Recommendations

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Quality Assurance and Improvement Program

On-going Monitoring Recommendations:

1 - Amend Authority Policy 1.50 to include term limits for public members.

2 - Increase information within the Risk and Control Matrix workpaper in all audit projects.

3 - Update and retain all versions of the Risk and Control Matrix.

4 - Include staff qualifications and experience within workpapers for each audit project.

5 - Update Quality Assurance questionnaire to remain consistent with updated *Standards*.

6 - Segregate and maintain post audit survey results by fiscal year.

OCA Response:

Each recommendation above was able to be immediately addressed and will be corrected during Fiscal Year 2020.

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Fiscal Year 2019 Performance Measures

Performance Measure	Goal	Progress	Benchmark
Percentage of the Audit Plan completed	80%	76%	64%
Additional revenue/cost savings identified	n/a	$2,891,102	n/a
Percentage of staff time spent on audit activities	70%	65% / 71% Including / excluding Chief Auditor	68%
Percentage of audits completed within budgeted time	80%	45%	67%
Recommendations accepted by management	95%	100%	92%
Customer satisfaction	4.0	4.6	n/a

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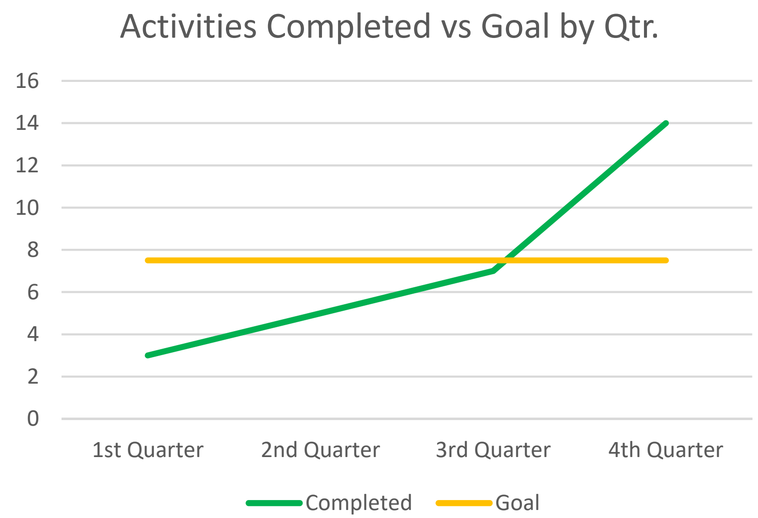
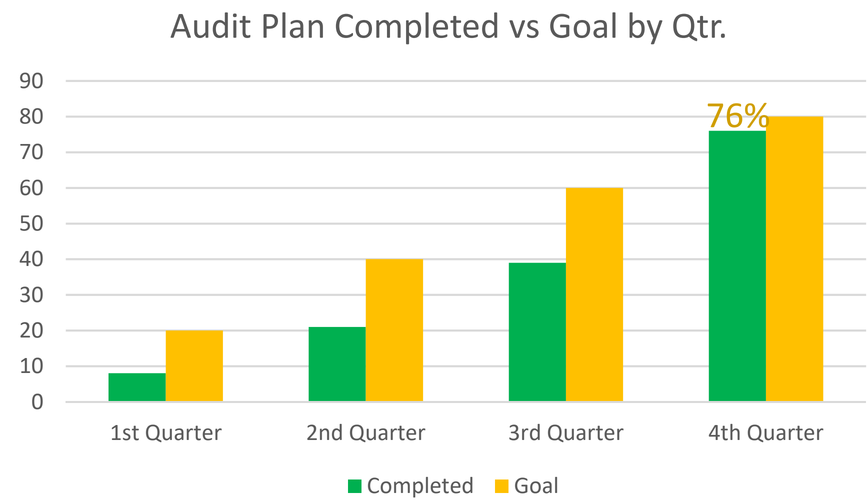
Percentage of Audit Plan Completed

Performance Measure	Goal	Progress	Benchmark
Percentage of the Audit Plan completed	80%	76%	64%





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Audit Activities Completed

Audit Activities Completed: 76%

1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	
Haley & Aldrich, Inc.	Turner-PCL, a Joint Venture	Granite Construction Company	Fordyce Construction, Inc.	Ace Parking Management
Signature Flight Support	Nevada Lease and Rentals, Inc., dba Payless Car Rental System	Tuition Reimbursement Program	Ueberall International, LLC	Avis Budget Car Rental, LLC
Procurement Card Program	M.W. Vasquez Construction Company Inc., dba Vasquez Construction Company	SD Unified Port District Harbor Police Billings – FY 2017	Ricondo & Associates	Emergency Medical Technician-Paramedic Services Billings FY17
	Fixed Asset Management	Ace Parking Management, Inc. – Expenditures	Rental Car Center Fund (FY2018 Audit Plan)	Aircraft Rescue and Fire Fighting (ARFF)
	Pneuma Entreprises, Inc. dba Travcar Car Rental	Concession Cost Recovery Program (CRP)	Rental Car Center Fund (FY2019 Audit Plan)	San Diego Unified Port District Billing
		JCDecaux Airport, Inc.	Fox Rent A Car, Inc.	Construction Audit Activity
		NewZoom, Inc. dba ZoomSystems	Enterprise Rent-A-Car Company of Los Angeles, LLC	Ethics Activity

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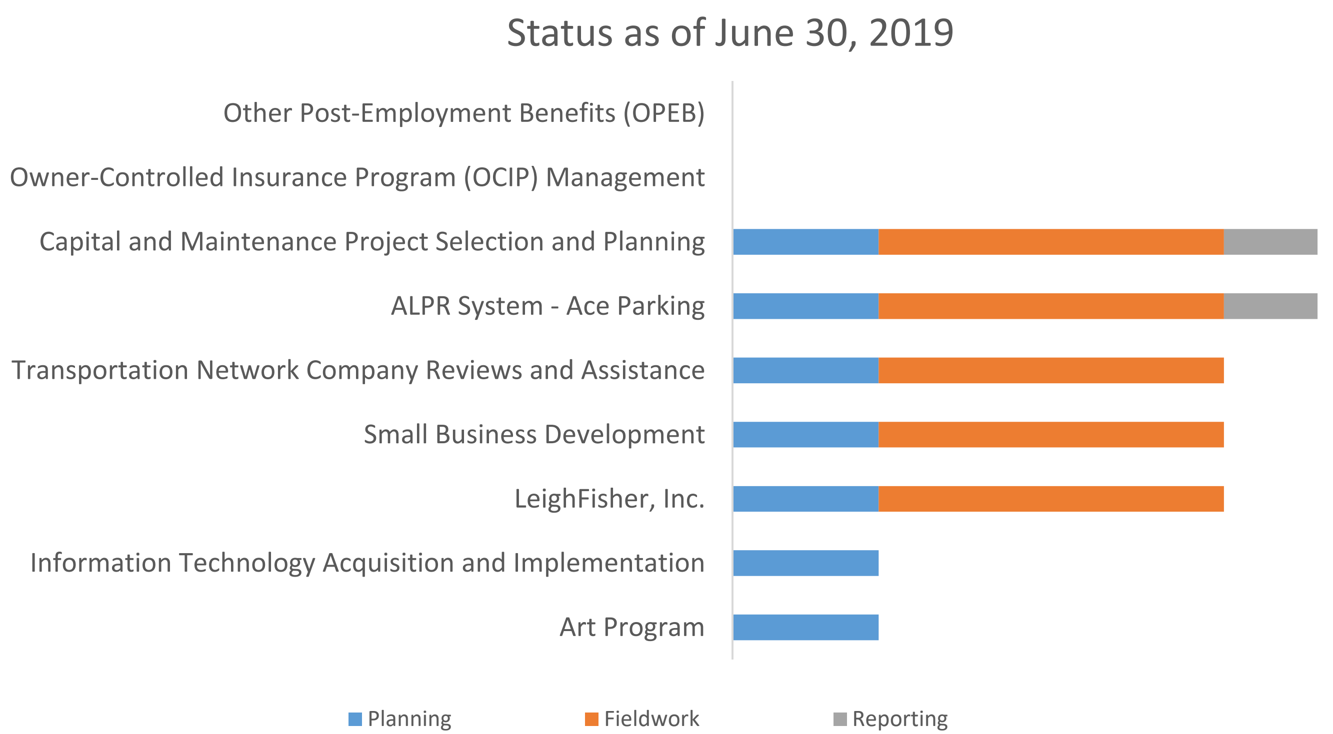
Activities Not Started & In Progress



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Revenue Identified

Performance Measure	Goal	Progress	Benchmark
Additional revenue/cost savings identified	n/a	$2,891,102	n/a

Activity	Revenue Identified
Nevada Lease and Rentals, Inc. dba Payless Car Rental System	$198,036
SD Unified Port District Harbor Police Billings - FY 2017	162,739
Signature Flight Support	69,541
Concession Cost Recovery	59,849
Fox Rent A Car	58,016
Ace Parking Management, Inc. - Revenue	53,740
Pneuma Enterprises, Inc., dba Travcar Car Rental	38,177
Avis Rent A Car Systems, LLC	13,187
Ace Parking Management, Inc. – Expenditures	5,477
Audit Report Sub-total	**$658,762**
Other Work	2,232,340
Total	**$2,891,102**

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Auditor Utilization

Performance Measure	Goal	Progress	Benchmark
Percentage of staff time spent on audit activities	70%	65% / 71% Including / excluding Chief Auditor	68%

Category	Hours		%	
	Including Chief	Excluding Chief	Including Chief	Excluding Chief
Audit Hours	8,335	7,876	62%	70%
General Audit Hours	369	140	3%	1%
G&A Time	4,652	3,264	35%	29%
Total	**13,356**	**11,279**	**100%**	**100%**

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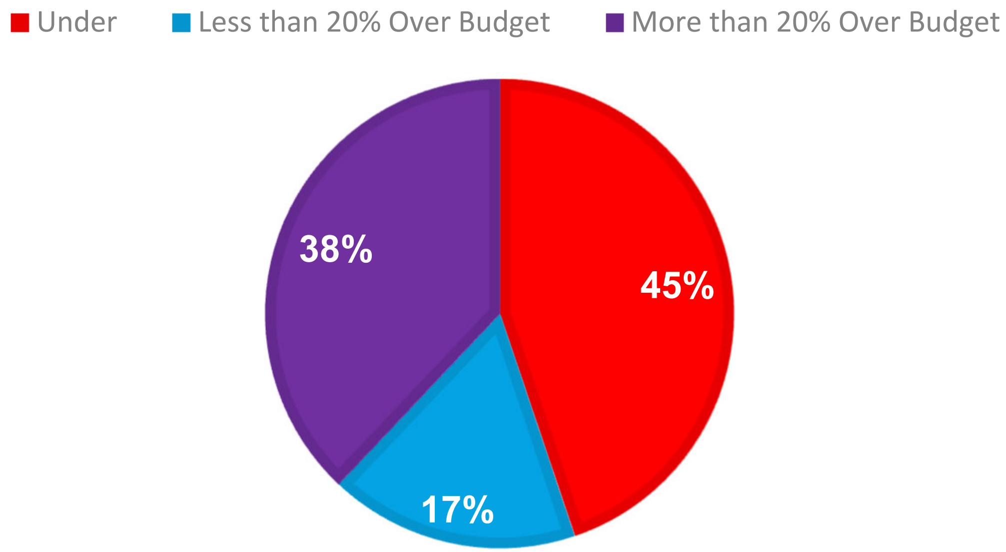
Project Budgets

Performance Measure	Goal	Progress	Benchmark
Percentage of audits completed within budgeted time	80%	45%	67%

% AUDITS OVER / UNDER BUDGET



Recommendation Acceptance

Performance Measure	Goal	Progress	Benchmark
Recommendations Accepted by Management	95%	100%	92%

Quarter	Issued	Accepted by Management
1st	3	3
2nd	10	10
3rd	14	14
4th	8	8
Total	**35***	**35**

*The average number of recommendations issued per year during the past 4 fiscal years was 22.

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Customer Satisfaction

Performance Measure	Goal	Progress	Benchmark
Customer Satisfaction	4.0	4.6	n/a

Selected Questions	Average Score
The objectives of the audit were stated clearly.	4.6
The final audit report was written in a clear, logical and organized manner.	4.8
The finding(s) contained in the audit were accurate.	4.5
The recommendation(s) provided were constructive and actionable.	4.4
Overall, you were satisfied with the purpose, scope, objectives, conduct, and results of the audit.	**4.6**

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General Audit Activities

Recommendation Follow up

Status as of June 30, 2019			
Completed	In Progress	Not Accepted	Tracked
16	15	0	31

Audit Committee Support

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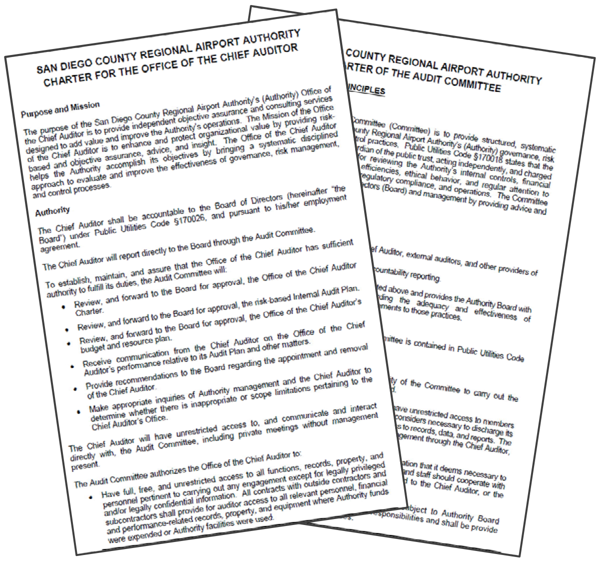
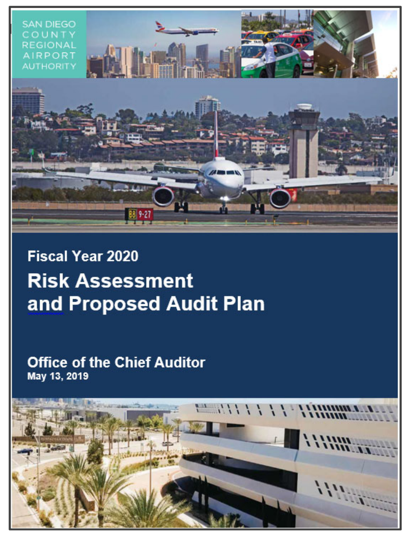
General Audit Activities Cont.

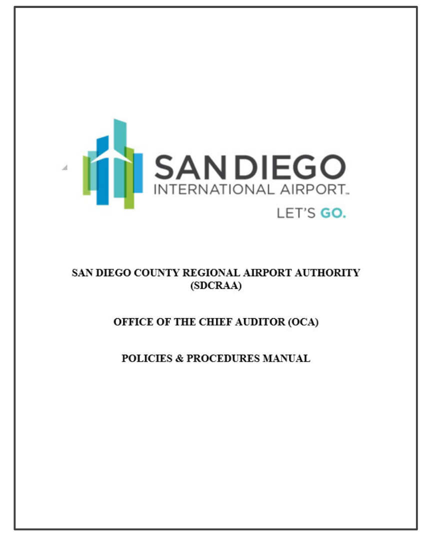
Charter Reviews



Risk Assessment & Audit Plan



Policies & Procedures



Summary of Ethics Inquiries

July 1, 2018, through June 30, 2019

	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					
Potential Misuse of Position	2	1	1	N	0
Potential Misuse of Resources	1	1	0	N	0
Non Ethics Related Concerns					
ATO Practices and Behavior	1	0	0	n/a	1
Security Issue	2	0	0	n/a	0
General Workplace Concerns					
Workplace Equitability	3	0	0	n/a	0
Workplace Practices/Behavior	15	0	0	n/a	0

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Required Disclosures

Operational Independence

- No independence issues noted

Impairments to Independence or Objectivity

- Possible impairment – Disclosed in Audit Report #18038

Disclosures of Nonconformance

- No instances noted

Management's Acceptance of Risk

- No items noted

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QUESTIONS?

