

Audit Committee and Special Board Meeting Agenda

Monday, November 13, 2023
10:00 A.M.

New Location

San Diego County Regional Airport Authority
Administration Building
First Floor – Board Room
2417 McCain Road
San Diego, California 92101

See map attached

Board Members

Gil Cabrera (Chair)
Mary Casillas Salas (Vice Chair)
Lidia S. Martinez
Paul McNamara
Rafael Perez
Esther C. Sanchez
James Sly
Marni von Wilpert

Ex-Officio Board Members

Col. Thomas Bedell
Gustavo Dallarda
Gayle Miller

President/CEO

Kimberly J. Becker

This Agenda contains a brief general description of each item to be considered. The indication of a recommended action does not indicate what action (if any) may be taken. If comments are made to the Committee 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.

Please note that agenda items may be taken out of order.

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.

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

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.**

Monday, November 13, 2023

CALL TO ORDER:

PLEDGE OF ALLEGIANCE:

ROLL CALL:

Committee Members: Casillas Salas, Huerta, Martinez, Newsom (Chair), Perez, Sanchez, Wong Nickerson

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 Board. 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 September 11, 2023, regular meeting.

2. **EXTERNAL AUDITORS FISCAL YEAR ENDED JUNE 30, 2023 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. **(Requires five (5) affirmative votes of the Audit Committee.)**

(Presented by: Elizabeth Stewart, Director, Accounting; Rachel Ormsby, Director & Lead Audit Engagement Executive, FORVIS)

3. **REVIEW OF THE ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR) FOR THE FISCAL YEAR ENDED JUNE 30, 2023:**

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

(Presented by: Elizabeth Stewart, Director, Accounting; Rachel Ormsby, Director & Lead Audit Engagement Executive, FORVIS)

Monday, November 13, 2023

- 4. FISCAL YEAR 2023 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; Shane Ellis, Senior Auditor)
- 5. FISCAL YEAR 2024 FIRST QUARTER 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.
(Presented by: Lee Parravano, Chief Auditor)
- 6. REVISION TO THE FISCAL YEAR 2024 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: Fred Bolger, Manager Audit Services)

CLOSED SESSION:

- 7. CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION:**
Initiation of litigation pursuant to paragraph (4) of subdivision (d) of Section 54956.9
Number of cases: 1

REPORT ON CLOSED SESSION:

COMMITTEE MEMBER COMMENTS:

ADJOURNMENT:

Monday, November 13, 2023

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 submit 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 submit 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.

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.

For those planning to attend the Commission meeting, parking is available in the Airport Administration Building Parking Lot (entrance on the east side of McCain Road). Visitors can park in the lot from 8:00 a.m. to 5:00 p.m.

You may also reach the SDCRAA Building by using public transit via the San Diego MTS System, Route 923. For route and fare information, please call the San Diego MTS at (619) 233-3004 or 511

Airport Authority Administration Building

2417 McCain Road, San Diego, CA 92101

Public Hours of Operation:

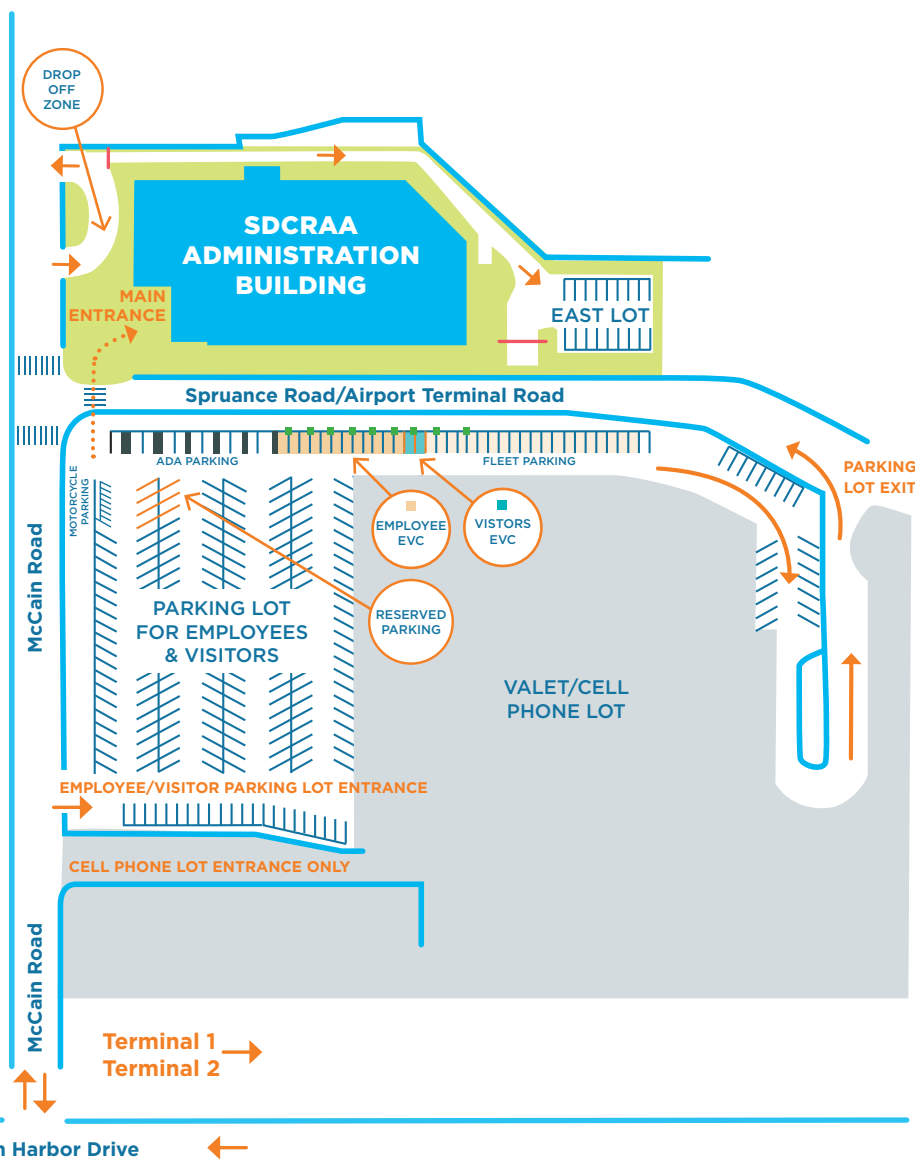
Monday - Friday, 8 a.m. - 5 p.m. | Closed Saturdays, Sundays, and Holidays

Parking

Parking is available in the Airport Administration Building Parking Lot (entrance is on the right-hand side of McCain Road). Visitors can park in the lot from 8 a.m. - 5 p.m. You do not need to pull a ticket to park. Park in any space except those marked for specific purposes. To exit, follow the arrows painted on the ground and proceed through the exit lanes that will lead you to Airport Terminal Road. There are limited EV charging stations available for visitors.

If you are being dropped off at the Administration Building, please utilize the drop-off zone. This area is not to be used for parking.

There is no on-street parking available. Please check for any posted parking restrictions/time limits.



Accessing the Building

Proceed north from the parking lot and use the crosswalk at Spruance Road/Airport Terminal Road to get to the main entrance. Visitors: check in at the reception desk by using the iPad check-in system and place the printed visitor badge on your clothing. The person you are meeting will be notified via email that you have arrived and will meet you in the lobby. If you're attending a Board Meeting or another public event/meeting, you do not need to use the iPad check-in system.

Draft
SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
AUDIT COMMITTEE MEETING
MINUTES
MONDAY, SEPTEMBER 11, 2023
BOARD ROOM

CALL TO ORDER: Chair Newsom called the Audit Committee Meeting to order at 10:00 a.m., on Monday, September 11, 2023, at the San Diego County Regional Airport Authority, Administration Building, 3225 North Harbor Drive, San Diego, CA 92101.

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

ROLL CALL:

Present: Committee Members: Martinez, Newsom (Chair), Perez, Sanchez

Absent: Committee Members: Casillas Salas, Huerta, Wong Nickerson

Also Present: Kimberly J. Becker, President/CEO; Lee Kaminetz, Director, General Counsel; Tony R. Russell, Director, Board Services/Authority Clerk; Patricia Willis, Assistant Authority Clerk I

NON-AGENDA PUBLIC COMMENT: None.

NEW BUSINESS:

1. APPROVAL OF MINUTES:

RECOMMENDATION: Approve the minutes of the May 8, 2023, special meeting.

ACTION: Moved by Board Member Sanchez and seconded by Board Member Martinez to approve staff's recommendation. Motion carried unanimously noting Board Member Casillas Salas, and Committee Members Huerta and Wong Nickerson as ABSENT.

2. FISCAL YEAR 2023 ANNUAL REPORT FROM THE AUDIT COMMITTEE:

Chair Newsom provided an overview of the Fiscal Year 2023 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.

ACTION: Moved by Board Member Sanchez and seconded by Board Member Martinez to approve staff's recommendation. Motion carried unanimously noting Board Member Casillas Salas, and Committee Members Huerta and Wong Nickerson as ABSENT.

3. FISCAL YEAR 2023 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.)

ACTION: The item was not heard and was continued to the November Committee meeting.

4. ANNUAL REVIEW OF THE CHARTER OF THE AUDIT COMMITTEE:

Fred Bolger, Manager, Audit Services, provided a presentation on the Annual Review of the Charter of the Audit Committee.

RECOMMENDATION: Information item only.

5. ANNUAL REVIEW OF THE CHARTER FOR THE OFFICE OF THE CHIEF AUDITOR:

Fred Bolger, Manager, Audit Services, provided a presentation on the Annual Review of the Charter for the Office of the Chief Auditor that included Removing an Obsolete Detailed Reporting Process from the Charter.

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

ACTION: Moved by Board Member Martinez and seconded by Board Member Sanchez to approve staff's recommendation. Motion carried unanimously noting Board Member Casillas Salas, and Committee Members Huerta and Wong Nickerson as ABSENT.

6. REVISION TO THE FISCAL YEAR 2024 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.)

ACTION: The item was not heard and was continued to the November Committee meeting.

7. SELECTION OF AN INDEPENDENT ASSESSOR TO PERFORM A QUALITY ASSESSMENT REVIEW OF THE OFFICE OF THE CHIEF AUDITOR

Lee Parravano, Chief Auditor, provided a presentation on the Selection of an Independent Assessor to Perform a Quality Assessment Review (QAR) of the Office of the Chief Auditor that included QAR Purpose; QAR Frequency & Form; ALGA Qualifications; and QAR Costs & Commitment.

RECOMMENDATION: Information item only.

REPORT ON CLOSED SESSION:

COMMITTEE MEMBER COMMENTS:

ADJOURNMENT: The meeting adjourned at 10:13 a.m.

APPROVED BY A MOTION OF THE AUDIT COMMITTEE OF THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY THIS 13th DAY OF NOVEMBER 2023.

LEE PARRAVANO
CHIEF AUDITOR

ATTEST:

TONY R. RUSSELL
DIRECTOR, BOARD SERVICES/
AUTHORITY CLERK

Audit Committee Report

Meeting Date: November 13, 2023

Subject:

External Auditors Fiscal Years Ended June 30, 2023 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 Annual Comprehensive Financial Report (ACFR) 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, which may be exercised at the discretion of the Authority. The President/CEO exercised the first one-year extension on March 23, 2022, and the second one-year extension on March 7, 2023.

Effective June 1, 2022, BKD, LLP merged with the accounting firm, Douglas Hughes Goodman, LLP to create a new firm, FORVIS, LLP. Also effective June 1, 2022, FORVIS LLP assumed the agreement from BKD.

Audit Committee Report

Meeting Date: November 13, 2023

On November 13, 2023, the Authority's external auditor, FORVIS, LLP, will present the fiscal year ended June 30, 2023, 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 FORVIS, LLP, is included in the adopted Fiscal Year 2023 and Fiscal Year 2024 Operating Expense Budgets within the Accounting Department, Auditing Services 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.

C. NEPA: This Board action is not a project that involves additional approvals or actions by the Federal Aviation Administration ("FAA") and, therefore, no formal review under the National Environmental Policy Act ("NEPA") is required.

Application of Inclusionary Policies:

Not Applicable

Prepared by:

Elizabeth Stewart,
Director, Accounting

Attachment A

San Diego County Regional Airport Authority
Financial Statements
For the Fiscal Years Ended
June 30, 2023, and 2022

San Diego County Regional Airport Authority

INDEPENDENT AUDITOR'S REPORT 4

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)..... 7

FINANCIAL STATEMENTS 20

 STATEMENTS OF NET POSITION 20

 STATEMENTS OF CASH FLOWS 24

 NOTES TO FINANCIAL STATEMENTS..... 26

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)..... 71

 SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY (ASSET) AND RELATED RATIOS 71

 SCHEDULE OF CONTRIBUTIONS (PENSIONS) 72

 SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS 73

 SCHEDULE OF CONTRIBUTIONS (PENSIONS) 73

 SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY (ASSET) AND RELATED RATIOS..... 74

 SCHEDULE OF CONTRIBUTIONS (OPEB)..... 74



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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the San Diego County Regional Airport Authority (Airport Authority), as of and for the years ended June 30, 2023 and 2022, 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.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Airport Authority as of June 30, 2023 and 2022, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Airport Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in *Note 13* to the financial statements, in fiscal year 2023 the Airport Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Airport Authority's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Airport Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Airport Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension, and other postemployment benefit information as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 audits 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.

FORVIS,LLP

**Dallas, Texas
November 2, 2023**

Management's Discussion and Analysis (Unaudited)

For the Years Ended June 30, 2023, and 2022

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 AB 93 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).

San Diego County Regional Airport Authority

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 (2021-2023)

In fiscal year 2023, the Airport Authority continued to show great improvement in the recovery from the COVID-19 pandemic, as most major activities rose to within 96 percent of the 2019 pre-pandemic levels.

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

| | FY 2023 | FY 2022 | FY 2021 |
|------------------------------------|-------------------|------------|-----------|
| Enplaned passengers | 11,867,569 | 9,953,162 | 4,860,931 |
| % change from prior year | 19.2% | 104.8% | -47.4% |
| Total passengers | 23,560,297 | 19,830,645 | 9,701,311 |
| % change from prior year | 18.8% | 104.4% | -47.4% |
| Aircraft operations | 219,952 | 190,491 | 130,017 |
| % change from prior year | 15.5% | 46.5% | -31.8% |
| Freight and mail (in tons) | 138,648 | 151,160 | 151,327 |
| % change from prior year | -8.3% | -0.1% | -2.0% |
| Landed weight (in millions pounds) | 13,869 | 11,764 | 7,780 |
| % change from prior year | 17.9% | 51.2% | -35.5% |

Enplaned passenger traffic continued to improve from the impact of the pandemic, with an increase of 19.2 percent over fiscal year 2022. Changes in total passengers, aircraft operations and landed weight closely mirrored the improvement in enplanements. Whereas freight and mail continued a declining trend due to decreasing demand.

FINANCIAL HIGHLIGHTS

For the fiscal year ended June 30, 2023, the Airport Authority adopted GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (GASB 94) and GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96). Fiscal year 2022 has been restated for the adoption of GASB 94 and GASB 96.

Statement of Revenues, Expenses and Changes in Net Position

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 2.8 percent in fiscal year 2022 as air travel continued to recover and had a strong increase of 13.0% in fiscal year 2023.

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

| | FY 2023 | FY 2022 | FY 2021 |
|---------------------------------------|---------------------|------------|------------|
| Operating revenues | \$ 360,762 | \$ 315,640 | \$ 224,606 |
| Operating expenses | (305,925) | (291,213) | (277,808) |
| Nonoperating revenues (expenses), net | 11,987 | (12,874) | 43,762 |
| Capital contributions and grants | 52,287 | 12,958 | 13,932 |
| Increase in net position | 119,111 | 24,511 | 4,491 |
| Net position, beginning of year | 914,068 | 889,557 | 885,066 |
| Net position, end of year | \$ 1,033,179 | \$ 914,068 | \$ 889,557 |

Note: Fiscal year 2022 and 2021 amounts have been restated for GASB 94 & GASB 96.

San Diego County Regional Airport Authority

Operating Revenues (in thousands)

| | FY 2023 | FY 2022 | From 2022 to 2023 | |
|---|------------|------------|------------------------|----------|
| | | | Increase (Decrease) | % Change |
| Airline revenue: | | | | |
| Landing fees | \$ 44,741 | \$ 35,354 | \$ 9,387 | 26.6% |
| Aircraft parking fees | 11,189 | 8,856 | 2,333 | 26.3% |
| Building rentals | 129,744 | 97,047 | 32,697 | 33.7% |
| Other aviation revenue | 7,123 | 6,518 | 605 | 9.3% |
| Total airline revenue | 192,797 | 147,775 | 45,022 | 30.5% |
| Concession revenue | 75,559 | 88,138 | (12,579) | (14.3%) |
| Parking and ground transportation revenue | 65,415 | 57,076 | 8,339 | 14.6% |
| Ground rentals | 23,257 | 19,651 | 3,606 | 18.3% |
| Other operating revenue | 3,735 | 2,999 | 736 | 24.5% |
| Total operating revenue | \$ 360,762 | \$ 315,640 | \$ 45,122 | 14.3% |

Note: Fiscal year 2022 and 2021 amounts have been restated for GASB 94 & GASB 96.

| | FY 2022 | FY 2021 | From 2021 to 2022 | |
|---|------------|------------|------------------------|----------|
| | | | Increase (Decrease) | % Change |
| Airline revenue: | | | | |
| Landing fees | \$ 35,354 | \$ 34,046 | \$ 1,308 | 3.8% |
| Aircraft parking fees | 8,856 | 8,542 | 314 | 3.7% |
| Building rentals | 97,047 | 83,090 | 13,957 | 16.8% |
| Other aviation revenue | 6,518 | 8,192 | (1,673) | (20.4%) |
| Total airline revenue | 147,775 | 133,870 | 13,906 | 10.4% |
| Concession revenue | 88,138 | 41,801 | 46,337 | 110.9% |
| Parking and ground transportation revenue | 57,076 | 27,447 | 29,629 | 108.0% |
| Ground rentals | 19,651 | 19,809 | (157) | (0.8%) |
| Other operating revenue | 2,999 | 1,680 | 1,320 | 78.6% |
| Total operating revenue | \$ 315,640 | \$ 224,606 | \$ 91,034 | 40.5% |

Note: Fiscal year 2022 and 2021 amounts have been restated for GASB 94 & GASB 96.

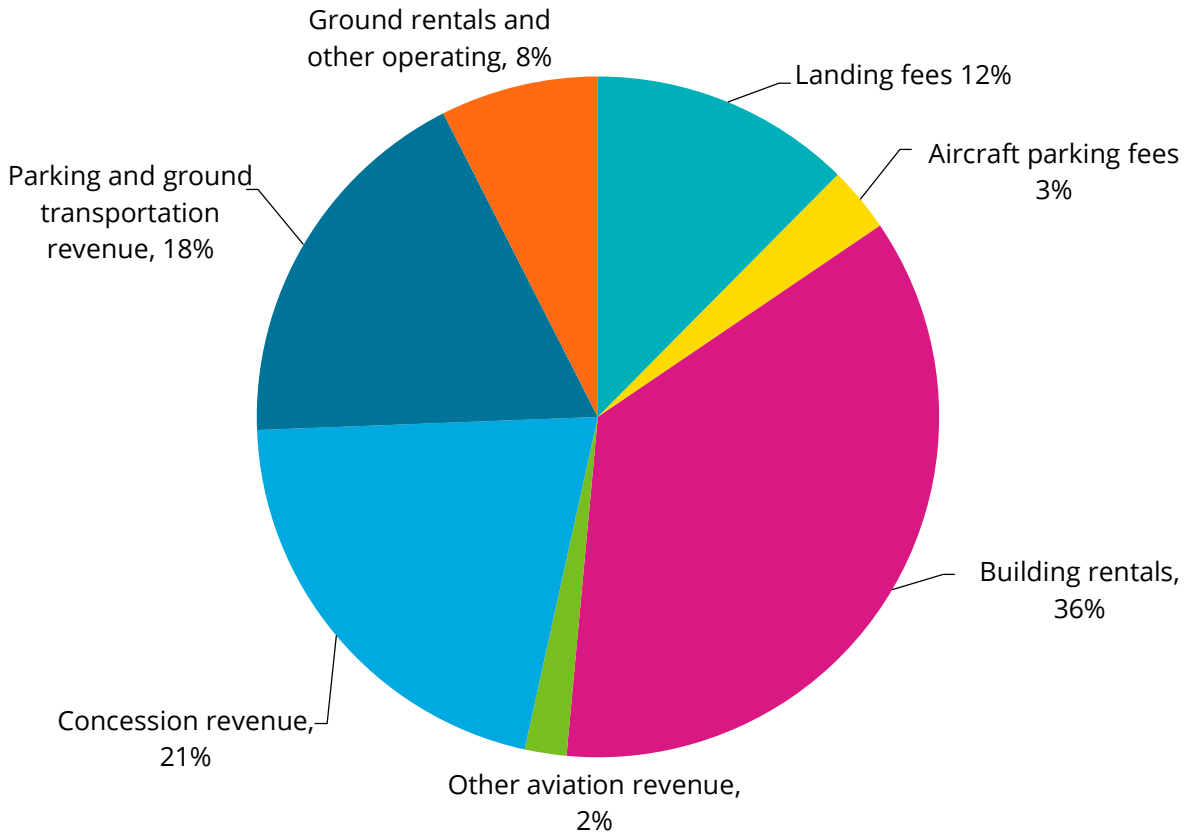
Fiscal Year 2023 compared to 2022: Total airline revenues increased \$45.0 million, or 30.5 percent, due to a planned major maintenance fund increase per the airline operating lease agreement, combined with increased cost recovery from the airlines which is the result of higher debt service costs and an increase in recoverable operating expenses due to the increase in passengers.

Concession revenue (terminal and rental car) decreased by \$12.6 million, or 14.3 percent, due to the timing of the recognition of lease revenue per GASB 87. The decrease is partially offset by increased concessions and car rental sales due to the increase in passengers. Parking and ground transportation revenue increased \$8.3 million, or 14.6 percent, due to the increased enplanements. Ground rentals increased \$3.6 million, or 18.3 percent, due to the higher consumer price index rent increase and additions to the fuel lease from the hydrant fueling project.

San Diego County Regional Airport Authority

Fiscal Year 2022 compared to 2021: Total airline revenues increased \$13.9 million, or 10.4 percent, reflecting the cost recovery system for the airlines which was higher in fiscal year 2022, compared to 2021. Airline building rentals were the main driver, increasing \$14.0 million, or 16.8 percent.

Concession revenue (terminal and rental car) increased by \$46.3 million, or 110.9 percent, due to increased passenger flow throughout the terminals. Parking and ground transportation revenue increased \$29.6 million, or 108.0 percent, due to the increased enplanements. Lastly, other operating revenue increased \$1.3 million, or 78.6 percent.



San Diego County Regional Airport Authority

Operating Expenses (in thousands)

| | FY 2023 | FY 2022 | From 2022 to 2023 | |
|--|------------|------------|------------------------|----------|
| | | | Increase (Decrease) | % Change |
| Salaries and benefits | \$ 51,231 | \$ 46,373 | \$ 4,858 | 10.5% |
| Contractual services | 45,581 | 34,491 | 11,090 | 32.2% |
| Safety and security | 33,043 | 34,191 | (1,148) | (3.4%) |
| Space rental | 313 | 839 | (526) | (62.7%) |
| Utilities | 17,567 | 14,193 | 3,374 | 23.8% |
| Maintenance | 16,417 | 10,747 | 5,670 | 52.8% |
| Equipment and systems | 922 | 340 | 582 | 171.2% |
| Materials and supplies | 661 | 496 | 164 | 33.1% |
| Insurance | 1,997 | 1,741 | 256 | 14.7% |
| Employee development and support | 681 | 537 | 144 | 26.8% |
| Business development | 1,916 | 1,781 | 135 | 7.6% |
| Equipment rentals and repairs | 4,010 | 3,472 | 539 | 15.5% |
| Total operating expenses before depreciation and amortization | 174,339 | 149,201 | 25,138 | 16.8% |
| Depreciation and amortization | 131,586 | 142,012 | (10,425) | (7.3%) |
| Total operating expense | \$ 305,925 | \$ 291,213 | \$ 14,713 | 5.1% |

Note: Fiscal year 2022 and 2021 amounts have been restated for GASB 94 & GASB 96.

| | FY 2022 | FY 2021 | From 2021 to 2022 | |
|--|------------|------------|------------------------|----------|
| | | | Increase (Decrease) | % Change |
| Salaries and benefits | \$ 46,373 | \$ 52,922 | \$ (6,549) | (12.4%) |
| Contractual services | 34,491 | 24,977 | 9,514 | 38.1% |
| Safety and security | 34,191 | 35,086 | (895) | (2.6%) |
| Space rental | 839 | 64 | 776 | 1,215.8% |
| Utilities | 14,193 | 11,730 | 2,464 | 21.0% |
| Maintenance | 10,747 | 9,111 | 1,636 | 18.0% |
| Equipment and systems | 340 | 425 | (85) | (19.9%) |
| Materials and supplies | 496 | 450 | 46 | 10.3% |
| Insurance | 1,741 | 1,519 | 222 | 14.6% |
| Employee development and support | 537 | 442 | 96 | 21.6% |
| Business development | 1,781 | 209 | 1,573 | 753.4% |
| Equipment rentals and repairs | 3,472 | 3,380 | 92 | 2.7% |
| Total operating expenses before depreciation and amortization | 149,201 | 140,313 | 8,889 | 6.3% |
| Depreciation and amortization | 142,012 | 137,496 | 4,516 | 3.3% |
| Total operating expense | \$ 291,213 | \$ 277,808 | \$ 13,405 | 4.8% |

Note: Fiscal year 2022 and 2021 amounts have been restated for GASB 94 & GASB 96.

San Diego County Regional Airport Authority

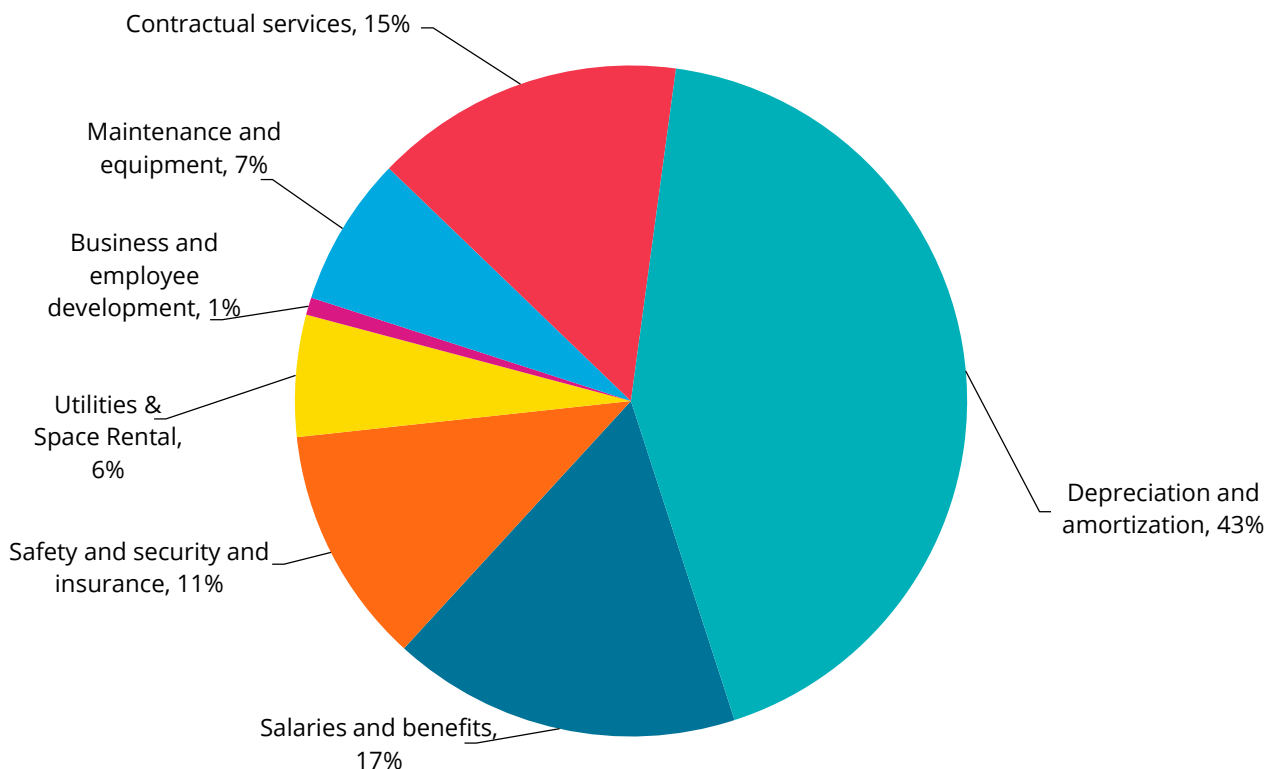
Fiscal Year 2023 compared to 2022: Total fiscal year 2023 operating expenses increased by \$14.7 million or 5.1 percent.

Salaries and benefits increased by \$4.9 million or 10.5 percent due to planned wage and benefit increases, higher overtime, and increased head count. Contractual services increased by \$11.1 million or 32.2 percent, primarily due to an increase in parking and shuttle operations and Rental Car Center (RCC) buses expenses due to an increase in enplanements. Utilities increased by \$3.4 million or 23.8 percent due to increased gas and electric usage and rates. Maintenance expenses increased by \$5.7 million or 52.8 percent due to an increase in annual and major maintenance.

Partially offsetting the increase in operating expenses described above, safety and security decreased by \$1.1 million or 3.4 percent because of law enforcement and guard services staff vacancies. Depreciation and amortization decreased by \$10.4 million or 7.3 percent due to disposal of assets, caused by the demolition of various fixed assets necessary for the construction of the New Terminal 1.

Fiscal Year 2022 compared to 2021: Total fiscal year 2022 operating expenses increased by \$13.4 million or 4.8 percent. Contractual services increased by \$9.5 million or 38.1 percent, primarily due to an increase in parking and shuttle operations and Rental Car Center (RCC) buses expenses due to increase in enplanements. Utilities increased by \$2.5 million or 21 percent due to increased gas and electric usage and rates. Maintenance expenses increased by \$1.6 million, or 18.0 percent, due to an increase in annual and major maintenance. Business Development increased by \$1.6 million or 753.4 percent due to an increase in marketing and advertising costs.

Partially offsetting the increase in operating expenses described above, salaries and benefits, decreased by \$6.5 million or 12.4 percent, primarily due to a \$5.1 million decrease in retirement expense caused by investment gains on the pension and OPEB plan assets.



San Diego County Regional Airport Authority

Nonoperating Revenues (Expenses) (in thousands)

| | FY 2023 | FY 2022 | From 2022 to 2023 | |
|---------------------------------------|-----------|-------------|------------------------|----------|
| | | | Increase (Decrease) | % Change |
| Passenger facility charges | \$ 46,755 | \$ 40,394 | \$ 6,361 | 15.7% |
| Customer facility charges | 34,375 | 30,333 | 4,041 | 13.3% |
| Federal Relief Grants | - | 78,922 | (78,922) | (100.0%) |
| Quieter Home Program, net | (2,051) | (2,541) | 490 | 19.3% |
| Other interest income | 11,145 | 11,893 | (748) | (6.3%) |
| Investment income (loss) | 50,882 | (48,884) | 99,766 | 204.1% |
| Interest expense, net | (127,464) | (109,675) | (17,789) | (16.2%) |
| Other nonoperating income (expenses) | (1,654) | (13,316) | 11,661 | 87.6% |
| Nonoperating revenues (expenses), net | \$ 11,987 | \$ (12,874) | \$ 24,861 | 193.1% |

Note: Fiscal year 2022 and 2021 amounts have been restated for GASB 94 & GASB 96.

| | FY 2022 | FY 2021 | From 2021 to 2022 | |
|---------------------------------------|-------------|-----------|------------------------|------------|
| | | | Increase (Decrease) | % Change |
| Passenger facility charges | \$ 40,394 | \$ 22,110 | \$ 18,284 | 82.7% |
| Customer facility charges | 30,333 | 15,755 | 14,578 | 92.5% |
| Federal Relief Grants | 78,922 | 77,219 | 1,704 | 2.2% |
| Quieter Home Program, net | (2,541) | (3,233) | 691 | 21.4% |
| Other interest income | 11,893 | 6,748 | 5,144 | 76.2% |
| Investment income (loss) | (48,884) | 2,495 | (51,379) | (2,059.3%) |
| Interest expense, net | (109,675) | (76,628) | (33,048) | (43.1%) |
| Other nonoperating income (expenses) | (13,316) | (705) | (12,611) | (1,789.0%) |
| Nonoperating revenues (expenses), net | \$ (12,874) | \$ 43,762 | \$ (56,636) | (129.4%) |

Note: Fiscal year 2022 and 2021 amounts have been restated for GASB 94 & GASB 96.

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, contribute to the Airport Authority's noise mitigation (Quieter Home Program), or to repay debt service issued to build eligible capital 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 operate the related ground transportation system. The rental car agencies utilizing the consolidated rental car facility remit to the Airport Authority collection of the fee monthly. The current CFC fee is \$9.00 per day, up to five days for rental car transactions that originate at the Rental Car Center. For car rental transactions of non-RCC tenants, the CFC rate is \$3.41 per day, up to five days for rental car transactions.

Federal Relief Grants included the *American Rescue Plan Act (ARPA)* funds received from the federal government. ARPA was signed into law on March 11, 2021, and included \$8 billion in funds to be awarded as economic assistance to eligible U.S. airports to prevent, prepare for, and respond to the coronavirus disease pandemic. On

San Diego County Regional Airport Authority

August 10, 2021, the Airport Authority was awarded a \$78.9 million ARPA grant, which was fully utilized in fiscal year 2022.

Quieter Home Program includes sound attenuation construction improvements at all eligible single-family and multi-family dwellings located in the Year 2020 65 dB Community Noise Equivalent Level contour. The project is eligible for the FAA's Airport Improvement Program (AIP) which awards grants for certain eligible Airport Authority expenditures. The \$2.1 million of expenses represents the authority's cost, net of the grant funds utilized in FY23. From inception through the end of fiscal year 2023, the Airport Authority has spent \$283.5 million and received reimbursement for \$231.3 million.

Other Interest Income includes interest earned on lease receivables and notes receivable. For June 30, 2023, and 2022 other interest income was \$11.1 million and \$11.9 million, respectively.

Investment income (loss) is derived from interest earned by the Airport Authority on investments and includes unrealized gain (loss) on investments. For June 30, 2023, and 2022 Investment income was a gain of \$50.9 million and a loss of \$48.9 million, respectively.

Interest expense includes interest paid and accrued on bonds, variable debt, and leases. For June 30, 2023, and 2022 interest expense was \$127.5 million and \$109.7 million, respectively. The increase is due to a full year of interest on the 2021 bonds that were issued in December 2021 to fund construction of the New Terminal 1.

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 2023 compared to 2022: Nonoperating revenues (net) increased by \$24.9 million or 193.1 percent. The increases in PFCs and CFCs are due to an increase in enplaned passengers. PFCs increased by \$6.4 million or 15.7 percent, and CFCs increased by \$4.0 million or 13.3 percent. Investment income increased by \$99.8 million or 204.1 percent. The increase is due to the movement of unrealized gain/loss on investments of \$72.9 million as the increase in market yields moderated significantly resulting in an unrealized gain in fiscal year 2023 of \$11.7 million compared to an unrealized loss of \$61.3 million in fiscal year 2022. Increased interest rates and higher investment balances accounted for the \$26.8 million of additional interest revenue in fiscal year 2023. Other nonoperating income (expenses) decreased by \$11.7 million or 87.6 percent, as there was no fixed asset disposal loss reported this year.

Fiscal Year 2022 compared to 2021: Nonoperating revenues (net) decreased by \$56.6 million or 129.4 percent. The increases in PFCs and CFCs are due to an increase in enplaned passengers. PFCs increased by \$18.3 million or 82.7 percent, and CFCs increased by \$14.6 million or 92.5 percent. Investment income (loss) decreased by \$51.4 million or 2,059.3 percent. The decrease is due to an unrealized loss on investments of \$61.3 million as market yields increased significantly, decreasing the market value of fixed rate securities held by the Authority. The unrealized loss was offset partially by increased interest earnings due to higher yields and larger investment balances. Other nonoperating income (expenses) decreased by \$12.6 million or 1,789.0 percent, due to the loss on fixed asset disposals, caused by the demolition of various fixed assets necessary for the construction of the New Terminal 1.

San Diego County Regional Airport Authority

Federal Grant Contributions (in thousands)

| | FY 2023 | FY 2022 | From 2022 to 2023 | |
|----------------|-----------|-----------|------------------------|----------|
| | | | Increase (Decrease) | % Change |
| Federal grants | \$ 52,287 | \$ 12,958 | \$ 39,329 | 303.5% |

| | FY 2022 | FY 2021 | From 2021 to 2022 | |
|----------------|-----------|-----------|------------------------|----------|
| | | | Increase (Decrease) | % Change |
| Federal grants | \$ 12,958 | \$ 13,932 | \$ (973) | (7.0%) |

Federal 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 2023, federal grant contributions increased by \$39.3 million, or 303.5 percent compared to fiscal year 2022, due to an increase in grant awards and substantial New Terminal 1 construction activities funded by federal grants.

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 and deferred outflows of resources, liabilities and deferred inflows of resources, and net position at June 30, 2023, 2022 and 2021, is as follows:

| | FY 2023 | FY 2022 | FY 2021 |
|--|--------------|------------|------------|
| Assets and Deferred Outflows of Resources | | | |
| Current assets | \$ 723,463 | \$ 491,098 | \$ 480,254 |
| Capital and lease assets, net | 2,795,855 | 2,284,111 | 2,063,687 |
| Noncurrent assets | 2,037,198 | 2,719,699 | 914,583 |
| Total assets | 5,556,516 | 5,494,907 | 3,458,524 |
| Deferred outflows of resources | 18,040 | 22,390 | 33,471 |
| Total assets & deferred outflows of resources | 5,574,556 | 5,517,297 | 3,491,996 |
| Liabilities and Deferred Inflows of Resources | | | |
| Current liabilities | 280,701 | 250,171 | 157,227 |
| Long-term liabilities | 3,871,111 | 3,947,346 | 2,077,162 |
| Total liabilities | 4,151,812 | 4,197,517 | 2,234,389 |
| Deferred inflows of resources | 389,565 | 405,712 | 368,049 |
| Total liabilities & deferred inflows of resources | 4,541,377 | 4,603,229 | 2,602,439 |
| Net Position | | | |
| Net investment in capital assets | 330,220 | 420,903 | 325,062 |
| Restricted | 230,636 | 176,638 | 192,484 |
| Unrestricted | 472,323 | 316,527 | 372,011 |
| Total net position | \$ 1,033,179 | \$ 914,068 | \$ 889,557 |

Note: Fiscal year 2022 and 2021 amounts have been restated for GASB 94 & GASB 96.

San Diego County Regional Airport Authority

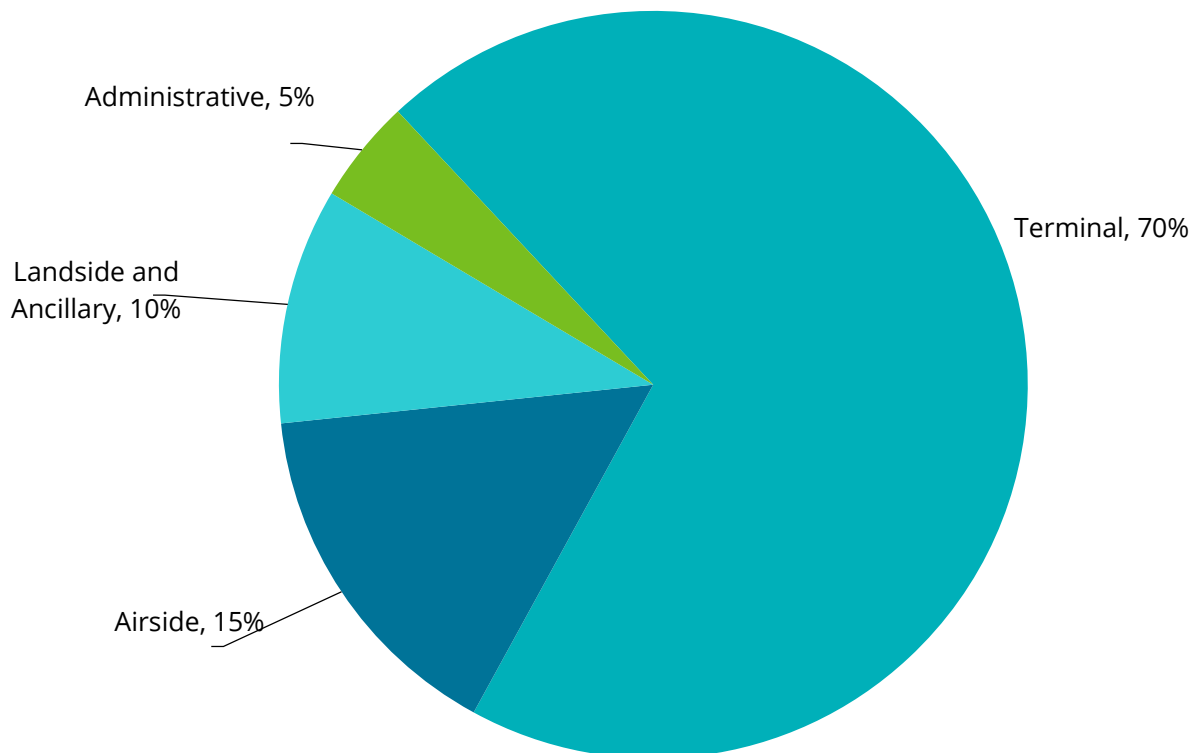
As of June 30, 2023, the Airport Authority's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,033.2 million. This reflects a \$119.1 million or 13.0 percent increase in net position from June 30, 2022. The Airport Authority uses capital and lease 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 and lease assets is reported net of related debt, the funds required to repay this debt must be provided annually from operations. The unrestricted net position of \$472.3 million as of June 30, 2023, may be used to meet any of the Airport Authority's ongoing obligations. As of June 30, 2023, 2022, and 2021, management has designated unrestricted funds in the amount of \$16.0 million, \$16.2 million, and \$22.5 million, respectively, for capital contract commitments funded by Airport Authority cash, earthquake self-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 and refurbishment, environmental remediation, terminal upgrades, and landside 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.

The current Capital Program, which includes projects through 2027, consists of \$595.0 million for airside projects, \$379.5 million for landside and ancillary projects, \$2.7 billion for terminal projects, which includes the replacement of Terminal 1, and \$174.1 million for administrative projects.

Capital Program Projects by Type



San Diego County Regional Airport Authority

Additional information about the Airport Authority's capital and lease assets can be found in Note 5 of the financial statements.

Capital Financing and Debt Management

On February 19, 2014, the Airport Authority issued \$305.3 million 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 5.0 percent. The Series 2014 B Bonds were structured as federally taxable bonds that bear interest at rates ranging from 2.5 percent to 5.6 percent and mature in fiscal years 2019 to 2045. Interest for the fiscal years ended June 30, 2023, and 2022 amounted to \$15.2 million and \$15.6 million, respectively, including accrued interest of \$7.6 million and \$7.8 million, respectively. The principal balance on the Series 2014 Bonds as of June 30, 2023, and 2022 was \$275.7 million and \$282 million, 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 Indenture), are pledged to the payment of the Series 2014 Bonds.

On August 3, 2017, the Airport Authority issued \$291.2 million 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 \$32.6 million of the Airport Authority's outstanding variable rate debt, which was issued during 2017, fund the subordinate reserve fund and pay the cost 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 4.0 percent to 5.0 percent and mature in fiscal years 2019 to 2048. The bonds were issued at a premium of \$48.4 million, which is being amortized over the life of the bonds. Interest for the fiscal years ended June 30, 2023, and 2022 amounted to \$13.3 million and \$13.6 million, respectively, including accrued interest of \$6.7 million and \$6.8 million, respectively. The principal balance on the Series 2017 Bonds as of June 30, 2023, and 2022 was \$266.6 million and \$271.9 million, respectively.

On December 11, 2019, the Airport Authority issued \$338.8 million of Series A Subordinate Airport Revenue and Revenue Refunding Bonds and \$124.9 million of Series B Subordinate Airport Revenue Bonds (Series 2019 Bonds). The Series 2019 Bonds were issued to finance certain capital improvements at SDIA including a new facilities maintenance building and storm water capture and reuse projects, fund a portion of the interest accruing on the Series 2019 Bonds, refund \$34.3 million of the Airport Authority's outstanding variable rate debt, fund the Series 2010C Escrow account to refund the 2010C bonds, fund the subordinate reserve fund, and pay the costs of issuance of the Series 2017 Bonds.

The Series 2019 Bonds are structured as serial and term bonds that bear interest at rates ranging from 4.0 percent to 5.0 percent and mature in fiscal years 2021 to 2050. The bonds were issued at a premium of \$96.9 million, which is being amortized over the life of the bonds. Interest on the Series 2019 Bonds is payable semiannually on January

San Diego County Regional Airport Authority

1 and July 1 of each year. Interest for the fiscal years ended June 30, 2023, and 2022 amounted to \$21.9 million and \$22.1 million, respectively, including accrued interest of \$10.9 million and \$11.1 million, respectively. The principal balance on the Series 2019 Bonds as of June 30, 2023, and 2022 was \$454.6 million and \$459 million, respectively.