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SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY

Item No.
6

AUDIT COMMITTEE

Meeting Date: **NOVEMBER 4, 2019**

Subject:

Annual Review of the Charter of the Audit Committee

Recommendation:

Information item only.

Background/Justification:

The Charter of the Audit Committee is forwarded to the Audit Committee on an annual basis in accordance with best practices, the Office of the Chief Auditor's Quality Assurance and Improvement Program, and the requirements specified in the Audit Committee's Charter.

The Charter of the Audit Committee describes the Audit Committee's purpose, mandate and authority, including oversight of the internal and external auditors, compliance and regulatory duties; and, provides guidelines and procedures on how the Audit Committee conducts its business.

The Board adopted Resolution No. 2003-061 on October 2, 2003, instituting the Charter of the Audit Committee. Subsequent revisions to the Charter of the Audit Committee took place as follows:

June 13, 2006, the first revision was approved by the Audit and Performance Monitoring Committee; and approved by Board Resolution No. 2006-0080 dated July 6, 2006.

February 8, 2010, the Charter of the Audit Committee was revised during a regular meeting of the Audit Committee to expand upon, update, and to reflect then-current operational practices; and approved by Board Resolution No. 2010-0023 on March 4, 2010.

September 10, 2018, during a regular meeting of the Audit Committee, the Charter of the Audit Committee was revised to incorporate relevant sections of the Public Utilities Code, model pertinent Audit Committee practices, and to reflect the current operational practices (Attachment A). Board Resolution No. 2018-0116 approved these changes on October 4, 2018.

At this time, there are no revisions recommended by Staff for the Charter of the Audit Committee.

Fiscal Impact:

None

Authority Strategies/Focus Areas:

This item supports one or more of the following:

Strategies

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

Focus Areas

☐ Advance the Airport Development Plan ☐ Transform the Customer Journey ☒ Optimize Ongoing Business

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

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
CHARTER OF THE AUDIT COMMITTEE

ORGANIZATIONAL PRINCIPLES

Purpose

The purpose of the Audit Committee (Committee) is to provide structured, systematic oversight of the San Diego County Regional Airport Authority's (Authority) governance, risk management, and internal control practices. Public Utilities Code §170018 states that the Committee shall serve as a guardian of the public trust, acting independently, and charged with oversight responsibilities for reviewing the Authority's internal controls, financial reporting obligations, operating efficiencies, ethical behavior, and regular attention to cashflows, capital expenditures, regulatory compliance, and operations. The Committee assists the Authority's Board of Directors (Board) and management by providing advice and guidance related to the Authority's:

- Values and ethics;
- Governance structure;
- Risk Management;
- Internal control framework;
- Oversight of the Office of the Chief Auditor, external auditors, and other providers of assurance; and
- Financial statements and public accountability reporting.

The Committee reviews each of the items noted above and provides the Authority Board with independent advice and guidance regarding the adequacy and effectiveness of management's practices and potential improvements to those practices.

Mandate

The mandate for the establishment of the Committee is contained in Public Utilities Code §§170013 and 170018.

Authority

The Audit Committee Charter sets out the authority of the Committee to carry out the responsibilities established for it by the Authority Board.

In discharging its responsibilities, the Committee shall have unrestricted access to members of management, employees, and relevant information it considers necessary to discharge its duties. The Committee shall also have unrestricted access to records, data, and reports. The Committee shall interact with these employees and management through the Chief Auditor, or the President/CEO or his/her designee.

The Committee is entitled to receive any explanatory information that it deems necessary to discharge its responsibilities. The Authority's management and staff should cooperate with Committee requests. Committee requests shall be directed to the Chief Auditor, or the President/CEO or his/her designee.

The Committee may engage independent advisor(s), subject to Authority Board approval, that it deems necessary to execute its responsibilities and shall be provide the necessary resources for such purposes.

The Committee is empowered to:

- Recommend to the Authority Board or the appropriate Board committee the appointment and compensation of the external auditor.
- Oversee all audit and non-audit services performed by internal and external auditors.
- Review any disagreements between management and the external auditor regarding financial reporting and other matters.
- Review all auditing and non-auditing services performed by auditors.

Composition of the Committee

The composition of the Committee is specified in Public Utilities Code §§170013 and 170018. Public Utilities Code §170013 states that the Authority Board shall appoint a seven-member Committee consisting of four members of the Authority Board and the three public members appointed pursuant to Public Utilities Code §170018. Each member of the Committee shall be a voting member. The Authority Board shall select the three public members from among the following categories of persons, with no more than one appointee from each category at any one time:

- A professional with experience in the field of public finance and budgeting;
- An architect or civil engineer licensed to practice in this state;
- A professional with experience in the field of real estate or land economics;
- A person with experience in managing construction of large-scale public works projects;
- A person with public or private sector executive level decision making experience;
- A person who resides within the airport influence area of the San Diego International Airport; and
- A person with experience in environmental justice as it pertains to land use.

The Authority Board may appoint other persons to serve as nonvoting, non-compensated, *ex officio* members on the Committee. In appointing the public members to the Committee, the Authority Board shall provide for selection policies, appointment procedures, conflict-of-interest policies, length-of-term policies, and policies for providing compensation, if any.

The Chair and Vice-Chair of the Committee

The Authority Board Chair shall designate the Chair and Vice-Chair of the Committee.

Terms of Office

The public members shall be appointed by the Authority Board for staggered three-year terms.

Quorum and Voting

Four (4) Committee members are required to be present to have a quorum. Pursuant to Public Utilities Code §170018, an affirmative vote by at least five members of the Committee shall be required for approval of the annual internal and external audits, including performance monitoring, the auditor’s annual Audit Plan, and actions recommending or approving debt financing for the Authority.

OPERATIONAL PRINCIPLES

Committee Values

The Committee shall conduct itself in accordance with the code of values and ethics of the Authority as outlined in Authority Policy Article 2 and Authority Code Article 2. The Committee expects that management and staff of the Authority shall adhere to these requirements.

Communications

The Committee expects that all communication with management and staff of the Authority as well as with any external assurance providers shall be direct, open, and complete.

Work Plan

The Committee chair shall collaborate with senior management and the Chief Auditor to establish a work plan to ensure that the responsibilities of the Committee are scheduled and carried out.

Meeting Agenda

The Committee chair shall establish agendas for Committee meetings in consultation with Committee Members, management, and the Chief Auditor.

Information Requirements

The Committee shall establish and communicate its requirements for information, including the nature, extent, and timing of information. Information related to or to be discussed at a Committee meeting shall be provided to the Committee at least one week prior to the Committee meeting.

Executive Sessions

The Committee may schedule and hold, if necessary, private sessions with the Chief Auditor, external assurance providers, and others who the Committee may deem appropriate. These Executive Sessions shall be subject to the Ralph M. Brown Act.

Preparation and Attendance

Committee members are obligated to prepare for and participate in Committee Meetings**.**

Conflict(s) of Interest

Committee members shall adhere to the Authority's Code of ethics and conduct as outlined in Authority Code Article 2. Additionally, it is the responsibility of Committee members to disclose any conflict of interest or appearance of a conflict of interest to the Committee as outlined in Authority Code Section 2.30. If there is any question as to whether Committee member(s) should recuse themselves from a vote, the Committee member should consult with the General Counsel.

Orientation and Training

Committee members shall receive formal orientation training on the purpose and mandate of the Committee and the Authority's objectives. A process of continuing education shall be established.

OPERATIONAL PROCEDURES AND RESPONSIBILITIES

Meetings

The Committee shall meet as often as it determines is necessary, but not less frequently than four times per year. All meetings shall be subject to the Ralph M. Brown Act.

Minutes

Minutes and other relevant documentation of all meetings held shall be prepared in accordance with applicable law and/or other applicable requirements.

Required Attendance

The Chief Auditor or his/her designee is required to attend Committee meetings. Additionally, the Committee may require any officer or employee of the Authority, including the external auditor, to attend any meeting of the Committee, or to meet with any members of, or consultants to, the Committee.

Responsibilities

Pursuant to Public Utilities Code §170018 the Committee shall, at a minimum:

(1) Regularly review the Authority's accounting, audit, and performance monitoring processes;

(2) At the time of contract renewal, recommend to the appropriate committee and the Authority Board its nomination for an external auditor and the compensation of that auditor, and consider at least every three years, whether there should be a rotation of the audit firm or the lead audit partner to ensure continuing auditor independence;

(3) Advise the appropriate committee and the Authority Board regarding the selection of the auditor;

(4) Be responsible for oversight and monitoring of internal and external audit functions, and monitoring performance of, and internal compliance with, authority policies and procedures;

(5) Be responsible for overseeing the annual audit by the external auditors and any internal audits; and

(6) Make recommendations to the full Authority Board regarding paragraphs (1) to (5), inclusive.

Values and Ethics

To obtain reasonable assurance with respect to the Authority's values and ethics practices, the Committee shall:

- Review and assess the policies, procedures, and practices established by the Authority to monitor compliance with the code of conduct and ethical policies by all employees of the Authority as outlined in Authority Policy Article 2 and Authority Code Article 2;
- Provide oversight of the mechanisms established by management to establish and maintain high ethical standards for all employees of the Authority; and
- Review and provide advice on the systems and practices established by management to monitor compliance with laws, regulations, policies, and standards of ethical conduct and identify and deal with any legal or ethical violations.

ORGANIZATIONAL GOVERNANCE

To obtain reasonable assurance with respect to the Authority's governance process, the Committee shall review and provide advice on the governance process established and maintained within the organization and the procedures to ensure that they are operating as intended.

Risk Management

To obtain reasonable assurance with respect to the Authority's risk management, the Committee shall:

- Periodically review the Authority's risk profile;
- Provide insight on significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by management and the Authority Board; and
- Review and provide advice on the risk management processes established and maintained by management and the procedures in place to ensure that they are operating as intended.

Fraud

To obtain reasonable assurance with respect to the Authority's procedures for the prevention and detection of fraud, the Committee shall:

- Oversee management's arrangements for the prevention and deterrence of fraud;
- Ensure that appropriate action is taken against known perpetrators of fraud;
- Inquire with management and internal and external auditors to ensure the Authority has appropriate antifraud programs and controls in place to identify potential fraud and ensure that investigations are undertaken if fraud is detected; and
- Establish procedures for the receipt, retention, investigation, and treatment of complaints including, but not limited to, fraud, accounting, auditing, ethics, and code of conduct matters. The Committee shall maintain a process for the confidential, anonymous submission of such complaints by Authority employees and other individuals.

Control

To obtain reasonable assurance with respect to the adequacy and effectiveness of the Authority's controls in responding to risks within the Authority's governance, operations, and information systems, the Committee shall:

- Consider the effectiveness of the Authority's control framework, including information technology security and control;
- Review and provide advice on the controls within the Authority; and
- Receive reports on all matters of significance arising from work performed by other providers of financial and internal control assurance to management and the Authority Board.

Compliance

The Committee shall:

- Review the effectiveness of the systems for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance; and
- Review the observations and conclusions of internal and external auditors and the findings of regulatory agencies.

OVERSIGHT OF THE INTERNAL AUDIT FUNCTION

Office of the Chief Auditor

To obtain reasonable assurance with respect to work of the Office of the Chief Auditor, the Committee shall provide the following oversight functions:

Office of the Chief Auditor Charter and Resources

- Review, and forward to the Authority Board for approval, the Charter of the Office of the Chief Auditor at least annually. The Charter should be reviewed to ensure that it accurately reflects the Office of the Chief Auditor's purpose, authority, and responsibility, consistent with the mandatory guidance of The Institute of Internal Auditors' (IIA) International Professional Practices Framework and the scope and nature of assurance and consulting services, as well as changes in the financial, risk management, and governance processes of the Authority and reflects developments in the professional practice of internal auditing; and
- Advise the Authority Board about increases and decreases to the requested resources to achieve the internal Audit Plan and evaluate whether any additional resources are needed permanently or should be provided through outsourcing.

Chief Auditor Performance

- Advise the Authority Board regarding the qualifications and recruitment, appointment, replacement, reassignment, or dismissal of the Chief Auditor;
- Provide input to the Authority Board or the Executive Personnel and Compensation Committee related to evaluating the performance of the Chief Auditor; and
- Recommend, as needed, to the Authority Board or the Executive Personnel and Compensation Committee the appropriate compensation of the Chief Auditor.

Internal Audit Strategy and Plan

- Review and provide input on the Office of the Chief Auditor's strategic plan, objectives, performance measures, and outcomes;
- Review and approve the risk-based proposed Audit Plan and make recommendations concerning internal audit special request audits, investigations, and the internal audit resources necessary to achieve the Plan; and
- Review the Office of the Chief Auditor's performance relative to its Audit Plan.

Internal Audit Engagement and Follow Up

- Review internal audit reports and other communications to management;
- Review and track management's action plans to address the results of audits performed by internal audit;
- Review and advise management on the results of any special investigations;

- Inquire of the Chief Auditor, or others, whether any internal audit engagements or non-audit engagements have been completed, but not reported to the Committee; if so, inquire whether any matters of significance arose from such work; and
- Inquire of the Chief Auditor, or others, whether any evidence of fraud has been identified during internal audit engagements and evaluate what additional actions, if any, should be taken.

Standards Conformance

- Inquire of the Chief Auditor about steps taken to ensure that the Office of the Chief Auditor conforms to The IIA's International Standards for the Professional Practice of Internal Auditing (Standards);
- Ensure that the Office of the Chief Auditor has a quality assurance and improvement program, and that the results of these periodic assessments performed are presented to the Committee;
- Ensure that the Office of the Chief Auditor has an external quality assurance review performed, and monitor the implementation of the Office of the Chief Auditor's action plans to address any recommendations; and
- Advise the Authority Board about any recommendation for the continuous improvement of the Office of the Chief Auditor.

OVERSIGHT OF THE EXTERNAL AUDIT FUNCTION AND OTHER EXTERNAL ASSURANCE PROVIDERS

To obtain reasonable assurance with respect to the work of the external assurance providers, the Committee shall meet with the external assurance providers during the planning phase of the audit engagement, the presentation of the audited financial statements, and the discussion of the results of audit engagements and recommendations for management.

The Committee shall:

- Advise the Authority Board on the engagement of each external auditor;
- Review the external auditors' proposed audit scope and approach, including coordination of audit efforts with the Office of the Chief Auditor;
- Provide input with regard to audit engagement fees and terms, as well as all non-audit engagements with the external auditor;
- Review the performance of the external auditors;
- Inquire with the external auditors about their relationships with the Authority, including non-audit services provided to the Authority. The Committee is responsible for discussing the information with the external auditors to review and confirm their independence;
- Hold regularly scheduled exclusive meetings with external auditors to discuss any sensitive matters. These meetings are subject to the Ralph M. Brown Act;
- Review the reasonableness of fees, the quality of any prior audits, the composition of the audit team; evaluate the experience and qualifications of the external auditor's lead partner and the senior members of the audit team; examine the results of the audit firm's last internal quality-control or peer review, any issues raised by the annual auditor's report, the status of any significant regulatory or litigation problems that may affect the external auditor, and the amount of non-audit services provided by the audit firm;

- Advise the Authority Board when any major staffing change occurs in the audit firm engaged as the principal external auditor, when any other significant development or action occurs with respect to the external auditor, or when it is determined it is necessary to do so to protect and preserve the interests of the Authority;
- Monitor management's progress on action plans;
- Review the external auditor's most recent internal quality-control or peer review report. The external auditor shall report any steps taken to deal with issues identified in the internal quality-control or peer review report. The external auditor shall also submit such a report to the Committee promptly after any review, inquiry, or investigation referred to it by the Committee, any Authority Board member, or the President/CEO; and
- Consider at least every three (3) years whether there should be a rotation of the lead audit partner or the audit firm itself.

To obtain reasonable assurance that management has acted on the results of internal and external audit engagements, the Committee shall regularly review reports on the progress of implementing approved management action plans and audit recommendations resulting from completed audits.

Financial Statements and Public Accountability Reporting

The Committee is responsible for the oversight of the independent audit of the Authority's financial statements, including but not limited to overseeing the resolution of audit findings in areas such as internal control, legal, regulatory, compliance, and ethics.

The Committee shall:

- Review the scope of audits, including obtaining assurances from the external auditor that the specific audit was conducted in a manner consistent with generally accepted accounting standards;
- Review with management and the external auditors the results of audit engagements, including difficulties encountered;
- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional regulatory pronouncements, and understand their impact on the financial statements;
- Review the annual financial statements, Comprehensive Annual Financial Report (CAFR), and other reports issued and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles;
- Review other financial reports, as necessary, issued by the Authority in accordance with generally accepted accounting and/or audit standards and the corresponding external auditor's reports;
- Review internal control reports (management letters) submitted by the external auditor; and
- Review matters required to be communicated by the external auditor to the Committee, including but not limited to, any difficulties encountered in the course of the work, any restriction on the scope of the external auditor's activities, or on access to requested information, and any significant disagreements with management.

OTHER DUTIES AND RESPONSIBILITIES

In addition, the Committee shall:

- Perform other activities related to this Charter as requested by the Authority Board;
- Institute special investigations as needed;
- Regularly evaluate its performance and that of its individual members; and
- Review, at least annually, its Charter and recommend any proposed changes to the Authority Board for approval.

REPORTING REQUIREMENTS

The Committee shall report to the Authority Board annually, summarizing the Committee's activities and recommendations. The report may be delivered during a Committee meeting attended by the Authority Board or during a regularly scheduled meeting of the Authority Board.

The report should include:

- A summary of the work the Committee performed to fully discharge its responsibilities during the preceding year;
- A summary of management's progress in addressing the results of internal and external audit reports;
- Details of meetings, including the number of meetings held during the relevant period; and
- Information required, if any, by new or emerging governance developments.

The Committee may report to the Authority Board at any time regarding any other matter it deems of sufficient importance.

[Amended by Resolution No. 2018-0116 dated October 4, 2018]
[Amended by Resolution No. 2010-0023 dated March 4, 2010]
[Adopted by Resolution No. 2003-061 dated October 2, 2003]

SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY

Item No.
7

AUDIT COMMITTEE

Meeting Date: **NOVEMBER 4, 2019**

Subject:

Annual Review of the Charter for the Office of the Chief Auditor

Recommendation:

Information item only.

Background/Justification:

The Charter for the Office of the Chief Auditor (OCA) is forwarded to the Audit Committee on an annual basis in accordance with best practices, the OCAs Quality Assurance and Improvement Program, and requirements included in the Charter of the Audit Committee and Charter for the OCA.

The Charter for the OCA establishes the purpose, authority, and responsibilities of the OCA. The Charter for the OCA was first adopted by Board approved Resolution No. 2003-062 on October 2, 2003. The Charter for the OCA has subsequently been amended as follows:

June 1, 2004, the Audit and Performance Monitoring Committee revised the Charter for the OCA pertaining to the Committee's approval authority of the external auditor's work program and to define the Chief Auditor's role in reviewing both the draft and the final submission of the external auditor's annual financial statements.

March 4, 2010, per Board Resolution No. 2010-0022R, the Charter for the OCA was amended to reflect operational practices covering the review and approval of amendments to the OCA Audit Plan, the retention of audit work papers, the request to access Authority information and records, and the process for handling responses to audit recommendations, amongst others.

September 4, 2014, per Board Resolution No. 2014-0089, the Charter for the OCA was amended to reflect operational practices and to incorporate recommendations provided by an External Quality Control Review related to consulting services performed by the OCA.

September 10, 2018, during a regular meeting of the Audit Committee, the Charter for the OCA was revised to incorporate model Charter practices and to reflect current operational procedures (Attachment A). Board Resolution No. 2018-0117 approved these changes on October 4, 2018.

Staff has no revisions to recommend at this time to the Charter for the OCA.

Fiscal Impact:

None

Authority Strategies/Focus Areas:

This item supports one or more of the following:

Strategies

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

Focus Areas

☐ Advance the Airport Development Plan	☐ Transform the Customer Journey	☒ Optimize Ongoing Business

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

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
CHARTER FOR THE OFFICE OF THE CHIEF AUDITOR

Purpose and Mission

The purpose of the San Diego County Regional Airport Authority's (Authority) Office of the Chief Auditor is to provide independent objective assurance and consulting services designed to add value and improve the Authority's operations. The Mission of the Office of the Chief Auditor is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The Office of the Chief Auditor helps the Authority accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Authority

The Chief Auditor shall be accountable to the Board of Directors (hereinafter "the Board") under Public Utilities Code §170026, and pursuant to his/her employment agreement.

The Chief Auditor will report directly to the Board through the Audit Committee.

To establish, maintain, and assure that the Office of the Chief Auditor has sufficient authority to fulfill its duties, the Audit Committee will:

- Review, and forward to the Board for approval, the Office of the Chief Auditor Charter.
- Review, and forward to the Board for approval, the risk-based Internal Audit Plan.
- Review, and forward to the Board for approval, the Office of the Chief Auditor's budget and resource plan.
- Receive communication from the Chief Auditor on the Office of the Chief Auditor's performance relative to its Audit Plan and other matters.
- Provide recommendations to the Board regarding the appointment and removal of the Chief Auditor.
- Make appropriate inquiries of Authority management and the Chief Auditor to determine whether there is inappropriate or scope limitations pertaining to the Chief Auditor's Office.

The Chief Auditor will have unrestricted access to, and communicate and interact directly with, the Audit Committee, including private meetings without management present.

The Audit Committee authorizes the Office of the Chief Auditor to:

- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement except for legally privileged and/or legally confidential information. All contracts with outside contractors and subcontractors shall provide for auditor access to all relevant personnel, financial and performance-related records, property, and equipment where Authority funds were expended or Authority facilities were used.

- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of the Authority, as well as other specialized services from within or outside the Authority, in order to complete the audit engagement, subject to budget limitations and the contracting policies of the Authority. A contractor performing an audit should have no financial or other interests in the affairs of the Authority, any member of the Board, or its officers.

Standards for the Professional Practice of Internal Auditing

The Office of the Chief Auditor will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *International Standards for the Professional Practice of Internal Auditing,* and the Definition of Internal Auditing. The Chief Auditor will report periodically to the Authority's Audit Committee and executive management regarding the Office of the Chief Auditor's conformance to the Code of Ethics and the *Standards*.

Independence of the Chief Auditor

The Chief Auditor will ensure that the Office of the Chief Auditor remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Chief Auditor determines that independence or objectivity may be impaired, in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal Auditors will maintain an unbiased mental attitude that allows them to perform engagements objectivity, and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgement matters to others.

The Office of the Chief Auditor will have no direct operational responsibility or authority over any of the activities audited. Accordingly, the Office of the Chief Auditor will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair his/her judgement, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties.
- Initiating or approving transaction(s) external to the Office of the Chief Auditor.
- Directing the activities of any Authority employee not employed by the Office of the Chief Auditor, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the Office of the Chief Auditor has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity. Internal Auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.

- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgements.

The Chief Auditor will confirm to the Audit Committee, at least annually, the organizational independence of the Office of the Chief Auditor.

The Chief Auditor will disclose to the Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

Scope of Internal Audit Activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit Committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for the Authority. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of the Authority's strategic objectives are appropriately identified and managed.
- The actions of the Authority's officers, directors, employees and contractors are in compliance with Authority policies, procedures and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the Authority.
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have credibility.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The Chief Auditor will report periodically to the Audit Committee and Authority executive management regarding:

- The Office of the Chief Auditor's purpose, authority, and responsibility.
- The Office of the Chief Auditor's Audit Plan and performance relative to its Audit Plan.
- The Office of the Chief Auditor's conformance with the Institute of Internal Auditor's Code of Ethics and *Standards*, and action plans to address any significant conformance issues.

- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable by the Authority.

The Chief Auditor also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed.

The Chief Auditor will assist the Audit Committee to ensure its responsibilities listed in the Audit committee Charter are met.

The Office of the Chief Auditor may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the Office of the Chief Auditor does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

Responsibility

The Chief Auditor has the responsibility to:

- Submit, at least annually, a risk-based internal Audit Plan for review to Authority executive management. The risk-based internal Audit Plan will also be submitted to the Audit Committee for review and forwarded to the Board for approval.
- Communicate to the Audit Committee and Authority executive management the impact of resource limitations on the Audit Plan, if applicable.
- Communicate any fraud or illegal acts that the Chief Auditor becomes aware of that could affect the Authority. The Chief Auditor shall report the irregularities to the Chair of the Audit Committee, the General Counsel, and the President/Chief Executive Officer. Where one or more of the aforementioned persons is or is believed to be a responsible or culpable party, the Chief Auditor shall report the matter to the full Board in Closed Session called for that purpose in accordance with the requirements of the Ralph M. Brown Act.
- Review and adjust the nature of the internal Audit Plan, as necessary, in response to changes in the Authority's business risks, operations, programs, systems, and controls.
- The Audit Plan may be adjusted to accommodate for special requests by the Audit Committee or Authority management.
- Changes to the Audit Plan will occur after consultation with the Chair of the Audit Committee. Changes to the Audit Plan will be presented to the Audit Committee for review and forwarded to the Board for approval.
- Communicate to the Audit Committee and Authority executive management any significant interim changes to the Audit Plan.

- Ensure that each engagement contained in the Audit Plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of recommendation(s) to appropriate parties.
- Follow up on audit engagement findings and the corrective actions taken, and report periodically to the Audit Committee and Authority executive management any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure that the Office of the Chief Auditor collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Office of the Chief Auditor Charter.
- Ensure trends and emerging issues that could impact the Authority are considered and communicated to the Audit Committee and Authority executive management as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to the Office of the Chief Auditor's Policies and Procedures Manual/Desk Manual designed to guide the Office of the Chief Auditor.
- Ensure adherence to the Authority's relevant policies and procedures, unless such policies conflict with the Office of the Chief Auditor Charter.
- Ensure conformance with the IIA *Standards*.

Quality Assurance and Improvement Program

The Office of the Chief Auditor will maintain a quality assurance and improvement program that covers all aspects of the Office of the Chief Auditor. The program will include an evaluation of the Office of the Chief Auditor's conformance with the IIA *Standards* and an evaluation of whether internal auditors apply The Institute of Internal Auditor's Code of Ethics in their conduct. The program will also assess the efficiency and effectiveness of the Office of the Chief Auditor and identify opportunities for improvement.

[Amended by Resolution No. 2018-0117 dated October 4, 2018]
[Amended by Resolution No. 2014-0089 dated September 4, 2014]
[Adopted by Resolution No. 2003-062 dated October 2, 2003]

SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY

Item No.
8

AUDIT COMMITTEE

Meeting Date: **NOVEMBER 4, 2019**

Subject:

Amend Authority Policy 1.50 – Governance and Committees

Recommendation:

Staff recommends that the Audit Committee request the Board to amend Policy 1.50 to specify the number of terms that public members may serve on the Audit Committee to two full terms, and that the current Audit Committee Public Members are allowed to serve out their current terms through to completion.

Background/Justification:

The State of California Public Utilities Code Division 17, San Diego County Regional Airport Authority [170000 – 170084], legislated the creation of the Airport Authority and outlined the foundation from which the Authority Codes and Policies were initially adopted by the Interim Authority Board of Directors on September 20, 2002.

The Authority has a responsibility to promote public policies consistent with the Authority's mandates and objectives and, as such, has performed numerous reviews and updates to its Codes and Policies.

Policy 1.50 – Governance and Committees established the guidelines and principles defining the San Diego County Regional Airport Authority governance practices. On April 4, 2019, the Board adopted Resolution No. 2019-0034 approving the most recent revision to Policy 1.50, in order to reflect current operations of the Airport and the Authority, and to ensure consistency with applicable Federal, State, and local laws and regulations.

Section 170018 of the Public Utilities Code and Authority Policy 1.50 (5)(c)(ii) describe the Audit Committee and its composition, function, oversight responsibilities, meeting administration, and appointment procedures, including the requirements for the appointment of public members to the Audit Committee.

Additionally, Policy 1.20 – Formation of Board Committees established the Board's power to create committees and to determine their purpose, duties, frequency of meetings, adherence with Roberts Rules of Order and applicable laws of the State of California, designate members, among others.

Upon a policy review by the Office of the Chief Auditor (OCA) of Policy 1.20, Policy 1.50, and the Charter of the Audit Committee, it was noted that there is no directive on the length of time that a public member may serve on the Audit Committee.

Best practice favors a recurring change of all committee members. Establishing a term limit for public members will align Authority Policy with best practices and will allow for revolving membership similar to Authority Board Members that serve on the Audit Committee.

Staff recommends that the Audit Committee request the Board to amend Policy 1.50 to specify the number of terms that a public member may serve on the Audit Committee. We recommend a maximum of two full terms, and that the current Audit Committee Public Members are allowed to serve out their current terms through to completion.

The proposed revision to Policy 1.50 is provided to the Audit Committee for review, with changes highlighted in red in Attachment A.

Upon Board approval of a revision to Policy 1.50, staff will proceed with updating the Policy and carrying out the recruitment of future Audit Committee Public Members when warranted at the completion of term limits.

Fiscal Impact:

Anticipated impact to operating expenses will be for the recruitment of new public members (media, advertisement) as warranted when existing Audit Committee Public Member terms end. The current and succeeding Board Services/Authority Clerk's fiscal year budget, approved by the Board, is sufficiently funded for the recruitment of new public members.

Authority Strategies/Focus Areas:

This item supports one or more of the following:

Strategies

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

Focus Areas

☐ Advance the Airport Development Plan ☐ Transform the Customer Journey ☒ Optimize Ongoing Business

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

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

POLICIES

ARTICLE 1 - ADMINISTRATION AND GOVERNANCE
PART 1.5 - GOVERNANCE
SECTION 1.50 - GOVERNANCE AND COMMITTEES

PURPOSE: To establish the principles and practices for the governance of the San Diego County Regional Airport Authority ("**Authority**").

POLICY STATEMENT:

(1) Establishment of Governance Principles and Practices. The Authority is committed to being and operating as a world-class organization, and to that end shall adopt, implement and maintain best-in-class governance principles and practices.

(2) Adoption of Governance Policy. It is in the best interests of the Authority and the public that it serves to adopt this policy to supplement the San Diego County Regional Airport Authority Act, as amended ("**Authority Act**"), to delineate the respective roles, duties and responsibilities of:

(a) The Board of Directors ("**Board**");

(b) The Board's Executive Committee ("**Executive Committee**"); and

(c) The President/Chief Executive Officer (**"President/CEO"**).