The Airport Authority issued \$241.6 million of Series A, B and C Subordinate Airport Revenue Refunding Bonds (Series 2020 Bonds). The Authority entered into a Forward Delivery Purchase Contract on December 11, 2019, and delivered the Series 2020 Bonds Proceeds on April 8, 2020. Proceeds from the sale of the Series 2020 Bonds were used to fund the Series 2010 A and B Bonds escrow accounts to refund the 2010 A/B bonds and pay the costs of issuance of the Series 2020 Bonds.

The Series 2020 Bonds are structured as serial bonds that bear interest rates of 5.0 percent and mature in fiscal years 2021 to 2041. The bonds were issued at a premium of \$49.4 million, which is being amortized over the life of the bonds. Interest on the Series 2020 Bonds is payable semiannually on January 1 and July 1 of each year. Interest for the fiscal years ended June 30, 2023, and 2022 amounted to \$10.6 million and \$11.5 million, respectively, including accrued interest of \$5.4 million and \$5.8 million, respectively. The principal balance on the Series 2020 Bonds as of June 30, 2023, and 2022 was \$212.5 million and \$227 million, respectively.

On December 8, 2021, the Airport Authority issued \$1,941.7 million of Series A, B and C Subordinate Airport Revenue Bonds (Series 2021 Bonds). The Series 2021 Bonds were issued to finance The New Terminal 1 development at SDIA, fund a portion of the interest accruing on the Series 2021 Bonds, fund the subordinate reserve fund, pay the costs of issuance of the Series 2021 Bonds and to refund the 2013 Series A and B bonds.

The Series 2021 A and B Bonds are structured as serial and term bonds that bear interest at rates ranging from 4.0 percent to 5.0 percent and mature in fiscal years 2027 to 2057 and were issued at a premium of \$332.4 million, which is being amortized over the life of the bonds. The Series 2021 C Bonds are federally Taxable Bonds and are structured as serial and term bonds that bear interest at rates ranging from 0.5 percent to 3.1 percent and mature in fiscal years 2023 to 2037. Interest on the Series 2021 Bonds is payable semiannually on January 1 and July 1 of each year. Interest for the fiscal years ended June 30, 2023, and 2022 amounted to \$82.0 million and \$46.3 million, respectively, including accrued interest of \$41.0 million and \$46.3 million, respectively. The principal balance on the Series 2021 Bonds as of June 30, 2023, and 2022 was \$1,932.0 million and \$1,941.7 million, respectively.

Interest expense on the Series 2014, 2017, 2019, 2020 and 2021 Bonds for fiscal years ended June 30, 2023, and June 30, 2022, of \$143.1 million and \$116.3 million, respectively, was offset by bond premium amortization of \$26.7 million in fiscal year 2023 and \$21.6 million in fiscal year 2022.

The Airport Authority leases properties from various third parties and uses that space to conduct its operations, the terms of which expire 2024 through 2072. The measurement of the lease payable is based on the present value of lease payments expected to be paid during the lease term, such as fixed payments, variable payments that depend on an index or rate, variable payments that are fixed in substance, residual value guarantee payments that are fixed in substance, and any lease incentives payable to the lessee. Incremental Borrowing Rates of 1.1 percent to 3.8 percent were used by the Airport Authority to measure lease payables. Liabilities recorded under lease contracts during the years ended June 30, 2023, and 2022, were \$228.9 million and \$232.4 million, respectively.

On July 19, 2021, The Airport Authority and Bank of America agreed to a Revolving Credit Agreement. The Airport Authority is authorized to issue up to \$200.0 million in Subordinate Revolving Obligations. The revolving credit agreement is for a term of three years. At the end of fiscal years 2023 and 2022, the Airport Authority had \$80.1 million in aggregate principal of Subordinate Revolving Obligations outstanding. These obligations were used to finance the New Terminal 1. Obligations incurred under the Revolving Credit Agreement are payable solely from

San Diego County Regional Airport Authority

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 6 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 the Airport Authority to impose and use PFC revenue through May 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 \$89.3 million in grant awards for the federal fiscal year ended September 30, 2023, as compared to \$83.4 million for 2022. 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 San Diego County Regional Airport Authority Accounting Department, P.O. Box 82776, San Diego, CA 92138. The Accounting Department can also be reached at (619) 400-2806. A copy of the financial report is available at www.san.org

San Diego County Regional Airport Authority

Financial Statements

Statements of Net Position

June 30, 2023, and 2022

| Assets and Deferred Outflows of Resources | 2023 | 2022 as restated |
|---|----------------------|----------------------|
| Current Assets | | |
| Unrestricted: | | |
| Cash and cash equivalents (Note 2) | \$ 26,108,388 | \$ 10,560,677 |
| Investments (Note 2) | 306,492,307 | 238,734,707 |
| Tenant receivables, net | 20,872,111 | 22,784,819 |
| Grants receivable | 19,163,746 | 25,461,356 |
| Lease receivables, current portion (Note 3) | 21,579,230 | 25,256,727 |
| Partnership lease receivables, current portion (Note 3) | 3,281,883 | 2,891,820 |
| Note receivable, current portion (Note 4) | 4,926,819 | 4,766,887 |
| Other current assets | 17,351,605 | 10,291,837 |
| Total unrestricted current assets | 419,776,089 | 340,748,830 |
| Restricted cash, cash equivalents and investments with trustees (Notes 2 and 6) | 303,687,039 | 150,348,859 |
| Total current assets | 723,463,128 | 491,097,689 |
| Noncurrent Assets | | |
| Restricted assets (Notes 2 and 6): | | |
| Restricted cash, cash equivalents and investments not with trustees | 202,552,633 | 154,568,287 |
| Restricted cash, cash equivalents and investments with trustees (Note 2) | 1,232,265,747 | 2,025,521,963 |
| Passenger facility charges receivable (Note 1) | 7,035,361 | 4,185,454 |
| Customer facility charges receivable (Note 1) | 3,169,514 | 2,884,858 |
| Other restricted assets | 2,403,167 | 3,999,762 |
| Total restricted assets | 1,447,426,421 | 2,191,160,323 |
| Other noncurrent assets: | | |
| Investments, noncurrent (Note 2) | 184,596,297 | 141,423,628 |
| Lease receivables, long-term portion (Note 3) | 146,460,548 | 168,039,778 |
| Partnership lease receivables, long-term portion (Note 3) | 135,261,080 | 125,895,083 |
| Note receivable, long-term portion (Note 4) | 24,451,275 | 29,378,094 |
| Cash and cash equivalents designated for specific capital projects and other commitments (Note 2) | 99,002,685 | 50,449,426 |
| Net pension asset (Note 7) | - | 8,995,046 |
| Net OPEB asset (Note 10) | - | 4,357,476 |
| Total other noncurrent assets | 589,771,885 | 528,538,531 |
| Capital and lease assets (Note 5): | | |
| Land, land improvements and nondepreciable assets/leases | 182,279,198 | 182,279,198 |
| Buildings and structures | 1,884,157,140 | 1,823,469,725 |
| Lease assets | 238,303,897 | 238,303,897 |
| Subscription assets | 464,378 | 464,378 |
| Machinery and equipment | 139,202,241 | 124,708,399 |
| Runways, roads and parking lots | 630,577,748 | 637,019,738 |
| Construction in progress | 1,145,357,693 | 578,124,720 |
| Total capital and lease assets | 4,220,342,295 | 3,584,370,056 |
| Less accumulated depreciation and amortization | (1,424,487,252) | (1,300,259,420) |
| Capital and lease assets, net | 2,795,855,043 | 2,284,110,636 |
| Total noncurrent assets | 4,833,053,349 | 5,003,809,490 |
| Total assets | 5,556,516,476 | 5,494,907,179 |
| Deferred outflows of resources: | | |
| Pensions (Note 7 and 8) | 12,162,436 | 18,137,274 |
| OPEB (Note 10) | 5,877,459 | 4,252,768 |
| Total deferred outflows of resources | 18,039,895 | 22,390,042 |
| Total assets and deferred outflows of resources | 5,574,556,372 | 5,517,297,222 |

See Notes to Financial Statements.

(Continued)

San Diego County Regional Airport Authority

| Liabilities, Deferred Inflows of Resources and Net Position | 2023 | 2022 as restated |
|--|-------------------------|-----------------------|
| Current Liabilities | | |
| Payable from unrestricted assets: | | |
| Accounts payable | 3,699,871 | 7,326,129 |
| Accrued liabilities | 51,830,325 | 45,972,090 |
| Compensated absences, current portion (Note 6) | 3,750,891 | 3,264,966 |
| Other current liabilities | 16,591,374 | 14,502,025 |
| Lease and subscription liabilities, current portion (Note 6) | 3,677,515 | 3,586,324 |
| Long-term debt, current portion (Note 6) | 387,928 | 323,293 |
| Total payable from unrestricted assets | 79,937,904 | 74,974,827 |
| Payable from restricted assets: | | |
| Accounts payable | 9,179,789 | 17,466,214 |
| Accrued liabilities | 69,749,979 | 39,743,912 |
| Long-term debt, current portion (Note 6) | 50,055,000 | 40,160,000 |
| Accrued interest on variable rate debt and bonds (Note 6) | 71,778,216 | 77,826,260 |
| Total payable from restricted assets | 200,762,984 | 175,196,385 |
| Total current liabilities | 280,700,888 | 250,171,213 |
| Long-Term Liabilities | | |
| Compensated absences, net of current portion (Note 6) | 1,343,480 | 1,789,112 |
| Other noncurrent liabilities | 647,536 | 663,924 |
| Lease and subscription liabilities, long-term portion (Note 6) | 225,503,027 | 229,180,542 |
| Long-term debt, net of current portion (Note 6) | 3,635,975,207 | 3,713,339,080 |
| Net pension liability (Note 7 and 8) | 7,197,809 | 2,373,440 |
| Net OPEB liability (Note 10) | 444,406 | - |
| Total long-term liabilities | 3,871,111,466 | 3,947,346,098 |
| Total liabilities | 4,151,812,354 | 4,197,517,311 |
| Deferred inflows of resources | | |
| Pensions (Note 7 and 8) | 4,749,968 | 27,258,294 |
| OPEB (Note 10) | 1,653,747 | 4,901,161 |
| Gain on refunding | 9,440,839 | 9,943,477 |
| Leases (Note 3) | 147,922,470 | 168,064,374 |
| Partnership leases (Note 3) | 225,797,623 | 195,544,264 |
| Total deferred inflows of resources | 389,564,647 | 405,711,570 |
| Total liabilities and deferred inflows of resources | 4,541,377,002 | 4,603,228,881 |
| Net Position | | |
| Net investment in capital assets | 330,219,977 | 420,903,099 |
| Restricted: | | |
| Debt Service | 67,075,020 | 48,292,097 |
| Construction | 141,003,071 | 93,634,418 |
| Pension | - | 8,995,046 |
| OPEB | - | 4,357,476 |
| Operation and maintenance expenses | 17,932,678 | 15,136,888 |
| Small business bond guarantee | 2,222,300 | 2,222,300 |
| OCIP loss reserve | 2,403,167 | 3,999,762 |
| Total restricted net position | 230,636,236 | 176,637,988 |
| Unrestricted net position | 472,323,157 | 316,527,254 |
| Total net position | \$ 1,033,179,370 | \$ 914,068,340 |

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, 2023, and 2022

| | 2023 | 2022 as restated |
|--|----------------------|----------------------|
| Operating revenues: | | |
| Airline revenue: | | |
| Landing fees | \$ 44,741,469 | \$ 35,354,215 |
| Aircraft parking fees | 11,188,756 | 8,855,947 |
| Building rentals | 129,743,693 | 97,046,860 |
| Other aviation revenue | 7,123,044 | 6,518,253 |
| Concession revenue | 75,558,792 | 88,138,271 |
| Parking and ground transportation revenue | 65,414,598 | 57,075,628 |
| Ground and non-airline terminal rentals | 23,257,118 | 19,651,356 |
| Other operating revenue | 3,734,823 | 2,999,290 |
| Total operating revenues | 360,762,294 | 315,639,820 |
| Operating expenses before depreciation and amortization: | | |
| Salaries and benefits (Notes 6, 7, 8 and 9) | 51,230,961 | 46,373,068 |
| Contractual services (Note 13) | 45,580,643 | 34,490,679 |
| Safety and security | 33,042,629 | 34,190,686 |
| Space rental | 313,483 | 839,337 |
| Utilities | 17,567,259 | 14,193,387 |
| Maintenance | 16,417,015 | 10,746,604 |
| Equipment and systems | 921,761 | 339,942 |
| Materials and supplies | 660,733 | 496,452 |
| Insurance | 1,996,788 | 1,740,603 |
| Employee development and support | 681,446 | 537,388 |
| Business development | 1,916,108 | 1,781,323 |
| Equipment rentals and repairs | 4,010,388 | 3,471,765 |
| Total operating expenses before depreciation and amortization | 174,339,213 | 149,201,234 |
| Income from operations before depreciation and amortization | 186,423,081 | 166,438,586 |
| Depreciation and amortization expense | 131,586,318 | 142,011,648 |
| Operating income | \$ 54,836,763 | \$ 24,426,938 |

See Notes to Financial Statements.

(Continued)

San Diego County Regional Airport Authority

| | 2023 | 2022 as restated |
|--|-------------------------|-----------------------|
| Nonoperating revenues (expenses): | | |
| Passenger facility charges | \$ 46,754,727 | \$ 40,394,092 |
| Customer facility charges | 34,374,844 | 30,333,350 |
| Federal relief grants | - | 78,922,308 |
| Quieter Home Program grant revenue (Note 1) | 19,023,947 | 14,392,766 |
| Quieter Home Program expenses (Note 1) | (21,075,144) | (16,934,242) |
| Other Interest Income | 11,145,007 | 11,892,517 |
| Investment income (loss) | 50,881,687 | (48,883,995) |
| Interest expense (Note 6) | (127,463,755) | (109,675,241) |
| Other revenues (expenses), net | (1,654,133) | (13,315,574) |
| Nonoperating revenues (expenses), net | 11,987,180 | (12,874,018) |
| Income before federal grants | 66,823,943 | 11,552,920 |
| Federal grants (Note 1) | 52,287,087 | 12,958,340 |
| Change in net position | 119,111,030 | 24,511,260 |
| Net position, beginning of year, as restated | 914,068,340 | 889,557,081 |
| Net position, end of year | \$ 1,033,179,370 | \$ 914,068,340 |

See Notes to Financial Statements.

San Diego County Regional Airport Authority

Statements of Cash Flows For the Fiscal Years Ended June 30, 2023, and 2022

| | 2023 | 2022 as restated |
|--|-----------------------|------------------------|
| Cash Flows From Operating Activities | | |
| Receipts from customers | \$ 362,504,812 | \$ 371,536,489 |
| Payments to suppliers | (129,535,335) | (107,568,553) |
| Payments to employees | (54,368,079) | (48,787,730) |
| Other receipts (payments) | 3,737,502 | 2,996,459 |
| Net cash provided by operating activities | 182,338,900 | 218,176,665 |
| Cash Flows From Noncapital Financing Activities | | |
| Misc nonoperating receipts (payments) | (1,654,133) | 163,686 |
| Quieter Home Program grant receipts | 20,850,254 | 11,723,416 |
| Quieter Home Program payments | (21,075,144) | (16,934,242) |
| Net cash used in noncapital financing activities | (1,879,024) | (5,047,139) |
| Cash Flows From Capital and Related Financing Activities | | |
| Capital outlay | (597,490,633) | (334,497,078) |
| Proceeds from variable debt | - | 80,100,000 |
| Other interest income | 11,145,007 | 11,892,517 |
| Federal grants received (excluding Quieter Home Program) | 56,758,390 | 76,754,333 |
| Proceeds from passenger facility charges | 43,904,820 | 41,970,700 |
| Proceeds from customer facility charges | 34,090,188 | 29,832,774 |
| Payment of principal on bonds and commercial paper | (40,360,000) | (389,230,000) |
| Proceeds from issuance of Series 2020 Bonds | - | 2,274,125,831 |
| Payment on note payable | (354,139) | (323,293) |
| Interest and debt fees paid | (160,704,536) | (119,271,370) |
| Net cash provided by (used in) capital and related financing activities | (653,010,901) | 1,671,354,415 |
| Cash Flows From Investing Activities | | |
| Sales and maturities of investments | 1,815,186,082 | 2,703,087,078 |
| Purchases of investments | (1,322,506,966) | (4,619,871,044) |
| Interest received on investments and note receivable | 39,205,993 | 12,419,871 |
| Principal payments received on notes receivable | 4,766,887 | 2,372,252 |
| Increase in principal on notes receivable | - | (9,308,366) |
| Net cash provided by (used in) investing activities | 536,651,995 | (1,911,300,209) |
| Net decrease in cash and cash equivalents | 64,100,970 | (26,816,268) |
| Cash and cash equivalents, beginning of year | 61,010,103 | 87,826,370 |
| Cash and cash equivalents, end of year | \$ 125,111,073 | \$ 61,010,103 |

See Notes to Financial Statements.

(Continued)

San Diego County Regional Airport Authority

| | 2023 | 2022 as restated |
|--|-----------------------|-----------------------|
| Reconciliation of Cash and Cash Equivalents to the Statements of Net Position | | |
| Unrestricted cash and cash equivalents | \$ 26,108,388 | \$ 10,560,677 |
| Cash and cash equivalents designated for specific capital projects and other commitments | 99,002,685 | 50,449,426 |
| Total cash and cash equivalents | <u>\$ 125,111,073</u> | <u>\$ 61,010,103</u> |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | | |
| Operating income | \$ 54,836,763 | \$ 24,426,938 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization expense | 131,586,318 | 142,011,648 |
| Change in pensions/OPEB liability/asset | 18,621,297 | (45,794,077) |
| Change in deferred outflows related to pensions/OPEB | 4,350,147 | 11,081,306 |
| Change in deferred inflows related to pensions/OPEB | (25,755,740) | 29,002,100 |
| Change in deferred inflows related to leases | (20,141,904) | (1,383,657) |
| Change in deferred inflows related to partnership leases | 6,116,521 | 3,968,456 |
| Changes in assets and liabilities: | | |
| Receivables, net | 1,912,709 | 56,568,711 |
| Other assets | (5,463,173) | (97,336) |
| Accounts payable | (3,626,258) | 654,407 |
| Accrued liabilities | 5,858,235 | 1,205,133 |
| Compensated absences | 40,293 | 292,136 |
| Lease receivables | 15,500,666 | (8,408,150) |
| Other liabilities | (1,496,975) | 4,649,049 |
| Net cash provided by operating activities | <u>\$ 182,338,900</u> | <u>\$ 218,176,665</u> |
| Noncash investing, Capital and Financing Activities | | |
| Additions to capital assets included in accounts payable | \$ 78,929,768 | \$ 57,210,125 |
| Capital assets (and related deferred inflow) contributed by operator | 24,136,838 | - |
| Unrealized gain (loss) on investments | 11,675,694 | (61,303,866) |

See Notes to Financial Statements.

San Diego County Regional Airport Authority

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 January 1, 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.

San Diego County Regional Airport Authority

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 net asset value and money market mutual funds and non-negotiable certificates of deposit are recorded at amortized cost. All other investments are stated at fair value based on quoted market prices.

Tenant receivables: Tenant 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 receivables are written off when deemed uncollectible. Recoveries of tenant 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) 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, 2023, and 2022, the Airport Authority recovered \$52.3 million and \$13.0 million, respectively, for approved capital projects; and \$19.0 million and \$14.4 million, respectively, for the Quieter Home Program.

ARPA: The *American Rescue Plan Act of 2021* (ARPA) was signed into law on March 11, 2021, and includes \$8 billion in funds to be awarded as economic assistance to eligible U.S. airports to prevent, prepare for, and respond to the coronavirus disease pandemic. To distribute these funds, the FAA has established the *Airport Rescue Grants* to make grants to all airports that are part of the national airport system, including all commercial service airports, all reliever airports, and some public-owned general aviation airports. The Airport Authority was awarded \$78.8 million on August 10, 2021. For the fiscal year ended June 30, 2022, the Airport Authority drew and expended \$78.8 million.

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, contribute to the Airport Authority's noise mitigation (Quieter Home Program), or to repay debt service issued to build eligible capital projects. As of June 30, 2023, and 2022, accrued PFC receivables totaled \$7.0 million and \$4.2 million respectively, and there were \$105.6 million and \$61.4 million PFC amounts collected but not yet applied for approved capital projects as of June 30, 2023, and 2022, respectively.

San Diego County Regional Airport Authority

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 2003. Currently, there are four active applications that allow the Airport Authority to impose and use \$1.2 billion in PFC revenue through April 2040.

The latest application was approved by the FAA in February 2019 (as amended in August 2020) providing collection authority with a charge effective date through April 2040. 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 and operate the related ground transportation system. The current CFC rate, which has been in effect since January 1, 2017, is \$9.00 per day for a maximum of five days. As of June 30, 2023, and 2022, accrued CFC receivables totaled \$3.2 million and \$2.9 million, respectively. CFC amounts collected, including interest, but not yet applied for approved capital projects as of June 30, 2023, and 2022, were \$25.1 million, and \$25.0 million, 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. Deferred outflows of resources represent a consumption of net assets that applies to future periods and deferred inflows of resources represent an acquisition of net assets that applies to future periods, 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.
- Debt Refunding - These amounts represent the gain or loss from the refunding of debt. These differences are deferred and recognized as interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. 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.
- Leases and Partnership Leases – Represents the initial value of lease receivable under GASB 87 and GASB 94 systematically reduced and recognized as lease revenue over the term of the lease.

San Diego County Regional Airport Authority

Capital, lease, and subscription 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 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.

Lease and subscription based technology assets are initially recorded as the sum of 1) the amount of the initial measurement of the lease or subscription liability, 2) lease or subscription payments made at or before the commencement of the term, less any incentives received from the vendor at or before the commencement of the term, 3) initial direct costs that are ancillary charges necessary to place the asset into service. Lease and subscription assets are amortized on a straight-line basis over the shorter of the term or useful life of the underlying asset.

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.

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. The Airport Authority no longer capitalizes interest due to the adoption of GASB 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* that eliminated the requirement to capitalize interest.

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

San Diego County Regional Airport Authority

standards that the capital asset would not be able to meet, technological development or evidence of obsolescence, a change in the manner or expected duration of use of a capital asset or construction stoppage. The Airport Authority reports the effects of capital asset impairments in its financial statements when they occur and accounts for insurance recoveries in the same manner. The Airport Authority's management has determined that no impairments of capital assets currently exist.

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

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

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

Airport Authority net position: Net investment in capital assets consists of capital and lease assets, net of accumulated depreciation and amortization, 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, 2023, and 2022 includes designations of net position that represent tentative management plans that are subject to change, consisting of:

| | 2023 | 2022 |
|--|----------------------|---------------|
| Operating contingency | \$ 2,000,000 | \$ 2,000,000 |
| Insurance contingency | 13,839,942 | 13,121,946 |
| Capital projects and other commitments | 163,794 | 1,068,502 |
| Total designated net position | \$ 16,003,736 | \$ 16,190,448 |

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.

San Diego County Regional Airport Authority

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:

| | 2023 | 2022 |
|--------------------|-------|-------|
| Southwest Airlines | 35.3% | 34.1% |
| Alaska Airlines | 16.4% | 17.5% |
| United Airlines | 12.3% | 13.1% |
| Delta Airlines | 12.2% | 12.4% |
| American Airlines | 10.8% | 12.4% |

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 (asset), 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.

Additionally, the Airport Authority has a single-employer defined benefit preservation of benefit pension plan administered through 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 are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefit Plan: The Airport Authority provides an agent multiple-employer defined benefit postemployment benefit plan (the OPEB Plan). The OPEB Plan funds are managed by California Public Employees Retirement System (CalPERS) under the California Employer's Retiree Benefit Trust (CERBT) fund. For purposes of measuring the net OPEB liability (asset), deferred outflows of resources, and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the OPEB Plan and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB 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, 2023:

GASB Statement No. 91, *Conduit Debt Obligations*, effective for the Airport Authority's year ending June 30, 2023.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Arrangements*, effective for the Airport Authority's year ending June 30, 2023. Details of the restated balances are provided in Note 13.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for the Airport Authority's year ending June 30, 2023. Details of the restated balances are provided in Note 13.

San Diego County Regional Airport Authority

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. 100, *Accounting Changes and Error Corrections*, effective for the Airport Authority's year ending June 30, 2024.

GASB Statement No. 101, *Compensated Absences*, effective for the Airport Authority's year ending June 30, 2025.

Reclassifications: Certain reclassifications have been made to the 2022 financial statements to conform to the 2023 presentation. The reclassifications had no effect on the changes in net position.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

| | 2023 | 2022 |
|---|-------------------------|-------------------------|
| Unrestricted and Undesignated: | | |
| Cash and cash equivalents | \$ 26,108,388 | \$ 10,560,677 |
| Current investments | 306,492,307 | 238,734,707 |
| Noncurrent investments | 184,596,297 | 141,423,628 |
| Total unrestricted and undesignated | <u>517,196,992</u> | <u>390,719,012</u> |
| Designated for specific capital projects and other commitments: cash and cash equivalents | <u>99,002,685</u> | 50,449,426 |
| Restricted: | | |
| Current cash, cash equivalents and investments, with trustees | 303,687,039 | 150,348,859 |
| Noncurrent cash, cash equivalents and investments, not with trustees | 202,552,633 | 154,568,287 |
| Noncurrent cash, cash equivalents and investments, with trustees | 1,232,265,747 | 2,025,521,963 |
| Total restricted cash, cash equivalents and investments | <u>1,738,505,419</u> | <u>2,330,439,109</u> |
| Total cash, cash equivalents and investments | <u>\$ 2,354,705,095</u> | <u>\$ 2,771,607,547</u> |

San Diego County Regional Airport Authority

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

| | 2023 | 2022 |
|---|-------------------------|-------------------------|
| Restricted cash, cash equivalents and investments: | | |
| Bond reserves: | | |
| Operation and maintenance reserve subaccount | \$ 46,342,596 | \$ 45,410,666 |
| Operation and maintenance subaccount | 17,932,678 | 15,136,888 |
| Renewal and replacement account | 5,400,000 | 5,400,000 |
| Total bonds reserves | 69,675,274 | 65,947,554 |
| Passenger facility charges unapplied | 105,594,340 | 61,379,099 |
| Customer facility charges unapplied | 25,203,857 | 25,185,007 |
| Small business development bond guarantee | 2,222,300 | 2,222,300 |
| 2013 Series debt service account | 167 | 163 |
| 2013 Series debt service reserve fund | 63 | 38,018 |
| 2014 Renew and Replace | 14,281,747 | 11,674,803 |
| 2014 Rolling coverage fund | 7,312,430 | 7,217,003 |
| 2014 Series debt service account | 14,280,456 | 14,065,605 |
| 2014 Series debt service reserve fund | 22,286,987 | 22,143,752 |
| 2017 Series debt service account | 12,458,985 | 12,125,293 |
| 2017 Series debt service reserve fund | 14,937,220 | 14,759,099 |
| 2019 Series CAP Interest Fund | 6,627 | 2,164,375 |
| 2019 Series Construction Fund | 24,876,930 | 87,809,097 |
| 2019 Series Debt Services Account | 17,330,104 | 13,318,441 |
| 2019 Series Debt Services Reserve Fund | 29,650,952 | 29,230,025 |
| 2020 Series Debt Services | 20,904,314 | 20,206,542 |
| 2020 Series Debt Services Reserve Fund | 30,538,478 | 30,032,139 |
| 2021 Series CAP Interest Fund | 167,474,239 | 241,585,184 |
| 2021 Series Construction Fund | 1,025,900,425 | 1,544,293,820 |
| 2021 Series Cost of Issuance | - | 21,961 |
| 2021 Series Debt Services Reserve Fund | 110,509,757 | 108,528,789 |
| 2021 Series Revolving Construction Fund | 1,017,524 | 993,764 |
| 2021 Series Debt Services Account | 22,042,241 | 15,497,275 |
| Total restricted cash, cash equivalents and investments | \$ 1,738,505,419 | \$ 2,330,439,108 |

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.

San Diego County Regional Airport Authority

| 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 |
| Non-U.S. Securities | 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 | \$75 million |
| San Diego County Investment Pool | N/A | N/A | None | \$75 million |
| Local Government Investment Pool | N/A | N/A | None | \$75 million |
| U.S. State and California agency | 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 |
| Asset-Backed Securities | 5 years | AA | 10 Percent | 5 percent |
| Mortgage Backed Securities | 5 years | AA | 10 Percent | 5 percent |
| Mortgage Pass-through Securities | 5 years | AA | 10 Percent | 5 percent |
| Collateralized Mortgage Obligation | 5 years | AA | 10 Percent | 5 percent |

* 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.

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

San Diego County Regional Airport Authority

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 | ratings | None | None |
| Money market mutual funds | None | ratings | None | None |
| Municipal bonds | None | ratings | None | None |
| Repurchase agreements | None | BBB* | None | None |
| Investment agreements | None | N/A | None | None |
| Local Agency Investment Fund | None | N/A | None | None |
| San Diego County Investment Pool | None | N/A | None | None |
| Deposit accounts | None | N/A | None | None |

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

*Investment requires collateralization

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

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

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

Custodial credit risk (deposits): Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Airport Authority maintains deposits at several institutions in order to minimize custodial credit risk. These deposits are collateralized by various

San Diego County Regional Airport Authority

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.

San Diego County Regional Airport Authority

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

| Investment Type | 2023 | | | | Ratings |
|---|-------------------------|----------------------------------|--------------------|--------------------|-----------|
| | Total | Investment Maturities (in Years) | | | |
| | | 0-1 | 1-2 | 2-5 | |
| Investments subject to credit and interest rate risk: | | | | | |
| U.S. Treasury obligations | \$ 305,723,741 | 39,870,579 | 61,119,416 | 204,733,746 | AA+ |
| U.S. Agency securities | 154,823,563 | 56,917,351 | 67,553,552 | 30,352,660 | AA+ |
| U.S. Agency securities | 15,421,257 | 11,719,819 | - | 3,701,438 | A-1+ |
| U.S. Agency securities | 7,293,225 | - | 2,358,375 | 4,934,850 | NR |
| Non-U.S. Securities | 9,902,300 | - | 9,902,300 | - | AAA |
| Non-U.S. Securities | 10,310,335 | - | 10,310,335 | - | A |
| Medium-term notes | 4,812,950 | - | - | 4,812,950 | AAA |
| Medium-term notes | 4,897,650 | 4,897,650 | - | - | AA+ |
| Medium-term notes | 19,603,915 | 9,872,900 | - | 9,731,015 | AA |
| Medium-term notes | 6,968,290 | 6,968,290 | - | - | AA- |
| Medium-term notes | 29,170,415 | 11,405,815 | 12,018,100 | 5,746,500 | A+ |
| Medium-term notes | 47,398,205 | 20,054,835 | 11,425,350 | 15,918,020 | A |
| Medium-term notes | 6,585,190 | 4,793,650 | - | 1,791,540 | A- |
| Municipal Bonds | 2,458,450 | - | - | 2,458,450 | AA+ |
| Negotiable Certificates of deposit | 2,222,300 | 2,222,300 | - | - | Not rated |
| Money market mutual funds | 303,965,395 | 303,965,395 | - | - | AAA |
| Local Agency Investment Fund | 302,888,305 | 302,888,305 | - | - | Not rated |
| San Diego County Investment Pool | 285,514,584 | 285,514,584 | - | - | AAA |
| San Diego County Inv. Pool-Treasury | 767,276,409 | 767,276,409 | - | - | AAA |
| CalTrust Fund | 16,835,121 | 16,835,121 | - | - | AA |
| CalTrust Fund | 16,220,619 | 16,220,619 | - | - | A+ |
| Total investments subject to credit and interest rate risk: | <u>2,320,292,218</u> | <u>1,861,423,622</u> | <u>174,687,428</u> | <u>284,181,168</u> | |
| Total Investments | <u>\$ 2,320,292,218</u> | | | | |

San Diego County Regional Airport Authority

| Investment Type | 2022 | | | | Ratings |
|---|-------------------------|----------------------------------|-------------|-------------|-----------|
| | Total | Investment Maturities (in Years) | | | |
| | | 0-1 | 1-2 | 2-5 | |
| Investments subject to credit and interest rate risk: | | | | | |
| U.S. Treasury obligations | \$ 231,211,065 | 57,730,410 | 27,133,119 | 146,347,536 | AA+ |
| U.S. Agency securities | 97,162,627 | 27,422,110 | 51,463,229 | 18,277,289 | AA+ |
| Non-U.S. Securities | 5,197,610 | - | - | 5,197,610 | AAA |
| Non-U.S. Securities | 9,139,850 | - | - | 9,139,850 | A |
| Medium-term notes | 11,629,780 | 3,894,940 | 4,754,000 | 2,980,840 | AA |
| Medium-term notes | 17,067,595 | 4,982,730 | 3,997,440 | 8,087,425 | A+ |
| Medium-term notes | 30,961,940 | 5,498,750 | 10,962,010 | 14,501,180 | A |
| Medium-term notes | 1,878,420 | - | - | 1,878,420 | A- |
| Medium-term notes | 5,988,440 | 1,988,440 | - | 4,000,000 | AA+ |
| Medium-term notes | 5,682,140 | - | - | 5,682,140 | AA- |
| Municipal Bonds | 4,908,300 | - | 4,908,300 | - | AA+ |
| Negotiable Certificates of deposit | 2,222,300 | 2,222,300 | - | - | Not rated |
| Money market mutual funds | 150,481,793 | 150,481,793 | - | - | Not rated |
| Local Agency Investment Fund | 349,923,926 | 349,923,926 | - | - | Not rated |
| San Diego County Investment Pool | 423,896,690 | 423,896,690 | - | - | AAA |
| San Diego County Inv. Pool-Treasury | 1,373,116,904 | 1,373,116,904 | - | - | AAA |
| CalTrust Fund | 16,298,735 | 16,298,735 | - | - | AA |
| CalTrust Fund | 16,090,945 | 16,090,945 | - | - | A+ |
| Total investments subject to credit and interest rate risk: | 2,752,859,060 | 2,433,548,673 | 103,218,097 | 216,092,290 | |
| Total Investments | <u>\$ 2,752,859,060</u> | | | | |

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, 2023, and 2022.

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

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.

San Diego County Regional Airport Authority

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, 2023 and 2022:

| June 30, 2023 | 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 | \$ 305,723,741 | \$ 300,833,941 | \$ 4,889,800 | \$ - |
| U.S. agency securities | 177,538,044 | 94,277,252 | 83,260,793 | - |
| Non-U.S. Securities | 20,212,635 | 4,934,250 | 15,278,385 | - |
| Negotiable certificates of deposit | 2,222,300 | - | 2,222,300 | - |
| Municipal Bonds | 2,458,450 | - | 2,458,450 | - |
| Medium-term notes | 119,436,615 | 67,113,975 | 52,322,640 | - |
| Total investments by fair value level | 627,591,785 | \$ 467,159,417 | \$ 160,432,368 | \$ - |
| Investments measured at amortized cost | | | | |
| Money market mutual funds | 303,965,395 | | | |
| Investments measured at net asset value | | | | |
| CalTrust Fund | 33,055,740 | | | |
| Local Agency Investment Fund | 302,888,305 | | | |
| San Diego County Investment Pool | 285,514,584 | | | |
| San Diego County Inv. Pool-Treasury | 767,276,409 | | | |
| Total investments | <u>\$ 2,320,292,218</u> | | | |

San Diego County Regional Airport Authority

| June 30, 2022 | 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 | \$ 231,211,065 | \$ 231,211,065 | \$ - | \$ - |
| U.S. agency securities | 97,162,627 | - | 97,162,627 | - |
| Non-U.S. Securities | 14,337,460 | 14,337,460 | - | - |
| Negotiable certificates of deposit | 2,222,300 | - | 2,222,300 | - |
| Municipal Bonds | 4,908,300 | - | 4,908,300 | - |
| Medium-term notes | 73,208,315 | - | 73,208,315 | - |
| Total investments by fair value level | 423,050,067 | \$ 245,548,525 | \$ 177,501,542 | \$ - |
| Investments measured at amortized cost | | | | |
| Money market mutual funds | 150,481,793 | | | |
| Investments measured at net asset value | | | | |
| CalTrust Fund | 32,389,680 | | | |
| Local Agency Investment Fund | 349,923,926 | | | |
| San Diego County Investment Pool | 423,896,690 | | | |
| San Diego County Inv. Pool-Treasury | 1,373,116,904 | | | |
| Total investments | <u>\$ 2,752,859,060</u> | | | |

NOTE 3. LEASES AND PUBLIC-PRIVATE PARTNERSHIPS

Lease Receivable

The Airport Authority leases a portion of its property to various third parties who use the space to conduct their operations on the Airport grounds, the terms of which expire 2024 through 2046. The measurement of the lease receivable is based on the present value of lease payments expected to be received during the lease term, such as fixed payments, variable payments that depend on an index or rate, variable payments that are fixed in substance, residual value guarantee payments that are fixed in substance, and any lease incentives payable to the lessee. A number of leases have a maximum possible term of 12 months (or less), including options to extend, regardless of their probability of being exercised. Those payments are recognized as inflows of resources based on the payment provisions of the lease contracts and are therefore excluded from the schedule in this section.

Concession lease receivables for space within the terminals are typically based on the minimum annual guarantee plus a minimum 3 percent annual escalation, less rent holidays. As of June 30, 2023, there are 62 terminal food services and retail concession locations open.

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 many small operator rental car tenants. The land rent leases for the RCC commenced on the opening date of the facility and are non-cancellable. Once the Bonds are repaid or defeased, in addition to land rent, the rental car operators will also pay facility rent.

San Diego County Regional Airport Authority

Various other leasing arrangements are in place for Airport Authority owned buildings, ground, and support spaces. Payments for these leases are generally based on total square footage being leased and an established rate, with periodic increases based on the Consumer Price Index.

Short-term lease payments are recognized as inflows of resources based on the payment provisions of the lease contract and are therefore not included in the lease receivable balances below.

The Airport Authority is party to a lease-leaseback transaction with the Port of San Diego. The lessor and lessee transactions have been netted in accordance with GASB 87, therefore the resulting balance is not included in the lease receivable figure below.

The Airport Authority reports leases receivable with a carrying amount of \$168.0 million and \$193.3 million as of June 30, 2023, and 2022, respectively, and a deferred inflow of resources in the amount of \$147.9 million and \$168.1 million as of June 30, 2023, and 2022, respectively, related to these agreements. The deferred inflow of resources will be recognized as revenue over the terms of the agreements.

Revenue recognized under lease contracts during the years ended June 30, 2023, and 2022, was \$25.7 million and \$23.7 million, respectively, which includes both lease revenue and interest. The Airport recognized lease revenue of \$13.4 million and \$7.8 million, for the years ended June 30, 2023, and 2022, respectively, for variable payments not previously included in the measurement of the lease receivable.

The following is a schedule by year of minimum payments to be received under the Airport Authority's leases that are included in the measurement of the lease receivable as of June 30, 2023:

| Years Ending June 30, | Principal | Interest | Total |
|-----------------------|-----------------------|----------------------|-----------------------|
| 2024 | \$ 21,579,230 | \$ 4,940,854 | \$ 26,520,084 |
| 2025 | 12,684,623 | 4,406,985 | 17,091,608 |
| 2026 | 11,804,674 | 4,167,455 | 15,972,129 |
| 2027 | 10,934,570 | 3,931,931 | 14,866,501 |
| 2028 | 8,373,048 | 3,747,767 | 12,120,815 |
| 2029 - 2033 | 29,180,673 | 16,255,267 | 45,435,940 |
| 2034 - 2038 | 24,521,597 | 11,757,652 | 36,279,249 |
| 2039 - 2043 | 28,828,387 | 6,742,530 | 35,570,917 |
| 2044 - 2046 | 20,132,977 | 1,209,573 | 21,342,550 |
| Total | <u>\$ 168,039,779</u> | <u>\$ 57,160,014</u> | <u>\$ 225,199,793</u> |

Regulated Leases

The Airport Authority leases a portion of its property to air carriers and other aeronautical users, whose leases meet the definition of a regulated lease as defined in GASB 87, and therefore are only subject to the disclosure requirements. The terms of the regulated leases expire 2024 through 2033.

Certain capital assets, such as loading bridges, airfield, and building space are leased to airlines as part of the Airport Authority's Airline Operating Lease Agreement (AOLA). On July 1, 2019, the Airport Authority entered into the current ten-year AOLA with passenger airlines and cargo carriers operating at SDIA. The AOLAs cover the use of and rate-setting mechanisms for the airfield and terminal facilities at SDIA. Under the terms of the AOLA, landing fees and aircraft parking fees are calculated based on a residual rate-setting methodology, in which all costs of the facility and services are recovered from the airlines, and the airlines assume the financial risk. Terminal rental rates are based on a compensatory rate-setting methodology, in which the airlines each pay for only the actual cost of

San Diego County Regional Airport Authority

facilities and services they use; financial risk and control is assumed by the airport. The AOLA also includes signatory and non-signatory rate structures. Air Carriers that signed a non-signatory agreement are charged a 120 percent premium on all signatory rates, fees, and charges, except for the Federal Inspection Services fee, which all airlines pay the same rate for use of the immigration and customs facilities. Signatory carriers are required to pay a minimum amount each year (\$500,000 for passenger carriers, and \$250,000 for cargo carriers). The agreement has no provisions that grant the airlines direct approval rights over capital projects, with the limited exception of certain transportation projects that exceed a \$350 million threshold, as defined in the AOLA. It also allows flexibility to meet the demands of changing airline activity and to accommodate new entrant carriers. Terms of the new agreement financially support execution of the New Terminal 1, formerly referred to as the Airport Development Program. The Airport Authority does provide for preferential or exclusive use of certain assets to air carriers. As of June 30, 2023, 45 of the 59 terminal and cargo aircraft parking positions were subject to preferential use and 99,070 square feet of the 443,194 square feet of airline designated space was subject to exclusive use. As of June 30, 2022, 45 of the 60 terminal and cargo aircraft parking positions were subject to preferential use and 97,350 square feet of the 437,071 square feet of airline designated space was subject to exclusive use.

The Airline Support Building (ASB) is an Airport Authority facility leased by carriers to process belly cargo. A portion of the lease payments increase annually based on CPI. Substantially all buildings and improvements in these leases are for the exclusive use of the four airline tenants.

The Airport Authority recognized fixed revenue under regulated lease contracts of \$10.6 million and \$18.5 million for the fiscal years ended June 30, 2023, and 2022, respectively. Variable lease revenue not previously included in the future minimum payments under its regulated leases were \$182.5 million and \$141.0 million, for the years ended June 30, 2023, and 2022, respectively.

The following is a schedule by year of expected future minimum payments to be received under the Airports regulated leases as of June 30, 2023:

| Years Ending June 30, | Total Future |
|-----------------------|-----------------------------|
| 2024 | \$ 8,738,494 |
| 2025 | 8,999,654 |
| 2026 | 9,270,656 |
| 2027 | 9,551,937 |
| 2028 | 9,843,950 |
| 2029 - 2033 | 15,665,422 |
| Total | <u><u>\$ 62,070,113</u></u> |

Public-Private and Public-Public Partnerships

The Airport Authority has entered into various public-private partnership arrangements that meet the definition of a service concession arrangement in which the operators will operate and maintain the Airport Authority's assets for terms of which expire 2049 through 2050. At the end of the arrangements, operations will be transferred to the Airport Authority. The measurement of the related public-private partnership (PPP) receivable is based on the present value of future payments expected to be received during the PPP term, such as fixed payments, variable payments that depend on an index or rate, variable payments that are fixed in substance, residual value guarantee payments that are fixed in substance, and any PPP incentives payable to the operator. Incremental borrowing rates of 1.1 percent to 3.8 percent were used to measure PPP receivables.

San Diego County Regional Airport Authority

Signature Flight Support is the exclusive lessee of the Fixed Base Operator (FBO) leasehold at SDIA, with their lease expiring April 30, 2049. Ground rent at the FBO increases annually based on the Consumer Price Index (CPI) but cannot drop below the base rent escalation. Substantially all buildings and improvements in this lease are for exclusive use of this tenant and transfer to the Airport Authority at the end of the agreement.

SAN Fuel Company, LLC has a 30-year lease agreement to operate and maintain the fuel facilities at SDIA, which expires May 31, 2050. In addition, the agreement provides for the construction of fuel storage tanks, airlines fueling operations facility (AFO) and a hydrant fuel system for Terminals 1 and 2. Construction of the fuel storage tanks and AFO were completed in fiscal year 2023. The hydrant fuel system will be completed and placed into service upon the completion of the New Terminal 1. All assets constructed are owned by the Airport Authority. Payments for the ground portion of this lease increase every five years, starting in 2025, based on CPI. Substantially all buildings and improvements in this lease are for the exclusive use of this tenant.