(3) Considerations. This policy has been developed based on the following considerations:

(a) Review of best-in-class governance principles and practices that have been developed and tested in practice by respected airport authorities and other governmental entities;

(b) A desire to meet the needs of the public that the Authority serves, and the individuals and businesses that use the Authority's facilities or interact with the Authority; and

(c) A recognition that the delineation of the respective roles, duties and responsibilities of the Board, the Executive Committee, the President/CEO and the Authority's officers and employees is essential to ensure the transparent, efficient and harmonious operation of the Authority, and the achievement of the purposes for which the Authority was created.

(4) Objectives. The objectives of this policy are to:

(a) Establish principles and practices to facilitate communication and coordination among the Board, the Executive Committee, the President/CEO and the Authority's officers and employees with respect to the Authority's vision, mission, policy and management;

(b) Establish clear, appropriate roles and functions of the Board, the Executive Committee, the President/CEO and the Authority's officers and employees;

(c) Provide for the Board's exercise of its authority to set the policies and direction of the Authority and to monitor and evaluate the management of the Authority by the President/CEO and the Authority's officers and employees, without impeding or interfering with the proper conduct of the Authority's operations and affairs;

(d) Provide for appropriate interface and liaison with other government agencies, particularly: (1) the consolidated agency comprised of the San Diego Association of Governments (SANDAG), the Metropolitan Transit Development Board (MTDB) and the North County Transit Development Board (NCTD) as referenced in Public Utilities Code §132350.2, and (2) the San Diego Unified Port District;

(e) Implement governance principles and practices that are subject to periodic review and modification in order to evolve with the Authority's needs and operations; and

(f) Through the foregoing, facilitate communication, coordination and cooperation within the Authority, and achieve transparency and accountability in governance, and the confidence of the public in the integrity and responsibility of the Authority.

(5) Board.

(a) Role. The Board's role is to establish, in collaboration with the President/CEO and the Authority's officers and employees through an open, public process, the vision, long-term strategy and goals for the Authority and to provide leadership to attain them.

The Board should refrain from participating in the day-to-day operations of the Authority.

(i) In the case of Board Members or committees requesting information or assistance without Board authorization, the request must not require more than two hours of staff time, be approved by the President/CEO and copied to all Board Members.

In consultation with the Board Member, the President/CEO can decline (or disallow) such requests that require, in the President/CEO's opinion, a material amount of staff time or funds, or are disruptive.

(ii) Decision or instruction of individual Board Members or committees is binding when specifically authorized by the Board.

(iii) The Board should refrain from evaluating, either formally or informally, any staff other than the President/CEO, the General Counsel, or the Auditor. Board feedback on all other employee performance or behavior should be given directly to the President/CEO and not to the employee.

(b) Responsibilities. The Board's specific duties and responsibilities include the following:

(i) **Vision and Mission:**

- Formulate, set and evaluate on a periodic basis the vision, long-term strategy and goals for the Authority; and
- May commission planning, engineering, economic, and other studies to provide information to the Board for making decisions about the location, design, management, and other features of future airports.

(ii) **Policy, Administration and Management:**

- Appoint a representative to the San Diego Association of Governments, in accordance with P.U.C. §132351.4(a)(2)(A). Such representative shall serve until recalled or replaced by the Board. Such representative shall represent the Authority's views on maintaining a strong focus and commitment to meeting the public transportation needs of the San Diego region, setting transit funding criteria and recommending transit funding levels, and the discharge of transit responsibilities resulting from consolidation;
- Maintain and promote open, collaborative relations with all local, regional, state and federal governmental agencies with which it may interact, including the San Diego Unified Port District with which the Authority is a neighbor, and a colleague in economic development and environmental protection, for the benefit of the San Diego region. The Board may appoint one or more Directors to serve as Board liaison(s) with the governing board of another agency, but without any power to make agreements on behalf of the Authority or to direct Authority staff activity;
- Adopt and amend the objectives and service priorities for the Authority and provide guidance to the President/CEO on these matters;
- Adopt and amend the Authority's Policies and Codes from time to time;
- Assess on a periodic basis the effectiveness of the Authority's Policies and Codes, and add new or amend existing Policies and Codes accordingly;

- Review recommendations from the President/CEO and the Authority's officers and employees with respect and care, and consider the implications and future consequences of Board policy decisions;

- Review and approve contracts and the making of other major commitments in accordance with the Policies and Codes of the Authority;

- Review and approve the Authority's operating and capital budget and monitor the Authority's financial performance;

- Monitor the performance by the Authority by maintaining effective dialogue and communications with the President/CEO;

- Collaborate with the President/CEO in establishing performance standards for the Authority and its officers and employees;

- Appraise, on a periodic basis, the performance of the President/CEO and provide clear written feedback to the President/CEO; and

- Respect the President/CEO's role and responsibility to implement executive responsibilities for the Authority, and therefore avoid micro-management and intervention in specific management and administrative matters of the Authority.

(c) Standing Board Committees. The Board shall have the following standing committees with the following functions:

(i) *Finance Committee* – The Finance Committee will oversee the financial performance and condition of the Authority and review the operating and capital budget and financial plan, and major financial policies or actions of the Authority. The Finance Committee shall meet at least quarterly each year.

(ii) *Audit Committee* – The Audit Committee shall consist of four Board members and three members of the public. Pursuant to a selection policy, appointment procedures, and conflict-of-interest standards established by the Board, the Audit Committee shall oversee the initial screening and recommendation process for the selection of the public members.

(A) Appointed Public Members. The Board shall appoint the three public members as voting members of the Audit Committee for staggered three-year terms. Public members may serve a maximum of two full terms. The appointed public members shall be from among the following categories of persons, with no more than one appointee from each category at any one time:

(I) A professional with experience in the field of public finance and budgeting.

(II) An architect or civil engineer licensed to practice in this state.

(III) A professional with experience in the field of real estate or land economics.

(IV) A person with experience in managing construction of large-scale public works projects.

(V) A person with public or private sector executive level decision making experience.

(VI) A person who resides within the airport influence area of the San Diego International Airport.

(VII) A person with experience in environmental justice as it pertains to land use.

(B) Compensation. The three voting public members appointed to the Audit Committee pursuant to the above categories shall be paid for attending Audit Committee meetings at the same rate as that paid for Board members.

(C) Other Members. The Board may appoint other persons to serve as non-voting, non-compensated *ex officio* members on the Audit Committee. The length of the term of office for each such appointment shall be determined by the Board at the time of appointment.

(D) Role of Committee. The Audit Committee shall serve as a guardian of the public trust, acting independently and charged with oversight responsibilities for reviewing the Authority's internal controls, financial reporting obligations, operating efficiencies, ethical behavior, and regular attention to cash flows, capital expenditures, regulatory compliance, and operations.

(E) Meetings. The Audit Committee shall meet a minimum of four times per year and shall, at a minimum, do all the following:

(I) Regularly review the Authority's accounting, audit, and performance monitoring processes;

(II) At the time of contract renewal, recommend to the Executive Committee and the full Board its nomination for an external auditor and the compensation of that auditor, and consider at least every three years, whether there should be a rotation of the audit firm or the lead audit partner to ensure continuing auditor independence;

(III) Advise the Executive Committee and the Board regarding the selection of the external auditor;

(IV) Be responsible for oversight and monitoring of internal and external audit functions, and monitoring performance of, and internal compliance with, Authority policies and procedures;

(V) Be responsible for overseeing the annual audit by the external auditors and any internal audits; and

(VI) Make recommendations to the full Board regarding paragraphs (I) to (VI), inclusive;

(VII) Evaluate the Auditor and make recommendations to the Executive Personnel and Compensation Committee and/or the Board regarding his or her performance and compensation.

(F) Voting. Each member of the Audit Committee shall be a voting member. An affirmative vote by at least five members of the Audit Committee shall be required for approval of the annual internal and external audits, including performance monitoring, the auditor's annual audit plan for each fiscal year submitted to the Board for approval, and actions recommending or approving debt financing for the Authority. [P.U.C. §170018]

(iii) *Executive Personnel and Compensation Committee* – This Executive Personnel and Compensation Committee will evaluate the President/CEO, Auditor and General Counsel and make recommendations to the Board concerning their compensation. In addition, the Executive Personnel and Compensation Committee will review and make recommendations regarding Board Member compensation.

(iv) *Executive Committee* – The Executive Committee's role is to monitor the Authority's implementation of the administrative policy that has been established by the Board and to support the President/CEO in carrying out strategies and policies set by the Board. The Executive Committee's specific duties and responsibilities shall be:

(a) **Monitor Authority Implementation of Board Policy:**

- The Executive Committee, through the monthly meetings discussed below, will monitor the Authority's implementation of the administrative policy of the Authority as such policy shall be set by the Board and will report any relevant matters to the full Board, together with any policy recommendations, at a public meeting of the Board. Provided, however, that neither the Executive Committee, nor any member of the Executive Committee, will be or become involved in the direct operation of the airports under the jurisdiction of the Authority or be included in the chain of command of any such airport or the Authority for emergency purposes; and

- Undertake such other duties as the Board may delegate or assign from time-to-time.

(b) **<u>Conduct Monthly Public Meeting with President/CE) and Executive Staff:</u>**

- The Executive Committee will conduct a monthly meeting with the President/CEO and the executive staff to monitor the Authority's implementation of the administrative policy established by the Board. These Executive Committee meetings shall be open to the public, except as otherwise expressly permitted under the Ralph M. Brown Act; and

- Submit any and all policy recommendations to the full Board for consideration at a public meeting of the Board.

(v) *Capital Improvement Program Oversight Committee* – This committee will oversee the implementation of the Capital Improvement Program ("**CIP**") to include the investigation and evaluation of the physical/functional, financial, environmental, community aspects, inter-governmental coordination, and public communication/outreach related to all CIP activities.

(6) <u>President/CEO</u>.

(a) <u>Role</u>. The President/CEO's role is to: (i) support the Board in the planning and implementation of the vision, long-term strategy and goals of the Authority, (ii) carry out the overall strategy and Policies and Codes duly adopted by the Board, and (iii) manage and direct the Authority's personnel, operations, finances and facilities.

(b) <u>Responsibilities</u>. The President/CEO's specific duties and responsibilities include the following:

i. **<u>Vision and Mission:</u>**

- Assist in the planning and analysis of, ~~and~~ make recommendations for, and implement the vision, long-term strategy and goals as established by the Board; and

- Provide executive leadership to the officers and employees of the Authority to implement the Authority's vision, long-term strategy and goals as established by the Board.

ii. **<u>Policy, Administration and Management:</u>**

- Manage and direct the Authority's operations, finances and facilities professionally, efficiently and fairly;

- Administer and carry out the Authority's Policies and Codes, and provide appropriate information and make recommendations to the Board regarding the possible need for new Policies and Codes or amendments to existing Policies and Codes;

- Ensure that the Board is fully supported in its responsibility to adopt a comprehensive plan on the future development of San Diego's regional international airport, including, but not limited to, expansion of the existing airport site and other development options available to address future Airport needs;

- Perform such other functions that may be set forth in the Authority's other Policies and Codes, or that are necessary for the management and operations of the facilities and airports under the jurisdiction of the Authority;

- Manage the Authority's programs and services in a manner that is consistent with the Board's vision, long-term strategy, goals, guidelines, Policies and Codes;

- Direct the communications and inter-governmental relations strategy of the Authority, and the manner in which it is carried out;

- Prepare and recommend to the Board the Authority's operating and capital budget and financial plan;

- Maintain effective dialogue and communications with the Board;

- Provide appropriate information to the Board to facilitate the Board's assessment of the Authority's programs and services;

- Manage and coordinate the Authority's officers and employees to maintain high standards of professional conduct and to promote the accomplishment of organizational goals with efficiency and economy of resource use;

- Monitor and evaluate the Authority's officers, employees and independent contractors to, among other things, ensure that the officers, employees and independent contractors maintain appropriate performance standards, are attentive to citizen concerns and are responsive to complaints and inquiries;

- Support the Board in its appraisal of managerial and organizational performance;
- Appoint all officers and employees of the Authority, other than the Authority's General Counsel and Auditor; and
- Maintain and promote open, collaborative relations with all local, regional, state and federal governmental agencies with which the Authority may interact, including the San Diego Unified Port District with which the Authority is a neighbor, and a colleague in economic development and environmental protection, for the benefit of the San Diego region.

(7) General Principles of Governance. The Board and the Executive Committee, in discharging their respective powers, duties and responsibilities under this Policy and under any other applicable laws, Policies or Codes, shall act in accordance with the following:

(a) Exercise their respective business judgment to act in what they reasonably believe to be in the best interests of the Authority's constituents and the public that the Authority serves;

(b) Act in accordance with the highest ethical standards as set forth in the Authority's other Policies and Codes;

(c) Ensure that other existing and planned future commitments do not interfere with their commitments, duties and responsibilities to the Authority;

(d) Except in extraordinary circumstances, attend all duly noticed meetings and spend the time needed and meet as frequently as necessary to properly discharge their powers, duties and responsibilities;

(e) Except in extraordinary circumstances, attend any appropriate Board orientation programs, and review Board orientation documentation and other materials that may be distributed to the Board from time to time;

(f) Listen with due regard to the input of each member of the Board and the Executive Committee, as the case may be, and not attempt to dominate the discussions or the decision-making process of the Board and the Executive Committee, as the case may be; and

(g) Comply with requirements of law applicable to the Board and the Executive Committee, as the case may be, under all relevant laws (including the Authority Act) and the Authority's other Policies and Codes.

(8) General Provisions - Committees.

(a) Each standing committee of the Board shall include an Executive Committee member.

(b) All standing committee appointments shall be for one-year terms, except as otherwise prescribed or modified by the Board in its sole discretion.

(c) The Board may establish or maintain additional standing or *ad hoc* Board committees from time to time as necessary or appropriate in accordance with the Authority's Policies and Codes.

(9) Periodic Evaluation. The Board shall review this policy on a periodic basis to ascertain whether any modification is required to meet the then-current needs of the Authority and to maintain consistency with the best-in-class governance principles and practices of other airport authorities and governmental entities.

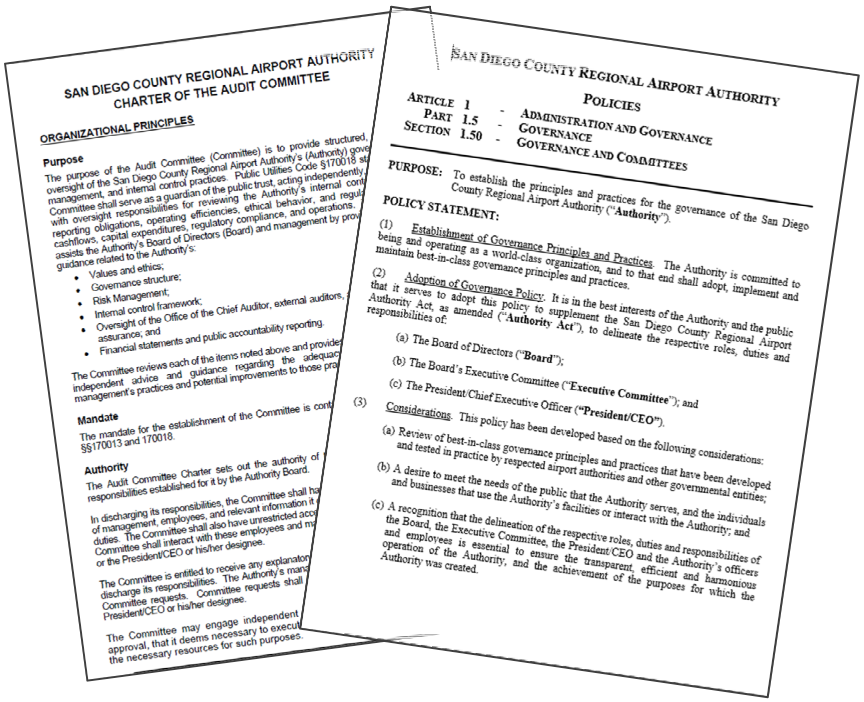
[Amended by Resolution No. 2019-0034 dated April 4, 2019.]
[Amended by Resolution No. 2013-0132 dated December 12, 2013]
[Amended by Resolution No. 2012-0133 dated December 13, 2012]
[Amended by Resolution No. 2011-0052 dated May 5, 2011]
[Amended by Resolution No. 2010-0008 dated February 4, 2010]
[Amended by Resolution No. 2009-0038 dated April 2, 2009]
[Amended by Resolution No. 2009-0009 dated February 5, 2009]
[Amended by Resolution No. 2008-0029 dated March 6, 2008]
[Amended by Resolution No. 2007-0085 dated July 5, 2007]
[Amended by Resolution No. 2006-0080 dated July 6, 2006]
[Amended by Resolution No. 2004-0033 dated April 5, 2004]
[Amended by Resolution No. 03-060 dated October 2, 2003]
[Amended by Resolution No.03-005R dated February 6, 2003]
[Adopted by Resolution No. 2002-2 dated November 25, 2002.]