The Airport Authority reports partnership leases receivable with a carrying amount of \$138.5 million and \$138.2 million as of June 30, 2023, and 2022, respectively, and a deferred inflow of resources in the amount of \$225.8 million and \$195.5 million as of June 30, 2023, and 2022, respectively, related to these agreements. The deferred inflow of resources will be recognized as revenue over the terms of the agreements. Revenue recognized under the PPP arrangements during fiscal years ended June 30, 2023, and 2022, was \$10.1 million and \$9.0 million, respectively, which includes both PPP revenue and interest. There are no variable payments not previously included in the measurement of the PPP receivable.

The following is a schedule by year of minimum payments to be received under the Airport Authority's Public-Private Partnerships that are included in the measurement of the lease receivable as of June 30, 2023:

| Years Ending June 30, | Principal | Interest | Total |
|-----------------------|-----------------------|----------------------|-----------------------|
| 2024 | \$ 3,281,883 | \$ 4,877,678 | \$ 8,159,561 |
| 2025 | 3,400,613 | 4,758,949 | 8,159,562 |
| 2026 | 3,523,638 | 4,635,924 | 8,159,562 |
| 2027 | 3,651,113 | 4,508,449 | 8,159,562 |
| 2028 | 3,783,200 | 4,376,362 | 8,159,562 |
| 2029 - 2033 | 21,070,741 | 19,727,069 | 40,797,810 |
| 2034 - 2038 | 25,168,076 | 15,629,734 | 40,797,810 |
| 2039 - 2043 | 30,062,163 | 10,735,647 | 40,797,810 |
| 2044 - 2048 | 35,907,935 | 4,889,875 | 40,797,810 |
| 2049 - 2050 | 8,693,602 | 212,949 | 8,906,551 |
| Total | <u>\$ 138,542,964</u> | <u>\$ 74,352,636</u> | <u>\$ 212,895,600</u> |

NOTE 4. 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 \$50.0 million 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 carried a rate of 5.5 percent per annum through October 31, 2021. An amendment to that agreement reduced the rate to 3.6 percent per annum, effective November 1, 2021, reducing the monthly payment. At June 30, 2023, and 2022, the balance of the note receivable was \$22.3 million and \$24.8 million, respectively.

San Diego County Regional Airport Authority

As part of the contracts to lease space in the Airline Support Building (ASB), tenants were given the option to issue a note receivable to the Airport Authority in order to fund tenant improvements to their space. Four airlines and one non-airline tenant exercised this option and issued notes for a combined total of \$13.4 million commencing July 1, 2021, for a period of 5 years carrying the estimated thirty-year revenue bond index rate of 2.5 percent per annum through June 30, 2026. At June 30, 2023, the balance of the notes receivable was \$7.1 million.

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

| Years Ending June 30, | ASB | District | Total |
|-----------------------|---------------------|----------------------|----------------------|
| 2024 | \$ 2,292,350 | \$ 2,634,469 | \$ 4,926,819 |
| 2025 | 2,360,158 | 2,731,707 | 5,091,866 |
| 2026 | 2,429,662 | 2,832,535 | 5,262,197 |
| 2027 | - | 2,937,084 | 2,937,084 |
| 2028 | - | 3,045,492 | 3,045,492 |
| 2029 - 2031 | - | 8,114,638 | 8,114,638 |
| Total | \$ 7,082,170 | \$ 22,295,923 | \$ 29,378,094 |

NOTE 5. CAPITAL ASSETS AND LEASES

Depreciation expense for the years ended June 30, 2023 and June 30, 2022 amounted to \$131.6 million and \$142.0 million, respectively. While the additions to accumulated depreciation balance as of June 30, 2023 and June 30, 2022, was \$133.2 million and \$143.6 million, respectively. The variance is due to GASB 87 adjustments to accumulated depreciation for CIP projects.

| | Balance at July 1, 2022 | Increases | Decreases | Balance at June 30, 2023 |
|---|----------------------------|----------------|-----------------|-----------------------------|
| Nondepreciable assets and leases: | | | | |
| Land | \$ 22,167,594 | \$ - | \$ - | \$ 22,167,594 |
| Land - right-to-use lease asset | 224,989,986 | - | - | 224,989,986 |
| Construction in progress | 578,124,720 | 621,296,376 | (54,063,403) | 1,145,357,693 |
| Intangible asset | 440,000 | - | - | 440,000 |
| Total nondepreciable assets and leases | 825,722,301 | 621,296,376 | (54,063,403) | 1,392,955,274 |
| Depreciable assets and leases: | | | | |
| Land improvements | 160,111,604 | - | - | 160,111,604 |
| Land improvements - right-to-use lease assets | 13,313,911 | - | - | 13,313,911 |
| Buildings and structures | 1,823,029,725 | 63,901,385 | (3,213,969) | 1,883,717,140 |
| Machinery and equipment | 124,708,399 | 14,506,699 | (12,858) | 139,202,241 |
| Right-to-use subscription assets | 464,378 | - | - | 464,378 |
| Runways, roads and parking lots | 637,019,738 | - | (6,441,991) | 630,577,748 |
| Total capital and lease assets being depreciated/amortized | 2,758,647,755 | 78,408,084 | (9,668,818) | 2,827,387,021 |
| Less accumulated depreciation and amortization for: | | | | |
| Land improvements | (50,707,793) | (6,829,814) | - | (57,537,607) |
| Building and structures | (832,118,062) | (82,396,336) | 3,236,241 | (911,278,157) |
| Right-to-use lease assets | (11,275,961) | (6,483,298) | - | (17,759,259) |
| Right-to-use subscription assets | (92,876) | (92,876) | - | (185,751) |
| Machinery and equipment | (87,898,380) | (10,678,418) | 12,858 | (98,563,939) |
| Runways, roads and parking lots | (318,166,349) | (26,681,289) | 5,685,100 | (339,162,538) |
| Total accumulated depreciation and amortization | (1,300,259,420) | (133,162,031) | 8,934,199 | (1,424,487,252) |
| Total capital and lease assets being depreciated/amortized, net | 1,458,388,335 | (54,753,948) | (734,618) | 1,402,899,769 |
| Capital and lease assets, net | \$ 2,284,110,636 | \$ 566,542,428 | \$ (54,798,021) | \$ 2,795,855,043 |

San Diego County Regional Airport Authority

| | Balance at July 1, 2021 | Increases | Decreases | Balance at June 30, 2022 |
|---|----------------------------|----------------|-----------------|-----------------------------|
| Nondepreciable assets and leases: | | | | |
| Land | \$ 22,167,594 | \$ - | \$ - | \$ 22,167,594 |
| Land - right-to-use lease asset | 224,989,986 | - | - | 224,989,986 |
| Construction in progress | 248,538,868 | 377,043,444 | (47,457,592) | 578,124,720 |
| Intangible asset | 440,000 | - | - | 440,000 |
| Total nondepreciable assets and leases | 496,136,449 | 377,043,444 | (47,457,592) | 825,722,301 |
| Depreciable assets and leases: | | | | |
| Land improvements | 163,770,750 | - | (3,659,146) | 160,111,604 |
| Land improvements - right-to-use lease assets | 13,313,911 | - | - | 13,313,911 |
| Buildings and structures | 1,885,767,510 | 19,693,720 | (82,431,505) | 1,823,029,725 |
| Machinery and equipment | 122,982,559 | 6,130,853 | (4,405,013) | 124,708,399 |
| Right-to-use subscription assets | - | 464,378 | - | 464,378 |
| Runways, roads and parking lots | 719,974,821 | 18,769,256 | (101,724,339) | 637,019,738 |
| Total capital and lease assets being depreciated/amortized | 2,905,809,551 | 45,058,207 | (192,220,003) | 2,758,647,755 |
| Less accumulated depreciation and amortization for: | | | | |
| Land improvements | (45,475,582) | (10,384,845) | 5,152,634 | (50,707,793) |
| Building and structures | (824,007,617) | (83,738,691) | 75,628,246 | (832,118,062) |
| Right-to-use lease assets | (4,792,663) | (6,483,298) | - | (11,275,961) |
| Right-to-use subscription assets | - | (92,876) | - | (92,876) |
| Machinery and equipment | (80,936,062) | (11,309,899) | 4,347,581 | (87,898,380) |
| Runways, roads and parking lots | (383,511,041) | (31,577,753) | 96,922,445 | (318,166,349) |
| Total accumulated depreciation and amortization | (1,338,722,965) | (143,587,361) | 182,050,906 | (1,300,259,420) |
| Total capital and lease assets being depreciated/amortized, net | 1,567,086,586 | (98,529,154) | (10,169,097) | 1,458,388,335 |
| Capital and lease assets, net | \$ 2,063,223,035 | \$ 278,514,290 | \$ (57,626,689) | \$ 2,284,110,636 |

Note: Fiscal year 2022 amounts have been restated for GASB 94 & GASB 96

San Diego County Regional Airport Authority

NOTE 6. LONG-TERM LIABILITIES

The following is a summary of changes in the long-term liability activity for the years ended June 30, 2023, and 2022:

| | Principal Balance at June 30, 2022 | Additions /New Issuances | Reductions/ Repayments | Principal Balance at June 30, 2023 | Due Within One Year |
|-----------------------------|--|-----------------------------|---------------------------|--|------------------------|
| Variable Rate Debt | | | | | |
| Revolving LOC | \$ 80,100,000 | \$ - | \$ - | \$ 80,100,000 | \$ - |
| Total variable rate debt | 80,100,000 | - | - | 80,100,000 | - |
| Bonds payable: | | | | | |
| Series 2014 Bonds | 282,005,000 | - | (6,320,000) | 275,685,000 | 6,670,000 |
| Series 2017 Bonds | 271,915,000 | - | (5,320,000) | 266,595,000 | 5,585,000 |
| Series 2019 Bonds | 459,025,000 | - | (4,440,000) | 454,585,000 | 6,095,000 |
| Series 2020 Bonds | 226,995,000 | - | (14,520,000) | 212,475,000 | 15,240,000 |
| Series 2021 Bonds | 1,941,745,000 | - | (9,760,000) | 1,931,985,000 | 16,465,000 |
| Bond premiums | 486,158,691 | - | (26,690,100) | 459,468,592 | - |
| Total bonds payable | 3,667,843,691 | - | (67,050,100) | 3,600,793,592 | 50,055,000 |
| Lease Liabilities | 232,419,082 | - | (3,471,838) | 228,947,243 | 3,561,593 |
| Subscription Liabilities | 347,785 | - | (114,486) | 233,299 | 115,922 |
| Note Payable - CRDC | 5,878,682 | - | (354,139) | 5,524,543 | 387,928 |
| Total debt obligations | 3,753,822,373 | - | (67,404,238) | 3,686,418,135 | 50,442,928 |
| Compensated absences | 5,054,078 | 3,791,186 | (3,750,893) | 5,094,372 | 3,750,891 |
| Total long-term liabilities | \$ 3,758,876,452 | \$ 3,791,186 | \$ (71,155,131) | \$ 3,691,512,507 | \$ 54,193,819 |

Note: Fiscal year 2022 amounts have been restated for GASB 94 & GASB 96.

| | Principal Balance at June 30, 2021 | Additions /New Issuances | Reductions/ Repayments | Principal Balance at June 30, 2022 | Due Within One Year |
|-----------------------------|--|-----------------------------|---------------------------|--|------------------------|
| Variable Rate Debt | | | | | |
| Revolving LOC | \$ - | \$ 80,100,000 | \$ - | \$ 80,100,000 | \$ - |
| Total variable rate debt | - | 80,100,000 | - | 80,100,000 | - |
| Bonds payable: | | | | | |
| Series 2013 Bonds | 360,825,000 | - | (360,825,000) | - | - |
| Series 2014 Bonds | 288,095,000 | - | (6,090,000) | 282,005,000 | 6,120,000 |
| Series 2017 Bonds | 276,985,000 | - | (5,070,000) | 271,915,000 | 5,320,000 |
| Series 2019 Bonds | 462,445,000 | - | (3,420,000) | 459,025,000 | 4,440,000 |
| Series 2020 Bonds | 240,820,000 | - | (13,825,000) | 226,995,000 | 14,520,000 |
| Series 2021 Bonds | - | 1,941,745,000 | - | 1,941,745,000 | 9,760,000 |
| Bond premiums | 206,427,883 | 332,380,831 | (52,650,023) | 486,158,691 | - |
| Total bonds payable | 1,835,597,883 | 2,274,125,831 | (441,880,023) | 3,667,843,691 | 40,160,000 |
| Lease Liabilities | 235,804,038 | - | (3,384,956) | 232,419,082 | 3,471,838 |
| Subscription Liabilities | 464,378 | - | (116,594) | 347,785 | 114,486 |
| Note Payable - CRDC | 6,201,975 | - | (323,293) | 5,878,682 | 323,293 |
| Total debt obligations | 1,841,799,858 | 2,354,225,831 | (442,203,316) | 3,753,822,373 | 40,483,293 |
| Compensated absences | 4,761,943 | 292,136 | - | 5,054,078 | 3,264,966 |
| Total long-term liabilities | \$ 1,846,561,801 | \$ 2,354,517,967 | \$ (442,203,316) | \$ 3,758,876,452 | \$ 43,748,259 |

Note: Fiscal year 2022 amounts have been restated for GASB 94 & GASB 96.

San Diego County Regional Airport Authority

Subordinate Lien Series 2017, 2019, 2020 and 2021 Bonds: The Airport Authority issued \$291.2 million of Series A and B Subordinate Airport Revenue Bonds (Series 2017 Bonds) on August 3, 2017. 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 Series 2017 Bonds, refund \$32.6 million of the Airport Authority's outstanding variable rate debt, fund the subordinate reserve fund and pay the costs of issuance of the Series 2017 Bonds. The Series 2017 Bonds are structured as serial and term bonds that bear interest at rates ranging from 4.0 percent to 5.0 percent and mature in fiscal years 2019 to 2048. The bonds were issued at a premium of \$48.4 million 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, 2023, and 2022 amounted to \$13.3 million and \$13.6 million, respectively, including accrued interest of \$6.7 million and \$6.8 million, respectively. The principal balance on the Series 2017 Bonds as of June 30, 2023, and 2022 was \$266.6 million and \$271.9 million, 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 |
|-----------------------|-----------------------|-----------------------|-----------------------|
| 2024 | \$ 5,585,000 | \$ 13,190,125 | \$ 18,775,125 |
| 2025 | 5,865,000 | 12,903,875 | 18,768,875 |
| 2026 | 6,155,000 | 12,603,375 | 18,758,375 |
| 2027 | 6,465,000 | 12,287,875 | 18,752,875 |
| 2028 | 6,790,000 | 11,956,500 | 18,746,500 |
| 2029-2033 | 39,395,000 | 54,201,375 | 93,596,375 |
| 2034-2038 | 50,275,000 | 43,045,875 | 93,320,875 |
| 2039-2043 | 64,170,000 | 28,808,750 | 92,978,750 |
| 2044-2048 | 81,895,000 | 10,635,875 | 92,530,875 |
| | <u>\$ 266,595,000</u> | <u>\$ 199,633,625</u> | <u>\$ 466,228,625</u> |

The Airport Authority issued \$338.8 million of Series A Subordinate Airport Revenue and Revenue Refunding Bonds and \$124.9 million of Series B Subordinate Airport Revenue Bonds on December 11, 2019 (Series 2019 Bonds). The Series 2019 Bonds were issued to finance certain capital improvements at SDIA including a new facilities maintenance building and storm water capture and reuse projects, fund a portion of the interest accruing on the Series 2019 Bonds, refund \$34.3 million of the Airport Authority's outstanding variable rate debt, fund the Series 2010C Escrow account, fund the subordinate reserve fund, and pay the costs of issuance of the Series 2019 Bonds. The Series 2019 Bonds are structured as serial and term bonds that bear interest at rates ranging from 4.0 percent to 5.0 percent and mature in fiscal years 2021 to 2050. The bonds were issued at a premium of \$96.9 million which is being amortized over the life of the bonds. Interest on the Series 2019 Bonds is payable semiannually on January 1 and July 1 of each year.

Interest for the fiscal years ended June 30, 2023, and 2022 amounted to \$21.9 million and \$22.1 million, respectively, including accrued interest of \$10.9 million and \$11.1 million, respectively. The principal balance on the Series 2019 Bonds as of June 30, 2023, and 2022 was \$454.6 million and \$459.0 million, respectively.

San Diego County Regional Airport Authority

The required debt service payments for the Series 2019 Bonds for the fiscal years ending June 30 are as follows:

| Years Ending June 30, | Principal | Interest | Total |
|-----------------------|-----------------------|-----------------------|-----------------------|
| 2024 | \$ 6,095,000 | \$ 21,899,100 | \$ 27,994,100 |
| 2025 | 6,400,000 | 21,594,350 | 27,994,350 |
| 2026 | 5,615,000 | 21,274,350 | 26,889,350 |
| 2027 | 5,895,000 | 20,993,600 | 26,888,600 |
| 2028 | 6,195,000 | 20,698,850 | 26,893,850 |
| 2029-2033 | 57,305,000 | 98,037,500 | 155,342,500 |
| 2034-2038 | 133,300,000 | 75,738,250 | 209,038,250 |
| 2039-2043 | 127,040,000 | 41,112,100 | 168,152,100 |
| 2044-2048 | 72,495,000 | 19,594,450 | 92,089,450 |
| 2049-2050 | 34,245,000 | 2,589,250 | 36,834,250 |
| | <u>\$ 454,585,000</u> | <u>\$ 343,531,800</u> | <u>\$ 798,116,800</u> |

The Airport Authority issued \$241.6 million of Series A, B and C Subordinate Airport Revenue Refunding Bonds (Series 2020 Bonds). The Airport Authority entered into a Forward Delivery Purchase Contract on December 11, 2019, and delivered the Series 2020 Bonds Proceeds on April 8, 2020. Proceeds from the sale of the Series 2020 Bonds were used to fund the Series 2010 A and B bonds escrow accounts and pay the costs of issuance of the Series 2020 Bonds. The Series 2020 Bonds are structured as serial bonds that bear interest rates of 5.0 percent and mature in fiscal years 2021 to 2041. The bonds were issued at a premium of \$49.4 million, which is being amortized over the life of the bonds. Interest on the Series 2020 Bonds is payable semiannually on January 1 and July 1 of each year.

Interest for the fiscal years ended June 30, 2023, and 2022 amounted to \$10.6 million and \$11.5 million, respectively, including accrued interest of \$5.4 million and \$5.8 million, respectively. The principal balance on the Series 2020 Bonds as of June 30, 2023, and 2022 was \$212.5 million and \$227.0 million, respectively.

The required debt service payments for the Series 2020 Bonds for the fiscal years ending June 30 are as follows:

| Years Ending June 30, | Principal | Interest | Total |
|-----------------------|-----------------------|----------------------|-----------------------|
| 2024 | \$ 15,240,000 | \$ 10,623,750 | \$ 25,863,750 |
| 2025 | 16,005,000 | 9,861,750 | 25,866,750 |
| 2026 | 11,275,000 | 9,061,500 | 20,336,500 |
| 2027 | 11,830,000 | 8,497,750 | 20,327,750 |
| 2028 | 12,425,000 | 7,906,250 | 20,331,250 |
| 2029-2033 | 66,075,000 | 29,681,750 | 95,756,750 |
| 2034-2038 | 50,180,000 | 14,321,500 | 64,501,500 |
| 2039-2041 | 29,445,000 | 2,993,000 | 32,438,000 |
| | <u>\$ 212,475,000</u> | <u>\$ 92,947,250</u> | <u>\$ 305,422,250</u> |

The Airport Authority issued \$1,941.7 million of Series A, B and C Subordinate Airport Revenue and Revenue Refunding Bonds (Series 2021 Bonds). The Series 2021 Bonds were issued to finance certain capital improvements at SDIA including construction of the New Terminal 1, fund a portion of the interest accruing on the Series 2021 Bonds, fund the Series 2013 Escrow account, fund the subordinate reserve fund, and pay the costs of issuance of the Series 2021 Bonds. The Series 2021A and B Bonds are structured as serial bonds that bear interest rates ranging from 4.0 percent to 5.0 percent and mature in fiscal years 2027 to 2057. The Series A and B bonds were issued at a

San Diego County Regional Airport Authority

premium of \$332.4 million, which is being amortized over the life of the bonds. The Series 2021 C Bonds are federally Taxable Bonds and are structured as serial and term bonds that bear interest at rates ranging from 0.5 percent to 3.1 percent and mature in fiscal years 2023 to 2037. Interest on the Series 2021ABC Bonds is payable semiannually on January 1 and July 1 of each year.

Interest for the fiscal years ended June 30, 2023, and 2022 amounted to \$82 million and \$46.3 million, respectively, including accrued interest of \$41 million and \$46.3 million, respectively. The principal balance on the Series 2021 Bonds as of June 30, 2023, and 2022 was \$1,932 million and \$1,941.7 million, respectively.

The required debt service payments for the Series 2021 Bonds for the fiscal years ending June 30 are as follows:

| Years Ending June 30, | Principal | Interest | Total |
|-----------------------|-------------------------|-------------------------|-------------------------|
| 2024 | \$ 16,465,000 | \$ 81,898,541 | \$ 98,363,541 |
| 2025 | 16,570,000 | 81,719,420 | 98,289,420 |
| 2026 | 16,745,000 | 81,494,869 | 98,239,869 |
| 2027 | 10,310,000 | 80,979,369 | 91,289,369 |
| 2028 | 10,830,000 | 80,437,869 | 91,267,869 |
| 2029-2033 | 88,730,000 | 391,776,087 | 480,506,087 |
| 2034-2038 | 171,630,000 | 362,172,900 | 533,802,900 |
| 2039-2043 | 292,920,000 | 318,558,629 | 611,478,629 |
| 2044-2048 | 342,900,000 | 414,467,207 | 757,367,207 |
| 2049-2053 | 435,175,000 | 166,888,750 | 602,063,750 |
| 2053-2057 | 529,710,000 | 62,706,500 | 592,416,500 |
| | <u>\$ 1,931,985,000</u> | <u>\$ 2,123,100,141</u> | <u>\$ 4,055,085,141</u> |

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 2017, 2019, 2020 and 2021 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. On June 30, 2023, and 2022, the amount held by the trustee was \$1,477.6 million and \$2,120.6 million, 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 Bonds as of June 30, 2023, are A/A2/A+ by Standard & Poor's, Moody's Investors Service and Fitch Ratings.

Senior Lien Special Facilities Revenue Bonds, Series 2014: On February 19, 2014, the Airport Authority issued \$305.3 million 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.

San Diego County Regional Airport Authority

The Series 2014 A Bonds were structured as tax-exempt and non-AMT term bonds that bear interest at 5.0 percent. The Series 2014 B Bonds were structured as federally taxable bonds that bear interest at rates ranging from 2.5 percent to 5.6 percent. The bonds were issued at a premium of \$0.6 million, 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 the fiscal years ended June 30, 2023, and 2022 amounted to \$15.2 million and \$15.6 million, respectively, including accrued interest of \$7.6 million and \$7.8 million, respectively. The principal balance on the Series 2014 Bonds as of June 30, 2023, and 2022 was \$275.7 million and \$282 million, 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, 2023, and 2022, the amount held by the trustee was \$58.2 million and \$55.1 million, respectively, which included the July 1 payment, the debt service reserve fund, the renewal and replace fund, and the rolling coverage fund.

The public ratings of the Senior Series Special Facility 2014 Bonds as of June 30, 2023, are BBB+/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 |
|-----------------------|-----------------------|-----------------------|-----------------------|
| 2024 | \$ 6,670,000 | \$ 15,060,682 | \$ 21,730,682 |
| 2025 | 7,045,000 | 14,677,074 | 21,722,074 |
| 2026 | 7,440,000 | 14,271,928 | 21,711,928 |
| 2027 | 7,855,000 | 13,844,127 | 21,699,127 |
| 2028 | 8,295,000 | 13,392,412 | 21,687,412 |
| 2029-2033 | 48,980,000 | 59,250,031 | 108,230,031 |
| 2034-2038 | 64,295,000 | 43,501,662 | 107,796,662 |
| 2039-2043 | 84,410,000 | 22,828,056 | 107,238,056 |
| 2044-2045 | 40,695,000 | 2,094,701 | 42,789,701 |
| | <u>\$ 275,685,000</u> | <u>\$ 198,920,674</u> | <u>\$ 474,605,674</u> |

Interest expense on the Series 2013, 2014, 2017, 2019, 2020 and 2021 Bonds for fiscal years ended June 30, 2023, and June 30, 2022, of \$143.1 million and \$116.3 million, respectively, was offset by bond premium amortization of \$26.7 million in fiscal year 2023 and \$21.6 million in fiscal year 2022.

Subordinate Short-Term Debt Program: On July 19, 2021, The Airport Authority and Bank of America entered into a Revolving Credit Agreement. The Airport Authority is authorized to issue up to \$200.0 million in Subordinate Revolving Obligations. The revolving credit agreement is for a term of three years. At the end of fiscal years 2023 and 2022, the Airport Authority had \$80.1 million in aggregate principal of Subordinate Revolving Obligations outstanding. These obligations were used to finance the New Terminal 1. Obligations incurred under the Revolving Credit Agreement are payable solely from and secured by a pledge of "Subordinate Net Revenues." Subordinate Net

San Diego County Regional Airport Authority

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.

Line of credit: In fiscal year 2022, the Airport Authority maintained a \$2.0 million line of credit held with US Bank, which is collateralized with a Treasury bond. 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, 2023, and June 30, 2022, 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, 2023, and 2022:

| | June 30, 2023 | | June 30, 2022 | |
|--------------------------|----------------------|-----------------------|----------------------|-----------------------|
| | Used | Unused | Used | Unused |
| Revolving line of credit | \$80,100,000 | \$119,900,000 | \$80,100,000 | \$119,900,000 |
| Drawdown bonds | - | - | - | - |
| Line of credit | \$ - | 2,000,000 | \$ - | 2,000,000 |
| | <u>\$ 80,100,000</u> | <u>\$ 121,900,000</u> | <u>\$ 80,100,000</u> | <u>\$ 121,900,000</u> |

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 the Letter of Credit and Reimbursement Agreement, an event of default could result in either an acceleration or an interest rate increase of 3.0 to 7.0 percent 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 Airport Authority's Letter of Credit and Reimbursement Agreement is collateralized with a \$2.2 million Treasury bond. Excluding general airport revenue bonds, special facility bonds, and leases, no other assets have been pledged or collateralized for any other debt instruments. General Airport revenue bonds 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 PFCs, CFCs or Federal Grants). The special facility bonds are secured by a pledge of the Trust Estate.

NOTE PAYABLE

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 note payable and requires monthly lease payments of \$73.1 thousand. The Airport Authority will become the owner of the RDC at the conclusion of the 20-year installment purchase agreement.

San Diego County Regional Airport Authority

The following is a schedule of future lease payments applicable to the RDC installment purchase agreement, and the net present value of the future lease payments on June 30, 2023:

| <u>Years Ending June 30,</u> | <u>Amount</u> |
|--|---------------------|
| 2024 | \$ 877,298 |
| 2025 | 877,298 |
| 2026 | 877,298 |
| 2027 | 877,298 |
| 2028-2032 | 4,386,489 |
| 2032 | 365,541 |
| Total Lease Payments | <u>8,261,221</u> |
| Less amount representing interest | <u>(2,736,678)</u> |
| Present value of future lease payments | <u>\$ 5,524,543</u> |

LEASE LIABILITIES

The Airport Authority leases properties from the District and smaller third parties and uses that space to conduct its operations, the terms of which expire 2024 through 2072. The measurement of the lease payable is based on the present value of lease payments expected to be paid during the lease term, such as fixed payments, variable payments that depend on an index or rate, variable payments that are fixed in substance, residual value guarantee payments that are fixed in substance, and any lease incentives payable to the lessee.

Incremental borrowing rates of 1.1 percent to 3.8 percent were used to measure lease payables. Lease liabilities recorded under lease contracts as of June 30, 2023, and 2022, were \$228.9 million and \$232.4 million, respectively.

The future principal and interest payments for lease liabilities as of June 30, 2023, are as follows:

| <u>Years Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------------|----------------------|----------------------|----------------------|
| 2024 | 3,561,593 | 8,542,384 | 12,103,977 |
| 2025 | 3,654,325 | 8,449,652 | 12,103,977 |
| 2026 | 2,843,071 | 8,357,785 | 11,200,856 |
| 2027 | 2,659,160 | 8,270,002 | 10,929,162 |
| 2028 | 2,715,440 | 8,179,841 | 10,895,281 |
| 2029-2033 | 13,208,299 | 39,479,649 | 52,687,948 |
| 2034-2038 | 16,110,142 | 36,758,272 | 52,868,413 |
| 2039-2043 | 18,629,066 | 33,475,110 | 52,104,176 |
| 2044-2048 | 21,133,978 | 29,749,322 | 50,883,300 |
| 2049-2053 | 25,581,713 | 25,301,587 | 50,883,300 |
| 2054-2058 | 30,965,493 | 19,917,807 | 50,883,300 |
| 2059-2063 | 37,482,312 | 13,400,988 | 50,883,300 |
| 2064-2068 | 45,370,623 | 5,512,677 | 50,883,300 |
| 2069-2072 | 5,032,028 | 56,302 | 5,088,330 |
| | <u>\$228,947,244</u> | <u>\$245,451,378</u> | <u>\$474,398,622</u> |

San Diego County Regional Airport Authority

Subscription-Based Information Technology Arrangements

The Airport Authority entered Subscription-Based Information Technology Arrangement (SBITA) that allows the Airport Authority the right to use and control a vendor's software, alone or in combination with other assets, the terms of which expire 2024 through 2025. The measurement of the subscription liabilities is based on the present value of lease payments expected to be paid during the subscription term, such as fixed payments, variable payments that depend on an index or rate, variable payments that are fixed in substance, and residual value guarantee payments that are fixed in substance.

Incremental borrowing rates of 1.1 percent to 3.8 percent were used to measure subscription payables. Subscription liabilities recorded under subscription contracts as of June 30, 2023, and 2022, were \$0.1 million and \$0.1 million, respectively.

The future principal and interest payments for lease liabilities as of June 30, 2023, are as follows:

| Years Ending June 30, | Principal | Interest | Total |
|-----------------------|------------------|----------------|------------------|
| 2024 | 115,922 | 1,489 | 117,411 |
| 2025 | 117,377 | 335 | 117,711 |
| | <u>\$233,299</u> | <u>\$1,824</u> | <u>\$235,123</u> |

NOTE 7. DEFINED BENEFIT PLANS

Introduction: The Airport Authority has two defined benefit pension plans which cumulatively represent the net pension liability or asset, 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 and for the years ended June 30, 2023, and 2022:

| | Defined Benefit Plan GASB 68) | Preservation of Benefits Trust Plan GASB 73 | Total |
|---|-------------------------------------|--|--------------|
| Balances as of and for the year ended 6/30/2023 | | | |
| Pension expense | \$ 5,000,713 | \$ 56,102 | \$ 5,056,815 |
| Net pension liability (asset) | 5,583,686 | 1,614,123 | 7,197,809 |
| Deferred outflows of resources | 11,810,016 | 352,421 | 12,162,437 |
| Deferred inflows of resources | 3,967,393 | 782,576 | 4,749,969 |
| Balances as of and for the year ended 6/30/2022 | | | |
| Pension expense | \$ 4,323,882 | \$ 329,788 | \$ 4,653,670 |
| Net pension liability | (8,995,046) | 2,373,440 | (6,621,606) |
| Deferred outflows of resources | 17,497,620 | 639,654 | 18,137,274 |
| Deferred inflows of resources | 26,976,052 | 282,242 | 27,258,294 |

Plan description: The Airport Authority's single-employer defined benefit pension plan (Plan), administered by SDCERS, provides service retirement, disability benefits, death benefits 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.

San Diego County Regional 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 twenty-six 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 thirty-six 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 member, with 50 percent continuance to the eligible spouse or registered-domestic partner 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. Members may also choose to receive a reduced lifetime monthly benefit and, upon death, leave more than 50 percent to their spouse or registered domestic partner, or to provide a continuance to a non-spouse.

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

San Diego County Regional Airport Authority

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, 2022, and June 30, 2021, Plan membership was as follows:

| | 2022 | 2021 |
|--|------------|------------|
| Active employees | 378 | 385 |
| Inactive employees entitled to but not yet receiving benefits | 182 | 163 |
| Inactive employees or beneficiaries currently receiving benefits | 162 | 145 |
| Total | <u>722</u> | <u>693</u> |

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 the Airport Authority apply to the fiscal year beginning 12 months after the valuation date. For June 30, 2023, the actuarially determined contribution rates for plan sponsors and members were developed in the June 30, 2022, 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, 2023, and 2022, employees contributed \$3.3 million and \$3.0 million, respectively, and the Airport Authority contributed \$7.7 million and \$9.1 million, 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 offset is equal to 7.0 percent or 8.5 percent of the general classic members' base compensation and 9.6 percent of the executive classic members' base compensation. These contributions are included in the employee contribution. There is no offset for PEPRAs participants.

Net Pension Liability (Asset): The Airport Authority's net pension liability (asset) as of June 30, 2023, is measured as the total pension liability, less the pension plan's fiduciary net position. The total pension liability as of June 30, 2023, is measured as of June 30, 2022. The annual valuation used is as of June 30, 2021, rolled forward to June 30, 2022, using standard update procedures. A summary of the principal assumptions and methods used to determine the net pension liability (asset) follows.

San Diego County Regional Airport Authority

Actuarial Assumptions: The total pension liability in the June 30, 2022, and June 30, 2021, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | June 30, 2022 | June 30, 2021 |
|---|---------------------------------|---------------------------------|
| Valuation date | June 30, 2021 | June 30, 2020 |
| Measurement date | June 30, 2022 | June 30, 2021 |
| 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% | 6.50% |
| Inflation Rate | 3.05% | 3.05% |
| Interest Credited to Member Contributions | 6.50% | 6.50% |
| 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⁾ | 2.0% - 16.0% | 2.0% - 16.0% |
| Disability rate ⁽⁴⁾ | 0.01% - 0.20% | 0.01% - 0.20% |
| 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, 2020 and June 30, 2019 actuarial reports.

Discount Rate: For the June 30, 2022, and June 30, 2021, actuarial valuations, the discount rates used to measure the total pension liability was 6.5 percent. 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 | 19.0% | 4.9% | 7.5% |
| International equity | 12.0% | 5.5% | 8.0% |
| Global equity | 8.0% | 5.3% | 7.8% |
| Domestic fixed income | 22.0% | 1.0% | 3.5% |
| Return-Seeking Fixed Income | 5.0% | 4.4% | 6.9% |
| Real estate | 11.0% | 3.2% | 5.7% |
| Private equity and infrastructure | 13.0% | 7.5% | 10.1% |
| Opportunity fund | 10.0% | 4.6% | 7.1% |
| | <u>100.0%</u> | | |

San Diego County Regional Airport Authority

Changes in the Net Pension Liability (Asset): Changes in the total pension liability (asset), plan fiduciary net position and the net pension liability through the year ended June 30, 2023, were as follows:

| | Increase (Decrease) | | |
|---|---------------------|----------------|--------------------------------|
| | Total Pension | Fiduciary Net | Net Pension |
| | Liability (a) | Position (b) | Liability/(Asset) (a) - (b) |
| Balances as of June 30, 2022 | \$ 254,465,897 | \$ 263,460,943 | \$ (8,995,046) |
| Changes for the year: | | | |
| Service cost | 6,980,223 | - | 6,980,223 |
| Interest on total pension liability | 16,489,161 | - | 16,489,161 |
| Difference between expected and actual experience | (1,288,936) | - | (1,288,936) |
| Changes in assumptions | - | - | - |
| Employer contributions | - | 9,181,680 | (9,181,680) |
| Member contributions | - | 3,070,398 | (3,070,398) |
| Net investment income | - | (4,188,463) | 4,188,463 |
| Benefit payments | (8,578,375) | (8,578,375) | - |
| Administrative expense | - | (461,899) | 461,899 |
| Net changes | 13,602,073 | (976,659) | 14,578,732 |
| Balances as of June 30, 2023 | \$ 268,067,970 | \$ 262,484,284 | \$ 5,583,686 |

Changes in the total pension liability, plan fiduciary net position and the net pension liability through the year ended June 30, 2022, were as follows:

| | Increase (Decrease) | | |
|---|---------------------|----------------|--------------------------------|
| | Total Pension | Fiduciary Net | Net Pension |
| | Liability (a) | Position (b) | Liability/(Asset) (a) - (b) |
| Balances as of June 30, 2021 | \$ 241,862,071 | \$ 207,843,276 | \$ 34,018,795 |
| Changes for the year: | | | |
| Service cost | 7,970,646 | - | 7,970,646 |
| Interest on total pension liability | 15,693,834 | - | 15,693,834 |
| Difference between expected and actual experience | (2,239,695) | - | (2,239,695) |
| Changes in assumptions | - | - | - |
| Employer contributions | - | 8,596,163 | (8,596,163) |
| Member contributions | - | 3,125,138 | (3,125,138) |
| Net investment income | - | 53,140,343 | (53,140,343) |
| Benefit payments | (8,820,959) | (8,820,959) | - |
| Administrative expense | - | (423,018) | 423,018 |
| Net changes | 12,603,826 | 55,617,667 | (43,013,841) |
| Balances as of June 30, 2022 | \$ 254,465,897 | \$ 263,460,943 | \$ (8,995,046) |

San Diego County Regional Airport Authority

Sensitivity of the Net Pension Liability (Asset) to Discount Rate Changes: The following presents the resulting net pension liability (asset) calculated using the discount rate of 6.5 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, 2023:

| | 1% Decrease 5.50% | Current 6.50% | 1% Increase 7.50% |
|---|----------------------|---------------------|------------------------|
| Total pension liability | \$ 304,843,649 | \$ 268,067,970 | \$ 237,930,789 |
| Plan fiduciary net position | 262,484,284 | 262,484,284 | 262,484,284 |
| Net pension liability (asset) | <u>\$ 42,359,365</u> | <u>\$ 5,583,686</u> | <u>\$ (24,553,495)</u> |
| Plan fiduciary net position as a percentage of the total pension liability | <u>86.1%</u> | <u>97.9%</u> | <u>110.3%</u> |

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Plan: For the years ended June 30, 2023, and June 30, 2022, the Airport Authority recognized pension expense, as measured in accordance with GASB 68, of \$5.0 million and \$4.3 million, respectively. At June 30, 2023 and June 30, 2022, the Airport Authority reported deferred outflows of resources and deferred inflows of resources related to the plan from the following sources:

| For June 30, 2023 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 370,346 | \$ 2,877,993 |
| Net difference between projected and actual earnings | - | 1,089,400 |
| Changes in assumptions | 3,776,149 | - |
| Employer contributions made subsequent to June 30, 2022 measurement date | 7,663,521 | - |
| Total | <u>\$ 11,810,016</u> | <u>\$ 3,967,393</u> |

| For June 30, 2022 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 1,218,022 | \$ 2,926,703 |
| Net difference between projected and actual earnings | - | 24,049,349 |
| Changes in assumptions | 7,177,433 | - |
| Employer contributions made subsequent to June 30, 2021 measurement date | 9,102,165 | - |
| Total | <u>\$ 17,497,620</u> | <u>\$ 26,976,052</u> |

The deferred outflows of resources, at June 30, 2023, and June 30, 2022, resulting from Airport Authority contributions subsequent to the measurement date and prior to year-end will be recognized as a reduction of the net pension liability in fiscal year 2024, and an increase to the net pension asset in fiscal year 2023.

San Diego County Regional Airport Authority

Other amounts reported as deferred outflows/inflows of resources related to the plan at June 30, 2023, will be recognized in pension expense as follows:

| Years ended June 30, | |
|----------------------|-------------------|
| 2024 | \$ 382,007 |
| 2025 | (179,075) |
| 2026 | (4,339,581) |
| 2027 | 4,315,751 |
| | <u>\$ 179,102</u> |

NOTE 8. PRESERVATION OF BENEFITS TRUST PLAN

Preservation of Benefits Trust Plan (POB) description: The Airport Authority's single-employer defined benefit pension plan 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 7.

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: 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, 2023, and June 30, 2022, were \$20.6 thousand and \$52.4 thousand, respectively. The POB is unfunded and provides benefits on an annual basis as determined by SDCERS.

As of the measurement dates of June 30, 2022, and 2021, Plan membership was as follows:

| | 2022 | 2021 |
|--|----------|----------|
| Active employees | 2 | 2 |
| Inactive employees or beneficiaries currently receiving benefits | 1 | 1 |
| Total | <u>3</u> | <u>3</u> |

Total Pension Liability: The Airport Authority's total pension liability as of June 30, 2023, and June 30, 2022, was \$1.6 million and \$2.4 million, respectively. The pension liability as of June 30, 2023, is measured as of June 30, 2022, using an annual actuarial valuation as of June 30, 2021, rolled forward to June 30, 2022, using standard update procedures. A summary of the principal assumptions and methods used to determine the net pension liability follow.

San Diego County Regional Airport Authority

Actuarial Assumptions: The total pension liability in the June 30, 2022, and June 30, 2021, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | June 30, 2022 | June 30, 2021 |
|---|------------------|------------------|
| Valuation date | June 30, 2021 | June 30, 2020 |
| Measurement date | June 30, 2022 | June 30, 2021 |
| Actuarial cost method | Entry-age normal | Entry-age normal |
| Actuarial assumptions: | | |
| Discount rate | 3.54% | 2.16% |
| Inflation rate | 3.05% | 3.05% |
| Interest credited to member contributions | 6.50% | 6.50% |
| 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, 2023, was as follows:

| | Total Pension |
|--|---------------|
| Balances as of June 30, 2022 | \$ 2,373,440 |
| Changes for the year: | |
| Service cost | 68,342 |
| Interest on total pension liability | 51,359 |
| Difference between expected and actual exper | (381,597) |
| Changes in assumptions | (437,754) |
| Benefit payments | (59,667) |
| Net changes | (759,317) |
| Balances as of June 30, 2023 | \$ 1,614,123 |

Changes in the total pension liability through the year ended June 30, 2022, was as follows:

| | Total Pension |
|--|---------------|
| Balances as of June 30, 2021 | \$ 2,445,415 |
| Changes for the year: | |
| Service cost | 88,557 |
| Interest on total pension liability | 54,559 |
| Difference between expected and actual exper | (195,545) |
| Changes in assumptions | 22,116 |
| Benefit payments | (41,662) |
| Net changes | (71,975) |
| Balances as of June 30, 2022 | \$ 2,373,440 |

Sensitivity of the Total Pension Liability to Discount Rate Changes: The following presents the resulting total pension liability calculated using the discount rate of 3.54 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, 2023:

| | 1% Decrease | Current Rate | 1% Increase |
|-------------------------|--------------|--------------|--------------|
| | 2.54% | 3.54% | 4.54% |
| Total pension liability | \$ 1,916,452 | \$ 1,614,123 | \$ 1,374,691 |

San Diego County Regional Airport Authority

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the POB:

For the year ended June 30, 2023, and 2022, the Airport Authority recognized pension expense, as measured in accordance with GASB 73, of \$56.1 thousand and \$329.8 thousand. At June 30, 2023 and June 30, 2022, the Airport Authority reported deferred outflows of resources and deferred inflows of resources related to the plan from the following sources:

| For June 30, 2023 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 32,168 | \$ 439,310 |
| Changes in assumptions | 299,670 | 343,266 |
| Employer contributions subsequent to June 30, 2022 measurement date | 20,583 | - |
| Total | \$ 352,421 | \$ 782,576 |

| For June 30, 2022 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 129,056 | \$ 216,544 |
| Changes in assumptions | 458,200 | 65,698 |
| Employer contributions subsequent to June 30, 2021 measurement date | 52,398 | - |
| Total | \$ 639,654 | \$ 282,242 |

The deferred outflows of resources, at June 30, 2023, and June 30, 2022, resulting from Airport Authority contributions subsequent to the measurement date and prior to year-end will be recognized as a reduction of the net pension liability in fiscal years 2024 and 2023, respectively.

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

| Years ended June 30, | |
|----------------------|--------------|
| 2024 | \$ (92,524) |
| 2025 | (118,693) |
| 2026 | (239,522) |
| | \$ (450,739) |

NOTE 9. 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.

San Diego County Regional Airport Authority

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 10. OTHER POSTEMPLOYMENT BENEFITS

The Airport Authority provides an agent multiple-employer defined benefit postemployment benefit plan (the OPEB Plan). The OPEB Plan provides post-retirement 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 over two million California public employees, retirees, and their families. CalPERS was founded in 1932 and is the largest public pension fund in the United States. As of June 30, 2022, CalPERS managed \$440 billion in assets for more than 2,890 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 actuarially determined contributions (ADCs). 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 ADC for its OPEB. In previous years, the Airport Authority has made contributions above the annual ADC which has resulted in a net OPEB asset. During the fiscal years ended June 30, 2023, and 2022, the Airport Authority's contributions were \$1.0 million and \$1.0 million, respectively.

A measurement date of June 30, 2022, and 2021, was used for the June 30, 2023, and June 30, 2022 OPEB assets and expenses. The information that follows was determined as of a valuation date of June 30, 2022, and June 30, 2021, respectively.