ITEM 8

Amend Authority Policy 1.50 - Governance and Committees

Audit Committee Meeting
November 4, 2019

Current Charter & Policy


SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
CHARTER OF THE AUDIT COMMITTEE

ORGANIZATIONAL PRINCIPLES

Purpose

The purpose of the Audit Committee (Committee) is to provide structured, oversight of the San Diego County Regional Airport Authority's (Authority) gove management, and internal control practices. Public Utilities Code §170018 st Committee shall serve as a guardian of the public trust, acting independently, with oversight responsibilities for reviewing the Authority's internal cont reporting obligations, operating efficiencies, ethical behavior, and regula cashflows, capital expenditures, regulatory compliance, and operations. assists the Authority's Board of Directors (Board) and management by prov guidance related to the Authority's:

- Values and ethics;
- Governance structure;
- Risk Management;
- Internal control framework;
- Oversight of the Office of the Chief Auditor, external auditors, assurance; and
- Financial statements and public accountability reporting.

The Committee reviews each of the items noted above and provides independent advice and guidance regarding the adequac management's practices and potential improvements to those pra

Mandate

The mandate for the establishment of the Committee is cont §§170013 and 170018.

Authority

The Audit Committee Charter sets out the authority of responsibilities established for it by the Authority Board.

In discharging its responsibilities, the Committee shall ha of management, employees, and relevant information it duties. The Committee shall also have unrestricted acc Committee shall interact with these employees and m or the President/CEO or his/her designee.

The Committee is entitled to receive any explanator discharge its responsibilities. The Authority's mana Committee requests. Committee requests shall President/CEO or his/her designee.

The Committee may engage independent approval, that it deems necessary to execut the necessary resources for such purposes.

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
POLICIES

ARTICLE 1 - ADMINISTRATION AND GOVERNANCE
PART 1.5 - GOVERNANCE
SECTION 1.50 - GOVERNANCE AND COMMITTEES

PURPOSE: To establish the principles and practices for the governance of the San Diego County Regional Airport Authority ("**Authority**").

POLICY STATEMENT:

(1) Establishment of Governance Principles and Practices. The Authority is committed to being and operating as a world-class organization, and to that end shall adopt, implement and maintain best-in-class governance principles and practices.

(2) Adoption of Governance Policy. It is in the best interests of the Authority and the public that it serves to adopt this policy to supplement the San Diego County Regional Airport Authority Act, as amended ("**Authority Act**"), to delineate the respective roles, duties and responsibilities of:

(a) The Board of Directors ("**Board**");

(b) The Board's Executive Committee ("**Executive Committee**"); and

(c) The President/Chief Executive Officer (**"President/CEO"**).

(3) Considerations. This policy has been developed based on the following considerations:

(a) Review of best-in-class governance principles and practices that have been developed and tested in practice by respected airport authorities and other governmental entities;

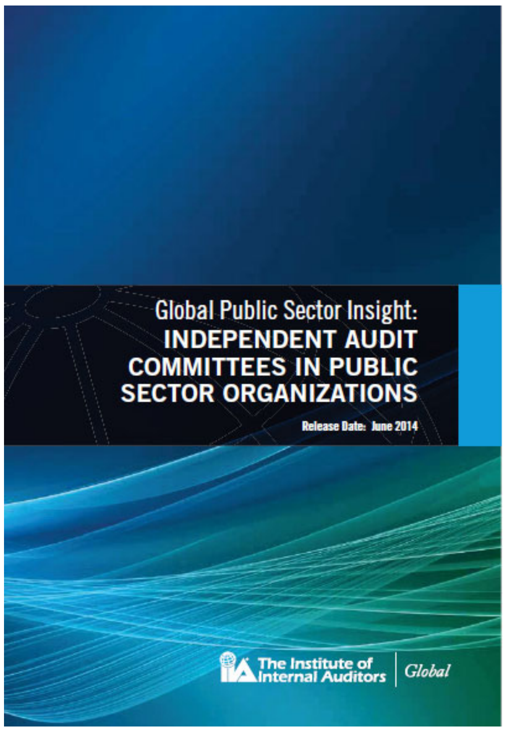
(b) A desire to meet the needs of the public that the Authority serves, and the individuals and businesses that use the Authority's facilities or interact with the Authority; and

(c) A recognition that the delineation of the respective roles, duties and responsibilities of the Board, the Executive Committee, the President/CEO and the Authority's officers and employees is essential to ensure the transparent, efficient and harmonious operation of the Authority, and the achievement of the purposes for which the Authority was created.

The Charter of the Audit Committee & Policy 1.50 do not contain a limit on the length of time that a public member may serve on the Audit Committee.

SAN DIEGO
INTERNATIONAL AIRPORT.
LET'S GO.

Best Practice



The Institute of Internal Auditors report states:

"It is important that audit committees maintain institutional memory while providing new perspectives and fresh insights…Generally, terms less than two years are too short. Terms of greater than eight years may be too long."

SAN DIEGO INTERNATIONAL AIRPORT. LET'S GO.

Recommended Change

Policy 1.50 (5)(c)(ii)(A) - recommended change in red:

(A) Appointed Public Members. The Board shall appoint the three public members as voting members of the Audit Committee for staggered three-year terms. Public members may serve a maximum of two full terms. The appointed public members shall be from among the following categories of persons, with no more than one appointee from each category at any one time:

****Current Public Members are allowed to serve out their current terms through to completion.****

SAN DIEGO INTERNATIONAL AIRPORT. LET'S GO.

QUESTIONS?

SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY

Item No.
9

AUDIT COMMITTEE

Meeting Date: **NOVEMBER 4, 2019**

Subject:

Revision to the Fiscal Year 2020 Audit Plan of the Office of the Chief Auditor

Recommendation:

Staff recommends that the Audit Committee accept the revised audit plan and forward it to the Board with a recommendation for approval. ***(Requires five (5) affirmative votes of the Audit Committee.)***

Background/Justification:

The Charter for the Office of the Chief Auditor, instituted by Board Resolution No. 2003-062 on October 2, 2003, and most recently amended on October 4, 2018, per Board Resolution No. 2018-0117, defines the role and requirements of the Office of the Chief Auditor (OCA).

As directed in the Charter, the Chief Auditor shall submit, at least annually, a risk-based Audit Plan to the Audit Committee and to Authority executive management, and shall review and adjust the Audit Plan, as necessary, responding to changes in business risks, operations, special requests, programs, systems, and controls. All changes to an Audit Plan shall be communicated to the Audit Committee prior to being submitted to the Board for approval.

Additionally, International Standards for the Professional Practice of Internal Auditing require that the Chief Auditor review and adjust the Audit Plan, as necessary.

The OCAs proposed Audit Plan for Fiscal Year 2020 was approved by the Audit Committee during its May 13, 2019, meeting and was subsequently approved on May 30, 2019, by Board Resolution No. 2019-0054. The Fiscal Year 2020 Audit Plan approved in May included the anticipated audit hours necessary to complete audits still in work from the Fiscal Year 2019 Audit Plan.

During the first quarter of Fiscal Year 2020 a review of the Audit Plan was undertaken by the OCA. A revision to adjust the allocation of audit hours to reflect the OCAs current operational requirements is required. The proposed changes include:

1) ADD audit hours required to finish the Fiscal Year 2019 Audit Plan.
2) REDUCE the hours allocated to the *Account Provisioning and De-Provisioning and Management* audit and to the Ethics Program, based on the level of effort needed.
3) REMOVE the following audits:
   a. Other Post-Employment Benefits (OPEB)
   b. Art Program
   c. Project Closeout – Parking Plaza

The removal of three (3) audits was based on the following analysis:

Other Post-Employment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement No. 75 *Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions,* which became effective for the Authority on July 1, 2017. The Authority's external auditor, BKD, tested implementation of GASB Statement No. 75 and the OPEB benefit disclosures during their audit of the Authority's financial statements for Fiscal Year Ended June 30, 2018. For this reason, the OCA believes an audit of OPEB, at this time, would not provide value-added results/recommendations to the Audit Committee, Board, and management.

Art Program

In March 2019, the Authority approved a revised Arts Master Plan and a Policy for the Airport Art Program. The OCA believes an audit of the Art Program would not provide value-added results/recommendations to the Audit Committee, Board, and management until the new changes have been in place for an adequate period of time.

Project Closeout – Parking Plaza

On February 8, 2018, the OCA issued an audit of Swinerton Builders, Inc. (Swinerton) concerning the Design-Build Agreement with Swinerton for the Terminal 2 Parking Plaza. The report concluded that, "adequate internal controls were in place to manage and monitor the agreement and to ensure that the expenditure of Authority funds is in compliance with the agreement. Additionally, the agreement was awarded in accordance with Authority Policy."

Also, during Fiscal Year 2019 the OCAs construction auditor attended various construction related meetings, and the auditor did not note any material issues from those meetings related to the Parking Plaza. Based on those meetings, and the results of the Swinerton audit, the OCA believes this closeout audit would not provide value-added results/recommendations to the Audit Committee, Board, and management.

The proposed revision to the Fiscal Year 2020 Audit Plan is provided to the Audit Committee for review, with changes requested, in Attachment A. The Fiscal Year 2020 Audit Plan, with the proposed changes incorporated, is provided as Attachment B.

Fiscal Impact:

The Chief Auditor Department's adopted Operating Expense Budget for Fiscal Year 2020 and conceptually approved budget for Fiscal Year 2021 meet the allotted budget requirements for the proposed revision to the Fiscal Year 2020 Audit Plan.

Authority Strategies/Focus Areas:

This item supports one or more of the following:

Strategies

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

Focus Areas

☐ Advance the Airport Development Plan	☐ Transform the Customer Journey	☒ Optimize Ongoing Business

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

Office of the Chief Auditor
Fiscal Year 2020 Audit Plan
Proposed November 4, 2019

ATTACHMENT A

Key Work Activity	Objective	Original Estimated Hours	Change Requested	Revised Hours
Audit Hours				
Owner Controlled Insurance Program (OCIP) Management[1]	To determine if the internal controls and management of the OCIP program are effective and if the Authority complies with Policies.	200	100	300
Other Post-Employment Benefits (OPEB) [1]	To determine if the internal controls and management of the OPEB program are effective and if the Authority complies with Policies.	200	(200)	-
IT Asset Acquisition[1]	To determine if the controls, compliance, and performance related to the Authority's information technology acquisition and implementation are adequate.	245	75	320
Art Program[1]	Review controls, compliance, and performance related to the Airport's Art Program.	-	277 (277)	-
Capital and Maintenance Project Selection and Planning[1]	Evaluate the Authority's capital and maintenance project selection and planning process.	-	110	110
Transportation Network Company (TNC) Reviews and Assistance[1]	Working with the Ground Transportation Department, review TNC operations, and assist with sample selection of TNC operators for background checks.	-	120	120
Small Business Development Management[1]	Review controls, compliance, and performance related to Small Business Development management.	-	130	130
Automated License Plate Reader (ALPR) System – Ace Parking[1]	Review privacy and personal information security procedures and practices related to the Automated License Plate Reader (ALPR) system.	-	100	100
Leigh Fisher & Associates[1]	Review contract expenditures providing airport planning consulting services, with an estimated maximum contract amount of $9,367,875.	-	50	50
Tenant Lease Admin. and Management	To determine if Revenue Generation & Business Development effectively and efficiently tracks and manages contracts and agreement requirements.	800	-	800
Harbor Police Contract Management	To determine if Harbor Police costs and services are appropriate and equitable.	650	-	650
Account Provisioning and De-Provisioning	To determine if account provisioning and de-provisioning is performed timely.	350	(125)	225
Formal Bidding and Contracting	To determine if bidding procedures align with best practices and/or Authority needs and if bidding procedures are being administered effectively and efficiently.	600	-	600

[1] Audit Activity has been carried forward from Fiscal Year 2019.

Office of the Chief Auditor
Fiscal Year 2020 Audit Plan
Proposed November 4, 2019

ATTACHMENT A

Key Work Activity	Objective	Original Estimated Hours	Change Requested	Revised Hours
Rental Car Shuttle Service Contract Administration	To determine if the Rental Car Shuttle Service contract with SP+ is administered appropriately.	500	-	500
Contractor Monitoring	To determine if the contract with AECOM is administered appropriately.	450	-	450
Contractor Monitoring	To determine if the contract with Turner is administered appropriately.	300	-	300
Project Closeout	To determine if the closeout of the Parking Plaza was administered appropriately.	250	(250)	-
Tenant Lease Admin. and Management	To determine if the concession revenue and Customer Facilities Charges received from Nevada Lease and Rental Inc. dba Payless Car Rental System are in accordance with the agreement.	400	-	400
Advertising	To determine if the marketing program for concessions is administered appropriately.	425	-	425
Tenant Lease Administration and Management	To determine if rental car companies, not located in the Rental Car Facility (RCC), are remitting amounts due in accordance with the agreements and are administered appropriately.	450	-	450
Change Orders	To determine if the Change Order Process in Airport Design and Construction aligns with best practices or Authority needs.	450	-	450
Terminal Maintenance & Airport and Tenant Service Requests	To determine if Facilities Management accurately and appropriately monitors time and expense tracking.	475	-	475
Tenant Lease Admin. and Management	To determine if contract terms for concession contracts managed by Revenue Generation & Business Development aligns with best practices and/or Authority needs.	500	-	500
Parking Management Contract Administration	To determine if the amounts paid by the Authority for the shuttle and parking contracts administered by Ace are in accordance with the agreements.	500	-	500
Business and Real Estate Agreements	To determine if the RCC land lease is administered appropriately.	375	-	375
To Be Determined	To initiate audit(s) based on risks identified at the discretion of the Chief Auditor	350	-	350
	Total Audit Hours	**8,470**	**110**	**8,580**
General Audit Hours				
Risk Assessment and Audit Plan[2]	To conduct a Risk Assessment that will identify the high risk activities to be considered when preparing the annual Audit Plan.	240	-	240

[2] Required activity in the Charter for the Office of the Chief Auditor.