Membership in the OPEB by membership class at June 30, 2022, and 2021, is as follows:

| | 2022 | 2021 |
|--|------|------|
| Active employees | 101 | 132 |
| Inactive employees entitled to but not receiving benefits | - | - |
| Inactive employees or beneficiaries currently receiving benefits | 120 | 97 |
| Total | 221 | 229 |

San Diego County Regional Airport Authority

Actuarial Assumptions: The total OPEB liability in the June 30, 2022, and 2021 actuarial valuations was determined using the following actuarial assumptions, applied to all period included in the measurement:

| | |
|---|--|
| Actuarial Valuation Date | June 30, 2021 |
| Contribution Policy | Authority contributes at least the full ADC |
| Inflation | 2.50% |
| Projected salary increase | 2.75% |
| Investment rate of return | 5.25%; Expected Authority contributions projected to keep sufficient plan assets to pay all benefits from trust |
| Actuarial cost method | Entry Age Normal Level Percent of Pay |
| Asset valuation method | 5 year asset smoothing |
| Retirement age | SDCERS 2015-2019 Experience Study |
| Mortality | CalPERS 2000-2019 Experience Study |
| Mortality Improvement | Mortality projected fully generational with Scale MP-2021 |
| Medical Trend | Non-Medicare - 6.50% for 2023, decreasing to an ultimate rate of 3.75% in 2076; Medicare - 5.65% for 2023, decreasing to an ultimate rate of 3.75% in 2076 |
| Healthcare Participation of Future Retirees | 90% |
| Spousal Assumption for Future Retirees | Currently covered - 2-party coverage if currently have 2 party or family coverage; Currently waived - 50% cover spouses at retirement |

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 |
|---------------------------------------|-------------------|---|
| Global Equity | 23% | 4.56% |
| Long US Treasuries | 11% | 0.29% |
| Mortgage-Backed Securities | 11% | 0.49% |
| Investment Grade Corporates | 9% | 1.56% |
| High Yeild | 9% | 3.00% |
| Sovereigns | 11% | 2.76% |
| TIPS | 9% | -0.08% |
| Comodities | 3% | 1.22% |
| REITs | 14% | 4.06% |
| | 100% | |
| Assumed Long-Term Rate of Inflation | | 2.50% |
| Expected Long-Term Net Rate of Return | | 5.25% |

San Diego County Regional Airport Authority

Discount Rate: The discount rate used to measure the net OPEB liability (asset) at June 30, 2023, and June 30, 2022, was 5.25 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 net OPEB liability.

Changes in the Net OPEB Liability (Asset): Changes in the total OPEB liability, plan fiduciary net position, and the net OPEB asset through the year ended June 30, 2023, were as follows:

| | Increase (Decrease) | | |
|--|-------------------------|---------------------------|--------------------------------|
| | Total OPEB Liability | Fiduciary Net Position | Net OPEB Liability/ (Asset) |
| Balances as of June 30, 2022 | \$ 29,372,019 | \$ 33,729,495 | \$ (4,357,476) |
| Changes for the year: | | | |
| Service cost | 570,006 | - | 570,006 |
| Interest on total OPEB liability | 1,546,979 | - | 1,546,979 |
| Difference between expected and actual experience | - | - | - |
| Changes in assumptions | - | - | - |
| Employer contributions | - | 951,488 | (951,488) |
| Member contributions | - | - | - |
| Net investment income | - | (3,627,823) | 3,627,823 |
| Benefit payments | (951,488) | (951,488) | - |
| Administrative expense | - | (8,562) | 8,562 |
| Net changes | 1,165,497 | (3,636,385) | 4,801,882 |
| Balances as of June 30, 2023 | \$ 30,537,516 | \$ 30,093,110 | \$ 444,406 |

Changes in the total OPEB liability, plan fiduciary net position and the net OPEB liability (asset) through the year ended June 30, 2022, were as follows:

| | Increase (Decrease) | | |
|--|-------------------------|---------------------------|--------------------------------|
| | Total OPEB Liability | Fiduciary Net Position | Net OPEB Liability/ (Asset) |
| Balances as of June 30, 2021 | \$ 27,116,806 | \$ 28,766,021 | \$ (1,649,215) |
| Changes for the year: | | | |
| Service cost | 446,233 | - | 446,233 |
| Interest on total OPEB liability | 1,829,473 | - | 1,829,473 |
| Difference between expected and actual experience | (3,669,756) | - | (3,669,756) |
| Changes in assumptions | 4,568,725 | - | 4,568,725 |
| Employer contributions | - | 919,462 | (919,462) |
| Member contributions | - | - | - |
| Net investment income | - | 4,973,926 | (4,973,926) |
| Benefit payments | (919,462) | (919,462) | - |
| Administrative expense | - | (10,452) | 10,452 |
| Net changes | 2,255,213 | 4,963,474 | (2,708,261) |
| Balances as of June 30, 2022 | \$ 29,372,019 | \$ 33,729,495 | \$ (4,357,476) |

San Diego County Regional Airport Authority

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate and Health Care Cost Trend

Rates: The net OPEB liability (asset) of the Airport Authority has been calculated using a discount rate of 5.25 percent. The following presents the net OPEB liability (asset) using a discount rate 1 percent higher and 1 percent lower than the current discount rate.

| | 1% Decrease 4.25% | Current Rate 5.25% | 1% Increase 6.25% |
|----------------------------|----------------------|-----------------------|----------------------|
| Net OPEB liability (asset) | \$ 4,938,405 | \$ 444,406 | \$ (3,239,591) |

The net OPEB liability (asset) of the Airport Authority has been calculated using health care cost trend rates of 7.25 percent decreasing to 4.0 percent in 2076 and thereafter for non-Medicare and 6.3 percent decreasing to 4.0 percent in 2076 for Medicare. The following presents the net OPEB liability (asset) using health care cost trend rates 1 percent higher and 1 percent lower than the current health care cost trend rates.

| | 1% Decrease | Trend Rate | 1% Increase |
|----------------------------|----------------|------------|--------------|
| Net OPEB liability (asset) | \$ (3,614,055) | \$ 444,406 | \$ 5,418,365 |

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

For the years ended June 30, 2023, and 2022, the Airport Authority recognized OPEB expense (income), as measured in accordance with GASB 75, of \$0.9 million and (\$0.2) million, 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 |
|---|-----------------------------------|----------------------------------|
| For June 30, 2023 | | |
| Net difference between projected and actual earnings | \$ 2,917,281 | \$ - |
| Net difference between expected and actual experience | - | 1,580,826 |
| Changes in assumptions | 1,958,025 | 72,921 |
| Employer contributions made subsequent to June 30, 2022 measurement date | 1,002,148 | - |
| Total | \$ 5,877,454 | \$ 1,653,747 |
| For June 30, 2022 | | |
| Net difference between projected and actual earnings | \$ - | \$ 1,793,923 |
| Net difference between expected and actual experience | - | 2,669,705 |
| Changes in assumptions | 3,301,280 | 437,533 |
| Employer contributions made subsequent to June 30, 2021 measurement date | 951,488 | - |
| Total | \$ 4,252,768 | \$ 4,901,161 |

The deferred outflows of resources at June 30, 2023, and June 30, 2022, related to OPEB resulting from Airport Authority contributions subsequent the measurement date and prior to year-end will be recognized as a reduction to the net OPEB liability in fiscal years 2024 and 2023, respectively.

San Diego County Regional Airport Authority

Amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2023, related to the OPEB will be recognized in OPEB expense as follows:

| Years ended June 30, | |
|----------------------|---------------------|
| 2024 | \$ 888,373 |
| 2025 | 780,340 |
| 2026 | 473,166 |
| 2027 | 1,079,680 |
| | <u>\$ 3,221,559</u> |

NOTE 11. 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 \$750 million providing all risk and flood coverage for physical assets.
- The Airport Authority also maintains policies for workers' compensation, commercial auto, fiduciary liability, privacy and network security, crime, and public entity and employment practices liability, among others.

Self-insurance: Due to the exorbitant cost of earthquake insurance, the Airport Authority self-insures for losses due to earthquake damage. Effective July 1, 2007, the Airport Authority removed the purchase of commercial earthquake insurance from the Risk Management Program and increased reliance on the laws designed to assist public entities through the Federal Emergency Management Agency and the California Disaster Assistance Act. As of June 30, 2023, and 2022, the Airport Authority has designated \$13.8 million and \$13.1 million, respectively, from its net position, as an insurance contingency.

A \$2.0 million 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 2023, 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 12. COMMITMENTS AND CONTINGENCIES

Commitments: As of June 30, 2023, and 2022, the Airport Authority had significant commitments for capital expenditures and other matters as described below:

The Airport Authority has funds which have been classified as noncurrent 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

San Diego County Regional Airport Authority

that have been authorized by the Board for construction planning to proceed and for the contractual costs of upgrading certain major equipment. June 30, 2023, and 2022, these funds totaled approximately \$99.0 million and \$50.4 million, respectively, and are classified on the accompanying statements of net position as cash and investments designated for specific capital projects and other commitments.

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, 2023, and 2022, the Airport Authority expended \$20.5 million and \$21.9 million respectively for these services.

In fiscal year 2019, the Board approved a \$38.0 million contract with Ace Parking Management Inc., for parking management services. As of June 30, 2023, \$26.6 million has been spent and the contract is scheduled for completion in fiscal year 2024.

In fiscal year 2019, the Board approved a \$46.8 million contract with Ace Parking Management Inc., for airport shuttle services. As of June 30, 2023, \$23.3 million has been spent for shuttle services and the contract was completed in fiscal year 2023.

In fiscal year 2023, the Board approved a \$70.0 million contract with Ace Parking III, LLC for airport shuttle services. As of June 30, 2023, \$5.4 million has been spent for shuttle services and the contract is scheduled for completion in fiscal year 2027.

In fiscal year 2015, the Board approved a \$29.0 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 years 2016-2022, the Board approved an additional \$28.0 million. As of June 30, 2023, \$53.7 million had been spent and the contract was completed in fiscal year 2023.

In fiscal year 2022, the Board approved a \$103.0 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. As of June 30, 2023, \$7.8 million had been spent and the contract is scheduled for completion in fiscal year 2027.

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. In fiscal year 2020, the board approved an additional \$134.8 million. As of June 30, 2023, \$78.9 million has been spent and the contract is scheduled for completion in fiscal year 2024.

In fiscal year 2021, the Board approved a \$16.2 million contract with Granite Construction Company for the construction of the West Refueler Loading Facility and the West Solid Waste Facility. In fiscal year 2022, the board approved an additional \$1.0 million. As of June 30, 2023, \$15.1 million had been spent and the contract was completed in fiscal year 2023.

In fiscal year 2021, the Board approved an \$80 million contract with Turner-Flatiron, A Joint Venture for the design-build of terminal and roadways. In fiscal year 2022, the Board approved an additional \$2.5 billion. As of June 30, 2023, \$684.7 million had been spent and the contract is scheduled for completion in early fiscal year 2028.

San Diego County Regional Airport Authority

In fiscal year 2021 the Board approved a \$97.6 million contract with Sundt Construction for the design-build administration building. As of June 30, 2023, \$66.5 million had been spent and the contract is scheduled for completion in fiscal year 2024.

In fiscal year 2020, the Board approved a \$35.0 million contract with Jacobs Engineering Group, Inc. to provide Airside-Landside Engineering consulting services. As of June 30, 2023, \$26.5 million had been spent and the contract is scheduled for completion in fiscal year 2025.

In fiscal year 2022, the Board approved a 19.4 million contract with SOLPAC Construction Inc. dba Soltek Pacific Construction to construct Solid and Liquid waste facilities. In fiscal year 2023, the board approved an additional \$0.4 million. As of June 30, 2023, \$14.3 million had been spent and the contract is scheduled for completion in early fiscal year 2024.

Contingencies: As of June 30, 2023, the Airport Authority is subject to various contingencies including, but not limited to, contingencies arising from 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.

The Airport Authority invests in various investment securities. Investment securities are exposed to various risks such as interest rate risk, market risks and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statements of net position.

San Diego County Regional Airport Authority

NOTE 13. CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2023, the Airport Authority implemented GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Arrangements* and GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. As required when presenting prior period comparative statements, the financial statements of the fiscal year ended June 30, 2022, have been retrospectively restated. The effects of the restatement are as follows:

| Statement of Net Position | 2022 as restated | As Previously Reported | Effect of Change |
|---|------------------|------------------------|------------------|
| Tenant receivables, net | 22,784,819 | 12,087,092 | 10,697,727 |
| Partnership lease receivables, current portion (Note 3) | 2,891,820 | - | 2,891,820 |
| Other current assets | 10,291,837 | 9,909,877 | 381,960 |
| Partnership lease receivables, long-term portion (Note 3) | 125,895,083 | - | 125,895,083 |
| Subscription assets | 464,378 | - | 464,378 |
| Less accumulated depreciation and amortization | (1,300,259,420) | (1,300,166,545) | (92,875) |
| Other current liabilities | 14,502,025 | 17,029,533 | 2,527,508 |
| Lease liabilities, current portion (Note 6) | 3,586,324 | 3,471,838 | (114,486) |
| Unrestricted long-term debt, current portion (Note 6) | 323,293 | 354,139 | 30,846 |
| Restricted long-term debt, current portion (Note 6) | 40,160,000 | 40,360,000 | 200,000 |
| Other noncurrent liabilities | 663,924 | 55,458,074 | 54,794,150 |
| Lease liabilities, long-term portion (Note 6) | 229,180,542 | 228,947,243 | (233,299) |
| Long-term debt, net of current portion (Note 6) | 3,713,339,080 | 3,713,108,235 | (230,845) |
| Deferred Inflow of resources from partnership leases (Note 3) | 195,544,264 | - | (195,544,264) |
| Net investment in capital assets | 420,903,099 | 418,348,504 | (2,554,595) |
| Unrestricted net position | 316,527,254 | 317,414,146 | 886,892 |

| Statements of Revenues, Expenses, and Changes in Net Position | 2022 as restated | As Previously Reported | Effect of Change |
|---|------------------|------------------------|------------------|
| Ground and non-airline terminal rentals | 19,651,356 | 23,265,430 | (3,614,074) |
| Equipment rentals and repairs | 3,471,765 | 3,584,990 | 113,225 |
| Depreciation and amortization expense | 142,011,648 | 141,918,773 | (92,875) |
| Other Interest Income | 11,892,517 | 7,263,175 | 4,629,342 |
| Net position, beginning of year | 889,557,081 | 888,924,997 | 632,084 |

| Statement of Cash Flows | 2022 as restated | As Previously Reported | Effect of Change |
|---|------------------|------------------------|------------------|
| Receipts from customers | 371,536,489 | 324,778,280 | 46,758,209 |
| Payments to suppliers | (107,568,553) | (107,183,225) | (385,328) |
| Capital outlay | (334,497,078) | (283,494,854) | (51,002,224) |
| Other interest income | 11,892,517 | 7,263,176 | 4,629,341 |
| Principal payments received on notes receivable | 2,372,252 | (6,936,114) | 9,308,366 |
| Increase in principal on notes receivable | (9,308,366) | - | (9,308,366) |
| Operating income (loss) | 24,426,938 | 28,020,662 | (3,593,724) |
| Depreciation and amortization expense | 142,011,648 | 141,918,773 | 92,875 |
| Receivables, net | 56,568,711 | 10,954,300 | 45,614,411 |
| Other assets | (97,336) | 284,624 | (381,960) |
| Lease receivables | (8,408,150) | (11,589,245) | 3,181,095 |
| Other liabilities | 7,233,849 | 5,773,665 | 1,460,184 |

San Diego County Regional Airport Authority

NOTE 14. SUBSEQUENT EVENTS

On October 25, 2023, the Airport Authority issued \$1.1 billion of Series A and B Senior Airport Revenue Bonds (Series 2023 Bonds). The Series 2023 Bonds were issued to finance certain capital improvements at SDIA including construction of the New Terminal 1, refund subordinate revolving obligations, purchase a portion of the subordinate Series 2021C Bond, fund a portion of the interest accruing on the Series 2023 Bonds, fund the senior reserve fund, and pay the costs of issuance and underwriting fees of the Series 2023 Bonds. The Series 2023A and B Bonds are structured as both serial and term bonds that bear interest rates ranging from 5.0 percent to 5.25 percent and mature in fiscal years 2024 to 2059.

San Diego County Regional Airport Authority

Required Supplementary Information (Unaudited)

Schedule of Changes in the Net Pension Liability (Asset) and Related Ratios

Last 10 fiscal years (plan year reported in subsequent fiscal year)

Defined Benefit Plan

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Total Pension Liability: | | | | | | | | | |
| Service cost | \$ 6,980,223 | \$ 7,970,646 | \$ 7,857,035 | \$ 7,632,696 | \$ 7,390,428 | \$ 6,996,180 | \$ 6,205,263 | \$ 6,154,579 | \$ 6,099,481 |
| Interest (includes interest on service cost) | 16,489,161 | 15,693,834 | 14,257,205 | 13,355,418 | 12,621,226 | 11,416,679 | 10,277,610 | 9,327,538 | 8,465,485 |
| Differences between expected and actual experience | (1,288,936) | (2,239,695) | 925,862 | (645,462) | (2,630,285) | 3,975,029 | (2,178,527) | 345,661 | - |
| Effect of changes of assumptions | - | - | 6,767,000 | - | 6,416,088 | 5,871,218 | 10,473,890 | - | - |
| Benefit payments, including refunds of member contributions | (8,578,375) | (8,820,959) | (6,733,942) | (6,429,659) | (4,462,751) | (4,669,787) | (3,023,391) | (2,482,523) | (2,913,221) |
| Net change in total pension liability | 13,602,073 | 12,603,826 | 23,073,160 | 13,912,993 | 19,334,706 | 23,589,319 | 21,754,845 | 13,345,255 | 11,651,745 |
| Total pension liability - beginning | 254,465,897 | 241,862,071 | 218,788,911 | 204,875,918 | 185,541,212 | 161,951,893 | 140,197,048 | 126,851,793 | 115,200,048 |
| Total pension liability - ending | \$ 268,067,970 | \$ 254,465,897 | \$ 241,862,071 | \$ 218,788,911 | \$ 204,875,918 | \$ 185,541,212 | \$ 161,951,893 | \$ 140,197,048 | \$ 126,851,793 |
| Plan Fiduciary Net Position: | | | | | | | | | |
| Contributions - employer | \$ 9,181,680 | \$ 8,596,163 | \$ 8,424,834 | \$ 7,848,712 | \$ 7,318,546 | \$ 5,480,984 | \$ 4,047,780 | \$ 3,897,545 | \$ 3,924,988 |
| Contributions - employee | 3,070,398 | 3,125,138 | 3,321,661 | 3,178,464 | 3,162,781 | 2,990,317 | 2,967,269 | 2,840,236 | 2,765,079 |
| Net investment income | (4,188,463) | 53,140,343 | 390,013 | 12,086,349 | 14,036,710 | 19,480,875 | 1,651,283 | 4,390,185 | 18,302,683 |
| Benefit payments, including refunds of member contributions | (8,578,375) | (8,820,959) | (6,733,942) | (6,429,659) | (4,462,751) | (4,669,786) | (3,023,391) | (2,482,523) | (2,913,221) |
| Administrative expense | (461,899) | (423,018) | (386,698) | (359,095) | (350,408) | (325,042) | (318,817) | (332,290) | (332,645) |
| Net change in plan fiduciary net position | (976,659) | 55,617,667 | 5,015,868 | 16,324,771 | 19,704,878 | 22,957,348 | 5,324,124 | 8,313,153 | 21,746,884 |
| Plan fiduciary net position - beginning | 263,460,943 | 207,843,276 | 202,827,408 | 186,502,637 | 166,797,759 | 143,840,411 | 138,516,287 | 130,203,134 | 108,456,250 |
| Plan fiduciary net position - ending | \$ 262,484,284 | \$ 263,460,943 | \$ 207,843,276 | \$ 202,827,408 | \$ 186,502,637 | \$ 166,797,759 | \$ 143,840,411 | \$ 138,516,287 | \$ 130,203,134 |
| Net pension liability (asset) - ending | \$ 5,583,686 | \$ (8,995,046) | \$ 34,018,795 | \$ 15,961,503 | \$ 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 | 97.92% | 103.53% | 85.93% | 92.70% | 91.03% | 89.90% | 88.82% | 98.80% | 102.64% |
| Covered payroll | \$ 30,809,714 | \$ 33,328,788 | \$ 32,828,449 | \$ 31,584,841 | \$ 31,628,301 | \$ 31,131,795 | \$ 29,189,357 | \$ 27,955,455 | \$ 26,380,323 |
| Net pension liability as a percentage of covered payroll | 18.12% | (26.99%) | 103.63% | 50.54% | 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 68, this schedule will only present information from those years that are available.

San Diego County Regional Airport Authority

Schedule of Contributions (Pensions)

Last 10 fiscal years (dollars in thousands)

Defined Benefit Plan

| | 2023 | 2022 | 2021 | 2020 | 2019 |
|--|-------------------|------------|------------|------------|------------|
| Actuarially determined contribution | \$ 4,944 | \$ 6,570 | \$ 6,125 | \$ 6,159 | \$ 5,740 |
| Contributions in relation to the actuarially determined contribution | 7,664 | 9,102 | 8,522 | 8,356 | 7,783 |
| Contribution deficiency (excess) | \$ (2,720) | \$ (2,532) | \$ (2,397) | \$ (2,197) | \$ (2,043) |
| Covered payroll | \$ 33,458 | \$ 30,810 | \$ 33,329 | \$ 32,828 | \$ 31,585 |
| Contributions as a percentage of covered payroll | 22.91% | 29.54% | 25.57% | 25.45% | 24.64% |
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Actuarially determined contribution | \$ 5,416 | \$ 3,765 | \$ 3,666 | \$ 3,823 | \$ 2,900 |
| Contributions in relation to the actuarially determined contribution | 7,247 | 5,421 | 3,948 | 3,823 | 3,728 |
| Contribution deficiency (excess) | \$ (1,831) | \$ (1,656) | \$ (282) | \$ - | \$ (828) |
| Covered payroll | \$ 31,628 | \$ 31,132 | \$ 29,189 | \$ 27,955 | \$ 26,380 |
| Contributions as a percentage of covered payroll | 22.91% | 17.41% | 13.53% | 13.68% | 14.13% |

* This schedule is presented for the fiscal year.

San Diego County Regional Airport Authority

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

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Total Pension Liability | | | | | | | |
| Service cost | \$ 68,342 | \$ 88,557 | \$ 55,276 | \$ 49,343 | \$ 51,774 | \$ 60,994 | \$ 29,270 |
| Interest cost | 51,359 | 54,559 | 62,061 | 64,133 | 53,311 | 35,323 | 34,173 |
| Differences between expected and actual experience | (381,597) | (195,545) | (57,318) | (64,295) | 193,013 | 388,329 | - |
| Changes of assumptions | (437,754) | 22,116 | 661,465 | 109,070 | (89,712) | (214,765) | 272,579 |
| Benefit Payments | (59,667) | (41,662) | (43,301) | (47,081) | (31,329) | - | |
| Net Change in Total Pension Liability | (759,317) | (71,975) | 678,183 | 111,170 | 177,057 | 269,881 | 336,022 |
| Total pension liability -beginning | 2,373,440 | 2,445,415 | 1,767,232 | 1,656,062 | 1,479,005 | 1,209,124 | 873,102 |
| Total pension liability - ending | \$ 1,614,123 | \$ 2,373,440 | \$ 2,445,415 | \$ 1,767,232 | \$ 1,656,062 | \$ 1,479,005 | \$ 1,209,124 |
| Covered payroll | \$ 30,809,714 | \$ 33,328,788 | \$ 32,828,449 | \$ 31,584,841 | \$ 31,628,301 | \$ 31,131,795 | \$ 29,189,357 |
| Net Pension Liability as a percentage of payroll | 5.24% | 7.12% | 7.45% | 5.60% | 5.24% | 4.75% | 4.14% |

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

Schedule of Contributions (Pensions)

Last 10 fiscal years

Preservation of Benefits Trust Plan

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| Actuarially determined contribution | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions in relation to the actuarially determined contribution | 20,583 | 52,398 | 42,682 | 41,249 | 45,353 | 56,513 |
| Contribution deficiency (excess) | \$ (20,583) | \$ (52,398) | \$ (42,682) | \$ (41,249) | \$ (45,353) | \$ (56,513) |
| Covered payroll | \$ 33,458,445 | \$ 30,809,714 | \$ 33,328,788 | \$ 32,828,449 | \$ 31,584,841 | \$ 31,628,301 |
| Contributions as a percentage of covered payroll | 0.06% | 0.17% | 0.13% | 0.13% | 0.14% | 0.18% |

* This schedule is presented for the fiscal year.

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

San Diego County Regional Airport Authority

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

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---------------|----------------|----------------|----------------|---------------|---------------|
| Total OPEB Liability | | | | | | |
| Service Cost | \$ 570,006 | \$ 446,223 | \$ 501,198 | \$ 449,596 | \$ 436,501 | \$ 411,052 |
| Interest Cost | 1,546,979 | 1,829,473 | 1,739,459 | 1,883,080 | 1,772,578 | 1,606,959 |
| Difference between expected and actual experience | - | (3,669,756) | - | (169,582) | - | - |
| Changes of Assumptions | - | 4,568,725 | - | (1,531,369) | - | 766,830 |
| Benefit Payments | (951,488) | 919,462 | (784,845) | (775,225) | (622,425) | (451,189) |
| Net Change in Total OPEB Liability | 1,165,497 | 2,255,213 | 1,455,812 | (143,500) | 1,586,654 | 2,333,652 |
| Total OPEB Liability (Beginning) | 29,372,019 | 27,116,806 | 25,660,994 | 25,804,494 | 24,217,840 | 21,884,188 |
| Total OPEB Liability (Ending) | \$ 30,537,516 | \$ 29,372,019 | \$ 27,116,806 | \$ 25,660,994 | \$ 25,804,494 | \$ 24,217,840 |
| Plan Fiduciary Net Position | | | | | | |
| Contributions—Employer | \$ 951,488 | \$ 919,462 | \$ 784,845 | \$ 775,225 | \$ 622,425 | \$ 2,012,419 |
| Net Investment Income | (3,627,823) | 4,973,926 | 982,113 | 1,604,058 | 1,896,351 | 2,175,582 |
| Benefit Payments | (951,488) | (919,462) | (784,845) | (775,225) | (622,425) | (451,189) |
| Administrative Expense | (8,562) | (10,452) | (13,580) | (5,611) | (12,568) | (10,578) |
| Net Change in Plan Fiduciary Net Position | (3,636,385) | 4,963,474 | 968,533 | 1,598,447 | 1,883,783 | 3,726,234 |
| Plan Fiduciary Net Position (Beginning) | 33,729,495 | 28,766,021 | 27,797,488 | 26,199,041 | 24,315,258 | 20,589,024 |
| Plan Fiduciary Net Position (Ending) | \$ 30,093,110 | \$ 33,729,495 | \$ 28,766,021 | \$ 27,797,488 | \$ 26,199,041 | \$ 24,315,258 |
| Net OPEB Asset | \$ 444,406 | \$ (4,357,476) | \$ (1,649,215) | \$ (2,136,494) | \$ (394,547) | \$ (97,418) |
| Net Position as a Percentage of OPEB Liability | 98.54% | 114.84% | 106.08% | 108.33% | 101.53% | 100.40% |
| Covered Payroll | \$ 14,296,047 | \$ 12,786,000 | \$ 14,608,940 | \$ 13,869,000 | \$ 16,625,857 | \$ 16,141,609 |
| Net OPEB Asset as a Percentage of Payroll | 3.11% | (34.08%) | (11.29%) | (15.40%) | (2.37%) | (0.60%) |

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

Schedule of Contributions (OPEB)

Last 10 fiscal years (dollars in thousands)

Other Postemployment Benefits

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|
| Actuarially determined contribution | \$ 264 | \$ 326 | \$ 365 | \$ 427 | \$ 486 | \$ 472 |
| Contributions in relation to the actuarially determined contribution | 1,002 | 951 | 919 | 785 | 339 | 462 |
| Contribution deficiency (excess) | \$ (738) | \$ (625) | \$ (554) | \$ (358) | \$ 147 | \$ 10 |
| Covered payroll | \$ 14,296 | \$ 12,786 | \$ 12,786 | \$ 14,609 | \$ 13,869 | \$ 15,674 |
| Contributions as a percentage of covered payroll | 7.01% | 7.44% | 7.19% | 5.37% | 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 the annual OPEB contributions. Until such time has elapsed after implementing GASB Statement No. 75, this schedule will only present information from the years that are available.

San Diego County Regional Airport Authority

Single Audit Reports

June 30, 2023



Contents

| | |
|--|----|
| Schedule of Expenditures of Federal Awards | 1 |
| Notes to the Schedule of Expenditures of Federal Awards | 2 |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> – Independent Auditor’s Report..... | 3 |
| 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 | 5 |
| Schedule of Findings and Questioned Costs..... | 8 |
| Summary Schedule of Prior Audit Findings | 10 |

**San Diego County Regional Airport Authority
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023**

| Federal Grantor/Pass – Through Grantor/Program or Cluster Title | Assistance Listing Number | Other Identifying Number | Passed Through to Subrecipients | Federal Expenditures |
|--|--|---|--|---------------------------------|
| <u>U.S. Department of Transportation – Federal Aviation Administration:</u> | | | | |
| Direct Programs: | | | | |
| Airport Improvement Program (AIP) | 20.106 | 3-06-0214-80 | \$ - | \$ 3,560 |
| Airport Improvement Program (AIP) | 20.106 | 3-06-0214-83 | - | 339,835 |
| COVID-19 – Airport Improvement Program (AIP) | 20.106 | 3-06-0214-86 | - | 107 |
| COVID-19 – Airport Improvement Program (AIP) | 20.106 | 3-06-0214-89 | - | 4,798,742 |
| Airport Improvement Program (AIP) | 20.106 | 3-06-0214-90 | - | 3,274,068 |
| COVID-19 – Airport Improvement Program (AIP) | 20.106 | 3-06-0214-93 | - | 7,131,564 |
| COVID-19 – Airport Improvement Program (AIP) | 20.106 | 3-06-0214-94 | - | 1,264,775 |
| COVID-19 – Airport Improvement Program (AIP) | 20.106 | 3-06-0214-97 | - | 8,886,381 |
| Bipartisan Infrastructure Law (BIL) - Airport Improvement Program (AIP) | 20.106 | 3-06-0214-98 | - | 11,552,179 |
| Airport Improvement Program (AIP) | 20.106 | 3-06-0214-99 | - | 2,162,808 |
| Bipartisan Infrastructure Law (BIL) - Airport Improvement Program (AIP) | 20.106 | 3-06-0214-100 | - | 24,000,000 |
| COVID-19 – Airport Improvement Program (AIP) | 20.106 | 3-06-0214-101 | - | 1,656,765 |
| Bipartisan Infrastructure Law (BIL) – Airport Improvement Program (AIP) | 20.106 | 3-06-0214-103 | - | 1,344,805 |
| Bipartisan Infrastructure Law (BIL) – Airport Improvement Program (AIP) | 20.106 | 3-06-0214-104 | - | 4,546,197 |
| Total Airport Improvement Program (AIP) | | | - | 70,961,786 |
| Law Enforcement Officer Reimbursement Agreement Program | 97.090 | | - | 641,248 |
| Total U.S. Department of Transportation – Federal Aviation Administration | | | \$ - | \$ 71,603,034 |

The accompanying notes are an integral part of this Schedule.

San Diego County Regional Airport Authority
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of San Diego County Regional Airport Authority (Airport Authority) under programs of the federal government for the year ended June 30, 2023. 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.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3: Indirect Cost Rate

The Airport Authority has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4: Federal Loan Programs

The Authority did not have any federal loan programs during the year ended June 30, 2023.



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

Independent Auditor's Report

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 (*Government Auditing Standards*), the financial statements of the San Diego County Regional Airport Authority (Airport Authority), which comprise the statement of net position as of June 30, 2023, 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 November 2, 2023, which contained an emphasis of matter regarding a change in accounting principle.

Report on 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) as a basis for designing 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 entity'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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Airport Authority's financial statements are free from 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 financial statements. 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

FORVIS,LLP

**Dallas, Texas
November 2, 2023**



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**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

Opinion on the Major Federal Program

We have audited San Diego County Regional Airport Authority's (Airport Authority) compliance with the types of compliance requirements identified as subject to audit 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, 2023. 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.

In our opinion, the Airport Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended June 30, 2023.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the "Auditor's Responsibilities for the Audit of Compliance" section of our report.

We are required to be independent of the Airport Authority and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Airport Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to its federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Airport Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Airport Authority's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Airport Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Airport Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Airport Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 “Auditor’s Responsibilities for the Audit of Compliance” section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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, 2023, and have issued our report thereon dated November 2, 2023, which contained an unmodified opinion on those financial statements and an emphasis of matter paragraph regarding a change in accounting principle. 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.

FORVIS,LLP

**Dallas, Texas
November 2, 2023**

**San Diego County Regional Airport Authority
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2023**

Section I – Summary of Auditor’s Results

Financial Statements

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:
 Unmodified Qualified Adverse Disclaimer

2. Internal control over financial reporting:
 Significant deficiency(ies) identified? Yes None reported
 Material weakness(es) identified? Yes No

3. Noncompliance material to the financial statements noted? Yes No

Federal Awards

4. Internal control over the major federal award program:
 Significant deficiency(ies) identified? Yes None reported
 Material weakness(es) identified? Yes No

5. Type of auditor’s report issued on compliance for the major federal program:
 Unmodified Qualified Adverse Disclaimer

6. Any audit findings disclosed that are required to be reported by 2 CFR 200.516(a)?
 Yes No

7. Identification of the major federal program:

| Assistance Listing Number(s) | Name of Federal Program or Cluster |
|------------------------------|------------------------------------|
| 20.106 | Airport Improvement Program |

6. Dollar threshold used to distinguish between Type A and Type B programs: \$2,148,091.

9. Auditee 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, 2023**

Section II – Financial Statement Findings

| Reference Number | Finding |
|-----------------------------|----------------|
|-----------------------------|----------------|

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

| Reference Number | Finding |
|-------------------------|----------------|
|-------------------------|----------------|

No matters are reportable.

**San Diego County Regional Airport Authority
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2023**


| Reference Number | Summary of Finding | Status |
|-------------------------|---------------------------|---------------|
|-------------------------|---------------------------|---------------|

No matters are reportable.

San Diego County Regional Airport Authority

Passenger Facility Charge Program Compliance Report

Year Ended June 30, 2023
(With Independent Auditor's Report Thereon)



**San Diego County Regional Airport Authority
Passenger Facility Charge Program
Table of Contents
June 30, 2023**

Contents

| | |
|--|----------|
| Schedule of Passenger Facility Charge Collections and Expenditures | 1 |
| Note to the Schedule of Passenger Facility Charge Collections and Expenditures | 2 |
| 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 | 3 |
| Passenger Facility Charge Program Audit Summary | 6 |
| Schedule of Passenger Facility Charge Program Findings and Questioned Costs | 7 |
| Summary Schedule of Prior Audit Findings | 8 |

**San Diego County Regional Airport Authority
 Passenger Facility Charge Program
 Schedule of Passenger Facility Charge Collections and Expenditures
 Year Ended June 30, 2023**

| Revenues | Date Approved | Amount Approved For Use | Cumulative Total June 30, 2022 | Quarter Ended | | | | Year Ended June 30, 2023 | Cumulative Total June 30, 2023 |
|--|---------------|-------------------------|--------------------------------------|-----------------------|----------------------|----------------------|----------------------|--------------------------------|--------------------------------------|
| | | | | September 30, 2022 | December 31, 2022 | March 31, 2023 | June 30, 2023 | | |
| Passenger facility charge collections | | | \$ 845,520,316 | \$ 9,726,890 | \$ 11,515,015 | \$ 10,470,888 | \$ 12,192,026 | \$ 43,904,819 | \$ 889,425,135 |
| Interest earned | | | 20,272,495 | 292,626 | 454,801 | 609,443 | 715,347 | 2,072,217 | 22,344,712 |
| Total passenger facility charge revenue received | | | <u>\$ 865,792,811</u> | <u>\$ 10,019,516</u> | <u>\$ 11,969,816</u> | <u>\$ 11,080,331</u> | <u>\$ 12,907,373</u> | <u>\$ 45,977,036</u> | <u>\$ 911,769,847</u> |
| 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 | 338,928,175 | - | - | - | - | - | 338,928,175 |
| Application 12-10-C-00-SAN | 7/3/2012 | 27,835,280 | 25,858,133 | - | - | - | - | - | 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 | 29,432,253 | 371,084 | 287,711 | 803,191 | 299,809 | 1,761,795 | 31,194,048 |
| Application 19-13-C-00-SAN | 2/14/2019 | 51,100,000 | 51,100,000 | - | - | - | - | - | 51,100,000 |
| Total passenger facility charge revenue expended | | <u>\$ 1,606,085,893</u> | <u>\$ 804,414,217</u> | <u>\$ 371,084</u> | <u>\$ 287,711</u> | <u>\$ 803,191</u> | <u>\$ 299,809</u> | <u>\$ 1,761,795</u> | <u>\$ 806,176,012</u> |

**San Diego County Regional Airport Authority
Passenger Facility Charge Program
Notes to the Schedule of Passenger Facility Charge Collections and Expenditures
Year Ended June 30, 2023**

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 than 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, 2023.



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

Independent Auditor's Report

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

Report on Compliance for Passenger Facility Charge Program

Opinion on Passenger Facility Charge Program

We have audited San Diego County Regional Airport Authority's (Airport Authority) compliance with the types of compliance requirements identified as subject to audit in the *Passenger Facility Charge Audit Guide for Public Agencies* (Guide), issued by the Federal Aviation Administration that could have a direct and material effect on the passenger facility charge program for the year ended June 30, 2023.

In our opinion, the Airport Authority complied, in all material respects, with the 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, 2023.

Basis for Opinion on Passenger Facility Charge Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the Guide. Our responsibilities under those standards and the Guide are further described in the "Auditor's Responsibilities for the Audit of Compliance" section of our report.

We are required to be independent of the Airport Authority and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance of the passenger facility charge program. Our audit does not provide a legal determination of the Airport Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or agreements applicable to its passenger facility charge program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Airport Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Guide will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Airport Authority's compliance with the requirements of the passenger facility charge program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and Guide, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Airport Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Airport Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Airport Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 “Auditor’s Responsibilities for the Audit of Compliance” section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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, 2023, and the related notes to the basic financial statements which collectively comprise the Airport Authority’s basic financial statements. We have issued our report thereon dated November 2, 2023, which contained an unmodified opinion on those financial statements and an emphasis of matter paragraph regarding a change in accounting principle. 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 required by the Guide, and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

FORVIS,LLP

**Dallas, Texas
November 2, 2023**

**San Diego County Regional Airport Authority
 Passenger Facility Charge Program Audit Summary
 Findings and Questioned Costs
 Year Ended June 30, 2023**

Section I – Summary of Auditor’s Results

- | | | | |
|--|--|------------------------------------|---|
| 1. Type of report issued on PFC financial statements. | <input checked="" type="checkbox"/> Unmodified | <input type="checkbox"/> Qualified | |
| 2. Type of report on PFC compliance. | <input checked="" type="checkbox"/> Unmodified | <input type="checkbox"/> Qualified | |
| 3. Quarterly revenue and expenditures reconcile with submitted quarterly reports and reported un-liquidated revenue matches actual amounts. | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No | |
| 4. PFC revenue and interest is accurately reported on FAA Form 5100-127. | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No | |
| 5. The Public Agency maintains a separate financial accounting record for each application. | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> 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. | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No | |
| 7. Monthly carrier receipts were reconciled with quarterly carrier reports. | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No | |
| 8. PFC revenues were maintained in a separate interest-bearing capital account or commingled only with other interest-bearing airport capital funds. | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No | |
| 9. Serving carriers were notified of PFC program actions/changes approved by the FAA. | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No | |
| 10. Quarterly reports were transmitted (or available via website) to remitting carriers. | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No | |
| 11. The Public Agency is in compliance with Assurances 5, 6, 7, and 8. | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No | |
| 12. Project design and implementation is carried out in accordance with Assurance 9. | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No | |
| 13. Program administration is carried out in accordance with Assurance 10. | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> 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. | <input type="checkbox"/> Yes | <input type="checkbox"/> No | <input checked="" type="checkbox"/> N/A |

**San Diego County Regional Airport Authority
Passenger Facility Charge Program Audit Summary
Findings and Questioned Costs (Continued)
Year Ended June 30, 2023**

Section II – Findings Required to be Reported by the Guide

| Reference Number | Finding |
|-----------------------------|----------------|
| No matters are reportable. | |

**San Diego County Regional Airport Authority
Passenger Facility Charge Program Audit Summary
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2023**

| Reference Number | Summary of Finding | Status |
|-----------------------------|---------------------------|---------------|
|-----------------------------|---------------------------|---------------|


No matters are reportable.

Attachment D

San Diego County Regional Airport Authority

Customer Facility Charge Program Compliance Report

Year Ended June 30, 2023
(With Independent Auditor's Report Thereon)

A series of seven parallel diagonal lines in varying shades of gray, extending from the bottom left towards the top right, positioned below a red horizontal line.

**San Diego County Regional Airport Authority
Customer Facility Charge Program
Table of Contents
June 30, 2023**

Contents

| | |
|--|----------|
| Schedule of Customer Facility Charge Collections and Expenditures | 1 |
| Notes to Schedule of Customer Facility Charge Collections and Expenditures..... | 2 |
| 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 | 3 |

San Diego County Regional Airport Authority
Customer Facility Charge Program
Schedule of Customer Facility Charge Collections and Expenditures
Year Ended June 30, 2023

| Description | Beginning Balance, Unapplied CFC | CFC Collections* | Interest Earned | Expenditures | Ending Balance, Unapplied CFC |
|--|---|-----------------------------|----------------------------|----------------------|--|
| Collections and expenditures, quarter ended September 30, 2022 | \$ 25,064,607 | \$ 8,159,834 | \$ 86,119 | \$ 8,245,953 | \$ 25,064,607 |
| Collections and expenditures, quarter ended December 31, 2022 | \$ 25,064,607 | 8,487,663 | 139,940 | 7,848,820 | \$ 25,843,390 |
| Collections and expenditures, quarter ended March 31, 2023 | \$ 25,843,390 | 8,342,138 | 192,393 | 9,313,314 | \$ 25,064,607 |
| Collections and expenditures, quarter ended June 30, 2023 | \$ 25,064,607 | <u>10,209,107</u> | <u>211,904</u> | <u>10,421,011</u> | \$ 25,064,607 |
| | | <u>\$ 35,198,742</u> | <u>\$ 630,356</u> | <u>\$ 35,829,098</u> | |

*CFC Collections include approximately \$1.1M from the Authority related to the minimum balance requirement for the Customer Facility Charge (CFC) Stabilization Account as allowed by the related RAC agreement

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, 2023**

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 and operations. The Airport Authority is utilizing CFC revenue for the development related debt requirements and operation of the consolidated rental car facility. The primary objectives of the project were 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, 2023.



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

Independent Auditor's Report

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

Report on Compliance for Customer Facility Charge Program

Opinion on Customer Facility Charge Program

We have audited San Diego County Regional Airport Authority's (Airport Authority) compliance with the types of compliance requirements identified as subject to audit 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, 2023.

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, 2023.

Basis for Opinion on Customer Facility Charge Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the Code. Our responsibilities under those standards and the Code are further described in the "Auditor's Responsibilities for the Audit of Compliance" section of our report.

We are required to be independent of the Airport Authority and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance of the customer facility charge program. Our audit does not provide a legal determination of the Airport Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or agreements applicable to its customer facility charge program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Airport Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Code will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Airport Authority's compliance with the requirements of the customer facility charge program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and Code, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Airport Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Airport Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Airport Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 “Auditor’s Responsibilities for the Audit of Compliance” section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 Code. 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, 2023, and the related notes to the basic financial statements which collectively comprise the Airport Authority’s basic financial statements. We have issued our report thereon dated November 2, 2023, which contained an unmodified opinion on those financial statements and an emphasis of matter paragraph regarding a change in accounting principle. 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.

FORVIS,LLP

**Dallas, Texas
November 2, 2023**



Report to the Audit Committee, Members of the Board, and Management

San Diego County Regional Airport Authority

Results of the 2023 Financial Statement Audit, Including Required Communications

June 30, 2023

Contents

| | |
|---|----|
| Required Communications Regarding Our Audit Strategy & Approach (AU-C 260)..... | 1 |
| Overview & Responsibilities | 1 |
| Other Information Accompanying the Audited Financial Statements | 6 |
| Qualitative Aspects of Significant Accounting Policies & Practices..... | 8 |
| Significant Accounting Policies & Alternative Treatments – Details..... | 10 |
| Adjustments Identified by Audit | 13 |
| Other Required Communications | 14 |
| Attachment | 16 |

FORV/S

FORVIS is a trademark of FORVIS, LLP, registration of which is pending with the U.S. Patent and Trademark Office

Required Communications Regarding Our Audit Strategy & Approach (AU-C 260)

The following matters are required communications we must make to you, including these responsibilities:

Overview & Responsibilities

Scope of Our Audit & Inherent Limitations to *Reasonable Assurance*

Your & Our Responsibilities

Extent of Our Communication & Distribution Restriction

Independence Matters

FORV/S

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| Matter | Discussion |
|---|---|
| Scope of Our Audit | <p>This report covers audit results related to your financial statements and supplementary information:</p> <ul style="list-style-type: none"> • As of and for the year ended June 30, 2023 • Conducted in accordance with our contract dated September 25, 2023 |
| Our Responsibilities | <p>FORVIS is responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management, with the oversight of those charged with governance, are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).</p> |
| Audit Scope & Inherent Limitations to Reasonable Assurance | <p>An audit performed in accordance with auditing standards generally accepted in the United States of America (GAAS) and <i>Government Auditing Standards</i> issued by the Comptroller General of the United States (GAGAS) is designed to obtain reasonable, rather than absolute, assurance about the financial statements. The scope of our audit tests was established in relation to the financial statements taken as a whole and did not include a detailed audit of all transactions.</p> |
| Extent of Our Communication | <p>In addition to areas of interest and noting prior communications made during other phases of the engagement, this report includes communications required in accordance with GAAS that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process, including audit approach, results, and internal control. 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.</p> |



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| Matter | Discussion |
|---------------------------------|--|
| Independence | The engagement team, others in our firm, as appropriate, and our firm, have complied with all relevant ethical requirements regarding independence. |
| Your Responsibilities | Our audit does not relieve management or those charged with governance of your responsibilities. Your responsibilities and ours are further referenced in our contract. |
| Distribution Restriction | <p>This communication is intended solely for the information and use of the following and is not intended to be, and should not be, used by anyone other than these specified parties:</p> <ul style="list-style-type: none"><li data-bbox="506 625 1535 662">• Audit Committee, Members of the Board, and Management<li data-bbox="506 678 940 716">• Others within the Entity |



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Government Auditing Standards

| Matter | Discussion |
|-----------------------------------|---|
| Additional GAGAS Reporting | We also provided reports as of June 30, 2023, on the following as required by GAGAS: <ul style="list-style-type: none">• Internal control over financial reporting and on compliance and other matters based on an audit of the financial statements performed in accordance with GAGAS |
| Reporting Limitations | Our consideration of internal control over financial reporting and our tests of compliance were not designed with an objective of forming an opinion on the effectiveness of internal control or on the compliance, and accordingly, we do not express such an opinion. |

Uniform Guidance, Passenger Facility Charge, and Customer Facility Charge Overview & Responsibilities

| Matter | Discussion |
|---------------------------|--|
| Scope of Our Audit | We also provided reports as of June 30, 2023, on the following as required by U.S. Office of Management and Budget (OMB) Uniform Guidance, the Federal Aviation Administration, and the California Civil Code: <ul style="list-style-type: none">• Opinion on compliance for the major federal award program• Report on internal control over compliance for the major federal award program• Report on schedule of expenditures of federal awards |



| Matter | Discussion |
|--|---|
| <p>Audit Scope & Inherent Limitations to Reasonable Assurance</p> | <ul style="list-style-type: none"> • Opinion on compliance with the types of compliance requirements described in the <i>Passenger Facility Charge Audit Guide for Public Agencies</i>, issued by the Federal Aviation Administration, which are applicable to the passenger facility charge program • Report on internal control over compliance for the passenger facility charge program • Opinion on the Schedule of Customer Facility Charge Collections and Expenditures in relation to the financial statements as a whole • Opinion on compliance with the types of compliance requirements described in the California Civil Code Section 1936, which are applicable to the customer facility charge program • Report on internal control over compliance for the customer facility charge program <p>Compliance audits performed in accordance with OMB Uniform Guidance, the <i>Passenger Facility Charge Audit Guide for Public Agencies</i>, and the California Civil Code Section 1936 are designed to obtain reasonable, rather than absolute, assurance about whether noncompliance with the types of compliance requirements described in the OMB Compliance Supplement, the <i>Passenger Facility Charge Audit Guide for Public Agencies</i>, and the California Civil Code Section 1936 that could have a direct and material effect on a major federal award program, the passenger facility charge program, or customer facility charge program occurred.</p> |



Other Information Accompanying the Audited Financial Statements

The audited financial statements are presented along with management's annual comprehensive financial report. Management, or those charged with governance, is responsible for preparing the annual comprehensive financial report.

We were not engaged to audit the introductory and statistical information contained in the annual comprehensive financial report, and as a result, our opinion does not provide assurance as to the completeness and accuracy of the information contained therein.

As part of our procedures, we read the entire report to determine if financial information discussed in sections outside the financial statements materially contradicts the audited financial statements. If we identify any such matters, we bring them to management's attention and review subsequent revisions.



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Auditor Objectives Related to Other Information

Our objectives related to the other information accompanying the audited financial statements were to:

- Consider whether a material inconsistency exists between the other information and the financial statements
- Remain alert for indications that:
 - A material inconsistency exists between the other information and the auditor's knowledge obtained in the audit, or
 - A material misstatement of fact exists, or the other information is otherwise misleading
- Respond appropriately when we identify that such material inconsistencies appear to exist or when we otherwise become aware that other information appears to be materially misstated. Potential responsive actions would include requesting management to correct the identified inconsistency
- Include the appropriate communication in our auditor's report, disclosing the procedures performed on the Other Information, as well as the results obtained
 - No material inconsistencies were identified during our review of other information



Qualitative Aspects of Significant Accounting Policies & Practices

The following matters are detailed in the following pages and included in our assessment:

**Significant Accounting
Policies**

**Unusual Policies or
Methods**

**Alternative Accounting
Treatments**

**Management Judgments
& Accounting Estimates**

**Financial Statement
Disclosures**

**Our Judgment About the
Quality of the Entity's
Accounting Principles**

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Significant Accounting Policies

Significant accounting policies are described in *Note 1* of the Annual Comprehensive Financial Report (ACFR).

With respect to new accounting standards adopted during the year, we call to your attention the following topics detailed in the following pages:

- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*

Unusual Policies or Methods

- No matters are reportable

Alternative Accounting Treatments

- No matters are reportable

Management Judgments & Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. 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 include:

- Fair market value of investments
- Valuation allowance for various receivables
- Estimated useful lives of capital assets
- Discount rate and terms of lease, public-private and public-public partnerships and availability payment arrangements, and subscription-based information technology arrangements assets and liabilities
- Revenue recognition including grants

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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
- Leases
- Public-private and public-public partnerships and availability payment arrangements
- Subscription-based information technology arrangements
- Long-term liabilities
- Defined benefit and other postemployment benefit plans
- Disclosures about fair value of assets
- Commitments and contingencies

Our Judgment About the Quality of the Entity's Accounting Principles

During the course of the audit, we made the following observations regarding the Entity's application of accounting principles:


- Implementation of GASB Statements No. 94 and 96

Significant Accounting Policies & Alternative Treatments – Details

GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements (GASB 94)

This statement provides uniform guidance on accounting and financial reporting for public-private and public-public partnership arrangements (PPPs) and availability payment arrangements (APAs). As used in this Statement, a PPP





is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use an infrastructure or other nonfinancial asset (the underlying PPP asset) for a period of time in an exchange or exchange-like transaction. Statement 94 also addresses APAs, which are arrangements where a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying infrastructure or other nonfinancial asset for a period of time in an exchange or exchange-like transaction. This statement requires governments to report assets and liabilities related to PPPs consistently and disclose information about PPP transactions.


The requirements of this Statement were effective for the entity's fiscal year 2023. The changes were applied retrospectively, if practicable, for all prior fiscal years presented. PPPs were recognized and measured using the facts and circumstances that existed at the beginning of the implementation period or, if applicable to earlier periods, the beginning of the earliest period restated. The financial statement notes disclosed the nature of the restatement and its effect.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (GASB 96)*

This statement addresses the accounting for the costs related to cloud computing agreements. The standard defines a subscription-based information technology arrangement (SBITA), establishes that a SBITA would result in a right-to-use (RTU) asset and a corresponding liability, provides capitalization criteria, and requires new note disclosures. The statement's language and concepts closely mirror the lease guidance provided in Statement 87, *Leases*. This statement requires governments report a subscription asset and subscription liability for a SBITA and to disclose essential information about the arrangement. The disclosures will allow users to understand the scale and important aspects of a government's SBITA activities and evaluate a government's obligations and assets resulting from SBITAs.



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The requirements of this statement were effective for the Entity's fiscal year 2023. The changes were applied retroactively by restating financial statements, if practicable, for all prior fiscal years presented. SBITA assets and liabilities were recognized and measured using the facts and circumstances at the beginning of the fiscal year of implementation. The financial statement notes disclosed the nature of the restatement and its effect.

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Adjustments Identified by Audit

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments that, in its judgment, are required to prevent the financial statements from being materially misstated.

A misstatement is a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and that which is required for the item to be presented fairly in accordance with the applicable financial reporting framework.

Proposed & Recorded Adjustments

No matters are reportable.

Uncorrected Misstatements

No uncorrected misstatements.





Other Required Communications

Disagreements with Management

No matters are reportable.

Significant Issues Discussed with Management

Prior to Retention

During our discussion with management prior to our engagement, the following issues regarding application of accounting principles or auditing standards were discussed:

- Implementation of Governmental Accounting Standards Board (GASB) Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (GASB 94)
- Implementation of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96)



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Difficulties Encountered in Performing the Audit

No matters are reportable.

Other Material Communications

Listed below are other material communications between management and us related to the audit:

- Management representation letter (see Attachment)
- We orally communicated to management a deficiency in internal control identified during our audit that is not considered a material weakness or significant deficiency.



Attachment

Management Representation Letter

As a material communication with management, included herein is a copy of the representation letter provided by management at the conclusion of our engagement.

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November 2, 2023

Representation of:

San Diego County Regional Airport Authority
2417 McCain Road
San Diego, California 92101

Provided to:

FORVIS, LLP
Certified Public Accountants
14241 Dallas Parkway, Suite 1100
Dallas, Texas 75254

The undersigned (“We”) are providing this letter in connection with FORVIS’ audits of our financial statements as of and for the years ended June 30, 2023 and 2022.

We are also providing this letter in connection with:

- Your audit of our compliance with requirements applicable to our major federal awards program, passenger facility charge program, and customer facility charge program as of and for the year ended June 30, 2023.

Our representations are current and effective as of the date of FORVIS’ report: November 2, 2023.

Our engagement with FORVIS is based on our contract for services dated: September 25, 2023.

Our Responsibility & Consideration of Material Matters

We confirm that we are responsible for the fair presentation of the financial statements subject to FORVIS’ report 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. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

Confirmation of Matters Specific to the Subject Matter of FORVIS’ Report

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

Broad Matters

1. We have fulfilled our responsibilities, as set out in the terms of our contract, 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:
 - a. Internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
 - b. Internal control to prevent and detect fraud.
3. We have provided you with:
 - a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the San Diego County Regional Airport Authority (Airport Authority) from whom you determined it necessary to obtain audit evidence.
 - d. All minutes of meetings of the governing body held through the date of this letter or summaries of actions of recent meetings for which minutes have not yet been prepared. All unsigned copies of minutes provided to you are copies of our original minutes approved by the governing body, if applicable, and maintained as part of our records.
 - e. All significant contracts and grants.
4. We have responded fully and truthfully to all your inquiries.

Government Auditing Standards

5. We acknowledge that we are responsible for compliance with applicable laws, regulations, and provisions of contracts and grant agreements.
6. 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.
7. We have identified and disclosed to you any violations or possible violations of laws, regulations, and provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance.
8. 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.
9. We have a process to track the status of audit findings and recommendations.
10. 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.

Federal Awards Programs (Uniform Guidance), Passenger Facility Charge Program, and Customer Facility Charge Program

11. 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.
12. We have reconciled the schedule of expenditures of federal awards (SEFA) to the financial statements.

13. Federal awards-related revenues and expenditures are fairly presented, both in form and content, in accordance with the applicable criteria in the Airport Authority's financial statements.
14. We have identified the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* regarding activities allowed or unallowed; allowable costs/cost principles; cash management; eligibility; equipment and real property management; matching, level of effort, earmarking; period of performance of federal funds; procurement and suspension and debarment; program income; reporting; subrecipient monitoring; and special tests and provisions that are applicable to each of our federal awards programs. We have identified to you our interpretation of any applicable compliance requirements subject to varying interpretations. We have also identified all compliance requirements of the passenger facility charge and customer facility charge programs.
15. We are responsible for complying, and have complied, with the requirements of Uniform Guidance, the Passenger Facility Charge Audit Guide for Public Agencies, and California Code 1949, as applicable to our Customer Facility Charge program.
16. 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, the passenger facility charge, and customer facility charge 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. We believe the Airport Authority has complied with all applicable compliance requirements.
17. We are responsible for the design, implementation, and maintenance of internal controls over compliance that provide reasonable assurance we have administered each of our federal awards, passenger facility charge and customer facility charge programs in compliance with federal statutes, regulations, and the terms and conditions of the federal awards.
18. 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.
19. 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.
20. The costs charged to federal awards are in accordance with applicable cost principles.
21. 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.
22. Amounts claimed or used for matching were determined in accordance with Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) regarding cost principles.
23. 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.
24. 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.
25. The reporting package does not contain any protected personally identifiable information.

26. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance subsequent to the period covered by the auditor's report.

Misappropriation, Misstatements, & Fraud

27. We have informed you of all current risks of a material amount that are not adequately prevented or detected by our procedures with respect to:
- a. Misappropriation of assets.
 - b. Misrepresented or misstated assets, deferred outflows of resources, liabilities, deferred inflows of resources or net position.
28. We have no knowledge of any known or suspected fraudulent financial reporting or misappropriation of assets involving:
- a. Management or employees who have significant roles in internal control over financial reporting, or
 - b. Others, where activities of others could have a material effect on the financial statements.
29. We have no knowledge of any allegations of fraud or suspected fraud affecting the Airport Authority received in communications from employees, former employees, customers, regulators, suppliers, or others.
30. We have assessed the risk that the financial statements may be materially misstated as a result of fraud and disclosed to you any such risk identified.

Ongoing Operations

31. We acknowledge that you have no responsibility for future changes caused by the current economic environment and the resulting impact on the Airport Authority's financial statements. Further, management and governance are solely responsible for all aspects of managing the Airport Authority, including questioning the quality and valuation of investments and other assets; reviewing allowances for uncollectible amounts; evaluating capital needs and liquidity plans.

Related Parties

32. We have disclosed to you the identity of all of the entity's related parties and all the related-party relationships of which we are aware. In addition, we have disclosed to you all related-party 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.
33. We understand that the term related party refers to:
- Affiliates
 - Trusts for the benefits of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management
 - Those charged with governance and members of their immediate families
 - Management and members of their immediate families
 - Any other party with which the Airport Authority may deal if one party can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests.

Another party is also a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, the Airport Authority.

Litigation, Laws, Rulings, & Regulations

34. 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.
35. We have no knowledge of communications, from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.
36. 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.
37. Except as already disclosed, 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.

Nonattest Services

38. You have provided nonattest services, including the following, during the period of this engagement:
 - Assistance with preparation of a draft of the supplementary information related to the schedule of expenditures of federal awards and related notes.
 - Completing the auditee portion of the Form SF-SAC (Data Collection Form) through the Federal Audit Clearinghouse
 - Consulting services to assist with the adoption of GASB 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, and GASB 96, *Subscription-Based Information Technology Arrangements*, including LeaseVision tools.
39. With respect to these services:
 - 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 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.
 - e. We have established and maintained internal controls, including monitoring ongoing activities.

- f. We have received final deliverables from you and have stored these deliverables in information systems controlled by us. We have taken responsibility for maintaining internal control over these deliverables.

Financial Statements & Reports

- 40. We have prepared and FORVIS reviewed and approved a draft of the financial statements and related notes referred to above, 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.
- 41. 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, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
 - 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 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.
- 42. With regard to other information that is presented in the form of our annual comprehensive financial report:
 - a. We have provided you with the final draft of the annual report.
- 43. We have exercised due care in the preparation of the introductory and statistical sections included in our annual comprehensive financial report (ACFR) and are not aware of any information contained therein that is inconsistent with the information contained in our basic financial statements.

Transactions, Records, & Adjustments

- 44. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- 45. We have everything we need to keep our books and records.

Governmental Accounting & Disclosure Matters

- 46. With regard to deposit and investment activities:
 - a. All deposit and investment transactions have been made in accordance with legal and contractual requirements.
 - b. Investments are properly valued.
 - c. 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.

- d. We understand that your audit does not represent an opinion regarding the enforceability of any collateral pledges.
47. We have identified and evaluated all potential fiduciary activities and have determined the Airport Authority does not have any fiduciary activities required to be reported by GASB Statement No. 84, *Fiduciary Activities*, as amended.
48. Components of net position (net investment in capital assets, restricted, and unrestricted) are properly classified and, if applicable, approved.
49. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated or amortized.
50. We have appropriately disclosed the Airport Authority's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
51. The Airport Authority's ability to continue as a going concern was evaluated and that appropriate disclosures are made in the financial statements as necessary under GASB requirements.
52. The supplementary information required by the Governmental Accounting Standards Board, consisting of management's discussion and analysis and pension/other postemployment 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.
53. With regard to pension and other postretirement benefits (OPEB) activities:
- We believe that the actuarial assumptions and methods used to measure pension and OPEB liabilities and costs for financial accounting purposes are appropriate in the circumstances.
 - We have provided you with the Airport Authority's most current pension and OPEB plan instrument for the audit period, including all plan amendments.
 - The participant data provided to you related to pension and OPEB plans are true copies of the data submitted or electronically transmitted to the plan's actuary.
 - The participant data that we provided the plan's actuary for the purposes of determining the actuarial present value of accumulated plan benefits and other actuarially determined amounts in the financial statements were complete.
 - Specialists have been engaged to evaluate the net pension liability and OPEB liability, and investment valuations. We have adequately considered the qualification of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. To the best of our knowledge their findings appear reasonable and accurate.
 - We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence or objectivity of the specialists.

Accounting & Disclosure

54. We are not aware of any unrecorded transactions, side agreements, or other arrangements (either written or oral) that are in place.
55. Except as reflected in the financial statements, there are no:
- a. Plans or intentions that may materially affect carrying values or classifications of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.
 - b. Material transactions omitted or improperly recorded in the financial records.
 - 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. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, lines of credit, or similar arrangements.
 - g. Guarantees, whether written or oral, under which the Airport Authority is contingently liable.
 - h. Known or anticipated asset retirement obligations.
56. Except as disclosed in the financial statements, the Airport Authority has:
- a. Satisfactory title to all recorded assets, and those assets 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.

Revenue and Accounts Receivable

57. 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 at prices in excess of prevailing market prices.

Estimates

58. We have identified all accounting estimates that could be material to the financial statements, and we confirm the appropriateness of the methods and the consistency in their application, the accuracy and completeness of data, and the reasonableness of significant assumptions used by us in making the accounting estimates, including those measured at fair value reported in the financial statements.
59. Significant estimates that may be subject to a material change in the near term have been properly disclosed in the financial statements. We understand that “near term” means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations, which refer to volumes of business, revenues, available sources of supply, or markets, investments, or deposits, existing at the date of the financial statements that would make the Airport Authority vulnerable to the risk of severe impact in the near term that have not been properly disclosed in the financial statements.

Fair Value

60. With respect to the fair value measurements of financial and nonfinancial assets and liabilities, if any, recognized in the financial statements or disclosed in the notes thereto:
- a. The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated course of action.
 - b. The measurement methods and significant assumptions used in determining fair value are appropriate in the circumstances for financial statement measurement and disclosure purposes and have been consistently applied.
 - c. The significant assumptions appropriately reflect market participant assumptions.
 - d. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
 - e. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

Tax-Exempt Bonds

61. Tax-exempt bonds issued have retained their tax-exempt status.
62. We have notified you of any instances of noncompliance with applicable disclosure requirements of the SEC Rule 15c2-12 and applicable state laws.

New Accounting Standards

GASB Statement 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements

63. In connection with the adoption of GASB Statement No. 94, *Public-Private and Public-Public Partnerships (PPPs) and Availability Payment Arrangements (APAs)* (GASB 94), we represent the following:
- a. We have identified a complete population of potential PPPs and APAs as of the implementation date.
 - b. We have reviewed all significant contracts to identify PPP and non-PPP components as of the earliest date of adoption.
 - c. Measurements of the PPP assets and liabilities are based upon facts and circumstances that existed at the beginning of the period of implementation.
 - d. The estimates related to any options to extend or terminate the PPP terms within the measurement of PPP assets and liabilities agree to management's plans for the PPPs.
 - e. The discount rates for each PPP are based upon what would be obtained by the Airport Authority for similar loans as an incremental rate.
 - f. We have adequate controls in place to prevent and/or detect errors in PPP assets and liabilities on a recurring basis.
 - g. The footnotes to the financial statements appropriately describe the adoption of GASB 94 and include all additional disclosures required under the Statement.

GASB Statement 96, Subscription-Based Information Technology Arrangements

64. In connection with the adoption of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96), we represent the following:

- a. We have identified a complete population of potential subscription-based information technology arrangements (SBITAs) as of the implementation date.
- b. We have reviewed all significant contracts to identify subscription and nonsubscription components as of the earliest date of adoption. Allocation of costs between subscription and nonsubscription components are based upon standalone prices or other reasonable factors.
- c. Measurements of the subscription assets and liabilities are based upon facts and circumstances that existed at the beginning of the period of implementation.
- d. The estimates related to any options to extend or terminate the SBITA terms within the measurement of subscription liability and an intangible right to use IT subscription asset agrees to management's plans for the SBITA.
- e. The discount rates for each SBITA are based upon what would be obtained by the Airport Authority for similar payment amounts during the subscription term as an incremental rate.
- f. We have adequate controls in place to prevent and/or detect errors in subscription assets and liabilities on a recurring basis.
- g. The footnotes to the financial statements appropriately describe the adoption of GASB 96 and include all additional disclosures required under the GASB 96.


Scott Brickner (Nov 3, 2023 08:58 PDT)

Scott Brickner, Chief Financial Officer
sbrickner@san.org

Elizabeth Stewart

Elizabeth M. Stewart, Director Accounting
estewart@san.org



SAN DIEGO
INTERNATIONAL AIRPORT
LET'S GO.

Report to the Audit Committee

November 13, 2023

Financial Statement and Compliance Audits Year Ended June 30, 2023

Presented by

Rachel Russell Ormsby, CPA

Josh Findlay, CPA

Agenda



AUDIT RESULTS



FINANCIAL HIGHLIGHTS



REQUIRED COMMUNICATIONS



FINDINGS



INDUSTRY NEWS



QUESTIONS

Audit Results For Year Ended June 30, 2023





Audit Results

| Report | Results |
|---|----------------------------|
| Financial Statement Opinion | Unmodified “Clean” Opinion |
| 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 <i>Government Auditing Standards</i> | Unmodified “Clean” Opinion |
| 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 “Clean” Opinion |
| 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 “Clean” Opinion |
| 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 “Clean” Opinion |

Financial Highlights



GASB Statement 94, *Public-Private and Public-Public Partnerships (PPPs) and Availability Payment Arrangements (APAs)*

Summary

- Provides a new framework for accounting for PPPs and APAs under the principle that these arrangements are financings.
- GASB 94 was implemented during the Authority's 2023 fiscal year – requiring restatement of the earliest period presented, which was as of 7/1/21.

Impact

- Change in accounting principle during FY2023 – refer to *Note 13* to the financial statements.
- Authority recognized a P3 receivable of \$132M and a related deferred inflow of resources of \$192M as of 7/1/21.
- Authority recognized a P3 receivable of \$138.5M and related deferred inflow of resources of \$202.5M as of 6/30/23.

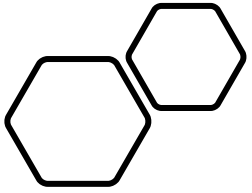
GASB Statement 96, *Subscription-Based Information Technology Arrangements (SBITA)*

Summary

- Provides a new framework for accounting for IT arrangements (SBITAs) under the principle that these arrangements are financings.
- GASB 96 was implemented during the Authority's 2023 fiscal year – requiring restatement of the earliest period presented, which was as of 7/1/21.

Impact

- Change in accounting principle during FY2023 – refer to *Note 13* to the financial statements.
- Authority recognized a right-to-use SBITA asset and a corresponding SBITA liability of \$464K as of 7/1/21.
- Authority recognized a right-to-use SBITA asset of \$278K, net of amortization and related SBITA liability of \$233K as of 6/30/23.



Required Communications

Required Communications

FORVIS' Response

Significant Estimates

- AR Allowance
- Fair Value of Investments
- Depreciable Lives
- Discount rate and terms of lease, PPP, and SBITA assets and liabilities
- Revenue recognition, including grants

Quality of Accounting Principles

- Significant Accounting Policies
- Alternative Accounting Treatments

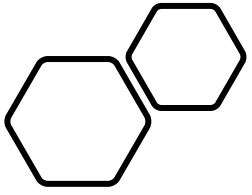
Financial Statement Disclosures

- Cash, cash equivalents, and investments
- Leases, SBITAs, and PPPs
- Long-term liabilities
- Defined benefit and OPEB plans
- Disclosure about fair value of assets
- Commitments and contingencies

Required Communications

FORVIS' Response

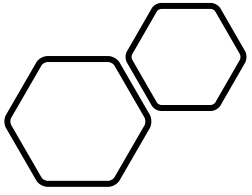
| | |
|---|--|
| Auditor's Judgments About the Quality of Client's Accounting Policies | <ul style="list-style-type: none">• Implementation of GASB 94 and 96 |
| Disagreements with Management | None |
| Other Information in Documents Containing Audited Financial Statements | None |
| Consultations with Other Accountants | None |
| Significant Issues Discussed with Management | <ul style="list-style-type: none">• Implementation of GASB 94 and 96 |
| Difficulties or Disagreements while Performing the Audit | None |
| Substantial Doubt About the Entity's Ability to Continue as a Going Concern | None |
| Other Material Communications | <ul style="list-style-type: none">• Management Representation Letter |



Findings

Findings Reporting during the FY2023 Audit

- Material Weakness/
Material Noncompliance
 - None identified
- Significant Deficiency
 - None identified
- Other Noncompliance
 - None identified



Industry Developments

Upcoming GASB Pronouncements – GASB Statement 100, *Accounting Changes and Error Corrections* – an amendment of GASB Statement No. 62

Summary

- Provides guidance on reporting for accounting changes and errors:
 - Change in accounting principle – reported retroactively, restatement for all periods presented
 - Change in accounting estimate – reported prospectively, recognize in the period of change
 - Change to or within the financial reporting entity – reported as of first day of reporting period in which it is made (not all periods presented)
 - Correction of errors – reported retroactively, restatement for all periods presented
- GASB 100 is effective for the Authority’s 2024 fiscal year.

Potential Impact

- Display of aggregate amount of adjustments to, and restatements of, beginning net position as applicable
- Summary disclosure, in a tabular form, of the overall effects on beginning position of the earliest period adjusted or restated for each change in accounting principle (including implementations of new pronouncements), change to or within the financial reporting entity, and error corrections
- MD&A, RSI, and SI for prior periods should not be restated for a change in accounting principles or a change to or within the financial reporting entity; rather, an explanation of why the information is not consistent should be provided
- MD&A, RSI, and SI for prior periods should be restated for a correction of an error

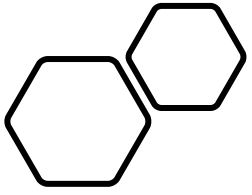
Upcoming GASB Pronouncements – GASB Statement 101, *Compensated Absences*

Summary

- Provides a further guidance on what types of leave should be included in compensated absences and the recognition timing
- Liability is to be recognized for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means
- Liability is recognized for leave that has not been used if the leave is attributable to services already rendered, leave accumulates, and leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means
- GASB 101 is effective for the Authority's 2025 fiscal year.

Potential Impact

- Change in compensated absences liability amount as compared to prior periods
- Ability to disclose the net change in liability (so long as it is identified as a net change) rather than disclosure of the gross increase and decrease



Questions?



Connect with Us

- Rachel Russell Ormsby, Partner
- Rachel.Ormsby@forvis.com
LinkedIn – Rachel-Russell-Ormsby-CPA
- www.forvis.com



Audit Committee Report

Meeting Date: November 13, 2023

Subject:

Review of the Annual Comprehensive Financial Report (ACFR) for the Fiscal Year Ended June 30, 2023

Recommendation:

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

Background/Justification:

An Annual Comprehensive Financial Report (ACFR) 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 ACFR 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 ACFR and other external auditor annual reports, and to forward them to the San Diego County Regional Airport Authority Board for approval.

The Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2023, is submitted as Attachment A.

Fiscal Impact:

Adequate funding for the audit conducted by FORVIS, LLP is included in the adopted Fiscal Year 2023 and Adopted Fiscal Year 2024 Operating Expense Budgets within the Accounting Department Audit Services 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.
- C. NEPA: This Board action is not a project that involves additional approvals or actions by the Federal Aviation Administration ("FAA") and, therefore, no formal review under the National Environmental Policy Act ("NEPA") is required.

Application of Inclusionary Policies:

Not Applicable

Prepared by:

Elizabeth Stewart
Director, Accounting

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY Attachment A
SAN DIEGO, CALIFORNIA

**ANNUAL COMPREHENSIVE
FINANCIAL
REPORT**

FISCAL YEARS ENDED JUNE 30, 2023 & 2022





SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
SAN DIEGO, CALIFORNIA

ANNUAL COMPREHENSIVE FINANCIAL REPORT

FISCAL YEARS ENDED JUNE 30, 2023 & 2022

PREPARED BY

ACCOUNTING DEPARTMENT OF THE
SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY

Scott M. Brickner
Vice President/Chief Financial Officer

Elizabeth Stewart
Director, Accounting

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY
 SAN DIEGO, CALIFORNIA
ANNUAL COMPREHENSIVE FINANCIAL REPORT
 FOR THE FISCAL YEARS ENDED JUNE 30, 2023 & 2022

TABLE OF CONTENTS

| | | | | | |
|-----------------------------|---|----------|--|--|-------|
| INTRODUCTORY SECTION | Letter of Transmittal | vi-xiii | STATISTICAL SECTION (UNAUDITED) | Terminal Rates Billed to Airlines | 81 |
| (UNAUDITED) | Authority Organization Chart | xiv | continued | Airline Cost per Enplaned Passenger | 82 |
| | Authority Board Members and Executive Staff | xv | | Authority Employee Head Count | 83 |
| | GFOA Certificate of Achievement For Excellence in Financial Reporting | xvi-xvii | | Aircraft Operations | 84 |
| | | | | Aircraft Landed Weights | 85 |
| | | | | Aircraft Landed Weights by Airline | 86-87 |
| | | | | Passenger Enplanements | 88 |
| | | | | Enplanement Market Share by Airline by Fiscal Year | 90-91 |
| | | | | Capital Assets | 92 |
| | | | | Population and Per Capita Personal Income - San Diego County | 92 |
| | | | | Principal Employers in San Diego County | 93 |
| | | | | Labor Force, Employment and Unemployment Rates | 94 |
| | | | | Debt Service Coverage | 95 |
| | | | | Debt Service Coverage - Series 2014 CFC Bonds | 96 |
| | | | | Debt Per Enplaned Passenger | 97 |
| | | | | | |
| FINANCIAL SECTION | Independent Auditor's Report | 2-3 | | | |
| | Management's Discussion and Analysis (Unaudited) | 4-17 | | | |
| | Basic Financial Statements: | | | | |
| | Statements of Net Position | 18-19 | | | |
| | Statements of Revenues, Expenses and Changes in Net Position | 20-21 | | | |
| | Statements of Cash Flows | 22-23 | | | |
| | Notes to Financial Statements | 25-71 | | | |
| | Required Supplementary Information (Unaudited) | 72-75 | | | |
| | | | | | |
| STATISTICAL SECTION | Authority Operating Revenues and O&M Expenses | 78 | | | |
| (UNAUDITED) | Authority Net Position by Component | 78 | | | |
| | Authority Changes in Net Position | 79 | | | |
| | Authority Largest Sources of Revenues | 80 | | | |
| | Authority Landing Fee Rate | 80 | | | |

An aerial photograph of an airport construction site. In the foreground, a large parking lot is filled with cars. To the left, a large area of dirt and construction equipment is visible. In the background, a city skyline with various buildings and a clear blue sky is seen.

INTRODUCTORY SECTION

LETTER OF TRANSMITTAL

AUTHORITY ORGANIZATION CHART

AUTHORITY BOARD MEMBERS AND EXECUTIVE STAFF

GFOA CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

November 2, 2023.

To Members of the Board and the Public:

We are pleased to present the Annual Comprehensive Financial Report of the San Diego County Regional Airport Authority (Airport Authority) for the fiscal years ended June 30, 2023 and 2022. The purpose of this report is to provide the Airport Authority Board of Directors (Board), the public and other interested parties with reliable information concerning the financial condition and operational results 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 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 carefully safeguarded, transactions are properly executed, and the financial statements are free from material misstatement.

The Airport Authority engaged the Certified Public Accounting firm FORVIS, 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, 2023 and 2022.

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.

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, with no limits to the number of terms a member is able to serve.

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



ECONOMIC CONDITION

The United States Census Bureau estimates the population of San Diego County to be 3.28 million as of July 1, 2022. 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 (9 percent), Oceanside (5 percent), Escondido (5 percent), Carlsbad (3 percent), and El Cajon (3 percent). The combined San Diego/Tijuana metropolitan population is estimated to be approximately 5.5 million

inhabitants. The Air Trade Area for SAN includes San Diego County as well as portions of neighboring Orange, Imperial and Riverside Counties, and Baja California, Mexico.

San Diego County's continued economic recovery since the pandemic has been solid. The US Bureau of Labor Statistics notes that the county's average unemployment rate for June 2023 was 4 percent, compared to 4.6 percent for the State of California. Fiscal year 2023 saw the continuation of strong passenger recovery from the pandemic lows of 2021 with total enplaned passengers of 11.9 million,

an increase of 19 percent over fiscal year 2022. This was 96 percent of the 2019 levels. Continued recovery is forecasted to progress, although at a slower pace, and the Airport Authority is optimistic that long-term growth prospects are positive, as San Diego continues to be a desirable place to visit and do business.

MAJOR INITIATIVES, AWARDS, AND ACCOMPLISHMENTS



QUIETER HOME PROGRAM COMPLETES 5,000TH HOME

Our Quieter Home Program (QHP) achieved a major milestone in December 2022 with the completion of its 5,000th home. The QHP is SAN's residential sound insulation program in which certain residences around SAN, as determined by the Federal Aviation Administration (FAA), may be eligible for sound insulation treatments to mitigate aircraft noise. The work reduces noise levels by at least five decibels inside the home.

Since its inception, the QHP has retrofitted single-family and multi-family residences, a church, and a school immediately east and west of the airport, including the neighborhoods of Bankers Hill, Point Loma, Ocean Beach, South Park, and Golden Hill, providing them with noticeable noise reduction.

PROGRESS CONTINUES AS THE NEW T1 STRUCTURAL STEEL AND ROADWAY RISE OUT OF THE GROUND

The \$3.4 billion New T1 project includes a new Terminal 1, new parking structure, airside improvements as well as transportation upgrades that will make great strides towards creating an exceptional airport experience for our community and the world.

Approximately two years after breaking ground, the project is on track and has progressed significantly in 2023. The steel framework for the first phase of the new terminal building will be completed in November 2023. The first section of the new on-airport entrance roadway will open in late October 2023. Construction is also advancing on

the New T1 Parking Plaza, which will provide 5,200 spaces and will open in 2024.

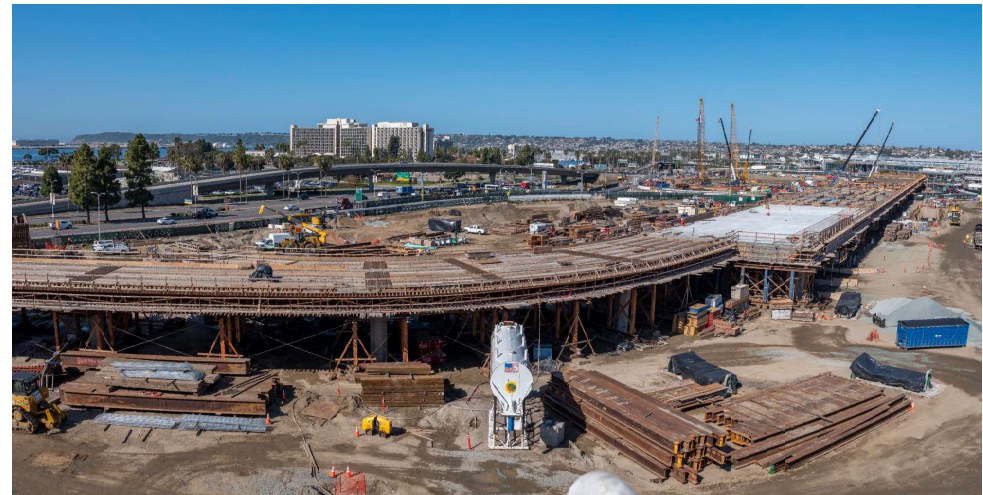
When completed, members of the San Diego community, as well as those visiting, will enjoy amenities that include more gate-area seating, restaurants, and shops, as well as an expansive security-screening checkpoint with more lanes and energy-efficient upgrades throughout. The project has also set aside space for a potential future transit station being considered by regional transportation partners.

The project will continue to provide a strong economic impact to the region, contributing thousands of well-paying jobs for the region's workers during and after the completion of the venture.



\$200 MILLION IN FEDERAL GRANTS AWARDED FOR NEW T1 PROGRAM

The Airport Authority has received more than \$200 million in federal grants as of mid-2023 for the New T1 program. This includes funds from the Bipartisan Infrastructure Law – Airport Terminal Program.



WATER SAVERS AND STEWARDS

In 2022, the Airport Authority captured, treated, and reused 812,500 gallons of stormwater. This water, which would otherwise have run off into San Diego Bay, was used to heat and cool buildings at SAN, thereby reducing the amount of potable water used for this purpose.

The Stormwater Treatment System receives captured stormwater from the top of the Terminal 2 Parking Plaza and stores it in underground pipes with about 100,000 gallons of capacity. The captured water is then treated through a series of high-rate media filters and ultraviolet light, then pumped to a central utility plant for use in the cooling towers that heat, ventilate, and air condition SAN's terminals and jet bridges. Overall, the Airport Authority's Stormwater Reuse Treatment System has captured, treated, and reused more than 5 million gallons of stormwater since its inception in 2018.



ARRIVAL OF RENEWABLE DIESEL CONTINUES DRIVE FOR SUSTAINABILITY

With the arrival of renewable diesel at SAN in April 2023, the sustainable fuel will reduce emissions by up to 75 percent in airside (non-road) vehicles and equipment, such as baggage tugs, belt loaders, and firefighting vehicles. While the fuel is made from vegetable oil, animal fats and agricultural waste, it is chemically identical to fossil fuel-derived diesel, allowing it to be the primary choice without the need for modifications to storage and diesel engines.

SAN was selected as the 2023 Airports Council International – North America Environmental Achievement Award winner in the mitigation award category for this accomplishment.

AIRPORT AUTHORITY RECEIVES GFOA DISTINGUISHED BUDGET PRESENTATION AWARD FOR 18TH CONSECUTIVE YEAR

The Airport Authority received its eighteenth consecutive Distinguished Budget Presentation Award from the GFOA for its annual budget for the fiscal year beginning July 1, 2022. The GFOA Distinguished Budget Presentation Awards Program was established to encourage and assist state and local governments to prepare budget

documents of the very highest quality that reflect both the guidelines established by the National Advisory Council on State and Local Budgeting, and the GFOA's best practices on budgeting, and then to recognize individual governments that succeed in achieving that goal. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communications device.



AIRPORT AUTHORITY AWARDED ACHIEVEMENT OF EXCELLENCE IN PROCUREMENT

The Airport Authority was awarded the Achievement of Excellence in Procurement® (AEP) for 2023 from the National Procurement Institute, Inc. The award recognizes organizations that demonstrate excellence in innovation, professionalism, productivity, leadership, and e-procurement. The AEP program encourages the development of excellence as well as continued

organizational improvement to earn the award annually. This was the fourteenth consecutive year the Airport Authority earned this award.



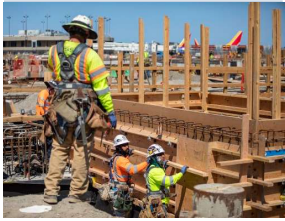
AIRPORT AUTHORITY AWARDED CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The GFOA awarded the Certificate of Achievement for Excellence in Financial Reporting to the Airport Authority for its Annual Comprehensive Financial Report for the fiscal year ended June 30, 2022. The Annual Report was judged by an impartial panel to meet the high standards of the program, which includes demonstrating a constructive "spirit of full disclosure" to clearly communicate its financial

story and motivate potential users and user groups to read the Annual Report. The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management. The Airport Authority has received this award every year since its inception.



BUDGET PROCESS AND FINANCIAL PLAN



Annually, the Airport Authority prepares a five-year capital program budget, an operating budget for the upcoming fiscal year and a conceptual budget for the following fiscal year. The capital program provides for critical improvements and asset preservation. Safety, security, asset preservation, environmental remediation, terminal upgrades, airfield improvements, and efficiency enhancements are the main focus of the capital program. The budget process begins executive 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 budget requirements with the Airport Authority's overall strategies and initiatives. Actual financial results are compared to the adopted budget expectations and reported to the Board's Finance Committee on a monthly basis and the full Board on a quarterly basis.

FINANCIAL INFORMATION



The Board sets policy that enables implementation of 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 derives its operating revenue from two sources: airline and non-airline revenue. Airline revenue is derived primarily from landing fees, aircraft parking fees, building rentals, common use fees and other aviation revenue. Primary sources of non-airline revenue are terminal and rental car concessions, airport parking, and ground transportation.

Non-operating revenue of the Airport Authority is comprised of Passenger Facility Charges, Customer Facility Charges, interest income, and federal grants.

The Airport Authority's debt management policy was developed to ensure compliance with the master and subordinate bond indentures, which dictate the terms of the Airport Authority's outstanding debt and establishes various reserves. Funding of the required reserve balances affects the fund equity portion of the budget and rate-setting process.

The Airport Authority completed fiscal year 2023 with income from operations (before depreciation and amortization) of \$186.4 million, an increase of 12.0 percent compared to fiscal year 2022. Enplanements increased 19.2 percent, and airport operations increased 25.9 percent in fiscal year 2023 compared to fiscal year 2022. These increases were a strong reflection of the continued recovery from the COVID-19 pandemic. The accompanying Management's Discussion and Analysis provides a detailed narrative overview.

ACKNOWLEDGEMENTS

The preparation of the Annual Comprehensive Financial Report was made possible by the dedicated service and efforts of the Airport Authority's Accounting, Financial Management, Marketing and Communications 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.