Office of the Chief Auditor
Fiscal Year 2020 Audit Plan
Proposed November 4, 2019

Key Work Activity	Objective	Original Estimated Hours	Change Requested	Revised Hours
Construction Meeting Attendance	Attend various construction meetings, incorporate knowledge into ongoing risk assessments, and initiate audits if needed.	100	-	100
Information Technology Meeting Attendance	Attend various Information Technology meetings, incorporate knowledge into ongoing risk assessments, and initiate audits if needed.	180	-	180
Development of Data Analytics	To determine the feasibility of developing a data analytics program for Rental Car Concessions.	120	-	120
Ethics Program[3]	To review ethics policies, provide training, and investigate reported incidents.	310	(110)	200
Recommendation Follow-up[4]	To verify that internal and external audit recommendations have been implemented as intended.	95	-	95
Quality Assurance & Improvement Program[4]	To assess conformance with the *Standards,* whether internal auditors apply the Code of Ethics, and allow for the identification of improvement opportunities.	200	-	200
	Total General Audit Hours	**1,245**	**(110)**	**1,135**
Administrative Hours				
Administrative	Attendance at Staff/Board/Committee meetings, vacation, holiday time, Continuing Professional Education, and other.	4,205		4,205
	Total Hours	**13,920**	**-**	**13,920**

[3] Required activity in the Charter of the Audit Committee.
[4] Required activity in the Charter for the Office of the Chief Auditor.

Office of the Chief Auditor
Fiscal Year 2020 Audit Plan
Revised November 4, 2019

Key Work Activity	Objective	Revised Hours
Audit Hours		
Owner Controlled Insurance Program (OCIP) Management[1]	To determine if the internal controls and management of the OCIP program are effective and if the Authority complies with Policies.	300
IT Asset Acquisition[1]	To determine if the controls, compliance, and performance related to the Authority's information technology acquisition and implementation are adequate.	320
Capital and Maintenance Project Selection and Planning[1]	Evaluate the Authority's capital and maintenance project selection and planning process.	110
Transportation Network Company (TNC) Reviews and Assistance[1]	Working with the Ground Transportation Department, review TNC operations, and assist with sample selection of TNC operators for background checks.	120
Small Business Development Management[1]	Review controls, compliance, and performance related to Small Business Development management.	130
Automated License Plate Reader (ALPR) System – Ace Parking[1]	Review privacy and personal information security procedures and practices related to the Automated License Plate Reader (ALPR) system.	100
Leigh Fisher & Associates[1]	Review contract expenditures providing airport planning consulting services, with an estimated maximum contract amount of $9,367,875.	50
Tenant Lease Admin. and Management	To determine if Revenue Generation & Business Development effectively and efficiently tracks and manages contracts and agreement requirements.	800
Harbor Police Contract Management	To determine if Harbor Police costs and services are appropriate and equitable.	650
Account Provisioning and De-Provisioning	To determine if account provisioning and de-provisioning is performed timely.	225
Formal Bidding and Contracting	To determine if bidding procedures align with best practices and/or Authority needs and if bidding procedures are being administered effectively and efficiently.	600
Rental Car Shuttle Service Contract Administration	To determine if the Rental Car Shuttle Service contract with SP+ is administered appropriately.	500
Contractor Monitoring	To determine if the contract with AECOM is administered appropriately.	450
Contractor Monitoring	To determine if the contract with Turner is administered appropriately.	300
Tenant Lease Admin. and Management	To determine if the concession revenue and Customer Facilities Charges received from Nevada Lease and Rental Inc. dba Payless Car Rental System are in accordance with the agreement.	400
Advertising	To determine if the marketing program for concessions is administered appropriately.	425
Tenant Lease Administration and Management	To determine if rental car companies, not located in the Rental Car Facility (RCC), are remitting amounts due in accordance with the agreements and are administered	450

[1] Audit Activity has been carried forward from Fiscal Year 2019.

Key Work Activity	Objective	Revised Hours
	appropriately.	
Change Orders	To determine if the Change Order Process in Airport Design and Construction aligns with best practices or Authority needs.	450
Terminal Maintenance & Airport and Tenant Service Requests	To determine if Facilities Management accurately and appropriately monitors time and expense tracking.	475
Tenant Lease Admin. and Management	To determine if contract terms for concession contracts managed by Revenue Generation & Business Development aligns with best practices and/or Authority needs.	500
Parking Management Contract Administration	To determine if the amounts paid by the Authority for the shuttle and parking contracts administered by Ace are in accordance with the agreements.	500
Business and Real Estate Agreements	To determine if the RCC land lease is administered appropriately.	375
To Be Determined	To initiate audit(s) based on risks identified at the discretion of the Chief Auditor	350
	Total Audit Hours	**8,580**
General Audit Hours		
Risk Assessment and Audit Plan[2]	To conduct a Risk Assessment that will identify the high risk activities to be considered when preparing the annual Audit Plan.	240
Construction Meeting Attendance	Attend various construction meetings, incorporate knowledge into ongoing risk assessments, and initiate audits if needed.	100
Information Technology Meeting Attendance	Attend various Information Technology meetings, incorporate knowledge into ongoing risk assessments, and initiate audits if needed.	180
Development of Data Analytics	To determine the feasibility of developing a data analytics program for Rental Car Concessions.	120
Ethics Program[3]	To review ethics policies, provide training, and investigate reported incidents.	200
Recommendation Follow-up[2]	To verify that internal and external audit recommendations have been implemented as intended.	95
Quality Assurance & Improvement Program[2]	To assess conformance with the *Standards,* whether internal auditors apply the Code of Ethics, and allow for the identification of improvement opportunities.	200
	Total General Audit Hours	**1,135**
Administrative Hours		
Administrative	Attendance at Staff/Board/Committee meetings, vacation, holiday time, Continuing Professional Education, and other.	4,205
	Total Hours	**13,920**

[2] Required activity in the Charter for the Office of the Chief Auditor.
[3] Required activity in the Charter of the Audit Committee.

ITEM 9

Revision to the Fiscal Year 2020 Audit Plan of the Office of the Chief Auditor

Audit Committee Meeting
November 4, 2019

Reasons for Revision

+ 962 hours	Additional hours needed to finish the Fiscal Year 2019 Audit Plan
(235) hours	Reduce hours on 2 audit activities based on the level of effort needed
(727) hours	Remove 3 audit activities due to decreased value of performing the engagement

SAN DIEGO INTERNATIONAL AIRPORT. LET'S GO.

Additional Hours to Finish FY 2019 Audit Plan

962 hours

Additional hours needed to finish the Fiscal Year 2019 Audit Plan

Title	Original Hours	Aditional Hours to Finish FY19 Audit Plan	Revised Hours
Owner Controlled Insurance Program (OCIP) Management	200	100	300
Other Post Employment Benefits (OPEB)	200	-	200
IT Asset Acquisition	245	75	320
Art Program	-	277	277
Capital Maintenance Project Selection and Planning	-	110	110
Transportation Network Company Reviews and Assistance	-	120	120
Small Business Development Management	-	130	130
Automated License Plate Reader (ALPR) System	-	100	100
Leigh Fisher & Associates	-	50	50
Total	**645**	**962**	**1,607**

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Reduce Audits Hours on 2 Audit Activities

(235) hours

Reduce Hours on 2 Audit Activities based on the level of effort needed

Name	Hours
Account Provisioning and De-Provisioning	(125)
Ethics Hotline	(110)
Total	**(235)**

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Removal of 3 Audits

(727) hours

Remove 3 audit activities due to decreased value of performing the engagement

Name	Hours
Other Post Employment Benefits (OPEB)	(200)
Art Program	(277)
Project Closeout - Parking Plaza	(250)
Total	**(727)**

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QUESTIONS?

SAN DIEGO INTERNATIONAL AIRPORT.
LET'S GO.

SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY

Item No.
10

AUDIT COMMITTEE

Meeting Date: **NOVEMBER 4, 2019**

Subject:

Fiscal Year 2020 First Quarter Report from the Office of the Chief Auditor

Recommendation:

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

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 2020 First Quarter Report (Attachment A) is submitted to the Audit Committee. The report provides an account of activities accomplished by the Office of the Chief Auditor during July 1, 2019, through September 30, 2019, and details the status on recommendations still pending implementation.

Fiscal Impact:

None

Authority Strategies/Focus Areas:

This item supports one or more of the following *(select at least one under each area)*:

Strategies

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

Focus Areas

☐ Advance the Airport Development Plan ☐ Transform the Customer Journey ☒ Optimize Ongoing Business

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

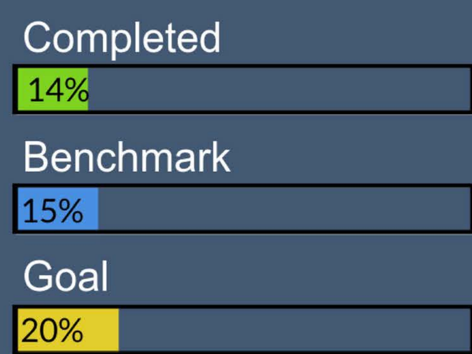
Office of the Chief Auditor
Fiscal Year 2020 First Quarter Report

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

ATTACHMENT A

First Quarter Audit Progress

Audits Completed vs. Benchmark & Goal



First Quarter - By the Numbers

7	Recommendations Issued
$35,174	Revenue / Savings Identified
5.0	Customer Satisfaction Rating (Out of 5)
67%	Audits Completed within Budget
69%	Auditor Utilization Percentage
100%	Recommendations Accepted by Management

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Office of the Chief Auditor
Fiscal Year 2020 First Quarter Report

Issue Date: October 25, 2019

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

First Quarter Summary

The Fiscal Year 2020 Audit Plan identified 22 audits, seven (7) general audit activities, and administrative activities to be completed (See Appendix A). The Office of the Chief Auditor (OCA) tracks its progress relative to the Audit Plan and several key performance measures to gauge the success of the office.

Performance Measures

For Fiscal Year 2020 seven (7) major performance measures were developed to evaluate the OCA.[1] The OCAs performance against the selected performance measures is displayed in Figure 1 below.

Figure 1: Status of Performance Measures as of September 30, 2019

Performance Measure	Goal	Actual	Benchmark
Percentage of Audits Completed	20%	14%	15%
Number of Recommendations	6	7	6
Revenue/Cost Savings Identified	$158,195	$35,174	$146,690
Percentage of Staff Time Spent on Audit Activities	70%	69% / 73% including/ excluding Chief Auditor	70%
Percentage of Audits Completed within Budget	80%	67%	75%
Percentage of Recommendations Accepted	95%	100%	83%
Auditee Satisfaction Rating	4.0	5.0	4.0

Each performance measure is detailed below along with supplemented explanation.

Percentage of Audits Completed:

As of the first quarter, the OCA completed, and issued, three (3) audit reports or 14% of the audits included in the Audit Plan (3/22=14%). In addition to the three (3) audits completed, the OCA had seven (7) audits in progress as of the end of the first quarter. A summary of the completed audits is provided in the *Audits* section below.

An alternative way to calculate the OCAs progress is to account for the audit hours spent on the seven (7) audits in progress, but not yet completed. This method uses the total hours expended on audit work to date and the total audit hours expected to complete all audits in the Fiscal Year 2020 Audit Plan. The calculation results in a completion percentage of 21% through September 30, 2019. Specifically, the OCA expended 1,753 hours through September 30, 2019, conducting audit work, and estimates 8,292 total audit hours will be needed to complete all Fiscal Year 2020 audits (1,753/8,292=21%).

The status of all audits in the Fiscal Year 2020 Audit Plan is included in Appendix A.

Number of Recommendations:

One of the OCAs primary objectives is to identify risks that could pose a threat to the Authority. To date the OCA provided seven (7) recommendations to management to remediate a risk identified.

[1] The OCA tracks additional performance measures that are not shown above. Their results are compiled and shared with the Audit Committee annually.

Revenue/Cost Savings Identified:
While the value of an audit cannot be adequately assessed by this performance measure it does provide quantifiable values for completed audit activities. In the first quarter of Fiscal Year 2020 the OCA identified $35,174 in cost savings/additional revenues as detailed in Appendix A.

Percentage of Staff Time Spent on Audit Activities:
This measure helps ensure that the OCA spends an adequate amount of time on audit activities[2] rather than administrative activities. The OCAs goal for Fiscal Year 2020 is 70%. The OCA actually spent 69% of time on audit activities, which includes the Chief Auditor's time (73% excluding the Chief Auditor's time).

Percentage of Audits Completed within Budget:
This category monitors the efficiency of audit staff in performing audits. Every audit has an internally prepared budget that the audit staff is held accountable to uphold. However, we recognize that budgets may need adjustment(s) as additional facts become known during an audit. In Fiscal Year 2020, the OCA completed 2 out of 3 audits under budget, or 67%. The one (1) audit completed over budget was slightly over the allotted time by 13 hours. While over budget, this is considered by the OCA to be an acceptable minor amount due to the complexity of the audit.

Percentage of Recommendations Accepted:
This category helps to evaluate the quality of the findings and recommendations issued by the OCA. Additionally, it helps hold the OCA accountable for the quality of the recommendations provided to management. As of the end of the first quarter, management accepted 100% of all audit recommendations.

Auditee Satisfaction Rating:
Post audit surveys are sent to auditees after the completion of an audit to obtain customer satisfaction data. The OCAs goal for auditee 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.

[2] Audit activity time consists of hours spent on Audit Reports and General Audit Activities. See Appendix A for detailed information of all planned Audit Reports and General Audit Activities.

Audits

Issued

During the first quarter, the Office of the Chief Auditor (OCA) issued a total of three (3) audit reports, as described below.

Capital Improvement Program (CIP) Evaluation and Selection: This audit examined the Authority's capital and maintenance project selection and planning process to determine if the procedures used to accept or reject proposed projects are followed. The audit concluded that the Authority has developed a process for evaluating and approving or rejecting proposed construction projects, and that the process to accept or reject proposed CIP projects is functioning properly. No findings were identified and, therefore, no recommendations were provided. The OCA did provide one observation.

Automated License Plate Recognition (ALPR) System – Ace Parking: The objective of this audit was to evaluate the privacy and personal information security procedures and practices related to the ALPR system to determine if they comply with California regulations. Additionally, the audit evaluated the ALPR environment to determine if best practices have been implemented for access and security. The audit concluded that both the Authority and Ace have written policies to ensure compliance with the requirements in the California Civil Codes that address ALPR-obtained data, and both entities actively strive for compliance to, and generally comply with, the requirements. However, the audit identified five recommendations directed to improve monitoring security protocols, training, retention policy information, limiting access to data, and information in the incident response plan.

LeighFisher, Inc.: The objective of this audit was to determine if LeighFisher, Inc. (LeighFisher) complied with applicable Authority policies throughout the audit period. Additionally, the audit evaluated the effectiveness of the Planning & Environmental Affairs Department's (Planning) internal controls and processes over contract monitoring, compliance, and expenditures. The audit determined that both Planning and LeighFisher complied with applicable Authority policies and procedures throughout the audit period. However, we determined that LeighFisher was improperly billing the Authority for activities related to invoicing, in violation of the Agreement. The audit also determined that Planning established adequate internal controls to properly monitor LeighFisher and safeguard Authority funds. The audit provided two recommendations.

In Progress

At the close of the first quarter there were a total of seven (7) audits in progress, representing 32% of the audits on the Fiscal Year 2020 Audit Plan. Of those, one (1) audit was in the reporting/review stage and six (6) were in the fieldwork stage or the preliminary survey stage.

See Appendix A for a complete detailed list of our Fiscal Year 2020 Audit Plan progress.

General Audit Activities

In addition to performing audits, the OCA is involved in other audit activities that will not result in a formal audit report/opinion being issued. The OCA is either required[3] to perform these activities or believes completion of these activities to be in the best interest of the Authority. A summary of the *General Audit Activities* is presented below:

Risk Assessment & Audit Plan

The Risk Assessment & Audit Plan is presented in May of each year to the Audit Committee and includes the proposed Audit Plan for the coming fiscal year. It is the result of data gathering, management discussions, surveys, and data analysis. Information gathering occurs throughout the year; however, the majority of the hours executing this activity take place January through May.