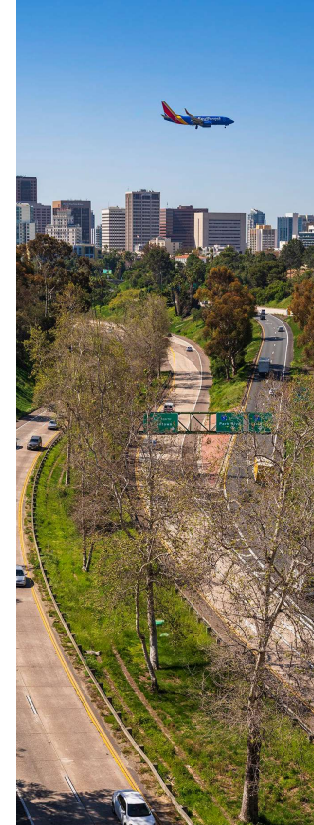
Respectfully submitted,



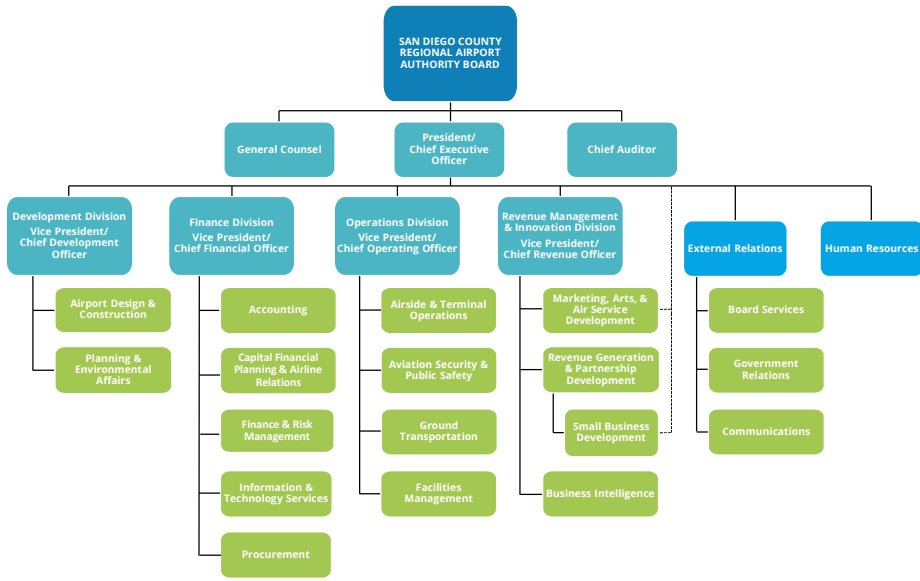
Kimberly J. Becker
President | Chief Executive Officer



Scott M. Brickner, CPA
Vice President | Chief Financial Officer



ORGANIZATION CHART



AUTHORITY BOARD MEMBERS AND EXECUTIVE STAFF AS OF JUNE 30, 2023

AIRPORT AUTHORITY BOARD

EXECUTIVE COMMITTEE:

GIL CABRERA, CHAIR
MARY CASILLAS SALAS, VICE CHAIR
RAFAEL PEREZ

EX-OFFICIO MEMBERS:

COLONEL THOMAS M. BEDELL
GUSTAVO DALLARDA
GAYLE MILL

GENERAL MEMBERS:

PAUL MCNAMARA
LIDIA MARTINEZ
ESTER SANCHEZ
JAMES SLY
MARNI VON WILPERT



EXECUTIVE STAFF

KIMBERLY J. BECKER, PRESIDENT/CHIEF EXECUTIVE OFFICER
AMY GONZALEZ, GENERAL COUNSEL
LEE PARRAVANO, CHIEF AUDITOR
SCOTT M. BRICKNER, VICE PRESIDENT/CHIEF FINANCIAL OFFICER
HAMPTON BROWN, VICE PRESIDENT/CHIEF REVENUE OFFICER
RICK FRANCIS, VICE PRESIDENT/CHIEF OPERATING OFFICER
ANGELA SHAFER-PAYNE, VICE PRESIDENT/CHIEF DEVELOPMENT OFFICER



**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 San Diego County Regional Airport Authority for its Annual Comprehensive Financial Report for the fiscal year ended June 30, 2022. This was the twentieth 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 Annual Comprehensive Financial Report. The report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is 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 Annual Comprehensive
Financial Report
For the Fiscal Year Ended
June 30, 2022

Christopher P. Morill
Executive Director/CEO

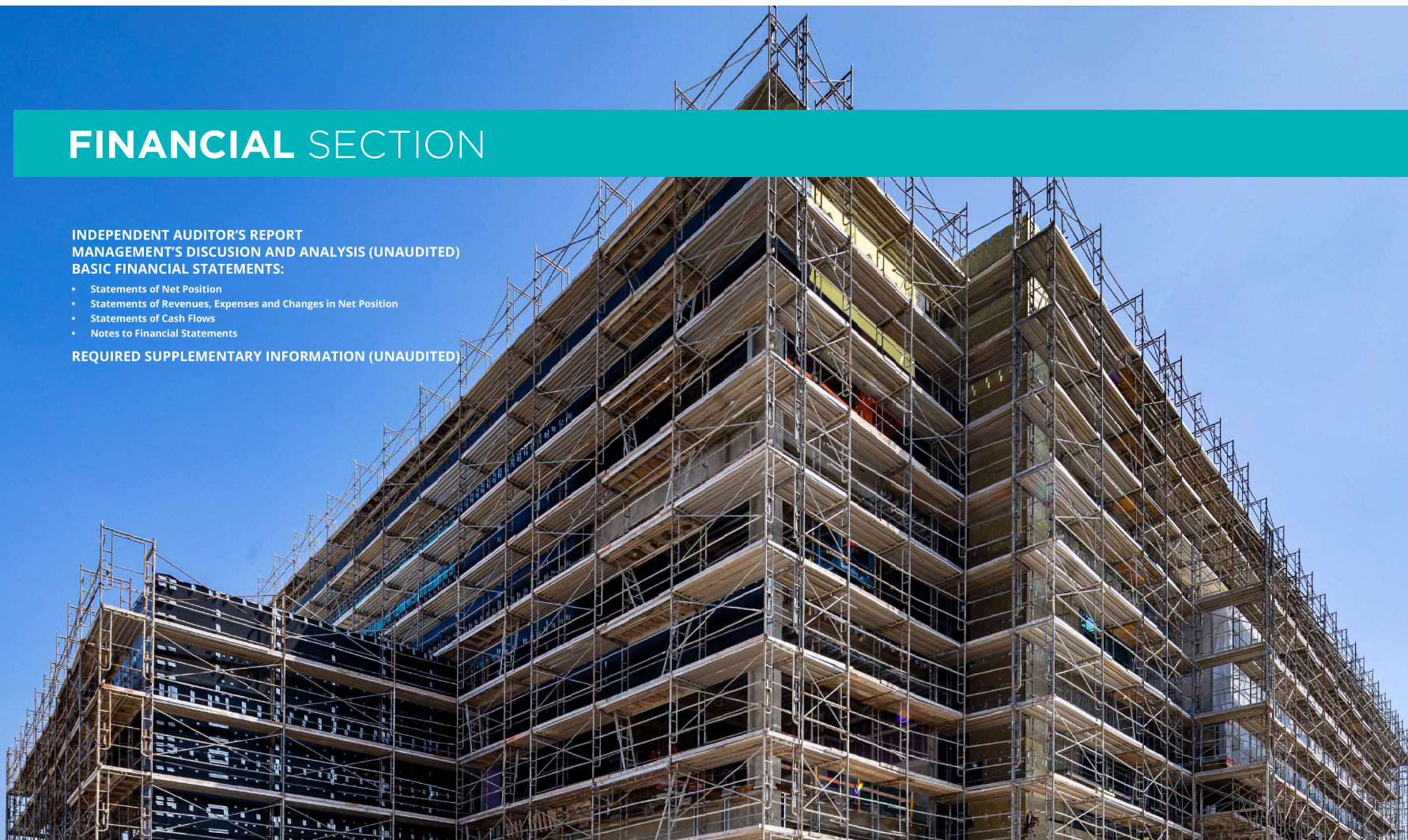


FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
BASIC FINANCIAL STATEMENTS:

- Statements of Net Position
- Statements of Revenues, Expenses and Changes in Net Position
- Statements of Cash Flows
- Notes to Financial Statements

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)



FORVIS

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the San Diego County Regional Airport Authority (Airport Authority), as of and for the years ended June 30, 2023 and 2022, 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.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Airport Authority as of June 30, 2023 and 2022, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Airport Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 13 to the financial statements, in fiscal year 2023 the Airport Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Airport Authority's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Airport Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Airport Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension, and other postemployment benefit information as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 audits 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.

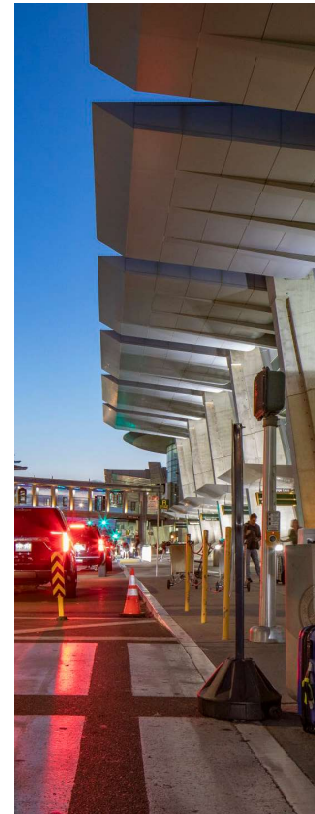
Other Information

Management is responsible for the other information included in the annual comprehensive financial report. The other information comprises the introductory and statistical sections as listed in the table of contents but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

FORVIS,LLP

Dallas, Texas
November 2, 2023



INTRODUCTION

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For The Years Ended June 30, 2023 and 2022

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 AB 93 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.

In fiscal year 2023, the Airport Authority continued to show great improvement in the recovery from the COVID-19 pandemic, as most major activities rose to within 96 percent of the 2019 pre-pandemic levels.

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

| | FY 2023 | FY 2022 | FY 2021 |
|------------------------------------|-------------------|------------|-----------|
| Enplaned passengers | 11,867,569 | 9,953,162 | 4,860,931 |
| % change from prior year | 19.2% | 104.8% | -47.4% |
| Total passengers | 23,560,297 | 19,830,645 | 9,701,311 |
| % change from prior year | 18.8% | 104.4% | -47.4% |
| Aircraft operations | 219,952 | 190,491 | 130,017 |
| % change from prior year | 15.5% | 46.5% | -31.8% |
| Freight and mail (in tons) | 138,648 | 151,160 | 151,327 |
| % change from prior year | -8.3% | -0.1% | -2.0% |
| Landed weight (in millions pounds) | 13,869 | 11,764 | 7,780 |
| % change from prior year | 17.9% | 51.2% | -35.5% |

Enplaned passenger traffic continued to improve from the impact of the pandemic, with an increase of 19.2 percent over fiscal year 2022. Changes in total passengers, aircraft operations

and landed weight closely mirrored the improvement in enplanements. Whereas freight and mail continued a declining trend due to decreasing demand.



AIRPORT ACTIVITIES HIGHLIGHTS (2021 - 2023)

FINANCIAL HIGHLIGHTS (2021 - 2023)

For the fiscal year ended June 30, 2023, the Airport Authority adopted GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (GASB 94) and GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96). Fiscal year 2022 has been restated for the adoption of GASB 94 and GASB 96.

STATEMENT OF REVENUES EXPENSES AND CHANGES IN NET POSITION

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 2.8 percent in

fiscal year 2022 as air travel continued to recover and had a strong increase of 13.0% in fiscal year 2023.

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

| | FY 2023 | FY 2022 | FY 2021 |
|---------------------------------------|--------------|------------|------------|
| Operating revenues | \$ 360,762 | \$ 315,640 | \$ 224,606 |
| Operating expenses | (305,925) | (291,213) | (277,808) |
| Nonoperating revenues (expenses), net | 11,987 | (12,874) | 43,762 |
| Capital contributions and grants | 52,287 | 12,958 | 13,932 |
| Increase in net position | 119,111 | 24,511 | 4,491 |
| Net position, beginning of year | 914,068 | 889,557 | 885,066 |
| Net position, end of year | \$ 1,033,179 | \$ 914,068 | \$ 889,557 |

Note: Fiscal year 2022 and 2021 amounts have been restated for GASB 94 & GASB 96.



OPERATING REVENUES (IN THOUSANDS)

| | FY 2023 | FY 2022 | From 2022 to 2023 | |
|---|------------|------------|------------------------|----------|
| | | | Increase (Decrease) | % Change |
| Airline revenue: | | | | |
| Landing fees | \$ 44,741 | \$ 35,354 | \$ 9,387 | 26.6% |
| Aircraft parking fees | 11,189 | 8,856 | 2,333 | 26.3% |
| Building rentals | 129,744 | 97,047 | 32,697 | 33.7% |
| Other aviation revenue | 7,123 | 6,518 | 605 | 9.3% |
| Total airline revenue | 192,797 | 147,775 | 45,022 | 30.5% |
| Concession revenue | 75,559 | 88,138 | (12,579) | (14.3%) |
| Parking and ground transportation revenue | 65,415 | 57,076 | 8,339 | 14.6% |
| Ground rentals | 23,257 | 19,651 | 3,606 | 18.3% |
| Other operating revenue | 3,735 | 2,999 | 736 | 24.5% |
| Total operating revenue | \$ 360,762 | \$ 315,640 | \$ 45,122 | 14.3% |

Note: Fiscal year 2022 and 2021 amounts have been restated for GASB 94 & GASB 96.

| | FY 2022 | FY 2021 | From 2021 to 2022 | |
|---|------------|------------|------------------------|----------|
| | | | Increase (Decrease) | % Change |
| Airline revenue: | | | | |
| Landing fees | \$ 35,354 | \$ 34,046 | \$ 1,308 | 3.8% |
| Aircraft parking fees | 8,856 | 8,542 | 314 | 3.7% |
| Building rentals | 97,047 | 83,090 | 13,957 | 16.8% |
| Other aviation revenue | 6,518 | 8,192 | (1,673) | (20.4%) |
| Total airline revenue | 147,775 | 133,870 | 13,906 | 10.4% |
| Concession revenue | 88,138 | 41,801 | 46,337 | 110.9% |
| Parking and ground transportation revenue | 57,076 | 27,447 | 29,629 | 108.0% |
| Ground rentals | 19,651 | 19,809 | (157) | (0.8%) |
| Other operating revenue | 2,999 | 1,680 | 1,320 | 78.6% |
| Total operating revenue | \$ 315,640 | \$ 224,606 | \$ 91,034 | 40.5% |

Note: Fiscal year 2022 and 2021 amounts have been restated for GASB 94 & GASB 96.

FISCAL YEAR 2023 COMPARED TO 2022:

Fiscal Year 2023 compared to 2022: Total airline revenues increased \$45.0 million, or 30.5 percent, due to a planned major maintenance fund increase per the airline operating lease agreement, combined with increased cost recovery from the airlines which is the result of higher debt service costs and an increase in recoverable operating expenses due to the increase in passengers.

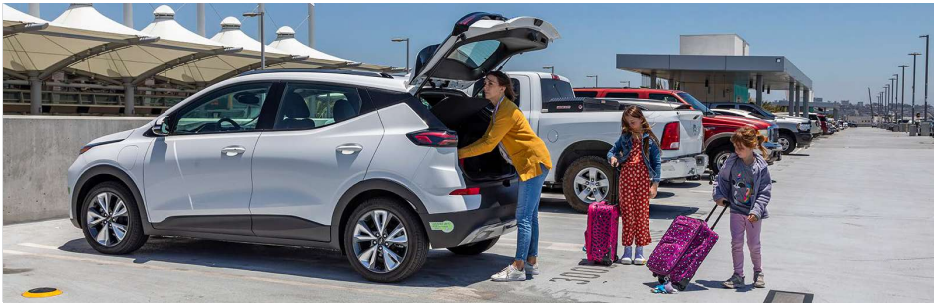
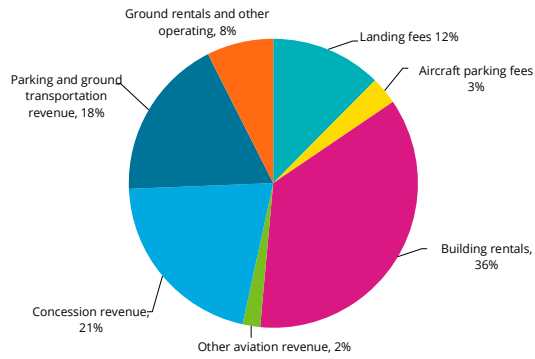
Concession revenue (terminal and rental car) decreased by \$12.6 million, or 14.3 percent, due to

the timing of the recognition of lease revenue per GASB 87. The decrease is partially offset by increased concessions and car rental sales due to the increase in passengers. Parking and ground transportation revenue increased \$8.3 million, or 14.6 percent, due to the increased enplanements. Ground rentals increased \$3.6 million, or 18.3 percent, due to the higher consumer price index rent increase and additions to the fuel lease from the hydrant fueling project.

OPERATING REVENUES
(CONTINUED)

FISCAL YEAR 2022 COMPARED TO 2021:
Total airline revenues increased \$13.9 million, or 10.4 percent, reflecting the cost recovery system for the airlines which was higher in fiscal year 2022, compared to 2021. Airline building rentals were the main driver, increasing \$14.0 million, or 16.8 percent.

Concession revenue (terminal and rental car) increased by \$46.3 million, or 110.9 percent, due to increased passenger flow throughout the terminals. Parking and ground transportation revenue increased \$29.6 million, or 108.0 percent, due to the increased enplanements. Lastly, other operating revenue increased \$1.3 million, or 78.6 percent.



OPERATING EXPENSES
(IN THOUSANDS)

| FY 2023 | FY 2022 | From 2022 to 2023 | |
|------------|------------|---------------------|----------|
| | | Increase (Decrease) | % Change |
| \$ 51,231 | \$ 46,373 | \$ 4,858 | 10.5% |
| 45,581 | 34,491 | 11,090 | 32.2% |
| 33,043 | 34,191 | (1,148) | (3.4%) |
| 313 | 839 | (526) | (62.7%) |
| 17,567 | 14,193 | 3,374 | 23.8% |
| 16,417 | 10,747 | 5,670 | 52.8% |
| 922 | 340 | 582 | 171.2% |
| 661 | 496 | 164 | 33.1% |
| 1,997 | 1,741 | 256 | 14.7% |
| 681 | 537 | 144 | 26.8% |
| 1,916 | 1,781 | 135 | 7.6% |
| 4,010 | 3,472 | 539 | 15.5% |
| 174,339 | 149,201 | 25,138 | 16.8% |
| 131,586 | 142,012 | (10,425) | (7.3%) |
| \$ 305,925 | \$ 291,213 | \$ 14,713 | 5.1% |

Note: Fiscal year 2022 and 2021 amounts have been restated for GASB 94 & GASB 96.

| FY 2022 | FY 2021 | From 2021 to 2022 | |
|------------|------------|---------------------|----------|
| | | Increase (Decrease) | % Change |
| \$ 46,373 | \$ 52,922 | \$ (6,549) | (12.4%) |
| 34,491 | 24,977 | 9,514 | 38.1% |
| 34,191 | 35,086 | (895) | (2.6%) |
| 839 | 64 | 776 | 1,215.8% |
| 14,193 | 11,730 | 2,464 | 21.0% |
| 10,747 | 9,111 | 1,636 | 18.0% |
| 340 | 425 | (85) | (19.9%) |
| 496 | 450 | 46 | 10.3% |
| 1,741 | 1,519 | 222 | 14.6% |
| 537 | 442 | 96 | 21.6% |
| 1,781 | 209 | 1,573 | 753.4% |
| 3,472 | 3,380 | 92 | 2.7% |
| 149,201 | 140,313 | 8,889 | 6.3% |
| 142,012 | 137,496 | 4,516 | 3.3% |
| \$ 291,213 | \$ 277,808 | \$ 13,405 | 4.8% |

Note: Fiscal year 2022 and 2021 amounts have been restated for GASB 94 & GASB 96.

OPERATING EXPENSES (CONTINUED)

FISCAL YEAR 2023 COMPARED TO 2022:

Total fiscal year 2023 operating expenses increased by \$14.7 million or 5.1 percent.

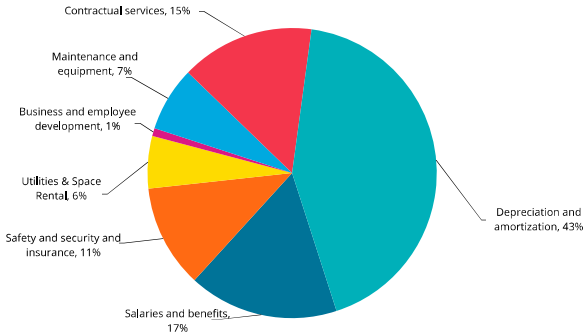
Salaries and benefits increased by \$4.9 million or 10.5 percent due to planned wage and benefit increases, higher overtime, and increased head count. Contractual services increased by \$11.1 million or 32.2 percent, primarily due to an increase in parking and shuttle operations and Rental Car Center (RCC) buses expenses due to an increase in enplanements. Utilities increased by \$3.4 million or 23.8 percent due to increased gas and electric usage and rates. Maintenance expenses increased by \$5.7 million or 52.8 percent due to an increase in annual and major maintenance.

Partially offsetting the increase in operating expenses described above, safety and security decreased by \$1.1 million or 3.4 percent because of law enforcement and guard services staff vacancies. Depreciation and amortization decreased by \$10.4 million or 7.3 percent due to disposal of assets, caused by the demolition of various fixed assets necessary for the construction of the New Terminal 1.

FISCAL YEAR 2022 COMPARED TO 2021:

Total fiscal year 2022 operating expenses increased by \$13.4 million or 4.8 percent. Contractual services increased by \$9.5 million or 38.1 percent, primarily due to an increase in parking and shuttle operations and Rental Car Center (RCC) buses expenses due to increase in enplanements. Utilities increased by \$2.5 million or 21 percent due to increased gas and electric usage and rates. Maintenance expenses increased by \$1.6 million, or 18.0 percent, due to an increase in annual and major maintenance. Business Development increased by \$1.6 million or 753.4 percent due to an increase in marketing and advertising costs.

Partially offsetting the increase in operating expenses described above, salaries and benefits, decreased by \$6.5 million or 12.4 percent, primarily due to a \$5.1 million decrease in retirement expense caused by investment gains on the pension and OPEB plan assets.



NONOPERATING REVENUES (EXPENSES) (IN THOUSANDS)

| | FY 2023 | FY 2022 | From 2022 to 2023 | |
|---------------------------------------|-----------|-------------|---------------------|----------|
| | | | Increase (Decrease) | % Change |
| Passenger facility charges | \$ 46,755 | \$ 40,394 | \$ 6,361 | 15.7% |
| Customer facility charges | 34,375 | 30,333 | 4,041 | 13.3% |
| Federal Relief Grants | - | 78,922 | (78,922) | (100.0%) |
| Quieter Home Program, net | (2,051) | (2,541) | 490 | 19.3% |
| Other interest income | 11,145 | 11,893 | (748) | (6.3%) |
| Investment income (loss) | 50,882 | (48,884) | 99,766 | 204.1% |
| Interest expense, net | (127,464) | (109,675) | (17,789) | (16.2%) |
| Other nonoperating income (expenses) | (1,654) | (13,316) | 11,661 | 87.6% |
| Nonoperating revenues (expenses), net | \$ 11,987 | \$ (12,874) | \$ 24,861 | 193.1% |

Note: Fiscal year 2022 and 2021 amounts have been restated for GASB 94 & GASB 96.

| | FY 2022 | FY 2021 | From 2021 to 2022 | |
|---------------------------------------|-------------|-----------|---------------------|------------|
| | | | Increase (Decrease) | % Change |
| Passenger facility charges | \$ 40,394 | \$ 22,110 | \$ 18,284 | 82.7% |
| Customer facility charges | 30,333 | 15,755 | 14,578 | 92.5% |
| Federal Relief Grants | 78,922 | 77,219 | 1,704 | 2.2% |
| Quieter Home Program, net | (2,541) | (3,233) | 691 | 21.4% |
| Other interest income | 11,893 | 6,748 | 5,144 | 76.2% |
| Investment income (loss) | (48,884) | 2,495 | (51,379) | (2,059.3%) |
| Interest expense, net | (109,675) | (76,628) | (33,048) | (43.1%) |
| Other nonoperating income (expenses) | (13,316) | (705) | (12,611) | (1,789.0%) |
| Nonoperating revenues (expenses), net | \$ (12,874) | \$ 43,762 | \$ (56,636) | (129.4%) |

Note: Fiscal year 2022 and 2021 amounts have been restated for GASB 94 & GASB 96.

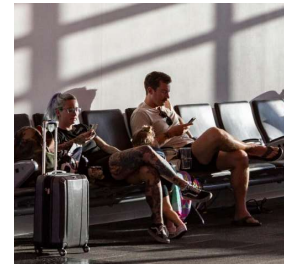
Passenger Facility Charges (PFCs) were established by Congress in 1990 as part of the *Aviation Safety and Capacity Expansion Act of 1990*. The Airport Authority collects a \$4.50 PFC from revenue enplaned passengers to pay for the cost to design and construct eligible Airport capital projects, contribute to the Airport Authority's noise mitigation (Quieter Home Program), or to repay debt service issued to build eligible capital 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 operate the related ground transportation system. The rental car agencies utilizing the consolidated rental car facility remit to the Airport Authority collection of the fee monthly. The current CFC fee

is \$9.00 per day, up to five days for rental car transactions that originate at the Rental Car Center. For car rental transactions of non-RCC tenants, the CFC rate is \$3.41 per day, up to five days for rental car transactions.

Federal Relief Grants included the *American Rescue Plan Act* (ARPA) funds received from the federal government. ARPA was signed into law on March 11, 2021, and included \$8 billion in funds to be awarded as economic assistance to eligible U.S. airports to prevent, prepare for, and respond to the coronavirus disease pandemic. On August 10, 2021, the Airport Authority was awarded a \$78.9 million ARPA grant, which was fully utilized in fiscal year 2022.

Quieter Home Program includes sound attenuation construction improvements at all eligible single-family and multi-family dwellings located in the Year 2020 65 dB Community Noise Equivalent Level contour. The project is eligible for the FAA's Airport Improvement Program (AIP)



NONOPERATING REVENUES (EXPENSES) (CONTINUED)

June 30, 2023, and 2022 interest expense was \$127.5 million and \$109.7 million, respectively. The increase is due to a full year of interest on the 2021 bonds that were issued in December 2021 to fund construction of the New Terminal 1.

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 2023 compared to 2022: Nonoperating revenues (net) increased by \$24.9 million or 193.1 percent. The increases in PFCs and CFCs are due to an increase in enplaned passengers. PFCs increased by \$6.4 million or 15.7 percent, and CFCs increased by \$4.0 million or 13.3 percent. Investment income increased by \$99.8 million or 204.1 percent. The increase is due to the movement of unrealized gain/loss on investments of \$72.9 million as the increase in market yields moderated significantly resulting in an unrealized gain in fiscal year 2023 of \$11.7 million compared to an unrealized loss of \$61.3 million in fiscal year 2022. Increased interest rates and higher investment balances accounted for the \$26.8 million of additional interest revenue in fiscal year

2023. Other nonoperating income (expenses) decreased by \$11.7 million or 87.6 percent, as there was no fixed asset disposal loss reported this year.

Fiscal year 2022 compared to 2021: Nonoperating revenues (net) decreased by \$56.6 million or 129.4 percent. The increases in PFCs and CFCs are due to an increase in enplaned passengers. PFCs increased by \$18.3 million or 82.7 percent, and CFCs increased by \$14.6 million or 92.5 percent. Investment income (loss) decreased by \$51.4 million or 2,059.3 percent. The decrease is due to an unrealized loss on investments of \$61.3 million as market yields increased significantly decreasing the market value of fixed rate securities held by the Authority. The unrealized loss was offset partially by increased interest earnings due to higher yields and larger investment balances. Other nonoperating income (expenses) decreased by \$12.6 million or 1,789.0 percent, due to the loss on fixed asset disposals, caused by the demolition of various fixed assets necessary for the construction of the New Terminal 1.

which awards grants for certain eligible Airport Authority expenditures. The \$2.1 million of expenses represents the authority's cost, net of the grant funds utilized in FY23. From inception through the end of fiscal year 2023, the Airport Authority has spent \$283.5 million and received reimbursement for \$231.3 million.

Other Interest includes interest earned on lease receivables and notes receivable. For June 30, 2023, and 2022 other interest income was \$11.1 million and \$11.9 million, respectively.

Investment income (loss) is derived from interest earned by the Airport Authority on investments and includes unrealized gain (loss) on investments. For June 30, 2023, and 2022 Investment income was a gain of \$50.9 million and a loss of \$48.9 million, respectively.

Interest expense includes interest paid and accrued on bonds, variable debt, and leases. For



FEDERAL GRANT CONTRIBUTIONS (IN THOUSANDS)

| FY 2023 | FY 2022 | From 2022 to 2023 | |
|-----------|-----------|---------------------|----------|
| | | Increase (Decrease) | % Change |
| \$ 52,287 | \$ 12,958 | \$ 39,329 | 303.5% |

Federal grants

| FY 2022 | FY 2021 | From 2021 to 2022 | |
|-----------|-----------|---------------------|----------|
| | | Increase (Decrease) | % Change |
| \$ 12,958 | \$ 13,932 | \$ (973) | (7.0%) |

Federal grants

Federal 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 2023, federal grant contributions increased by \$39.3 million, or 303.5 percent compared to fiscal year 2022, due to an increase in grant awards and substantial New Terminal 1 construction activities funded by federal grants.

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 and deferred outflows of resources, liabilities and deferred inflows of resources, and net position at June 30, 2023, 2022 and 2021, is as follows:

ASSETS, LIABILITIES AND NET POSITION (IN THOUSANDS)

| | FY 2023 | FY 2022 | FY 2021 |
|--|---------------------|-------------------|-------------------|
| Assets and Deferred Outflows of Resources | | | |
| Current assets | \$ 723,463 | \$ 491,098 | \$ 480,254 |
| Capital and lease assets, net | 2,795,855 | 2,284,111 | 2,063,687 |
| Noncurrent assets | 2,037,198 | 2,719,699 | 914,583 |
| Total assets | 5,556,516 | 5,494,907 | 3,458,524 |
| Deferred outflows of resources | 18,040 | 22,390 | 33,471 |
| Total assets & deferred outflows of resources | 5,574,556 | 5,517,297 | 3,491,996 |
| Liabilities and Deferred Inflows of Resources | | | |
| Current liabilities | 280,701 | 250,171 | 157,227 |
| Long-term liabilities | 3,871,111 | 3,947,346 | 2,077,162 |
| Total liabilities | 4,151,812 | 4,197,517 | 2,234,389 |
| Deferred inflows of resources | 389,565 | 405,712 | 368,049 |
| Total liabilities & deferred inflows of resources | 4,541,377 | 4,603,229 | 2,602,439 |
| Net Position | | | |
| Net investment in capital assets | 330,220 | 420,903 | 325,062 |
| Restricted | 230,636 | 176,638 | 192,484 |
| Unrestricted | 472,323 | 316,527 | 372,011 |
| Total net position | \$ 1,033,179 | \$ 914,068 | \$ 889,557 |

Note: Fiscal year 2022 and 2021 amounts have been restated for GASB 94 & GASB 96.

ASSETS, LIABILITIES AND NET POSITION (CONTINUED)

As of June 30, 2023, the Airport Authority's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,033.2 million. This reflects a \$119.1 million or 13.0 percent increase in net position from June 30, 2022. The Airport Authority uses capital and lease 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 and lease assets is reported net of related debt, the

funds required to repay this debt must be provided annually from operations. The unrestricted net position of \$472.3 million as of June 30, 2023, may be used to meet any of the Airport Authority's ongoing obligations. As of June 30, 2023, 2022, and 2021, management has designated unrestricted funds in the amount of \$16.0 million, \$16.2 million, and \$22.5 million, respectively, for capital contract commitments funded by Airport Authority cash, earthquake self-insurance, and operating contingency.

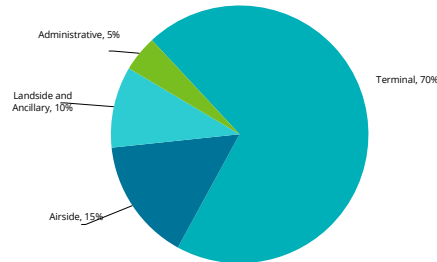
CAPITAL PROGRAM

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 and refurbishment, environmental remediation, terminal upgrades, and landside 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.

The current Capital Program, which includes projects through 2027, consists of \$595.0 million for airside projects, \$379.5 million for landside and ancillary projects, \$2.7 billion for terminal projects, which includes the replacement of Terminal 1, and \$174.1 million for administrative projects.

Capital Program Projects by Type



Additional information of the Airport Authority's capital and lease assets can be found in Note 5 of the financial statements.

CAPITAL FINANCING AND DEBT MANAGEMENT

On February 19, 2014, the Airport Authority issued \$305.3 million 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 5.0 percent. The Series 2014 B Bonds were structured as federally taxable bonds that bear interest at rates ranging from 2.5 percent to 5.6 percent and mature in fiscal years 2019 to 2045. Interest for the fiscal years ended June 30, 2023, and 2022 amounted to \$15.2 million and \$15.6 million, respectively, including accrued interest of \$7.6 million and \$7.8 million, respectively. The principal balance on the Series 2014 Bonds as of June 30, 2023, and 2022 was \$275.7 million and \$282 million, 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 Indenture), are pledged to the payment of the Series 2014 Bonds.

On August 3, 2017, the Airport Authority issued \$291.2 million 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 \$32.6 million of the Airport Authority's

outstanding variable rate debt, which was issued during 2017, fund the subordinate reserve fund and pay the cost 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 4.0 percent to 5.0 percent and mature in fiscal years 2019 to 2048. The bonds were issued at a premium of \$48.4 million, which is being amortized over the life of the bonds. Interest for the fiscal years ended June 30, 2023, and 2022 amounted to \$13.3 million and \$13.6 million, respectively, including accrued interest of \$6.7 million and \$6.8 million, respectively. The principal balance on the Series 2017 Bonds as of June 30, 2023, and 2022 was \$266.6 million and \$271.9 million, respectively.

On December 11, 2019, the Airport Authority issued \$338.8 million of Series A Subordinate Airport Revenue and Revenue Refunding Bonds and \$124.9 million of Series B Subordinate Airport Revenue Bonds (Series 2019 Bonds). The Series 2019 Bonds were issued to finance certain capital improvements at SDIA including a new facilities maintenance building and storm water capture and reuse projects, fund a portion of the interest accruing on the Series 2019 Bonds, refund \$34.3 million of the Airport Authority's outstanding variable rate debt, fund the Series 2010C Escrow account to refund the 2010C bonds, fund the subordinate reserve fund, and pay the costs of issuance of the Series 2017 Bonds. The Series 2019 Bonds are structured as serial and term bonds that bear interest at rates ranging from 4.0 percent to 5.0 percent and mature in fiscal years 2021 to 2050. The bonds were issued at a premium of \$96.9 million, which is being amortized over the life of the bonds. Interest on the Series 2019 Bonds is payable semiannually on January 1 and July 1 of each year. Interest for the fiscal years ended June 30, 2023, and 2022 amounted to \$21.9 million and \$22.1 million, respectively, including accrued interest of \$10.9 million and \$11.1 million, respectively. The principal balance on the Series 2019 Bonds as of June 30, 2023, and 2022 was \$454.6 million and \$459 million, respectively.

CAPITAL FINANCING AND DEBT MANAGEMENT (CONTINUED)

The Airport Authority issued \$241.6 million of Series A, B and C Subordinate Airport Revenue Refunding Bonds (Series 2020 Bonds). The Authority entered into a Forward Delivery Purchase Contract on December 11, 2019, and delivered the Series 2020 Bonds Proceeds on April 8, 2020. Proceeds from the sale of the Series 2020 Bonds were used to fund the Series 2010 A and B Bonds escrow accounts to refund the 2010 A/B bonds and pay the costs of issuance of the Series 2020 Bonds. The Series 2020 Bonds are structured as serial bonds that bear interest rates of 5.0 percent and mature in fiscal years 2021 to 2041. The bonds were issued at a premium of \$49.4 million, which is being amortized over the life of the bonds. Interest on the Series 2020 Bonds is payable semiannually on January 1 and July 1 of each year. Interest for the fiscal years ended June 30, 2023, and 2022 amounted to \$10.6 million and \$11.5 million, respectively, including accrued interest of \$5.4 million and \$5.8 million, respectively. The principal balance on the Series 2020 Bonds as of June 30, 2023, and 2022 was \$212.5 million and \$227.0 million, respectively.

On December 8, 2021, the Airport Authority issued \$1,941.7 million of Series A, B and C Subordinate Airport Revenue Bonds (Series 2021 Bonds). The Series 2021 Bonds were issued to finance The New Terminal 1 development at SDIA, fund a portion of the interest accruing on the Series 2021 Bonds, fund the subordinate reserve fund, pay the costs of issuance of the Series 2021 Bonds and to refund the 2013 Series A and B bonds. The Series 2021 A and B Bonds are structured as serial and term bonds that bear interest at rates ranging from 4.0 percent to 5.0 percent and mature in fiscal years 2027 to 2057 and were issued at a premium of \$332.4 million, which is being amortized over the life of the bonds. The Series 2021 C Bonds are federally Taxable Bonds and are structured as serial and term bonds that bear interest at rates ranging from 0.5 percent to 3.1 percent and mature in fiscal years 2023 to 2037. Interest on the Series 2021 Bonds is payable semiannually on January 1 and July 1 of each year. Interest for the fiscal years ended June 30, 2023, and 2022 amounted to \$82.0

million and \$46.3 million, respectively, including accrued interest of \$41.0 million and \$46.3 million, respectively. The principal balance on the Series 2021 Bonds as of June 30, 2023, and 2022 was \$1,932.0 million and \$1,941.7 million, respectively.

Interest expense on the Series 2014, 2017, 2019, 2020 and 2021 Bonds for fiscal years ended June 30, 2023, and June 30, 2022, of \$143.1 million and \$116.3 million, respectively, was offset by bond premium amortization of \$26.7 million in fiscal year 2023 and \$21.6 million in fiscal year 2022.

The Airport Authority leases properties from various third parties and use that space to conduct its operations, the terms of which expire 2024 through 2072. The measurement of the lease payable is based on the present value of lease payments expected to be paid during the lease term, such as fixed payments, variable payments that depend on an index or rate, variable payments that are fixed in substance, residual value guarantee payments that are fixed in substance, and any lease incentives payable to the lessee. Incremental Borrowing Rates of 1.1 percent to 3.8 percent were used by the Airport Authority to measure lease payables. Liabilities recorded under lease contracts during the years ended June 30, 2023, and 2022, were \$228.9 million and \$232.4 million, respectively.

On July 19, 2021, The Airport Authority and Bank of America agreed to a Revolving Credit Agreement. The Airport Authority is authorized to issue up to \$200.0 million in Subordinate Revolving Obligations. The revolving credit agreement is for a term of three years. At the end of fiscal years 2023 and 2022, the Airport Authority had \$80.1 million in aggregate principal of Subordinate Revolving Obligations outstanding. These obligations were used to finance the New Terminal 1. Obligations incurred under the Revolving Credit Agreement 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 6 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 the Airport

Authority to impose and use PFC revenue through May 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 \$89.3 million in grant awards for the federal fiscal year ended September 30, 2023, as compared to \$83.4 million for 2022. Grant awards are recognized as nonoperating revenue or capital contributions as eligible expenses are incurred.

CAPITAL FINANCING AND DEBT MANAGEMENT (CONTINUED)

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 San Diego County Regional Airport

Authority Accounting Department, P.O. Box 82776, San Diego, CA 92138. The Accounting Department can also be reached at (619) 400-2806. A copy of the financial report is available at www.san.org

REQUEST FOR INFORMATION



Basic Financial Statements

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

STATEMENTS OF NET POSITION
JUNE 30, 2023 AND 2022

| Assets and Deferred Outflows of Resources | 2023 | 2022 as restated |
|---|----------------------|----------------------|
| Current Assets | | |
| Unrestricted: | | |
| Cash and cash equivalents (Note 2) | \$ 26,108,388 | \$ 10,560,677 |
| Investments (Note 2) | 306,492,307 | 238,734,707 |
| Tenant receivables, net | 20,872,111 | 22,784,819 |
| Grants receivable | 19,163,746 | 25,461,356 |
| Lease receivables, current portion (Note 3) | 21,579,230 | 25,256,727 |
| Partnership lease receivables, current portion (Note 3) | 3,281,883 | 2,891,820 |
| Note receivable, current portion (Note 4) | 4,926,819 | 4,766,887 |
| Other current assets | 17,351,605 | 10,291,837 |
| Total unrestricted current assets | 419,776,089 | 340,748,830 |
| Restricted cash, cash equivalents and investments with trustees (Notes 2 and 6) | 303,687,039 | 150,348,859 |
| Total current assets | 723,463,128 | 491,097,689 |
| Noncurrent Assets | | |
| Restricted assets (Notes 2 and 6): | | |
| Restricted cash, cash equivalents and investments not with trustees | 202,552,633 | 154,568,287 |
| Restricted cash, cash equivalents and investments with trustees (Note 2) | 1,232,265,747 | 2,025,521,963 |
| Passenger facility charges receivable (Note 1) | 7,035,361 | 4,185,454 |
| Customer facility charges receivable (Note 1) | 3,169,514 | 2,884,858 |
| Other restricted assets | 2,403,167 | 3,999,762 |
| Total restricted assets | 1,447,426,421 | 2,191,160,323 |
| Other noncurrent assets: | | |
| Investments, noncurrent (Note 2) | 184,596,297 | 141,423,628 |
| Lease receivables, long-term portion (Note 3) | 146,460,548 | 168,039,778 |
| Partnership lease receivables, long-term portion (Note 3) | 135,261,080 | 125,895,083 |
| Note receivable, long-term portion (Note 4) | 24,451,275 | 29,378,094 |
| Cash and cash equivalents designated for specific capital projects and other commitments (Note 2) | 99,002,685 | 50,449,426 |
| Net pension asset (Note 7) | - | 8,995,046 |
| Net OPEB asset (Note 10) | - | 4,357,476 |
| Total other noncurrent assets | 589,771,885 | 528,538,531 |
| Capital and lease assets (Note 5): | | |
| Land, land improvements and nondepreciable assets/leases | 182,279,198 | 182,279,198 |
| Buildings and structures | 1,884,157,140 | 1,823,469,725 |
| Lease assets | 238,303,897 | 238,303,897 |
| Subscription assets | 464,378 | 464,378 |
| Machinery and equipment | 139,202,241 | 124,708,399 |
| Runways, roads and parking lots | 630,577,748 | 637,019,738 |
| Construction in progress | 1,145,357,693 | 578,124,720 |
| Total capital and lease assets | 4,220,342,295 | 3,584,370,056 |
| Less accumulated depreciation and amortization | (1,424,487,252) | (1,300,259,420) |
| Capital and lease assets, net | 2,795,855,043 | 2,284,110,636 |
| Total noncurrent assets | 4,833,053,349 | 5,003,809,490 |
| Total assets | 5,556,516,476 | 5,494,907,179 |
| Deferred outflows of resources: | | |
| Pensions (Note 7 and 8) | 12,162,436 | 18,137,274 |
| OPEB (Note 10) | 5,877,459 | 4,252,768 |
| Total deferred outflows of resources | 18,039,895 | 22,390,042 |
| Total assets and deferred outflows of resources | 5,574,556,372 | 5,517,297,222 |

See Notes to Financial Statements.

(continued)

| Liabilities, Deferred Inflows of Resources and Net Position | 2023 | 2022 as restated |
|--|-------------------------|-----------------------|
| Current Liabilities | | |
| Payable from unrestricted assets: | | |
| Accounts payable | 3,699,871 | 7,326,129 |
| Accrued liabilities | 51,830,325 | 45,972,090 |
| Compensated absences, current portion (Note 6) | 3,750,891 | 3,264,966 |
| Other current liabilities | 16,591,374 | 14,502,025 |
| Lease and subscription liabilities, current portion (Note 6) | 3,677,515 | 3,586,324 |
| Long-term debt, current portion (Note 6) | 387,928 | 323,293 |
| Total payable from unrestricted assets | 79,937,904 | 74,974,827 |
| Payable from restricted assets: | | |
| Accounts payable | 9,179,789 | 17,466,214 |
| Accrued liabilities | 69,749,979 | 39,743,912 |
| Long-term debt, current portion (Note 6) | 50,055,000 | 40,160,000 |
| Accrued interest on variable rate debt and bonds (Note 6) | 71,778,216 | 77,826,260 |
| Total payable from restricted assets | 200,762,984 | 175,196,385 |
| Total current liabilities | 280,700,888 | 250,171,213 |
| Long-Term Liabilities | | |
| Compensated absences, net of current portion (Note 6) | 1,343,480 | 1,789,112 |
| Other noncurrent liabilities | 647,536 | 663,924 |
| Lease and subscription liabilities, long-term portion (Note 6) | 225,503,027 | 229,180,542 |
| Long-term debt, net of current portion (Note 6) | 3,635,975,207 | 3,713,339,080 |
| Net pension liability (Note 7 and 8) | 7,197,809 | 2,373,440 |
| Net OPEB liability (Note 10) | 444,406 | - |
| Total long-term liabilities | 3,871,111,466 | 3,947,346,098 |
| Total liabilities | 4,151,812,354 | 4,197,517,311 |
| Deferred inflows of resources | | |
| Pensions (Note 7 and 8) | 4,749,968 | 27,258,294 |
| OPEB (Note 10) | 1,653,747 | 4,901,161 |
| Gain on refunding | 9,440,839 | 9,943,477 |
| Leases (Note 3) | 147,922,470 | 168,064,374 |
| Partnership leases (Note 3) | 225,797,623 | 195,544,264 |
| Total deferred inflows of resources | 389,564,647 | 405,711,570 |
| Total liabilities and deferred inflows of resources | 4,541,377,002 | 4,603,228,881 |
| Net Position | | |
| Net investment in capital assets | 330,219,977 | 420,903,099 |
| Restricted: | | |
| Debt Service | 67,075,020 | 48,292,097 |
| Construction | 141,003,071 | 93,634,418 |
| Pension | - | 8,995,046 |
| OPEB | - | 4,357,476 |
| Operation and maintenance expenses | 17,932,678 | 15,136,888 |
| Small business bond guarantee | 2,222,300 | 2,222,300 |
| OCIP loss reserve | 2,403,167 | 3,999,762 |
| Total restricted net position | 230,636,236 | 176,637,988 |
| Unrestricted net position | 472,323,157 | 316,527,254 |
| Total net position | \$ 1,033,179,370 | \$ 914,068,340 |

See Notes to Financial Statements.