Construction Meeting Attendance

Construction audit activity for the first quarter of Fiscal Year 2020 consisted of attending meetings and reading contract documents regarding the Federal Inspection Service project, the airport support facilities, the Airport Development Program, and other airport construction projects. The OCA 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.

Information Technology Meeting Attendance

Information technology activity for the first quarter of Fiscal Year 2020 consisted of attending meetings, reading contract documents, and providing updates when appropriate, regarding information technology risk assessments and the National Institute of Standards and Technology (NIST) cybersecurity framework.

Development of Data Analytics

The OCA is determining the feasibility of developing a data analytics program for rental car concessions. If successful, the data analytics program would provide real-time insightful information regarding rental car companies operating at the San Diego International Airport. The OCA would utilize this information to identify possible risks, and to determine if an audit should be initiated. This would reduce staff hours spent on non-value-added audits. Additionally, data analytic information could be shared with Authority Management for their reference and use.

During the first quarter, the OCA collaborated with the Revenue Generation & Partnership Development Department, Information & Technology Services, Data Analytics team, and other Authority staff to determine the feasibility of the program. These meeting have provided valuable insight and we are optimistic about the success of a data analytics program for rental car concessions.

Ethics Program

The OCA continues to run the Authority's Ethics Program and confidential reporting hotline. During the first quarter of Fiscal Year 2020, eleven (11) reports were received, none of which were a potential code violation. Tips/reports that are not investigated by the OCA, such as workplace concerns, are forwarded to management, as appropriate. A summary of the tip(s)/report(s) received during the first quarter of Fiscal Year 2020 is shown in Figure 2 below.

[3] Requirements are dictated by the Office of the Chief Auditor Charter, Charter for the Audit Committee, or the International Standards for the Professional Practice of Internal Auditing (*Standards*).

Figure 2: Ethics Hotline

	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)
Non Ethics Related Concerns					
TSA Practices and Behavior	1	0	0	n/a	1
General Workplace Concerns					
Workplace Equitability	1	0	0	n/a	0
Workplace Practices/Behavior	9	0	0	n/a	0

Number of Tips / Reports Received: The total number of tips or reports received through the confidential 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.

Full Investigation Initiated: Following a preliminary investigation, we 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 responses back to the original non-anonymous tipper/reporter.

Recommendation Follow-up

The OCA tracks the status of its recommendations on an on-going basis in order to determine the progress of their implementation. Appendix B contains a detailed list of each recommendation and its status as of September 30, 2019. Figure 3 below shows the status of recommendations that were *Completed* or *In Progress* during the first quarter of Fiscal Year 2020. The estimated/actual implementation timeframes are based on the audit report issue date.

Figure 3: Recommendations with Estimated/Actual Implementation Timeframe

Recommendations	Zero to 7 Months	7 Months to 1 Year	Over 1 Year	Total
Completed	11	3	-	14
In Progress	5	3	-	8

Completed: This designation is used for recommendations that the OCA determined to be adequately implemented or for recommendations where alternate action is taken that adequatley addresses the risk identified. Of the completed recommendations, nine (9) or 64% were completed within the initial timeframe identified when the recommendations were issued.

In Progress: These recommendations have been partially addresed or partial corrective action has been taken. This category also includes recommendations from newly issued audit reports, when there has not been adequate time between report issuance and follow-up.

The non-completion of the In Progress recommendations should not have a material adverse effect on the Authority, and adequate progress is being made with all of the tracked recommendations.

Quality Assurance & Improvement Program

The International Standards for the Professional Practice of Internal Auditing (*Standards*) require the OCA to maintain a Quality Assurance and Improvement Program that includes internal (self) assessments, on-going monitoring, and external assessments. During the first quarter of Fiscal Year 2020, the OCA completed on-going monitoring of its audit activities and operations performed during Fiscal Year 2019. The objective of ongoing monitoring is to provide assurance that the processes in place are working effectively to ensure that quality is derived on an audit-by-audit basis. The results are presented in the Fiscal Year 2019 OCA Annual Report.

Administrative Activities

Tracking Budget and Expenses

The OCA expenses totaled $287,627 through the end of the first quarter, which represents 23% of the Fiscal Year 2020 budget. No unexpected or large outlays occurred within the department during the quarter, and we expect to remain on budget through the fiscal year end.

Continuing Professional Development

Staff continues to obtain Continuing Professional Education credits as required by their various certifications. During the first quarter, staff attended training on topics that included fraud prevention and ethics, privacy, data performance, risk, and machine intelligence.

Procedural/Supervisory

One Audit Committee Meeting was originally scheduled for September 9, 2019. This meeting was rescheduled, and then subsequently cancelled due to a lack of a quorum. The agenda items and materials prepared for the September Audit Committee Meeting will be on the November 4, 2019, Audit Committee Meeting agenda.

During the first quarter, two Audit Interns, James “Kip” Eischen and Mario Massoud, came on board. The interns have been trained and are being mentored. As of the end of the first quarter, the OCA was fully staffed.

Appendix A - Fiscal Year 2020 Audit Plan Progress

#	Audit / Activity	Status as of 9/30/19	Over/ Under Budget	No. of Recom.	Revenue / Cost Savings Identified
Audits					
1	Owner Controlled Insurance Program (OCIP) Management	Not Started			
2	IT Asset Acquisition & Implementation	In Progress			
3	Capital and Maintenance Project Selection and Planning	Completed	Under	-	-
4	Transportation Network Company (TNC) Reviews and Assistance	In Progress			
5	Small Business Development Management	In Progress			
6	Automated License Plate Reader (ALPR) System – Ace Parking	Completed	Over	5	-
7	Leigh Fisher & Associates	Completed	Under	2	$35,174
8	Tenant Lease Admin. and Management – Revenue Generation & Partnership Development Contract and Agreement Requirements	In Progress			
9	Harbor Police Contract Management	Not Started			
10	Account Provisioning and De-Provisioning	Not Started			
11	Formal Bidding and Contracting	Not Started			
12	Rental Car Shuttle Service Contract Administration	In Progress			
13	Contractor Monitoring - AECOM	In Progress			
14	Contractor Monitoring - Turner	Not Started			
15	Tenant Lease Admin. and Management – Nevada Lease and Rental	Not Started			
16	Advertising- Concessions	Not Started			
17	Tenant Lease Administration and Management – Non Rental Car Facility	Not Started			
18	Change Orders	Not Started			
19	Terminal Maintenance & Airport and Tenant Service Requests	In Progress			
20	Tenant Lease Admin. and Management – Best Practices for Contract Terms Managed by Revenue Generation & Partnership Development	Not Started			
21	Parking Management Contract Admin–Ace Parking	Not Started			
22	Business and Real Estate Agreements – Rental Car Facility Land Lease	Not Started			
	Totals			**7**	**$35,174**
General Audit Activities					
23	Risk Assessment & Audit Plan	In Progress			
24	Construction Meeting Attendance	In Progress			
25	Information Technology Meeting Attendance	In Progress			
26	Development of Data Analytics	In Progress			
27	Ethics Hotline	In Progress			
28	Recommendation Follow-up	In Progress			
29	Quality Assurance & Improvement Program	In Progress			
Administrative Activities					
30	Attendance at Staff/Board/Committee Meetings, Vacation, Holiday Time, Continuing Professional Development, and Other.	In Progress			

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Initial Estimated Completion Date	Status as of September 30, 2019
Completed					
20-01	Audit Report 19023 Issued: August 22, 2019 Title: Automated License Plate Recognition (ALPR) System - Ace Parking Department: INFORMATION & TECHNOLOGY SERVICES	High	Information & Technology Services (I&TS) should continue to monitor data provided by the three (3) security "agents" on all servers associated with parking operations and work with Sentry to ensure that all detected issues and vulnerabilities are immediately corrected.	8/14/2019	I&TS has completed the installation of three (3) main agents: a vulnerability scanning tool, a performance monitoring tool, and a log event manager that, when combined, provides robust reporting to the Authority concerning the servers and any changes in or threats to the data collected. The agents were installed on 13 servers as the 14th server was not needed and decommissioned
19-07	Audit Report 18017 Issued: Dec. 14, 2018 Title: Nevada Lease and Rentals, Inc. dba Payless Car Rental System Department: REVENUE MANAGEMENT	Medium	The Revenue Management Department should request that the Accounting Department issue an invoice to Nevada in the amount of $78,063 for the net underpayment of concession fees.	5/31/2019	Nevada paid all outstanding amounts owed.
19-15	Audit Report 18038 Issued: Feb. 26, 2019 Title: San Diego Unified Port District Harbor Police Billings - FY2017 Department: AVIATION SECURITY AND PUBLIC SAFETY (AVSEC) and ACCOUNTING DEPARTMENT	Medium	We recommend that AVSEC and the Accounting Department require the Port to provide detailed supporting documents pertaining to all direct and indirect costs associated to the Airport and to create and maintain a tracking mechanism for HPD costs billed to the Authority, to ensure that all expenses billed are in compliance with the agreements and are related to HPD services provided to the Airport.	6/30/2019	HPD currently provides detailed supporting documentation regarding hours billed. The role of AVSEC/PS is determine, to its satisfaction, that the operational requirements of the Service Level Agreement (SLA) are met; and that should there be a question of hours worked, the Department has the ability to verify that information. That real-time verification process has been implemented for use, as necessary.

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Initial Estimated Completion Date	Status as of September 30, 2019
Completed					
19-21	Audit Report 18010R Issued: March 11, 2019 Title: Ace Parking Management, Inc. - Expenditures for Parking Management and Airport Shuttle Services Agreements, and Ground Transportation's Administration of the Parking Card Program Department: GROUND TRANSPORTATION (GT)	Medium	We recommend that GT review Authority Policy 9.30 that governs the Parking Card Program and create a department management process that complies with the administration requirements of the Policy. In addition, Authority Management should also review the Policy; specifically, the requirements and eligibility for stakeholders to obtain a Courtesy Card. Management's policy review should consider: a) that the Authority does not have the mechanism to distinguish between official business or personal travel and that individuals travelling on official business are able to be reimbursed for parking expenses through their organization, and b) the annual cost of the Courtesy Cards.	4/30/2019	GT has reviewed Authority Policy 9.30. GT has developed a formal, documented SOP and standardized forms for parking card issuance. GT has developed an SOP to ensure 1) semi-annual review of all parking cards issued, and 2) de-activation of all unauthorized parking cards. GT has developed an additional SOP addressing the audit considerations that - 1) all cards are reviewed on a semi-annual basis, 2) cards are cards remain valid for one year, 3) any newly invalid cards are deactivated immediately. The SOP includes the checklist for submission of all forms, Policy 9.30 language, and process definitions.
19-24	Audit Report 18002 Issued: March 8, 2019 Title: Concession Cost Recovery Program Department: REVENUE GENERATION & MANAGEMENT (RGM)	Medium	RGM should conduct annual reconciliations of each cost center to ensure that all cost recovery expenses under the Cost Recovery Program are recovered. As part of that reconciliation, RGM should develop and document a formal evaluation process to identify new or changing expenses.	10/31/2019	Effective July 1, 2019, tenants were charged for trash disposal, actual FMD charges for CAM and CAM materials as received.

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Initial Estimated Completion Date	Status as of September 30, 2019
Completed					
19-30	Audit Report 19015 Issued: June 25, 2019 Title: Fox Rent A Car, Inc. Department: REVENUE GENERATION AND PARTNERSHIP DEVELOPMENT (RGPD)	Medium	RGPD should request that the Accounting Department issue a credit to Fox in the amount of $22,386 for the overpayment of concession fees.	7/12/2019	RGPD requested the Account Department issue a credit.
19-31	Audit Report 19015 Issued: June 25, 2019 Title: Fox Rent A Car, Inc. Department: REVENUE GENERATION AND PARTNERSHIP DEVELOPMENT (RGPD)	Medium	RGPD should request that the Accounting Department issue an invoice to Fox in the amount of $36,022 for the underpayment of CFCs during the audit period.	7/12/2019	An agreement was reached between Fox and the Authority.
19-32	Audit Report 19015 Issued: June 25, 2019 Title: Fox Rent A Car, Inc. Department: REVENUE GENERATION AND PARTNERSHIP DEVELOPMENT (RGPD)	Medium	RGPD should consider charging Fox interest, and charging for the full cost of conducting the audit, in the amounts of $5,391, and $38,989, respectively.	7/12/2019	An agreement was reached between Fox and the Authority.

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Initial Estimated Completion Date	Status as of September 30, 2019
Completed					
19-33	Audit Report 19017 Issued: June 27, 2019 Title: Ace Parking Management Department: GROUND TRANSPORTATION	Medium	The Ground Transportation Department should demand repayment of the Note and the interest due. Should Ground Transportation determine that Ace should have a change fund for parking operations, Ground Transportation should determine a new amount that is appropriate and warranted for the change fund and issue a promissory note.	8/31/2019	On June 27th, 2019, Ground Transportation Management responded to Audits recommendation of handling an outstanding promissory note. The note was for $50,000, at an interest rate of 0% to fund the daily cash needs of the Authority's parking operations currently operated by Ace Parking. Per Ground Transportations Management's response to the audit, the following actions have been taken. Ground Transportation Staff have evaluated and negotiated the responsibility of funding operations to be the responsibility of Ace Parking and Ace Parking to immediately pay off the note of $50,000. On August 22, 2019, the Authority received a check from Ace Parking for $50,000 as repayment of the note. Ground Transportation Staff considers this recommendation completed as specified by Management's response attached to audit report and has implemented before the estimated time of August 31, 2019.
19-34	Audit Report 19014 Issued: June 28, 2019 Title: Avis Budget Car Rental, LLC Department: REVENUE GENERATION AND PARTNERSHIP DEVELOPMENT (RGPD)	Medium	RGPD should request that the Accounting Department issue a credit to Avis in the amount of $25,889 for the overpayment of concession fees.	7/31/2019	RGPD requested the Account Department issue a credit.

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Initial Estimated Completion Date	Status as of September 30, 2019
Completed					
19-35	Audit Report 19014 Issued: June 28, 2019 Title: Avis Budget Car Rental, LLC Department: REVENUE GENERATION AND PARTNERSHIP DEVELOPMENT (RGPD)	Medium	RGPD should request that the Accounting Department issue an invoice to Avis in the amount of $39,076 for the underpayment of CFCs during the audit period.	7/31/2019	An agreement was reached between Avis and the Authority.
20-05	Audit Report 19023 Issued: August 22, 2019 Title: Automated License Plate Recognition (ALPR) System - Ace Parking Department: INFORMATION & TECHNOLOGY SERVICES	Medium	Ace's Incident Response Plan should contain information specific to managing the release of ALPR-collected data consistent with the requirements contained in the California Civil Codes. Additionally, Ace's Incident Response Plan should contain a requirement to notify the Authority if ALPR data was accidentally/erroneously released.	9/30/2019	I&TS has added the ALPR Civil Code 1798.29 data breech requirements to the I&TS Cybersecurity Incident Response Plan. The plan is reviewed annually and tabletop exercises conducted with I&TS staff.
19-09	Audit Report 18017 Issued: Dec. 14, 2018 Title: Nevada Lease and Rentals, Inc. dba Payless Car Rental System Department: REVENUE MANAGEMENT	Low	The Revenue Management Department should request that the Accounting Department issue an invoice to Nevada in the amount of $32,371 for the underpayment of CFCs during the audit period.	5/31/2019	Nevada paid all outstanding amounts owed.

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Initial Estimated Completion Date	Status as of September 30, 2019
Completed					
19-29	Audit Report 19010 Issued: May 7, 2019 Title: Ricondo & Associates Department: AIRPORT PLANNING DEPARTMENT	Low	The Airport Planning Department should strengthen internal controls over its contract management process to address the issues with invoice review and contract administration.	6/30/2019	In addition to overall department proactivity described in the June 30, 2019 status, Planning & Environmental Affairs worked this quarter to develop and document internal best practices, including a rollout of guidance materials to both our internal staff, and consultant partners. Invoice reviewers participated in mandatory contracts management and invoice review best practices training, received detailed role-specific expectations for the invoice review process, and received laminated best practices prompts for desk reference. A guide was distributed to P&E consultants, intended to demystify invoicing requirements as well as to establish clear expectations and standards for future invoices.

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Initial Estimated Completion Date	Revised / Current Estimated Completion Date	Status as of September 30, 2019
In Progress						
19-16	Audit Report 18038 Issued: Feb. 26, 2019 Title: San Diego Unified Port District Harbor Police Billings - FY2017 Department: AVIATION SECURITY AND PUBLIC SAFETY (AVSEC)	Medium	We recommend that Authority Management, together with the Port, review and decide on the criteria and process of the classification of Workers' Compensation claims by considering the location, type of loss, and the labor hours the employee worked. In addition, Authority Management should request the Port to provide the Authority with a list of claims that include their pertinent information and their corresponding classification, as soon as the claims are reported by HPD Officers/staff, for the Authority to have a better understanding of the nature of the claims and how they should be classified.	6/30/2019	12/31/2019	Risk Management is currently working with the Port to develop a process for classifying Workers' Comp claims
19-19	Audit Report 18010R Issued: March 11, 2019 Title: Ace Parking Management, Inc. - Expenditures for Parking Management and Airport Shuttle Services Agreements, and Ground Transportation's Administration of the Parking Card Program Department: GROUND TRANSPORTATION (GT)	Medium	We recommended that GT consider reviewing the expenses submitted by Ace for reimbursement during the audit period January 1, 2016, to December 31, 2017, in order to verify that all expenses submitted for reimbursement are allowable per the agreements and have the appropriate supporting documentation. GT should consider the level of effort, cost of the review, and the monetary value of any potential disallowed expenses. GT should request Ace to refund any disallowed expenses as a result of the review.	6/30/2019	12/31/2019	GT is currently evaluating other options for a review of the Ace expenses submitted. Options being considered are 1) an external auditor review, 2) the hiring of a temporary auditor to help to examine the last two years of invoices. GT will provide cost estimates for each to Finance and determine a cost/benefit for the exercise. Expected completion has been pushed back to December 31, 2019. GT will keep the Audit team apprised as we move forward.

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Initial Estimated Completion Date	Revised / Current Estimated Completion Date	Status as of September 30, 2019
In Progress						
19-27	Audit Report 19019 Issued: March 27, 2019 Title: NewZoom, Inc. dba ZoomSystems Department: REVENUE GENERATION & BUSINESS DEVELOPMENT	Medium	Internal controls over the monitoring of the requirements of the Lease agreement needs to be strengthened, and the penalties for failure to follow the requirements of the Lease should be assessed to ensure continued compliance by the concessionaire.	6/30/2019	10/31/2019	Both missing Annual Reports have been received as of 8/14/19. Requested confirmation on 8/26 whether or not Midterm Refurbishment Capex info can be provided; Dept. has discussed previously waiving this requirement due to the non-applicability of requirements for this type of operation. Will follow up with alternate contact on tenant side.
20-02	Audit Report 19023 Issued: August 22, 2019 Title: Automated License Plate Recognition (ALPR) System - Ace Parking Department: GROUND TRANSPORTATION	Medium	Annual ALPR specific training should be provided to all staff with access to the ALPR information. Evidence of this training should be maintained.	10/31/2019	12/31/2019	Ace already provides periodic ALPR training to its employees with access to ALPR data. Ace maintains records of this training. Ace has performed a review of any Ace employees with access to ALPR. All Ace employees with access to ALPR have attended training and Ace has documented the training completion. Any Ace employees who have not received ALPR training have had there access to ALPR data revoked. Ace will provide training to any Authority personnel with access to ALPR data. GT will attend the ACE ALPR training and sign the training roster. Authority personnel will attend the next regularly scheduled Ace provided ALPR training. Records of all Authority personnel trained will be provided to the Authority by Ace and saved in ECMS. Any Authority personnel who have not received the ALPR training will have their access to ALPR data revoked. Ace and the Authority will each review users with ALPR database access and training records in June and December each year, to ensure that ONLY users who have received training will have access to ALPR data. Both Ace and the Authority will continue to provide training semi-annually, as well as to any new users requiring access to ALPR data. GT will develop a formal, documented SOP to ensure compliance with both Ace and Authority ALPR Policy requirements.

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Initial Estimated Completion Date	Revised / Current Estimated Completion Date	Status as of September 30, 2019
In Progress						
20-03	Audit Report 19023 Issued: August 22, 2019 Title: Automated License Plate Recognition (ALPR) System - Ace Parking Department: GROUND TRANSPORTATION	Medium	ALPR data should be retained for the length of time indicated on the Authority's Data Retention Schedule.	10/31/2019	12/31/2019	Retention of ALPR data on a 2 year schedule at this time is not feasible given current Skidata software configuration and server capacity requirements. Additionally, there is no operational need to store ALPR data for more than 6 months. GT is examining two options - 1) adjusting the Authority policy on retention of ALPR data down to 6 months; or 2) re-configuring the current software configuration and server capacity to store ALPR for the 2 year period. Option 1 is the preferred option due to cost and capacity constraints, and operational need. GT will develop a formal, documented SOP to ensure compliance with both Ace and Authority ALPR Policy requirements.

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Initial Estimated Completion Date	Revised / Current Estimated Completion Date	Status as of September 30, 2019
In Progress						
20-04	Audit Report 19023 Issued: August 22, 2019 Title: Automated License Plate Recognition (ALPR) System - Ace Parking Department: GROUND TRANSPORTATION	Medium	Management should review on a periodic basis the list of users with access to ALPR data to determine if the listing is correct, and to ensure that all staff with access meet the requirements of either Authority or Ace policy, depending on the individual user. Additionally, thus review of approved users should contain analysis to determine if they have utilized the system and if heir access is still needed. Furthermore, having an accurate list of users will help ensure that all users will receive the required training.	9/30/2019	12/31/2019	Ace is responsible for Ace employees with access to the ALPR database. The Ace administrator ensures that only users who require access to the database have active login credentials. An active list of users is maintained and verified against training records. Only those users who have been trained, and require access have active credentials. Sentry/Skidata automatically inactivates users who have not accessed the system within the past ninety days. The Ace administrator will review User Access Lists quarterly. Any users who no longer require access will be positively inactivated. Ace employees who no longer require access are inactivated and marked with a “Z” next to their names in the system - signifying their inactive status. Deleting users from the system deletes their history and is a violation of the record retention policy. The Authority Administrator is responsible for Authority employees with access to the ALPR database. The Authority administrator will ensure only users who require access to the database have active login credentials. An active list of users is retained and compared against training records. Only those users who have been trained, and require access have active credentials. Sentry/Skidata automatically inactivates users who have not accessed the system within the past ninety days. The Authority administrator will review User Access Lists quarterly. Any users who no longer require access will be positively inactivated. Authority employees who no longer require access are inactivated and marked with a “Z” next to their names in the system - signifying their inactive status. Deleting users from the system deletes their history and is a violation of the record retention policy. GT will develop a formal, documented SOP to ensure compliance with both Ace and Authority ALPR Policy requirements.

Rec. No.	Audit Report Description	Priority Rating	Recommendation	Initial Estimated Completion Date	Revised / Current Estimated Completion Date	Status as of September 30, 2019
In Progress						
20-06	Audit Report 18015 Issued: September 4, 2019 Title: LeighFisher, Inc. Department: PLANNING & ENVIRONMENTAL AFFAIRS	Medium	Planning & Environmental Affairs should request that the Accounting Department bill LeighFisher $35,174 for the reimbursed invoicing expenses.	9/30/2019	11/30/2019	Planning & Environmental Affairs requested that the Accounting Department bill LeighFisher $35,173.50 for the reimbursed impermissible expenses. An invoice was mailed to LeighFisher on September 30, 2019 with an accompanying demand letter drafted by P&E. LeighFisher was given a deadline of November 30, 2019 to pay the bill, and future statuses regarding their compliance will be communicated to the Office of the Chief Auditor as they become available.
20-07	Audit Report 18015 Issued: September 4, 2019 Title: LeighFisher, Inc. Department: PLANNING & ENVIRONMENTAL AFFAIRS	Medium	Planning & Environmental Affairs should require that LeighFisher provide detailed support for each of the charges that were for invoicing and another activity. Upon receipt of that support, Planning should evaluate and determine if the activities charged were allowed under the Agreement. If the charges are impermissible, Planning should request that the Accounting Department bill LeighFisher for those activities.	12/30/2019	11/30/2019	Planning & Environmental Affairs drafted a letter to LeighFisher requiring substantiation of potentially-impermissible reimbursements. The letter was mailed to LeighFisher on September 30, 2019 with a deadline of November 30, 2019 by which to provide detailed substantiation of $123,322.00 in payments previously made by the Authority for what appear to be time spent preparing, reviewing, and submitting invoices to the Authority along with other activities. Prior to December 30, 2019, Planning & Environmental will review information provided by LeighFisher with the Office of the Chief Auditor resulting in a potential future invoice for any items identified as impermissible based on our findings.

ITEM 10

SAN DIEGO INTERNATIONAL AIRPORT

LET'S GO.

Fiscal Year 2020
First Quarter Report
from the
Office of the Chief Auditor

July 1, 2019, through September 30, 2019

Audit Committee Meeting
November 4, 2019

Fiscal Year 2020 Performance Measures

Performance Measure	Goal	Progress	Benchmark
Percentage of Audits Completed	20%	14%	15%
Number of Recommendations	6	7	6
Revenue/Cost Savings Identified	$158,195	$35,174	$146,690
Percentage of Staff Time Spent on Audit Activities	70%	69% / 73% including /excluding Chief Auditor	70%
Percentage of Audits Completed within Budget	80%	67%	75%
Percentage of Recommendations Accepted	95%	100%	83%
Auditee Satisfaction Rating	4.0	5.0	4.0

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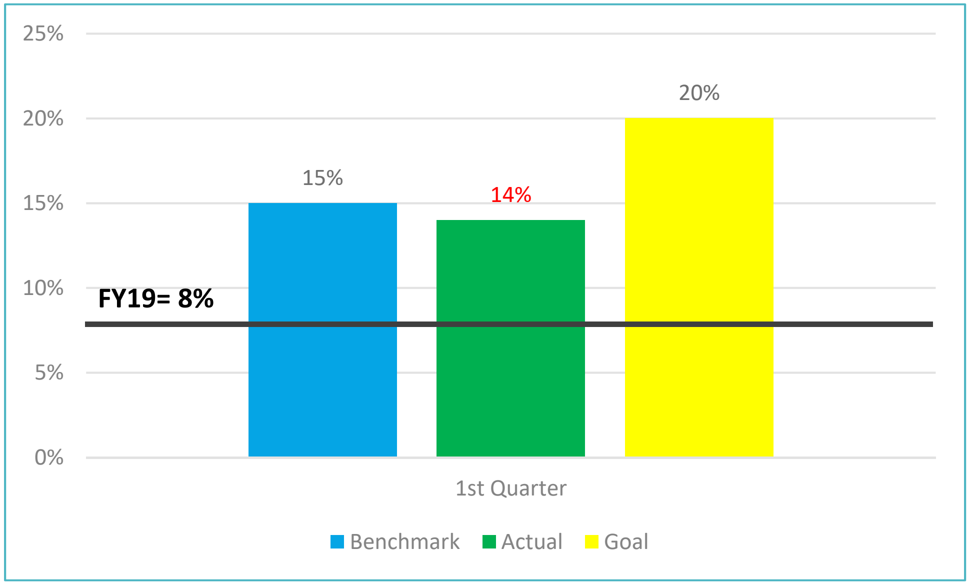
Percentage of Audits Completed

Performance Measure	Goal	Progress	Benchmark
Percentage of Audits Completed	20%	14%	15%



Audits Completed

Audit Reports: 14%

1st Quarter
Capital Improvement Program Project Evaluation and Selection
Automated License Plate Recognition (ALPR) System - Ace Parking
LeighFisher, Inc.

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Number of Recommendations

Performance Measure	Goal	Progress	Benchmark
Number of Recommendations	6	7	6

**** All Recommendations Accepted by Management ****

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Revenue/Cost Savings Identified

Performance Measure	Goal	Progress	Benchmark
Revenue/Cost Savings Identified	$169,400	$35,174	$157,080

Activity	Revenue Identified
LeighFisher, Inc.	$35,174
Total	**$35,174**

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Auditor Utilization

Performance Measure	Goal	Progress	Benchmark
Percentage of Staff Time Spent on Audit Activities	70%	69% / 73% including /excluding Chief Auditor	70%

Category	Hours		%	
	Including Chief	Excluding Chief	Including Chief	Excluding Chief
Audit Hours	1,776	1,673	55%	62%
General Audit Hours	442	297	14%	11%
G&A Time	1,019	739	31%	27%
Total	**3,327**	**2,709**	**100%**	**100%**

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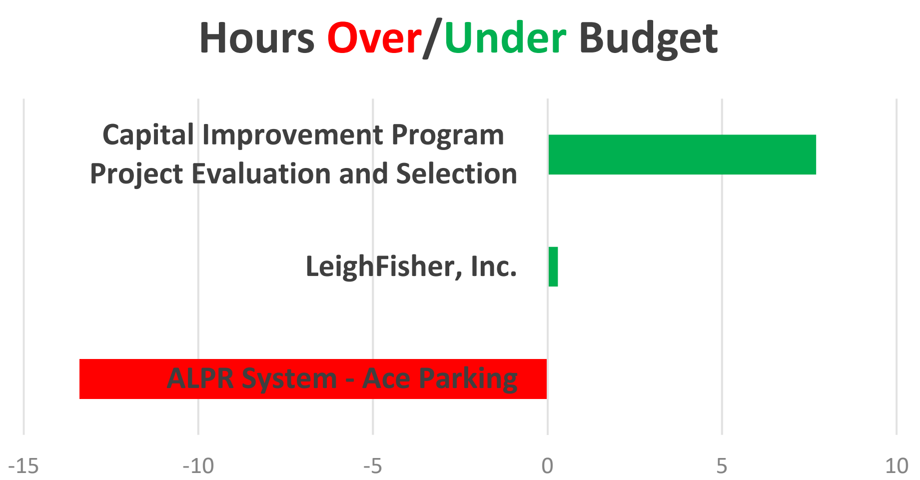
Audit Budgets

Performance Measure	Goal	Progress	Benchmark
Percentage of Audits Completed within Budgeted Time	80%	67%	75%



All Audits Completed within 20% of Budget

Auditee Satisfaction

Performance Measure	Goal	Progress	Benchmark
Auditee Satisfaction Rating	4.0	5.0	4.0

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General Audit Activities

Recommendation Follow up

Status as of September 30, 2019			
Completed	In Progress	Not Accepted	Tracked
14	8	0	22

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General Audit Activities

Ethics Program Summary - July 1, 2019, through September 30, 2019

	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)
Non Ethics Related Concerns					
TSA Practices and Behavior	1	0	0	n/a	1
General Workplace Concerns					
Workplace Equitability	1	0	0	n/a	0
Workplace Practices/Behavior	9	0	0	n/a	0

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QUESTIONS?

SAN DIEGO
INTERNATIONAL AIRPORT.
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