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

STATEMENTS OF NET POSITION (CONTINUED)
JUNE 30, 2023 AND 2022

SAN DIEGO COUNTY REGIONAL
AIRPORT AUTHORITY

STATEMENTS OF REVENUES,
EXPENSES AND CHANGES
IN NET POSITION
FOR THE FISCAL YEARS ENDED
JUNE 30, 2023 AND 2022

| | 2023 | 2022 as restated |
|--|----------------------|----------------------|
| Operating revenues: | | |
| Airline revenue: | | |
| Landing fees | \$ 44,741,469 | \$ 35,354,215 |
| Aircraft parking fees | 11,188,756 | 8,855,947 |
| Building rentals | 129,743,693 | 97,046,860 |
| Other aviation revenue | 7,123,044 | 6,518,253 |
| Concession revenue | 75,558,792 | 88,138,271 |
| Parking and ground transportation revenue | 65,414,598 | 57,075,628 |
| Ground and non-airline terminal rentals | 23,257,118 | 19,651,356 |
| Other operating revenue | 3,734,823 | 2,999,290 |
| Total operating revenues | 360,762,294 | 315,639,820 |
| Operating expenses before depreciation and amortization: | | |
| Salaries and benefits (Notes 6, 7, 8 and 9) | 51,230,961 | 46,373,068 |
| Contractual services (Note 13) | 45,580,643 | 34,490,679 |
| Safety and security | 33,042,629 | 34,190,686 |
| Space rental | 313,483 | 839,337 |
| Utilities | 17,567,259 | 14,193,387 |
| Maintenance | 16,417,015 | 10,746,604 |
| Equipment and systems | 921,761 | 339,942 |
| Materials and supplies | 660,733 | 496,452 |
| Insurance | 1,996,788 | 1,740,603 |
| Employee development and support | 681,446 | 537,388 |
| Business development | 1,916,108 | 1,781,323 |
| Equipment rentals and repairs | 4,010,388 | 3,471,765 |
| Total operating expenses before depreciation and amortization | 174,339,213 | 149,201,234 |
| Income from operations before depreciation and amortization | 186,423,081 | 166,438,586 |
| Depreciation and amortization expense | 131,586,318 | 142,011,648 |
| Operating income | \$ 54,836,763 | \$ 24,426,938 |

See Notes to Financial Statements.

(continued)

| | 2023 | 2022 as restated |
|--|-------------------------|-----------------------|
| Nonoperating revenues (expenses): | | |
| Passenger facility charges | \$ 46,754,727 | \$ 40,394,092 |
| Customer facility charges | 34,374,844 | 30,333,350 |
| Federal relief grants | - | 78,922,308 |
| Quieter Home Program grant revenue (Note 1) | 19,023,947 | 14,392,766 |
| Quieter Home Program expenses (Note 1) | (21,075,144) | (16,934,242) |
| Other Interest Income | 11,145,007 | 11,892,517 |
| Investment income (loss) | 50,881,687 | (48,883,995) |
| Interest expense (Note 6) | (127,463,755) | (109,675,241) |
| Other revenues (expenses), net | (1,654,133) | (13,315,574) |
| Nonoperating revenues (expenses), net | 11,987,180 | (12,874,018) |
| Income before federal grants | 66,823,943 | 11,552,920 |
| Federal grants (Note 1) | 52,287,087 | 12,958,340 |
| Change in net position | 119,111,030 | 24,511,260 |
| Net position, beginning of year, as restated | 914,068,340 | 889,557,081 |
| Net position, end of year | \$ 1,033,179,370 | \$ 914,068,340 |

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, 2023 AND 2022



SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

STATEMENTS OF CASH FLOWS FOR THE FISCAL YEARS ENDED JUNE 30, 2023 AND 2022

| | 2023 | 2022 as restated |
|--|----------------------|------------------------|
| Cash Flows From Operating Activities | | |
| Receipts from customers | \$ 362,504,812 | \$ 371,536,489 |
| Payments to suppliers | (129,535,335) | (107,568,553) |
| Payments to employees | (54,368,079) | (48,787,730) |
| Other receipts (payments) | 3,737,502 | 2,996,459 |
| Net cash provided by operating activities | 182,338,900 | 218,176,665 |
| Cash Flows From Noncapital Financing Activities | | |
| Misc nonoperating receipts (payments) | (1,654,133) | 163,686 |
| Quieter Home Program grant receipts | 20,850,254 | 11,723,416 |
| Quieter Home Program payments | (21,075,144) | (16,934,242) |
| Net cash used in noncapital financing activities | (1,879,024) | (5,047,139) |
| Cash Flows From Capital and Related Financing Activities | | |
| Capital outlay | (597,490,633) | (334,497,078) |
| Proceeds from variable debt | - | 80,100,000 |
| Other interest income | 11,145,007 | 11,892,517 |
| Federal grants received (excluding Quieter Home Program) | 56,758,390 | 76,754,333 |
| Proceeds from passenger facility charges | 43,904,820 | 41,970,700 |
| Proceeds from customer facility charges | 34,090,188 | 29,832,774 |
| Payment of principal on bonds and commercial paper | (40,360,000) | (389,230,000) |
| Proceeds from issuance of Series 2020 Bonds | - | 2,274,125,831 |
| Payment on note payable | (354,139) | (323,293) |
| Interest and debt fees paid | (160,704,536) | (119,271,370) |
| Net cash provided by (used in) capital and related financing activities | (653,010,901) | 1,671,354,415 |
| Cash Flows From Investing Activities | | |
| Sales and maturities of investments | 1,815,186,082 | 2,703,087,078 |
| Purchases of investments | (1,322,506,966) | (4,619,871,044) |
| Interest received on investments and note receivable | 39,205,993 | 12,419,871 |
| Principal payments received on notes receivable | 4,766,887 | 2,372,252 |
| Increase in principal on notes receivable | - | (9,308,366) |
| Net cash provided by (used in) investing activities | 536,651,995 | (1,911,300,209) |
| Net decrease in cash and cash equivalents | 64,100,970 | (26,816,268) |
| Cash and cash equivalents, beginning of year | 61,010,103 | 87,826,370 |
| Cash and cash equivalents, end of year | \$ 125,111,073 | \$ 61,010,103 |

See Notes to Financial Statements.



Reconciliation of Cash and Cash Equivalents to the Statements of Net Position

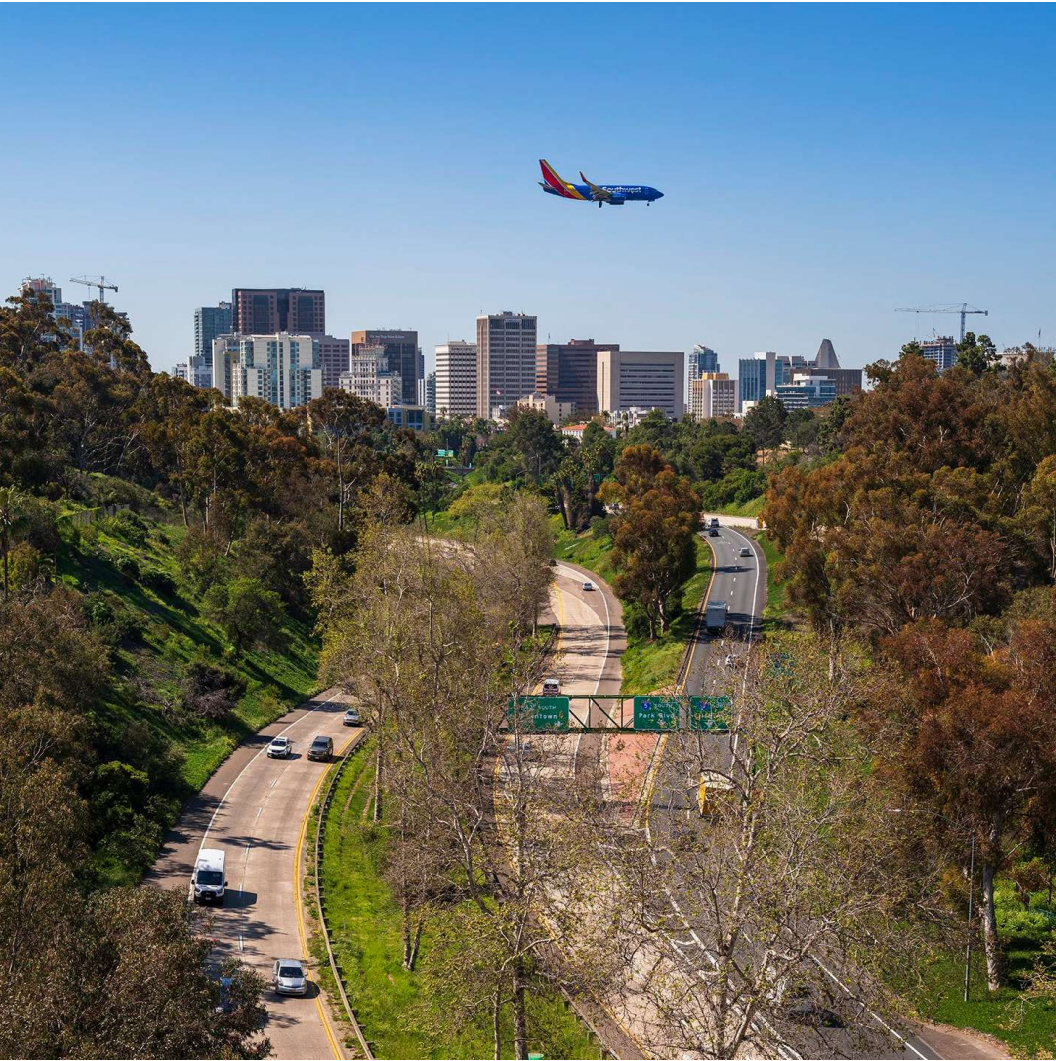
| | 2023 | 2022 as restated |
|--|-----------------------|-----------------------|
| Unrestricted cash and cash equivalents | \$ 26,108,388 | \$ 10,560,677 |
| Cash and cash equivalents designated for specific capital projects and other commitments | 99,002,685 | 50,449,426 |
| Total cash and cash equivalents | \$ 125,111,073 | \$ 61,010,103 |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | | |
| Operating income | \$ 54,836,763 | \$ 24,426,938 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization expense | 131,586,318 | 142,011,648 |
| Change in pensions/OPEB liability/asset | 18,621,297 | (45,794,077) |
| Change in deferred outflows related to pensions/OPEB | 4,350,147 | 11,081,306 |
| Change in deferred inflows related to pensions/OPEB | (25,755,740) | 29,002,100 |
| Change in deferred inflows related to leases | (20,141,904) | (1,383,657) |
| Change in deferred inflows related to partnership leases | 6,116,521 | 3,968,456 |
| Changes in assets and liabilities: | | |
| Receivables, net | 1,912,709 | 56,568,711 |
| Other assets | (5,463,173) | (97,336) |
| Accounts payable | (3,626,258) | 654,407 |
| Accrued liabilities | 5,858,235 | 1,205,133 |
| Compensated absences | 40,293 | 292,136 |
| Lease receivables | 15,500,666 | (8,408,150) |
| Other liabilities | (1,496,975) | 4,649,049 |
| Net cash provided by operating activities | \$ 182,338,900 | \$ 218,176,665 |
| Noncash investing, Capital and Financing Activities | | |
| Additions to capital assets included in accounts payable | \$ 78,929,768 | \$ 57,210,125 |
| Capital assets (and related deferred inflow) contributed by operator | 24,136,838 | - |
| Unrealized gain (loss) on investments | 11,675,694 | (61,303,866) |

See Notes to Financial Statements.

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

STATEMENTS OF CASH FLOWS, (CONTINUED) FOR THE FISCAL YEARS ENDED JUNE 30, 2023 AND 2022





NOTES TO FINANCIAL STATEMENTS

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 January 1, 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

NOTE 1.

NATURE OF ORGANIZATION & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

INVESTMENTS:

Investments in the state and county investment pools are recorded at net asset value and money market mutual funds and non-negotiable certificates of deposit are recorded at amortized cost. All other investments are stated at fair value based on quoted market prices.

TENANT RECEIVABLES:

Tenant 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 receivables are written off when deemed uncollectible. Recoveries of tenant receivables previously written off are recorded when received.

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



NOTE 1.

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):

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, 2023, and 2022, the Airport Authority recovered \$52.3 million and \$13.0 million, respectively, for approved capital projects; and \$19.0 million and \$14.4 million, respectively, for the Quieter Home Program.

ARPA:

The American Rescue Plan Act of 2021 (ARPA) was signed into law on March 11, 2021 and includes \$8 billion in funds to be awarded as economic assistance to eligible U.S. airports to prevent, prepare for, and respond to the coronavirus disease pandemic. To distribute these funds, the FAA has established the Airport Rescue Grants to make grants to all airports that are part of the national airport system, including all commercial service airports, all reliever airports, and some public-owned general aviation airports. The Airport Authority was awarded \$78.8 million on August 10, 2021. For the fiscal year ended June 30, 2022, the Airport Authority drew and expended \$78.8 million.

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, contribute to the Airport Authority's noise mitigation (Quieter Home Program), or to repay debt service issued to build eligible capital projects. As of June 30, 2023, and 2022, accrued PFC receivables totaled \$7.0 million and \$4.2 million respectively, and there were \$105.6 million and \$61.4 million PFC amounts collected but not yet applied for approved capital projects as of June 30, 2023, and 2022, 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 2003. Currently, there are four active applications that allow the Airport Authority to impose and use \$1.2 billion in PFC revenue through April 2040.

The latest application was approved by the FAA in February 2019 (as amended in August 2020) providing collection authority with a charge effective date through April 2040. 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 and operate the related ground transportation system. The current CFC rate, which has been in effect since January 1, 2017, is \$9.00 per day for a maximum of five days. As of June 30, 2023, and 2022, accrued CFC receivables totaled

\$3.2 million and \$2.9 million, respectively. CFC amounts collected, including interest, but not yet applied for approved capital projects as of June 30, 2023, and 2022, were \$25.1 million, and \$25.0 million, 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. Deferred outflows of resources represent a consumption of net assets that applies to future periods and deferred inflows of resources represent an acquisition of net assets that applies to future periods, 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.
- **Debt Refunding** - These amounts represent the gain or loss from the refunding of debt. These differences are deferred and recognized as interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. 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.
- **Leases** – Represents the initial value of lease receivable under GASB 87 and GASB 94 systematically reduced and recognized as lease revenue over the term of the lease.

CAPITAL, LEASE, AND SUBSCRIPTION 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 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.

Lease and subscription based technology assets are initially recorded as the sum of 1) the amount of the initial measurement of the lease or subscription liability, 2) lease for subscription

NOTE 1.

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

payments made at or before the commencement of the lease term, less any lease incentives received from the vendor at or before the commencement of the term, 3) initial direct costs that are ancillary charges necessary to place the asset into service. Lease and subscription assets are amortized on a straight-line basis over the shorter of the lease term or useful life of the underlying asset.

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.

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

NOTE 1.

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. The Airport Authority no longer capitalizes interest due to the adoption of GASB 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* that eliminated the requirement to capitalize interest.

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.

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,

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 and lease assets, net of accumulated depreciation and amortization, 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, 2023, and 2022 includes designations of net position that represent tentative management plans that are subject to change, consisting of:

| | 2023 | 2022 |
|--|----------------------|----------------------|
| Operating contingency | \$ 2,000,000 | \$ 2,000,000 |
| Insurance contingency | 13,839,942 | 13,121,946 |
| Capital projects and other commitments | 163,794 | 1,068,502 |
| Total designated net position | \$ 16,003,736 | \$ 16,190,448 |

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.

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:

| | 2023 | 2022 |
|--------------------|-------|-------|
| Southwest Airlines | 35.3% | 34.1% |
| Alaska Airlines | 16.4% | 17.5% |
| United Airlines | 12.3% | 13.1% |
| Delta Airlines | 12.2% | 12.4% |
| American Airlines | 10.8% | 12.4% |

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

NOTE 1.

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



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 (asset), 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.

Additionally, the Airport Authority has a single-employer defined benefit preservation of benefit pension plan administered through 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 are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

OTHER POSTEMPLOYMENT BENEFIT PLAN:

The Airport Authority provides an agent multiple-employer defined benefit postemployment benefit plan (the OPEB Plan). The OPEB Plan funds are managed by California Public Employees Retirement System (CalPERS) under the California Employer's Retiree Benefit Trust (CERBT) fund. For purposes of measuring the net OPEB liability (asset), deferred outflows of resources, and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the OPEB Plan and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB 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, 2023:

GASB Statement No. 91, *Conduit Debt Obligations*, effective for the Airport Authority's year ending June 30, 2023.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Arrangements*, effective for the Airport Authority's year ending June 30, 2023. Details of the restated balances are provided in Note 13.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for the Airport Authority's year ending June 30, 2023. Details of the restated balances are provided in Note 13.

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. 100, *Accounting Changes and Error Corrections*, effective for the Airport Authority's year ending June 30, 2024.

GASB Statement No. 101, *Compensated Absences*, effective for the Airport Authority's year ending June 30, 2025.

RECLASSIFICATIONS:

Certain reclassifications have been made to the 2022 financial statements to conform to the 2023 presentation. The reclassifications had no effect on the changes in net position.



NOTE 2.
CASH, CASH EQUIVALENTS & INVESTMENTS

SUMMARY OF CASH, CASH EQUIVALENTS AND INVESTMENTS:

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

| | 2023 | 2022 |
|---|------------------|------------------|
| Unrestricted and Undesignated: | | |
| Cash and cash equivalents | \$ 26,108,388 | \$ 10,560,677 |
| Current investments | 306,492,307 | 238,734,707 |
| Noncurrent investments | 184,596,297 | 141,423,628 |
| Total unrestricted and undesignated | 517,196,992 | 390,719,012 |
| Designated for specific capital projects and other commitments: cash and cash equivalents | 99,002,685 | 50,449,426 |
| Restricted: | | |
| Current cash, cash equivalents and investments, with trustees | 303,687,039 | 150,348,859 |
| Noncurrent cash, cash equivalents and investments, not with trustees | 202,552,633 | 154,568,287 |
| Noncurrent cash, cash equivalents and investments, with trustees | 1,232,265,747 | 2,025,521,963 |
| Total restricted cash, cash equivalents and investments | 1,738,505,419 | 2,330,439,109 |
| Total cash, cash equivalents and investments | \$ 2,354,705,095 | \$ 2,771,607,547 |

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

| | 2023 | 2022 |
|---|------------------|------------------|
| Restricted cash, cash equivalents and investments: | | |
| Bond reserves: | | |
| Operation and maintenance reserve subaccount | \$ 46,342,596 | \$ 45,410,666 |
| Operation and maintenance subaccount | 17,932,678 | 15,136,888 |
| Renewal and replacement account | 5,400,000 | 5,400,000 |
| Total bonds reserves | 69,675,274 | 65,947,554 |
| Passenger facility charges unapplied | 105,594,340 | 61,379,099 |
| Customer facility charges unapplied | 25,203,857 | 25,185,007 |
| Small business development bond guarantee | 2,222,300 | 2,222,300 |
| 2013 Series debt service account | 167 | 163 |
| 2013 Series debt service reserve fund | 63 | 38,018 |
| 2014 Renew and Replace | 14,281,747 | 11,674,803 |
| 2014 Rolling coverage fund | 7,312,430 | 7,217,003 |
| 2014 Series debt service account | 14,280,456 | 14,065,605 |
| 2014 Series debt service reserve fund | 22,286,987 | 22,143,752 |
| 2017 Series debt service account | 12,458,985 | 12,125,293 |
| 2017 Series debt service reserve fund | 14,937,220 | 14,759,099 |
| 2019 Series CAP Interest Fund | (48,285) | 2,164,375 |
| 2019 Series Construction Fund | 24,931,842 | 87,809,097 |
| 2019 Series Debt Services Account | 17,330,104 | 13,318,441 |
| 2019 Series Debt Services Reserve Fund | 29,650,952 | 29,230,025 |
| 2020 Series Debt Services | 20,904,314 | 20,206,542 |
| 2020 Series Debt Services Reserve Fund | 30,538,478 | 30,032,139 |
| 2021 Series CAP Interest Fund | 167,474,239 | 241,585,184 |
| 2021 Series Construction Fund | 1,025,900,425 | 1,544,293,820 |
| 2021 Series Cost of Issuance | - | 21,961 |
| 2021 Series Debt Services Reserve Fund | 110,509,757 | 108,528,789 |
| 2021 Series Revolving Construction Fund | 1,017,524 | 993,764 |
| 2021 Series Debt Services Account | 22,042,241 | 15,497,275 |
| Total restricted cash, cash equivalents and investments | \$ 1,738,505,419 | \$ 2,330,439,108 |

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 |
| Non-U.S. Securities | 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 | \$75 million |
| San Diego County Investment Pool | N/A | N/A | None | \$75 million |
| Local Government Investment Pool | N/A | N/A | None | \$75 million |
| U.S. State and California agency | 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 |
| Asset-Backed Securities | 5 years | AA | 10 Percent | 5 percent |
| Mortgage Backed Securities | 5 years | AA | 10 Percent | 5 percent |
| Mortgage Pass-through Securities | 5 years | AA | 10 Percent | 5 percent |
| Collateralized Mortgage Obligation | 5 years | AA | 10 Percent | 5 percent |

* 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)

NOTE 2.

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 | ratings | None | None |
| Money market mutual funds | None | ratings | None | None |
| Municipal bonds | None | ratings | None | None |
| Repurchase agreements | None | BBB* | None | None |
| Investment agreements | None | N/A | None | None |
| Local Agency Investment Fund | None | N/A | None | None |
| San Diego County Investment Pool | None | N/A | None | None |
| Deposit accounts | None | N/A | None | None |

Any other investment which is a permitted investment of the Authority in accordance with the laws of the State.
*Investment requires collateralization

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

INVESTMENTS HELD BY TRUSTEE:

The Airport Authority has monies held by trustees

pledged for the security and payment of certain debt instruments, the payment of bond interest during construction and the payment of capital project costs.

DISCLOSURES RELATED TO INTEREST RATE RISK:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, investments with longer maturities have greater fair value sensitivity to changes in market interest rates. One of the ways the Airport Authority manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities. These staggered maturities also provide consistent cash flow and fulfill liquidity needs for operations. The Airport Authority monitors interest rate risk inherent in its

portfolio by measuring the segmented time distribution of its portfolio. The Airport Authority has no specific limitations with respect to this metric.

CUSTODIAL CREDIT RISK (DEPOSITS):

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Airport Authority maintains deposits at several institutions in order to minimize custodial credit risk. These deposits are collateralized by various instruments such as U.S. government securities (guaranteed) or U.S. agency securities (government sponsored). California Government Code requires that a financial institution secure deposits made by a state or local government by pledging securities in an undivided collateral pool held by a depository regulated under state law. The 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)



NOTE 2. The maturity ranges and credit ratings for the Airport Authority's investment securities as of June 30 are presented in the following tables:

CASH, CASH EQUIVALENTS & INVESTMENTS (CONTINUED)

| Investment Type | 2023 | | | | Ratings |
|---|------------------|----------------------------------|-------------|-------------|-----------|
| | Total | Investment Maturities (in Years) | | | |
| | | 0-1 | 1-2 | 2-5 | |
| Investments subject to credit and interest rate risk: | | | | | |
| U.S. Treasury obligations | \$ 305,723,741 | 39,870,579 | 61,119,416 | 204,733,746 | AA+ |
| U.S. Agency securities | 154,823,563 | 56,917,351 | 67,553,552 | 30,352,660 | AA+ |
| U.S. Agency securities | 15,421,257 | 11,719,819 | - | 3,701,438 | A-1+ |
| U.S. Agency securities | 7,293,225 | - | 2,358,375 | 4,934,850 | NR |
| Non-U.S. Securities | 9,902,300 | - | 9,902,300 | - | AAA |
| Non-U.S. Securities | 10,310,335 | - | 10,310,335 | - | A |
| Medium-term notes | 4,812,950 | - | - | 4,812,950 | AAA |
| Medium-term notes | 4,897,650 | 4,897,650 | - | - | AA+ |
| Medium-term notes | 19,603,915 | 9,872,900 | - | 9,731,015 | AA |
| Medium-term notes | 6,968,290 | 6,968,290 | - | - | AA- |
| Medium-term notes | 29,170,415 | 11,405,815 | 12,018,100 | 5,746,500 | A+ |
| Medium-term notes | 47,398,205 | 20,054,835 | 11,425,350 | 15,918,020 | A |
| Medium-term notes | 6,585,190 | 4,793,650 | - | 1,791,540 | A- |
| Municipal Bonds | 2,458,450 | - | - | 2,458,450 | AA+ |
| Negotiable Certificates of deposit | 2,222,300 | 2,222,300 | - | - | Not rated |
| Money market mutual funds | 303,965,395 | 303,965,395 | - | - | AAA |
| Local Agency Investment Fund | 302,888,305 | 302,888,305 | - | - | Not rated |
| San Diego County Investment Pool | 285,514,584 | 285,514,584 | - | - | AAA |
| San Diego County Inv. Pool-Treasury | 767,276,409 | 767,276,409 | - | - | AAA |
| CalTrust Fund | 16,835,121 | 16,835,121 | - | - | AA |
| CalTrust Fund | 16,220,619 | 16,220,619 | - | - | A+ |
| Total investments subject to credit and interest rate risk: | 2,320,292,218 | 1,861,423,622 | 174,687,428 | 284,181,168 | |
| Total Investments | \$ 2,320,292,218 | | | | |

NOTE 2.

CASH, CASH EQUIVALENTS & INVESTMENTS (CONTINUED)

| Investment Type | 2022 | | | | Ratings |
|---|------------------|----------------------------------|-------------|-------------|-----------|
| | Total | Investment Maturities (in Years) | | | |
| | | 0-1 | 1-2 | 2-5 | |
| Investments subject to credit and interest rate risk: | | | | | |
| U.S. Treasury obligations | \$ 231,211,065 | 57,730,410 | 27,133,119 | 146,347,536 | AA+ |
| U.S. Agency securities | 97,162,627 | 27,422,110 | 51,463,229 | 18,277,289 | AA+ |
| Non-U.S. Securities | 5,197,610 | - | - | 5,197,610 | AAA |
| Non-U.S. Securities | 9,139,850 | - | - | 9,139,850 | A |
| Medium-term notes | 11,629,780 | 3,894,940 | 4,754,000 | 2,980,840 | AA |
| Medium-term notes | 17,067,595 | 4,982,730 | 3,997,440 | 8,087,425 | A+ |
| Medium-term notes | 30,961,940 | 5,498,750 | 10,962,010 | 14,501,180 | A |
| Medium-term notes | 1,878,420 | - | - | 1,878,420 | A- |
| Medium-term notes | 5,988,440 | 1,988,440 | - | 4,000,000 | AA+ |
| Medium-term notes | 5,682,140 | - | - | 5,682,140 | AA- |
| Municipal Bonds | 4,908,300 | - | 4,908,300 | - | AA+ |
| Negotiable Certificates of deposit | 2,222,300 | 2,222,300 | - | - | Not rated |
| Money market mutual funds | 150,481,793 | 150,481,793 | - | - | Not rated |
| Local Agency Investment Fund | 349,923,926 | 349,923,926 | - | - | Not rated |
| San Diego County Investment Pool | 423,896,690 | 423,896,690 | - | - | AAA |
| San Diego County Inv. Pool-Treasury | 1,373,116,904 | 1,373,116,904 | - | - | AAA |
| CalTrust Fund | 16,298,735 | 16,298,735 | - | - | AA |
| CalTrust Fund | 16,090,945 | 16,090,945 | - | - | A+ |
| Total investments subject to credit and interest rate risk: | 2,752,859,060 | 2,433,548,673 | 103,218,097 | 216,092,290 | |
| Total Investments | \$ 2,752,859,060 | | | | |

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, 2023, and 2022.

FOREIGN CURRENCY RISK:

The Airport Authority's investment policy does not allow investments in foreign securities.

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.



CASH, CASH EQUIVALENTS & INVESTMENTS (CONTINUED)

NOTE 2. 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, 2023 and 2022:

| | Fair Value | Quoted Prices in | | |
|---|------------------|---|---|---|
| | | Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| June 30, 2023 | | | | |
| Investments by fair value level | | | | |
| U.S. Treasury obligations | \$ 305,723,741 | \$ 300,833,941 | \$ 4,889,800 | \$ - |
| U.S. agency securities | 177,538,044 | 94,277,252 | 83,260,793 | - |
| Non-U.S. Securities | 20,212,635 | 4,934,250 | 15,278,385 | - |
| Negotiable certificates of deposit | 2,222,300 | - | 2,222,300 | - |
| Municipal Bonds | 2,458,450 | - | 2,458,450 | - |
| Medium-term notes | 119,436,615 | 67,113,975 | 52,322,640 | - |
| Total investments by fair value level | 627,591,785 | \$ 467,159,417 | \$ 160,432,368 | \$ - |
| Investments measured at amortized cost | | | | |
| Money market mutual funds | 303,965,395 | | | |
| Investments measured at net asset value | | | | |
| CalTrust Fund | 33,055,740 | | | |
| Local Agency Investment Fund | 302,888,305 | | | |
| San Diego County Investment Pool | 285,514,584 | | | |
| San Diego County Inv. Pool-Treasury | 767,276,409 | | | |
| Total investments | \$ 2,320,292,218 | | | |
| June 30, 2022 | | | | |
| Investments by fair value level | | | | |
| U.S. Treasury obligations | \$ 231,211,065 | \$ 231,211,065 | \$ - | \$ - |
| U.S. agency securities | 97,162,627 | - | 97,162,627 | - |
| Non-U.S. Securities | 14,337,460 | 14,337,460 | - | - |
| Negotiable certificates of deposit | 2,222,300 | - | 2,222,300 | - |
| Municipal Bonds | 4,908,300 | - | 4,908,300 | - |
| Medium-term notes | 73,208,315 | - | 73,208,315 | - |
| Total investments by fair value level | 423,050,067 | \$ 245,548,525 | \$ 177,501,542 | \$ - |
| Investments measured at amortized cost | | | | |
| Money market mutual funds | 150,481,793 | | | |
| Investments measured at net asset value | | | | |
| CalTrust Fund | 32,389,680 | | | |
| Local Agency Investment Fund | 349,923,926 | | | |
| San Diego County Investment Pool | 423,896,690 | | | |
| San Diego County Inv. Pool-Treasury | 1,373,116,904 | | | |
| Total investments | \$ 2,752,859,060 | | | |

LEASE RECEIVABLE

The Airport Authority leases a portion of its property to various third parties who use the space to conduct their operations on the Airport grounds, the terms of which expire 2024 through 2046. The measurement of the lease receivable is based on the present value of lease payments expected to be received during the lease term, such as fixed payments, variable payments that depend on an index or rate, variable payments that are fixed in substance, residual value guarantee payments that are fixed in substance, and any lease incentives payable to the lessee. A number of leases have a maximum possible term of 12 months (or less), including options to extend, regardless of their probability of being exercised. Those payments are recognized as inflows of resources based on the payment provisions of the lease contracts and are therefore excluded from the schedule in this section.

Concession lease receivables for space within the terminals are typically based on the minimum annual guarantee plus a minimum 3 percent annual escalation, less rent holidays. As of June 30, 2023, there are 62 terminal food services and retail concession locations open.

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 many small operator rental car tenants. The land rent leases for the RCC commenced on the opening date of the facility and are non-cancellable. Once the Bonds are repaid or defeased, in addition to land rent, the rental car operators will also pay facility rent.

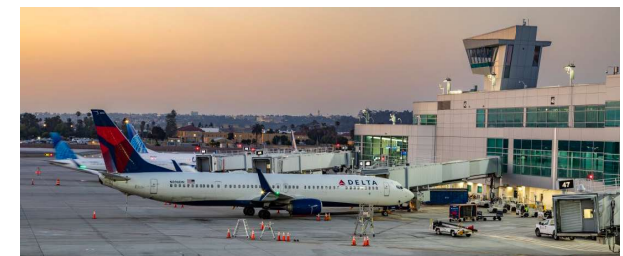
Various other leasing arrangements are in place for Airport Authority owned buildings, ground, and support spaces. Payments for these leases are generally based on total square footage being leased and an established rate, with periodic increases based on the Consumer Price Index.

Short-term lease payments are recognized as inflows of resources based on the payment provisions of the lease contract and are therefore not included in the lease receivable balances below.

The Airport Authority is party to a lease-leaseback transaction with the Port of San Diego. The lessor and lessee transactions have been netted in accordance with GASB 87, therefore the resulting balance is not included in the lease receivable figure below.

The Airport Authority reports leases receivable with a carrying amount of \$168.0 million and \$193.3 million as of June 30, 2023, and 2022, respectively, and a deferred inflow of resources in the amount of \$147.9 million and \$168.1 million as of June 30, 2023, and 2022, respectively, related to these agreements. The deferred inflow of resources will be recognized as revenue over the terms of the agreements.

Revenue recognized under lease contracts during the years ended June 30, 2023, and 2022, was \$25.7 million and \$23.7 million, respectively, which includes both lease revenue and interest. The Airport recognized lease revenue of \$13.4 million and \$7.8 million, for the years ended June 30, 2023, and 2022, respectively, for variable payments not previously included in the measurement of the lease receivable.



NOTE 3.

LEASES & PUBLIC-PRIVATE PARTNERSHIPS

NOTE 3. The following is a schedule by year of minimum payments to be received under the Airport Authority's leases that are included in the measurement of the lease receivable as of June 30, 2023:

LEASES & PUBLIC-PRIVATE PARTNERSHIPS (CONTINUED)

| Years Ending June 30, | Principal | Interest | Total |
|-----------------------|-----------------------|----------------------|-----------------------|
| 2024 | \$ 21,579,230 | \$ 4,940,854 | \$ 26,520,084 |
| 2025 | 12,684,623 | 4,406,985 | 17,091,608 |
| 2026 | 11,804,674 | 4,167,455 | 15,972,129 |
| 2027 | 10,934,570 | 3,931,931 | 14,866,501 |
| 2028 | 8,373,048 | 3,747,767 | 12,120,815 |
| 2029 - 2033 | 29,180,673 | 16,255,267 | 45,435,940 |
| 2034 - 2038 | 24,521,597 | 11,757,652 | 36,279,249 |
| 2039 - 2043 | 28,828,387 | 6,742,530 | 35,570,917 |
| 2044 - 2046 | 20,132,977 | 1,209,573 | 21,342,550 |
| Total | \$ 168,039,779 | \$ 57,160,014 | \$ 225,199,793 |

REGULATED LEASES

The Airport Authority leases a portion of its property to air carriers and other aeronautical users, whose leases meet the definition of a regulated lease as defined in GASB 87, and therefore are only subject to the disclosure requirements. The terms of the regulated leases expire 2024 through 2033.

Certain capital assets, such as loading bridges, airfield, and building space are leased to airlines as part of the Airport Authority's Airline Operating Lease Agreement (AOLA). On July 1, 2019, the Airport Authority entered into the current ten-year AOLA with passenger airlines and cargo carriers operating at SDIA. The AOLAs cover the use of and rate-setting mechanisms for the airfield and terminal facilities at SDIA. Under the terms of the AOLA, landing fees and aircraft parking fees are calculated based on a residual rate-setting methodology, in which all costs of the facility and services are recovered from the airlines, and the airlines assume the financial risk. Terminal rental rates are based on a compensatory rate-setting methodology, in which the airlines each pay for only the actual cost of facilities and services they use; financial risk and control is assumed by the airport. The AOLA also includes signatory and non-

signatory rate structures. Air Carriers that signed a non-signatory agreement are charged a 120 percent premium on all signatory rates, fees, and charges, except for the Federal Inspection Services fee, which all airlines pay the same rate for use of the immigration and customs facilities. Signatory carriers are required to pay a minimum amount each year (\$500,000 for passenger carriers, and \$250,000 for cargo carriers). The agreement has no provisions that grant the airlines direct approval rights over capital projects, with the limited exception of certain transportation projects that exceed a \$350 million threshold, as defined in the AOLA. It also allows flexibility to meet the demands of changing airline activity and to accommodate new entrant carriers. Terms of the new agreement financially support execution of the New Terminal 1, formerly referred to as the Airport Development Program. The Airport Authority does provide for preferential or exclusive use of certain assets to air carriers. As of June 30, 2023, 45 of the 59 terminal and cargo aircraft parking positions were subject to preferential use and 99,070 square feet of the 443,194 square feet of airline designated space was subject to exclusive use. As of June 30, 2022, 45 of the 60 terminal and cargo aircraft parking positions were subject to preferential use and 97,350 square feet of the 437,071 square feet of airline designated space was subject to exclusive use.

The Airline Support Building (ASB) is an Airport Authority facility leased by carriers to process belly cargo. A portion of the lease payments increase annually based on CPI. Substantially all buildings and improvements in these leases are for the exclusive use of the four airline tenants.

The Airport Authority recognized fixed revenue under regulated lease contracts of \$10.6 million and \$18.5 million for the fiscal years ended June 30, 2023, and 2022, respectively. Variable lease revenue not previously included in the future minimum payments under its regulated leases were \$182.5 million and \$141.0 million, for the years ended June 30, 2023, and 2022, respectively.

The following is a schedule by year of expected future minimum payments to be received under the Airports regulated leases as of June 30, 2023:

| Years Ending June 30, | Total Future |
|-----------------------|----------------------|
| 2024 | \$ 8,738,494 |
| 2025 | 8,999,654 |
| 2026 | 9,270,656 |
| 2027 | 9,551,937 |
| 2028 | 9,843,950 |
| 2029 - 2033 | 15,665,422 |
| Total | \$ 62,070,113 |

PUBLIC-PRIVATE AND PUBLIC-PUBLIC PARTNERSHIPS

The Airport Authority has entered into various public-private partnership arrangements that meet the definition of a service concession arrangement in which the operators will operate and maintain the Airport Authority's assets for terms of which expire 2024 through 2050. At the end of the arrangements, operations will be transferred to the Airport Authority. The measurement of the related public-private partnership (PPP) receivable is based on the present value of future payments expected to be received during the PPP term, such as fixed payments, variable payments that depend on an index or rate, variable payments that are fixed in substance, residual value guarantee payments that are fixed in substance, and any PPP incentives payable to the operator.

Signature Flight Support is the exclusive lessee of the Fixed Base Operator (FBO) leasehold at SDIA, with their lease expiring April 30, 2049. Ground rent at the FBO increases annually based on the Consumer Price Index (CPI) but cannot drop below the base rent escalation. Substantially all buildings and improvements in this lease are for exclusive use of this tenant and transfer to the Airport Authority at the end of the agreement.

The following is a schedule by year of minimum payments to be received under the Airport Authority's Public-Private Partnerships that are included in the measurement of the lease receivable as of June 30, 2023:

| Years Ending June 30, | Principal | Interest | Total |
|-----------------------|-----------------------|----------------------|-----------------------|
| 2024 | \$ 3,281,883 | \$ 4,877,678 | \$ 8,159,561 |
| 2025 | 3,400,613 | 4,758,949 | 8,159,562 |
| 2026 | 3,523,638 | 4,635,924 | 8,159,562 |
| 2027 | 3,651,113 | 4,508,449 | 8,159,562 |
| 2028 | 3,783,200 | 4,376,362 | 8,159,562 |
| 2029 - 2033 | 21,070,741 | 19,727,069 | 40,797,810 |
| 2034 - 2038 | 25,168,076 | 15,629,734 | 40,797,810 |
| 2039 - 2043 | 30,062,163 | 10,735,647 | 40,797,810 |
| 2044 - 2048 | 35,907,935 | 4,889,875 | 40,797,810 |
| 2049 - 2050 | 8,693,602 | 212,949 | 8,906,551 |
| Total | \$ 138,542,964 | \$ 74,352,636 | \$ 212,895,600 |

SAN Fuel Company, LLC has a 30-year lease agreement to operate and maintain the fuel facilities at SDIA, which expires May 31, 2050. In addition, the agreement provides for the construction of fuel storage tanks, airlines fueling operations facility (AFO) and a hydrant fuel system for Terminals 1 and 2. Construction of the fuel storage tanks and AFO were completed in fiscal year 2023. The hydrant fuel system will be completed and placed into service upon the completion of the New Terminal 1. All assets constructed are owned by the Airport Authority. Payments for the ground portion of this lease increase every five years, starting in 2025, based on CPI. Substantially all buildings and improvements in this lease are for the exclusive use of this tenant.

The Airport Authority reports partnership leases receivable with a carrying amount of \$138.5 million and \$138.2 million as of June 30, 2023, and 2022, respectively, and a deferred inflow of resources in the amount of \$225.8 million and \$195.5 million as of June 30, 2023, and 2022, respectively, related to these agreements. The deferred inflow of resources will be recognized as revenue over the terms of the agreements. Revenue recognized under the PPP arrangements during fiscal years ended June 30, 2023, and 2022, was \$10.1 million and \$9.0 million, respectively, which includes both PPP revenue and interest.

NOTE 3. LEASES & PUBLIC-PRIVATE PARTNERSHIPS (CONTINUED)

NOTE 4.

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 \$50.0 million 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 carried a rate of 5.5 percent per annum through October 31, 2021. An amendment to that agreement reduced the rate to 3.6 percent per annum, effective November 1, 2021, reducing the monthly payment. At June 30, 2023, and 2022, the balance

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

| Years Ending June 30, | ASB | District | Total |
|-----------------------|---------------------|----------------------|----------------------|
| 2024 | \$ 2,292,350 | \$ 2,634,469 | \$ 4,926,819 |
| 2025 | 2,360,158 | 2,731,707 | 5,091,866 |
| 2026 | 2,429,662 | 2,832,535 | 5,262,197 |
| 2027 | - | 2,937,084 | 2,937,084 |
| 2028 | - | 3,045,492 | 3,045,492 |
| 2029 - 2031 | 8,114,638 | 8,114,638 | 8,114,638 |
| Total | \$ 7,082,170 | \$ 22,295,923 | \$ 29,378,094 |

of the note receivable was \$22.3 million and \$24.8 million, respectively.

As part of the contracts to lease space in the Airline Support Building (ASB), tenants were given the option to issue a note receivable to the Airport Authority in order to fund tenant improvements to their space. Four airlines and one non-airline tenant exercised this option and issued notes for a combined total of \$13.4 million commencing July 1, 2021, for a period of 5 years carrying the estimated thirty-year revenue bond index rate of 2.5 percent per annum through June 30, 2026. At June 30, 2023, the balance of the notes receivable was \$7.1 million.

NOTE 5.

CAPITAL & LEASE ASSETS

Depreciation expense for the years ended June 30, 2023 and June 30, 2022 amounted to \$131.6 million and \$142.0 million, respectively. While the additions to accumulated depreciation balance as of June 30, 2023 and June 30, 2022, was

\$133.2 million and \$143.6 million, respectively. The variance is due to GASB 87 adjustments to accumulated depreciation for CIP projects.

NOTE 5.

CAPITAL AND LEASE ASSETS

| | Balance at July 1, 2022 | Increases | Decreases | Balance at June 30, 2023 |
|--|-------------------------|-----------------------|------------------------|--------------------------|
| Nondepreciable assets and leases: | | | | |
| Land | \$ 22,167,594 | \$ - | \$ - | \$ 22,167,594 |
| Land - right-to-use lease asset | 224,989,986 | - | - | 224,989,986 |
| Construction in progress | 578,124,720 | 621,296,376 | (54,063,403) | 1,145,357,693 |
| Intangible asset | 440,000 | - | - | 440,000 |
| Total nondepreciable assets and leases | 825,722,301 | 621,296,376 | (54,063,403) | 1,392,955,274 |
| Depreciable assets and leases: | | | | |
| Land improvements | 160,111,604 | - | - | 160,111,604 |
| Land improvements - right-to-use lease assets | 13,313,911 | - | - | 13,313,911 |
| Buildings and structures | 1,823,029,725 | 63,901,385 | (3,213,969) | 1,883,717,140 |
| Machinery and equipment | 124,708,399 | 14,506,699 | (12,858) | 139,202,241 |
| Right-to-use subscription assets | 464,378 | - | - | 464,378 |
| Runways, roads and parking lots | 637,019,738 | - | (6,441,991) | 630,577,748 |
| Total capital and lease assets being depreciated/amortized | 2,758,647,755 | 78,408,084 | (9,668,818) | 2,827,387,021 |
| Less accumulated depreciation and amortization for: | | | | |
| Land improvements | (50,707,793) | (6,829,814) | - | (57,537,607) |
| Building and structures | (832,118,062) | (82,396,336) | 3,236,241 | (911,278,157) |
| Right-to-use lease assets | (11,275,961) | (6,483,298) | - | (17,759,259) |
| Right-to-use subscription assets | (92,876) | (92,876) | - | (185,751) |
| Machinery and equipment | (87,898,380) | (10,678,418) | 12,858 | (98,563,939) |
| Runways, roads and parking lots | (318,166,349) | (26,681,289) | 5,685,100 | (339,162,538) |
| Total accumulated depreciation and amortization | (1,300,259,420) | (133,162,031) | 8,934,199 | (1,424,487,252) |
| Total capital and lease assets being depreciated/amortized, net | 1,458,388,335 | (54,753,948) | (734,618) | 1,402,899,769 |
| Capital and lease assets, net | \$ 2,284,110,636 | \$ 566,542,428 | \$ (54,758,021) | \$ 2,795,855,043 |

| | Balance at July 1, 2021 | Increases | Decreases | Balance at June 30, 2022 |
|--|-------------------------|-----------------------|------------------------|--------------------------|
| Nondepreciable assets and leases: | | | | |
| Land | \$ 22,167,594 | \$ - | \$ - | \$ 22,167,594 |
| Land - right-to-use lease asset | 224,989,986 | - | - | 224,989,986 |
| Construction in progress | 248,538,868 | 377,043,444 | (47,457,592) | 578,124,720 |
| Intangible asset | 440,000 | - | - | 440,000 |
| Total nondepreciable assets and leases | 496,136,449 | 377,043,444 | (47,457,592) | 825,722,301 |
| Depreciable assets and leases: | | | | |
| Land improvements | 163,770,750 | - | (3,659,146) | 160,111,604 |
| Land improvements - right-to-use lease assets | 13,313,911 | - | - | 13,313,911 |
| Buildings and structures | 1,885,767,510 | 19,693,720 | (82,431,505) | 1,823,029,725 |
| Machinery and equipment | 122,982,559 | 6,130,853 | (4,405,013) | 124,708,399 |
| Right-to-use subscription assets | - | 464,378 | - | 464,378 |
| Runways, roads and parking lots | 719,974,821 | 18,769,256 | (101,724,339) | 637,019,738 |
| Total capital and lease assets being depreciated/amortized | 2,905,809,551 | 45,058,207 | (192,220,003) | 2,758,647,755 |
| Less accumulated depreciation and amortization for: | | | | |
| Land improvements | (45,475,582) | (10,384,845) | 5,152,634 | (50,707,793) |
| Building and structures | (824,007,617) | (83,738,691) | 75,628,246 | (832,118,062) |
| Right-to-use lease assets | (4,792,663) | (6,483,298) | - | (11,275,961) |
| Right-to-use subscription assets | - | (92,876) | - | (92,876) |
| Machinery and equipment | (80,936,062) | (11,309,899) | 4,347,581 | (87,898,380) |
| Runways, roads and parking lots | (383,511,041) | (31,577,753) | 96,922,445 | (318,166,349) |
| Total accumulated depreciation and amortization | (1,338,722,965) | (143,587,361) | 182,050,906 | (1,300,259,420) |
| Total capital and lease assets being depreciated/amortized, net | 1,567,086,586 | (98,529,154) | (10,169,097) | 1,458,388,335 |
| Capital and lease assets, net | \$ 2,063,223,035 | \$ 278,514,290 | \$ (57,626,889) | \$ 2,284,110,636 |

Note: Fiscal year 2022 amounts have been restated for GASB 94 & GASB 96.

NOTE 6. The following is a summary of changes in the long-term liability activity for the years ended June 30, 2023, and 2022:

LONG-TERM LIABILITIES

| | Principal Balance at June 30, 2022 | Additions /New Issuances | Reductions/ Repayments | Principal Balance at June 30, 2023 | Due Within One Year |
|-----------------------------|------------------------------------|--------------------------|------------------------|------------------------------------|---------------------|
| Variable Rate Debt | | | | | |
| Revolving LOC | \$ 80,100,000 | \$ - | \$ - | \$ 80,100,000 | \$ - |
| Total variable rate debt | 80,100,000 | - | - | 80,100,000 | - |
| Bonds payable: | | | | | |
| Series 2014 Bonds | 282,005,000 | - | (6,320,000) | 275,685,000 | 6,670,000 |
| Series 2017 Bonds | 271,915,000 | - | (5,320,000) | 266,595,000 | 5,585,000 |
| Series 2019 Bonds | 459,025,000 | - | (4,440,000) | 454,585,000 | 6,095,000 |
| Series 2020 Bonds | 226,995,000 | - | (14,520,000) | 212,475,000 | 15,240,000 |
| Series 2021 Bonds | 1,941,745,000 | - | (9,760,000) | 1,931,985,000 | 16,465,000 |
| Bond premiums | 486,158,691 | - | (26,690,100) | 459,468,592 | - |
| Total bonds payable | 3,667,843,691 | - | (67,050,100) | 3,600,793,592 | 50,055,000 |
| Lease Liabilities | 232,419,082 | - | (3,471,838) | 228,947,243 | 3,561,593 |
| Subscription Liabilities | 347,785 | - | (114,486) | 233,299 | 115,922 |
| Note Payable - CRDC | 5,878,682 | - | (354,139) | 5,524,543 | 387,928 |
| Total debt obligations | 3,753,822,373 | - | (67,404,238) | 3,686,418,135 | 50,442,928 |
| Compensated absences | 5,054,078 | 3,791,186 | (3,750,893) | 5,094,372 | 3,750,891 |
| Total long-term liabilities | \$ 3,758,876,452 | \$ 3,791,186 | \$ (71,155,131) | \$ 3,691,512,507 | \$ 54,193,819 |

Note: Fiscal year 2022 amounts have been restated for GASB 94 & GASB 96.

| | Principal Balance at June 30, 2021 | Additions /New Issuances | Reductions/ Repayments | Principal Balance at June 30, 2022 | Due Within One Year |
|-----------------------------|------------------------------------|--------------------------|------------------------|------------------------------------|---------------------|
| Variable Rate Debt | | | | | |
| Revolving LOC | \$ - | \$ 80,100,000 | \$ - | \$ 80,100,000 | \$ - |
| Total variable rate debt | - | 80,100,000 | - | 80,100,000 | - |
| Bonds payable: | | | | | |
| Series 2013 Bonds | 360,825,000 | - | (360,825,000) | - | - |
| Series 2014 Bonds | 288,095,000 | - | (6,090,000) | 282,005,000 | 6,120,000 |
| Series 2017 Bonds | 276,985,000 | - | (5,070,000) | 271,915,000 | 5,320,000 |
| Series 2019 Bonds | 462,445,000 | - | (3,420,000) | 459,025,000 | 4,440,000 |
| Series 2020 Bonds | 240,820,000 | - | (13,825,000) | 226,995,000 | 14,520,000 |
| Series 2021 Bonds | - | 1,941,745,000 | - | 1,941,745,000 | 9,760,000 |
| Bond premiums | 206,427,883 | 332,380,831 | (52,650,023) | 486,158,691 | - |
| Total bonds payable | 1,835,597,883 | 2,274,125,831 | (441,880,023) | 3,667,843,691 | 40,160,000 |
| Lease Liabilities | 235,804,038 | - | (3,384,956) | 232,419,082 | 3,471,838 |
| Subscription Liabilities | 464,378 | - | (116,594) | 347,785 | 114,486 |
| Note Payable - CRDC | 6,201,975 | - | (323,293) | 5,878,682 | 323,293 |
| Total debt obligations | 1,841,799,858 | 2,354,225,831 | (442,203,316) | 3,753,822,373 | 40,483,293 |
| Compensated absences | 4,761,843 | 232,136 | - | 5,054,078 | 3,264,966 |
| Total long-term liabilities | \$ 1,846,561,801 | \$ 2,354,517,967 | \$ (442,203,316) | \$ 3,758,876,452 | \$ 43,748,259 |

Note: Fiscal year 2022 amounts have been restated for GASB 94 & GASB 96.

SUBORDINATE LIEN SERIES 2017, 2019, 2020 AND 2021 BONDS:

The Airport Authority issued \$291.2 million of Series A and B Subordinate Airport Revenue Bonds (Series 2017 Bonds) on August 3, 2017. 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 Series 2017 Bonds, refund \$32.6 million of the Airport Authority's outstanding variable rate debt, fund the subordinate reserve fund and pay the costs of issuance of the Series 2017 Bonds. The Series 2017 Bonds are structured as serial and term bonds that bear interest at

rates ranging from 4.0 percent to 5.0 percent and mature in fiscal years 2019 to 2048. The bonds were issued at a premium of \$48.4 million 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, 2023, and 2022 amounted to \$13.3 million and \$13.6 million, respectively, including accrued interest of \$6.7 million and \$6.8 million, respectively. The principal balance on the Series 2017 Bonds as of June 30, 2023, and 2022 was \$266.6 million and \$271.9 million, respectively.

NOTE 6. LONG-TERM LIABILITIES (CONTINUED)

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 |
|-----------------------|----------------|----------------|----------------|
| 2024 | \$ 5,585,000 | \$ 13,190,125 | \$ 18,775,125 |
| 2025 | 5,865,000 | 12,903,875 | 18,768,875 |
| 2026 | 6,155,000 | 12,603,375 | 18,758,375 |
| 2027 | 6,465,000 | 12,287,875 | 18,752,875 |
| 2028 | 6,790,000 | 11,956,500 | 18,746,500 |
| 2029-2033 | 39,395,000 | 54,201,375 | 93,596,375 |
| 2034-2038 | 50,275,000 | 43,045,875 | 93,320,875 |
| 2039-2043 | 64,170,000 | 28,808,750 | 92,978,750 |
| 2044-2048 | 81,895,000 | 10,635,875 | 92,530,875 |
| | \$ 266,595,000 | \$ 199,633,625 | \$ 466,228,625 |



LONG-TERM LIABILITIES
(CONTINUED)

NOTE 6.

The Airport Authority issued \$338.8 million of Series A Subordinate Airport Revenue and Revenue Refunding Bonds and \$124.9 million of Series B Subordinate Airport Revenue Bonds on December 11, 2019 (Series 2019 Bonds). The Series 2019 Bonds were issued to finance certain capital improvements at SDIA including a new facilities maintenance building and storm water capture and reuse projects, fund a portion of the interest accruing on the Series 2019 Bonds, refund \$34.3 million of the Airport Authority's outstanding variable rate debt, fund the Series 2010C Escrow account, fund the subordinate reserve fund, and pay the costs of issuance of the Series 2019 Bonds. The Series 2019 Bonds are structured as serial and term bonds

that bear interest at rates ranging from 4.0 percent to 5.0 percent and mature in fiscal years 2021 to 2050. The bonds were issued at a premium of \$96.9 million which is being amortized over the life of the bonds. Interest on the Series 2019 Bonds is payable semiannually on January 1 and July 1 of each year.

Interest for the fiscal years ended June 30, 2023, and 2022 amounted to \$21.9 million and \$22.1 million, respectively, including accrued interest of \$10.9 million and \$11.1 million, respectively. The principal balance on the Series 2019 Bonds as of June 30, 2023, and 2022 was \$454.6 million and \$459.0 million, respectively.

The required debt service payments for the Series 2019 Bonds for the fiscal years ending June 30 are as follows:

| Years Ending June 30, | Principal | Interest | Total |
|-----------------------|-----------------------|-----------------------|-----------------------|
| 2024 | \$ 6,095,000 | \$ 21,899,100 | \$ 27,994,100 |
| 2025 | 6,400,000 | 21,594,350 | 27,994,350 |
| 2026 | 5,615,000 | 21,274,350 | 26,889,350 |
| 2027 | 5,895,000 | 20,993,600 | 26,888,600 |
| 2028 | 6,195,000 | 20,698,850 | 26,893,850 |
| 2029-2033 | 57,305,000 | 98,037,500 | 155,342,500 |
| 2034-2038 | 133,300,000 | 75,738,250 | 209,038,250 |
| 2039-2043 | 127,040,000 | 41,112,100 | 168,152,100 |
| 2044-2048 | 72,495,000 | 19,594,450 | 92,089,450 |
| 2049-2050 | 34,245,000 | 2,589,250 | 36,834,250 |
| | <u>\$ 454,585,000</u> | <u>\$ 343,531,800</u> | <u>\$ 798,116,800</u> |

The Airport Authority issued \$241.6 million of Series A, B and C Subordinate Airport Revenue Refunding Bonds (Series 2020 Bonds). The Airport Authority entered into a Forward Delivery Purchase Contract on December 11, 2019, and delivered the Series 2020 Bonds Proceeds on April 8, 2020. Proceeds from the sale of the Series 2020 Bonds were used to fund the Series 2010 A and B bonds escrow accounts and pay the costs of issuance of the Series 2020 Bonds. The Series 2020 Bonds are structured as serial bonds that bear interest rates of 5.0 percent and mature in fiscal years 2021 to

2041. The bonds were issued at a premium of \$49.4 million, which is being amortized over the life of the bonds. Interest on the Series 2020 Bonds is payable semiannually on January 1 and July 1 of each year.

Interest for the fiscal years ended June 30, 2023, and 2022 amounted to \$10.6 million and \$11.5 million, respectively, including accrued interest of \$5.4 million and \$5.8 million, respectively. The principal balance on the Series 2020 Bonds as of June 30, 2023, and 2022 was \$212.5 million and \$227.0 million, respectively.

The required debt service payments for the Series 2020 Bonds for the fiscal years ending June 30 are as follows:

| Years Ending June 30, | Principal | Interest | Total |
|-----------------------|-----------------------|----------------------|-----------------------|
| 2024 | \$ 15,240,000 | \$ 10,623,750 | \$ 25,863,750 |
| 2025 | 16,005,000 | 9,861,750 | 25,866,750 |
| 2026 | 11,275,000 | 9,061,500 | 20,336,500 |
| 2027 | 11,830,000 | 8,497,750 | 20,327,750 |
| 2028 | 12,425,000 | 7,906,250 | 20,331,250 |
| 2029-2033 | 66,075,000 | 29,681,750 | 95,756,750 |
| 2034-2038 | 50,180,000 | 14,321,500 | 64,501,500 |
| 2039-2041 | 29,445,000 | 2,993,000 | 32,438,000 |
| | <u>\$ 212,475,000</u> | <u>\$ 92,947,250</u> | <u>\$ 305,422,250</u> |

The Airport Authority issued \$1,941.7 million of Series A, B and C Subordinate Airport Revenue and Revenue Refunding Bonds (Series 2021 Bonds). The Series 2021 Bonds were issued to finance certain capital improvements at SDIA including construction of the New Terminal 1, fund a portion of the interest accruing on the 2021 Bonds, fund the Series 2013 Escrow account, fund the subordinate reserve fund, and pay the costs of issuance of the Series 2021 Bonds. The Series 2021 A and B Bonds are structured as serial bonds that bear interest rates ranging from 4.0 percent to 5.0 percent and mature in fiscal years 2027 to 2057. The Series A and B bonds were issued at a premium of \$332.4 million, which is being

amortized over the life of the bonds. The Series 2021 C Bonds are federally Taxable Bonds and are structured as serial and term bonds that bear interest at rates ranging from 0.5 percent to 3.1 percent and mature in fiscal years 2023 to 2037. Interest on the Series 2021ABC Bonds is payable semiannually on January 1 and July 1 of each year. Interest for the fiscal years ended June 30, 2023, and 2022 amounted to \$82 million and \$46.3 million, respectively, including accrued interest of \$41 million and \$46.3 million, respectively. The principal balance on the Series 2021 Bonds as of June 30, 2023, and 2022 was \$1,932 million and \$1,941.7 million, respectively.

The required debt service payments for the Series 2021 Bonds for the fiscal years ending June 30 are as follows:

| Years Ending June 30, | Principal | Interest | Total |
|-----------------------|-------------------------|-------------------------|-------------------------|
| 2024 | \$ 16,465,000 | \$ 81,898,541 | \$ 98,363,541 |
| 2025 | 16,570,000 | 81,719,420 | 98,289,420 |
| 2026 | 16,745,000 | 81,494,869 | 98,239,869 |
| 2027 | 10,310,000 | 80,979,369 | 91,289,369 |
| 2028 | 10,830,000 | 80,437,869 | 91,267,869 |
| 2029-2033 | 88,730,000 | 391,776,087 | 480,506,087 |
| 2034-2038 | 171,630,000 | 362,172,900 | 533,802,900 |
| 2039-2043 | 292,920,000 | 318,558,629 | 611,478,629 |
| 2044-2048 | 342,900,000 | 414,467,207 | 757,367,207 |
| 2049-2053 | 435,175,000 | 166,888,750 | 602,063,750 |
| 2053-2057 | 529,710,000 | 62,706,500 | 592,416,500 |
| | <u>\$ 1,931,985,000</u> | <u>\$ 2,123,100,141</u> | <u>\$ 4,055,085,141</u> |

NOTE 6.

LONG-TERM LIABILITIES
(CONTINUED)

NOTE 6.
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 2017, 2019, 2020 and 2021 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. On June 30, 2023, and 2022, the amount held by the trustee was \$1,477.6 million and \$2,120.6 million, 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 Bonds as of June 30, 2023, are A/A2/A+ by Standard & Poor's, Moody's Investors Service and Fitch Ratings.

SENIOR LIEN SPECIAL FACILITIES REVENUE BONDS, SERIES 2014:

On February 19, 2014, the Airport Authority issued \$305.3 million 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.

The Series 2014 A Bonds were structured as tax-exempt and non-AMT term bonds that bear

interest at 5.0 percent. The Series 2014 B Bonds were structured as federally taxable bonds that bear interest at rates ranging from 2.5 percent to 5.6 percent. The bonds were issued at a premium of \$0.6 million, 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 the fiscal years ended June 30, 2023, and 2022 amounted to \$15.2 million and \$15.6 million, respectively, including accrued interest of \$7.6 million and \$7.8 million, respectively. The principal balance on the Series 2014 Bonds as of June 30, 2023, and 2022 was \$275.7 million and \$282 million, 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, 2023, and 2022, the amount held by the trustee was \$58.2 million and \$55.1 million, respectively, which included the July 1 payment, the debt service reserve fund, the renewal and replace fund, and the rolling coverage fund.

The public ratings of the Senior Series Special Facility 2014 Bonds as of June 30, 2023, are BBB+/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 |
|-----------------------|-----------------------|-----------------------|-----------------------|
| 2024 | \$ 6,670,000 | \$ 15,060,682 | \$ 21,730,682 |
| 2025 | 7,045,000 | 14,677,074 | 21,722,074 |
| 2026 | 7,440,000 | 14,271,928 | 21,711,928 |
| 2027 | 7,855,000 | 13,844,127 | 21,699,127 |
| 2028 | 8,295,000 | 13,392,412 | 21,687,412 |
| 2029-2033 | 48,980,000 | 59,250,031 | 108,230,031 |
| 2034-2038 | 64,295,000 | 43,501,662 | 107,796,662 |
| 2039-2043 | 84,410,000 | 22,828,056 | 107,238,056 |
| 2044-2045 | 40,695,000 | 2,094,701 | 42,789,701 |
| | <u>\$ 275,685,000</u> | <u>\$ 198,920,674</u> | <u>\$ 474,605,674</u> |

Interest expense on the Series 2013, 2014 2017, 2019, 2020 and 2021 Bonds for fiscal years ended June 30, 2023, and June 30, 2022, of \$143.1 million and \$116.3 million, respectively, was offset by bond premium amortization of \$26.7 million in fiscal year 2023 and \$21.6 million in fiscal year 2022.

SUBORDINATE SHORT-TERM DEBT PROGRAM:

On July 19, 2021, The Airport Authority and Bank of America entered into a Revolving Credit Agreement. The Airport Authority is authorized to issue up to \$200.0 million in Subordinate Revolving Obligations. The revolving credit agreement is for a term of three years. At the end of fiscal years 2023 and 2022, the Airport Authority had \$80.1 million in aggregate principal of Subordinate Revolving Obligations outstanding. These obligations were used to finance the New Terminal 1. Obligations incurred under the Revolving Credit Agreement

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.

LINE OF CREDIT:

In fiscal year 2022, the Airport Authority maintained a \$2.0 million line of credit held with US Bank, which is collateralized with a Treasury bond. 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, 2023, and June 30, 2022, 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, 2023, and 2022:

| | June 30, 2023 | | June 30, 2022 | |
|--------------------------|----------------------|-----------------------|----------------------|-----------------------|
| | Used | Unused | Used | Unused |
| Revolving line of credit | \$80,100,000 | \$119,900,000 | \$80,100,000 | \$119,900,000 |
| Line of credit | \$ - | 2,000,000 | \$ - | 2,000,000 |
| | <u>\$ 80,100,000</u> | <u>\$ 121,900,000</u> | <u>\$ 80,100,000</u> | <u>\$ 121,900,000</u> |

NOTE 6.
LONG-TERM LIABILITIES
(CONTINUED)

NOTE 6.
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 the Letter of Credit and Reimbursement Agreement, an event of default could result in either an acceleration or an interest rate increase of 3.0 to 7.0 percent 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 Airport Authority's Letter of Credit and Reimbursement Agreement is collateralized with a \$2.2 million Treasury bond. Excluding general

airport revenue bonds, special facility bonds, and leases, no other assets have been pledged or collateralized for any other debt instruments. General Airport revenue bonds 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 PFCs, CFCs or Federal Grants). The special facility bonds are secured by a pledge of the Trust Estate.

NOTE PAYABLE

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 note

payable and requires monthly lease payments of \$73.1 thousand. 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, and the net present value of the future lease payments on June 30, 2023:

| Years Ending June 30, | Amount |
|---|---------------------|
| 2024 | \$ 877,298 |
| 2025 | 877,298 |
| 2026 | 877,298 |
| 2027 | 877,298 |
| 2028-2032 | 4,386,489 |
| 2032 | 365,541 |
| Total Lease Payments | 8,261,221 |
| Less amount representing interest | (2,736,678) |
| Present value of future lease payments | \$ 5,524,543 |



LEASE LIABILITIES

The Airport Authority leases properties from the District and smaller third parties and uses that space to conduct its operations, the terms of which expire 2024 through 2072. The measurement of the lease payable is based on the present value of lease payments expected to be paid during the lease term, such as fixed payments, variable payments that depend on an index or rate, variable payments that are fixed in substance, residual value guarantee payments that are fixed in substance, and any lease incentives payable to the lessee.

Incremental borrowing rates of 1.1 percent to 3.8 percent were used to measure lease payables. Lease liabilities recorded under lease contracts as of June 30, 2023, and 2022, were \$228.9 million and \$232.4 million respectively.

The future principal and interest payments for lease liabilities as of June 30, 2023, are as follows:

| Years Ending June 30, | Principal | Interest | Total |
|-----------------------|----------------------|----------------------|----------------------|
| 2024 | 3,561,593 | 8,542,384 | 12,103,977 |
| 2025 | 3,654,325 | 8,449,652 | 12,103,977 |
| 2026 | 2,843,071 | 8,357,785 | 11,200,856 |
| 2027 | 2,659,160 | 8,270,002 | 10,929,162 |
| 2028 | 2,715,440 | 8,179,841 | 10,895,281 |
| 2029-2033 | 13,208,299 | 39,479,649 | 52,687,948 |
| 2034-2038 | 16,110,142 | 36,758,272 | 52,868,413 |
| 2039-2043 | 18,629,066 | 33,475,110 | 52,104,176 |
| 2044-2048 | 21,133,978 | 29,749,322 | 50,883,300 |
| 2049-2053 | 25,581,713 | 25,301,587 | 50,883,300 |
| 2054-2058 | 30,965,493 | 19,917,807 | 50,883,300 |
| 2059-2063 | 37,482,312 | 13,400,988 | 50,883,300 |
| 2064-2068 | 45,370,623 | 5,512,677 | 50,883,300 |
| 2069-2072 | 5,032,028 | 56,302 | 5,088,330 |
| | \$228,947,244 | \$245,451,378 | \$474,398,622 |

NOTE 6.
LONG-TERM LIABILITIES
(CONTINUED)

SUBSCRIPTION-BASED INFORMATION
TECHNOLOGY ARRANGEMENTS

The Airport Authority entered Subscription-Based Information Technology Arrangement (SBITA) that allows the Airport Authority the right to use and control a vendor's software, alone or in combination with other assets, the terms of which expire 2024 through 2025. The measurement of the subscription liabilities is based on the present value of lease payments expected to be paid during the subscription term, such as fixed payments, variable payments that depend on an index or rate, variable payments that are fixed in substance, and residual value guarantee payments that are fixed in substance.

Incremental borrowing rates of 1.1 percent to 3.8 percent were used to measure subscription payables. Subscription liabilities recorded under subscription contracts as of June 30, 2023, and 2022, were \$0.1 million and \$0.1 million, respectively.

The future principal and interest payments for lease liabilities as of June 30, 2023, are as follows:

| Years Ending June 30, | Principal | Interest | Total |
|-----------------------|------------------|----------------|------------------|
| 2024 | 115,922 | 1,489 | 117,411 |
| 2025 | 117,377 | 335 | 117,711 |
| | \$233,299 | \$1,824 | \$235,123 |

DEFINED BENEFIT PLAN

NOTE 7. INTRODUCTION:

The Airport Authority has two defined benefit pension plans which cumulatively represent the net pension liability or asset, 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 and for the years ended June 30, 2023, and 2022:

| | Defined Benefit Plan GASB 68) | Preservation of Benefits Trust Plan GASB 73 | Total |
|--|----------------------------------|---|--------------|
| Balances as of and for the year ended 6/30/2023 | | | |
| Pension expense | \$ 5,000,713 | \$ 56,102 | \$ 5,056,815 |
| Net pension liability (asset) | 5,583,686 | 1,614,123 | 7,197,809 |
| Deferred outflows of resources | 11,810,016 | 352,421 | 12,162,437 |
| Deferred inflows of resources | 3,967,393 | 782,576 | 4,749,969 |
| Balances as of and for the year ended 6/30/2022 | | | |
| Pension expense | \$ 4,323,882 | \$ 329,788 | \$ 4,653,670 |
| Net pension liability | (8,995,046) | 2,373,440 | (6,621,606) |
| Deferred outflows of resources | 17,497,620 | 639,654 | 18,137,274 |
| Deferred inflows of resources | 26,976,052 | 282,242 | 27,258,294 |

PLAN DESCRIPTION:

The Airport Authority's single-employer defined benefit pension plan (Plan), administered by SDCERS, provides service retirement, disability benefits, death benefits 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 twenty-six 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 thirty-six 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 member, with 50 percent continuance to the eligible spouse or registered-domestic partner 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. Members may also choose to receive a reduced lifetime monthly benefit and, upon death, leave more than 50 percent to their spouse or registered

domestic partner, or to provide a continuance to a non-spouse.

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, 2022, and June 30, 2021, Plan membership was as follows:

| | 2022 | 2021 |
|--|------|------|
| Active employees | 378 | 385 |
| Inactive employees entitled to but not yet receiving benefits | 182 | 163 |
| Inactive employees or beneficiaries currently receiving benefits | 162 | 145 |
| Total | 722 | 693 |

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,

NOTE 7.

DEFINED BENEFIT PLAN (CONTINUED)

DEFINED BENEFIT PLAN
(CONTINUED)

NOTE 7.

the approved rates for the Airport Authority apply to the fiscal year beginning 12 months after the valuation date. For June 30, 2023, the actuarially determined contribution rates for plan sponsors and members were developed in the June 30, 2022, 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, 2023, and 2022, employees contributed \$3.3 million and \$3.0 million, respectively, and the Airport Authority contributed \$7.7 million and \$9.1 million, 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 offset is equal to 7.0 percent or 8.5 percent of the general classic members' base compensation and 9.6 percent of the executive classic members' base compensation. These contributions are included in the employee contribution. There is no offset for PEPRAs participants.

NET PENSION LIABILITY (ASSET):

The Airport Authority's net pension liability (asset) as of June 30, 2023, is measured as the total pension liability, less the pension plan's fiduciary net position. The total pension liability as of June 30, 2023, is measured as of June 30, 2022. The annual valuation used is as of June 30, 2021, rolled forward to June 30, 2022, using standard update procedures. A summary of the principal assumptions and methods used to determine the net pension liability (asset) follow.

ACTUARIAL ASSUMPTIONS:

The total pension liability in the June 30, 2022, and June 30, 2021, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | June 30, 2022 | June 30, 2021 |
|---|---------------------------------|---------------------------------|
| Valuation date | June 30, 2021 | June 30, 2020 |
| Measurement date | June 30, 2022 | June 30, 2021 |
| 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% | 6.50% |
| Inflation Rate | 3.05% | 3.05% |
| Interest Credited to Member Contributions | 6.50% | 6.50% |
| 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⁾ | 2.0% - 16.0% | 2.0% - 16.0% |
| Disability rate ⁽⁴⁾ | 0.01% - 0.20% | 0.01% - 0.20% |
| 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, 2020 and June 30, 2019 actuarial reports.

DISCOUNT RATE:

For the June 30, 2022, and June 30, 2021, actuarial valuations, the discount rates used to measure the total pension liability was 6.5 percent. 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 | 19.0% | 4.9% | 7.5% |
| International equity | 12.0% | 5.5% | 8.0% |
| Global equity | 8.0% | 5.3% | 7.8% |
| Domestic fixed income | 22.0% | 1.0% | 3.5% |
| Return-Seeking Fixed Income | 5.0% | 4.4% | 6.9% |
| Real estate | 11.0% | 3.2% | 5.7% |
| Private equity and infrastructure | 13.0% | 7.5% | 10.1% |
| Opportunity fund | 10.0% | 4.6% | 7.1% |
| | <u>100.0%</u> | | |

NOTE 7.

DEFINED BENEFIT PLAN
(CONTINUED)



DEFINED BENEFIT PLAN
(CONTINUED)

NOTE 7. CHANGES IN THE NET PENSION LIABILITY (ASSET):

Changes in the total pension liability (asset), plan fiduciary net position and the net pension liability through the year ended June 30, 2023, were as follows:

| | Increase (Decrease) | | |
|---|-----------------------------|----------------------------|---|
| | Total Pension Liability (a) | Fiduciary Net Position (b) | Net Pension Liability/(Asset) (a) - (b) |
| Balances as of June 30, 2022 | \$ 254,465,897 | \$ 263,460,943 | \$ (8,995,046) |
| Changes for the year: | | | |
| Service cost | 6,980,223 | - | 6,980,223 |
| Interest on total pension liability | 16,489,161 | - | 16,489,161 |
| Difference between expected and actual experience | (1,288,936) | - | (1,288,936) |
| Changes in assumptions | - | - | - |
| Employer contributions | - | 9,181,680 | (9,181,680) |
| Member contributions | - | 3,070,398 | (3,070,398) |
| Net investment income | - | (4,188,463) | 4,188,463 |
| Benefit payments | (8,578,375) | (8,578,375) | - |
| Administrative expense | - | (461,899) | 461,899 |
| Net changes | 13,602,073 | (976,659) | 14,578,732 |
| Balances as of June 30, 2023 | \$ 268,067,970 | \$ 262,484,284 | \$ 5,583,686 |

Changes in the total pension liability, plan fiduciary net position and the net pension liability through the year ended June 30, 2022, were as follows:

| | Increase (Decrease) | | |
|---|-----------------------------|----------------------------|---|
| | Total Pension Liability (a) | Fiduciary Net Position (b) | Net Pension Liability/(Asset) (a) - (b) |
| Balances as of June 30, 2021 | \$ 241,862,071 | \$ 207,843,276 | \$ 34,018,795 |
| Changes for the year: | | | |
| Service cost | 7,970,646 | - | 7,970,646 |
| Interest on total pension liability | 15,693,834 | - | 15,693,834 |
| Difference between expected and actual experience | (2,239,695) | - | (2,239,695) |
| Changes in assumptions | - | - | - |
| Employer contributions | - | 8,596,163 | (8,596,163) |
| Member contributions | - | 3,125,138 | (3,125,138) |
| Net investment income | - | 53,140,343 | (53,140,343) |
| Benefit payments | (8,820,959) | (8,820,959) | - |
| Administrative expense | - | (423,018) | 423,018 |
| Net changes | 12,603,826 | 55,617,667 | (43,013,841) |
| Balances as of June 30, 2022 | \$ 254,465,897 | \$ 263,460,943 | \$ (8,995,046) |



SENSITIVITY OF THE NET PENSION LIABILITY (ASSET) TO DISCOUNT RATE CHANGES:

The following presents the resulting net pension liability (asset) calculated using the discount rate of 6.5 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, 2023:

| | 1% Decrease | Current | 1% Increase |
|--|----------------|----------------|-----------------|
| | 5.50% | 6.50% | 7.50% |
| Total pension liability | \$ 304,843,649 | \$ 268,067,970 | \$ 237,930,789 |
| Plan fiduciary net position | 262,484,284 | 262,484,284 | 262,484,284 |
| Net pension liability (asset) | \$ 42,359,365 | \$ 5,583,686 | \$ (24,553,495) |
| Plan fiduciary net position as a percentage of the total pension liability | 86.1% | 97.9% | 110.3% |

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

For the years ended June 30, 2023, and June 30, 2022, the Airport Authority recognized pension expense, as measured in accordance with GASB 68, of \$5.0 million and \$4.3 million, respectively. At June 30, 2023, and June 30, 2022, the Airport Authority reported deferred outflows of resources and deferred inflows of resources related to the plan from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------|-------------------------------|
| | For June 30, 2023 | |
| Differences between expected and actual experience | \$ 370,346 | \$ 2,877,993 |
| Net difference between projected and actual earnings | - | 1,089,400 |
| Changes in assumptions | 3,776,149 | - |
| Employer contributions made subsequent to June 30, 2022 measurement date | 7,663,521 | - |
| Total | \$ 11,810,016 | \$ 3,967,393 |
| For June 30, 2022 | | |
| Differences between expected and actual experience | \$ 1,218,022 | \$ 296,703 |
| Net difference between projected and actual earnings | - | 24,049,349 |
| Changes in assumptions | 7,177,433 | - |
| Employer contributions made subsequent to June 30, 2021 measurement date | 9,102,165 | - |
| Total | \$ 17,497,620 | \$ 24,346,052 |

NOTE 7.

DEFINED BENEFIT PLAN
(CONTINUED)

NOTE 7.
DEFINED BENEFIT PLAN
(CONTINUED)

The deferred outflows of resources, at June 30, 2023, and June 30, 2022, resulting from Airport Authority contributions subsequent to the measurement date and prior to year-end will be recognized as a reduction of the net pension liability in fiscal year 2024, and an increase to the net pension asset in fiscal year 2023.

Other amounts reported as deferred outflows/inflows of resources related to the plan at June 30, 2023, will be recognized in pension expense as follows:

| Years ended June 30, | |
|----------------------|-------------------|
| 2024 | \$ 382,007 |
| 2025 | (179,075) |
| 2026 | (4,339,581) |
| 2027 | 4,315,751 |
| | <u>\$ 179,102</u> |

NOTE 8.
PRESERVATION OF BENEFITS
TRUST PLAN

PRESERVATION OF BENEFITS TRUST PLAN (POB) DESCRIPTION:

The Airport Authority's single-employer defined benefit pension plan 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 7.

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.

As of the measurement dates of June 30, 2022, and 2021, Plan membership was as follows:

| | 2022 | 2021 |
|--|----------|----------|
| Active employees | 2 | 2 |
| Inactive employees or beneficiaries currently receiving benefits | 1 | 1 |
| Total | <u>3</u> | <u>3</u> |

TOTAL PENSION LIABILITY:

The Airport Authority's total pension liability as of June 30, 2023, and June 30, 2022, was \$1.6 million and \$2.4 million, respectively. The pension liability as of June 30, 2023, is measured as of June 30,

BENEFITS PROVIDED:

Retirement benefits are provided to POB members with retirement benefits in excess of Code Section 415(b) who have participated 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, 2023, and June 30, 2022, were \$20.6 thousand and \$52.4 thousand, respectively. The POB is unfunded and provides benefits on an annual basis as determined by SDCERS.

2022, using an annual actuarial valuation as of June 30, 2021, rolled forward to June 30, 2022, 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, 2022, and June 30, 2021, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | June 30, 2022 | June 30, 2021 |
|---|------------------|------------------|
| Valuation date | June 30, 2021 | June 30, 2020 |
| Measurement date | June 30, 2022 | June 30, 2021 |
| Actuarial cost method | Entry-age normal | Entry-age normal |
| Actuarial assumptions: | | |
| Discount rate | 3.54% | 2.16% |
| Inflation rate | 3.05% | 3.05% |
| Interest credited to member contributions | 6.50% | 6.50% |
| 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, 2023, was as follows:

| | |
|--|---------------------|
| Balances as of June 30, 2022 | \$ 2,373,440 |
| Changes for the year: | |
| Service cost | 68,342 |
| Interest on total pension liability | 51,359 |
| Difference between expected and actual exper | (381,597) |
| Changes in assumptions | (437,754) |
| Benefit payments | (59,667) |
| Net changes | <u>(759,317)</u> |
| Balances as of June 30, 2023 | <u>\$ 1,614,123</u> |

Changes in the total pension liability through the year ended June 30, 2022, was as follows:

| | |
|--|---------------------|
| Balances as of June 30, 2021 | \$ 2,445,415 |
| Changes for the year: | |
| Service cost | 88,557 |
| Interest on total pension liability | 54,559 |
| Difference between expected and actual exper | (195,545) |
| Changes in assumptions | 22,116 |
| Benefit payments | (41,662) |
| Net changes | <u>(71,975)</u> |
| Balances as of June 30, 2022 | <u>\$ 2,373,440</u> |

NOTE 8.
PRESERVATION OF BENEFITS
TRUST PLAN (CONTINUED)



NOTE 8. PRESERVATION OF BENEFITS TRUST PLAN (CONTINUED)

NOTE 8. SENSITIVITY OF THE TOTAL PENSION LIABILITY TO DISCOUNT RATE CHANGES:

The following presents the resulting total pension liability calculated using the discount rate of 3.54 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, 2023:

| | 1% Decrease 2.54% | Current Rate 3.54% | 1% Increase 4.54% |
|-------------------------|----------------------|-----------------------|----------------------|
| Total pension liability | \$ 1,916,452 | \$ 1,614,123 | \$ 1,374,691 |

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

For the year ended June 30, 2023, and 2022, the Airport Authority recognized pension expense, as measured in accordance with GASB 73, of \$56.1 thousand and \$329.8 thousand. At June 30, 2023 and June 30, 2022, the Airport Authority reported deferred outflows of resources and deferred inflows of resources related to the plan from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| For June 30, 2023 | | |
| Differences between expected and actual experience | \$ 32,168 | \$ 439,310 |
| Changes in assumptions | 299,670 | 343,266 |
| Employer contributions subsequent to June 30, 2022 measurement date | 20,583 | - |
| Total | \$ 352,421 | \$ 782,576 |
| For June 30, 2022 | | |
| Differences between expected and actual experience | \$ 129,056 | \$ 216,544 |
| Changes in assumptions | 458,200 | 65,698 |
| Employer contributions subsequent to June 30, 2021 measurement date | 52,398 | - |
| Total | \$ 639,654 | \$ 282,242 |

The deferred outflows of resources, at June 30, 2023, and June 30, 2022, resulting from Airport Authority contributions subsequent to the measurement date and prior to year-end will be recognized as a reduction of the net pension liability in fiscal years 2024 and 2023, respectively.

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

| Years ended June 30, | |
|----------------------|--------------|
| 2023 | \$ (92,524) |
| 2024 | (118,693) |
| 2025 | (239,522) |
| 2026 | - |
| | \$ (450,739) |



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. EMPLOYEES' DEFERRED COMPENSATION PLAN



NOTE 10.
OTHER POSTEMPLOYMENT
BENEFITS

The Airport Authority provides an agent multiple-employer defined benefit postemployment benefit plan (the OPEB Plan). The OPEB Plan provides post-retirement 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 over two million California public employees, retirees, and their families. CalPERS was founded in 1932 and is the largest public pension fund in the United States. As of June 30, 2022, CalPERS managed \$440 billion in assets for more than 2,890 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 actuarially determined contributions (ADCs). 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 ADC for its OPEB. In previous years, the Airport Authority has made contributions above the annual ADC which has resulted in a net OPEB asset. During the fiscal years ended June 30, 2023, and 2022, the Airport Authority's contributions were \$1.0 million and \$1.0 million, respectively.

A measurement date of June 30, 2022, and 2021, was used for the June 30, 2023, and June 30, 2022 OPEB assets and expenses. The information that follows was determined as of a valuation date of June 30, 2022, and June 30, 2021, respectively.

Membership in the OPEB by membership class at June 30, 2022, and 2021, is as follows:

| | 2022 | 2021 |
|--|------|------|
| Active employees | 101 | 132 |
| Inactive employees entitled to but not receiving benefits | - | - |
| Inactive employees or beneficiaries currently receiving benefits | 120 | 97 |
| Total | 221 | 229 |



ACTUARIAL ASSUMPTIONS:

The total OPEB liability in the June 30, 2022, and 2021 actuarial valuations was determined using the following actuarial assumptions, applied to all period included in the measurement:

| | |
|---|--|
| Actuarial Valuation Date | June 30, 2021 |
| Contribution Policy | Authority contributes at least the full ADC |
| Inflation | 2.50% |
| Projected salary increase | 2.75% |
| Investment rate of return | 5.25%; Expected Authority contributions projected to keep sufficient plan assets to pay all benefits from trust |
| Actuarial cost method | Entry Age Normal Level Percent of Pay |
| Asset valuation method | 5 year asset smoothing |
| Retirement age | SDCERS 2015-2019 Experience Study |
| Mortality | CalPERS 2000-2019 Experience Study |
| Mortality Improvement | Mortality projected fully generational with Scale MP-201 |
| Medical Trend | Non-Medicare - 6.50% for 2023, decreasing to an ultimate rate of 3.75% in 2076; Medicare - 5.65% for 2023, decreasing to an ultimate rate of 3.75% in 2076 |
| Healthcare Participation of Future Retirees | 90% |
| Spousal Assumption for Future Retirees | Currently covered - 2-party coverage if currently have 2 party or family coverage; Currently waived - 50% cover spouses at retirement |

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 |
|---------------------------------------|-------------------|---|
| Global Equity | 23% | 4.56% |
| Long US Treasuries | 11% | 0.29% |
| Mortgage-Backed Securities | 11% | 0.49% |
| Investment Grade Corporate | 9% | 1.56% |
| High Yield | 9% | 3.00% |
| Sovereigns | 11% | 2.76% |
| TIPS | 9% | -0.08% |
| Comodities | 3% | 1.22% |
| REITs | 14% | 4.06% |
| | 100% | |
| Assumed Long-Term Rate of Inflation | | 2.50% |
| Expected Long-Term Net Rate of Return | | 5.25% |

NOTE 10.
OTHER POSTEMPLOYMENT
BENEFITS (CONTINUED)



NOTE 10.
OTHER POSTEMPLOYMENT
BENEFITS (CONTINUED)

DISCOUNT RATE:

The discount rate used to measure the net OPEB liability (asset) at June 30, 2023, and June 30, 2022, was 5.25 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 net OPEB liability.

CHANGES IN THE NET OPEB LIABILITY (ASSET):

Changes in the total OPEB liability, plan fiduciary net position, and the net OPEB asset through the year ended June 30, 2023, were as follows:

| | Increase (Decrease) | | |
|---|----------------------|------------------------|-----------------------------|
| | Total OPEB Liability | Fiduciary Net Position | Net OPEB Liability/ (Asset) |
| Balances as of June 30, 2022 | \$ 29,372,019 | \$ 33,729,495 | \$ (4,357,476) |
| Changes for the year: | | | |
| Service cost | 570,006 | - | 570,006 |
| Interest on total OPEB liability | 1,546,979 | - | 1,546,979 |
| Difference between expected and actual experience | - | - | - |
| Changes in assumptions | - | - | - |
| Employer contributions | - | 951,488 | (951,488) |
| Member contributions | - | - | - |
| Net investment income | - | (3,627,823) | 3,627,823 |
| Benefit payments | (951,488) | (951,488) | - |
| Administrative expense | - | (8,562) | 8,562 |
| Net changes | 1,165,497 | (3,636,385) | 4,801,882 |
| Balances as of June 30, 2023 | \$ 30,537,516 | \$ 30,093,110 | \$ 444,406 |



Changes in the total OPEB liability, plan fiduciary net position and the net OPEB liability (asset) through the year ended June 30, 2022, were as follows:

| | Increase (Decrease) | | |
|---|----------------------|------------------------|-----------------------------|
| | Total OPEB Liability | Fiduciary Net Position | Net OPEB Liability/ (Asset) |
| Balances as of June 30, 2021 | \$ 27,116,806 | \$ 28,766,021 | \$ (1,649,215) |
| Changes for the year: | | | |
| Service cost | 446,233 | - | 446,233 |
| Interest on total OPEB liability | 1,829,473 | - | 1,829,473 |
| Difference between expected and actual experience | (3,669,756) | - | (3,669,756) |
| Changes in assumptions | 4,568,725 | - | 4,568,725 |
| Employer contributions | - | 919,462 | (919,462) |
| Member contributions | - | - | - |
| Net investment income | - | 4,973,926 | (4,973,926) |
| Benefit payments | (919,462) | (919,462) | - |
| Administrative expense | - | (10,452) | 10,452 |
| Net changes | 2,255,213 | 4,963,474 | (2,708,261) |
| Balances as of June 30, 2022 | \$ 29,372,019 | \$ 33,729,495 | \$ (4,357,476) |

SENSITIVITY OF THE NET OPEB LIABILITY (ASSET) TO CHANGES IN THE DISCOUNT RATE AND HEALTH CARE COST TREND RATES:

The net OPEB liability (asset) of the Airport Authority has been calculated using a discount rate of 5.25 percent. The following presents the net OPEB liability (asset) using a discount rate 1 percent higher and 1 percent lower than the current discount rate

| | 1% Decrease 4.25% | Current Rate 5.25% | 1% Increase 6.25% |
|----------------------------|----------------------|-----------------------|----------------------|
| Net OPEB liability (asset) | \$ 4,938,405 | \$ 444,406 | \$ (3,239,591) |

The net OPEB liability (asset) of the Airport Authority has been calculated using health care cost trend rates of 7.25 percent decreasing to 4.0 percent in 2076 and thereafter for non-Medicare and 6.3 percent decreasing to 4.0 percent in 2076 for Medicare. The following presents the net OPEB liability (asset) using health care cost trend rates 1 percent higher and 1 percent lower than the current health care cost trend rates.

| | 1% Decrease | Trend Rate | 1% Increase |
|----------------------------|----------------|------------|--------------|
| Net OPEB liability (asset) | \$ (3,614,055) | \$ 444,406 | \$ 5,418,365 |

NOTE 10.
OTHER POSTEMPLOYMENT
BENEFITS (CONTINUED)



NOTE 10.
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, 2023, and 2022, the Airport Authority recognized OPEB expense (income), as measured in accordance with GASB 75, of \$0.9 million and (\$0.2) million, respectively, and reported deferred inflows of resources and deferred outflows of resources related to the OPEB from the following sources:

| For June 30, 2023 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Net difference between projected and actual earnings | \$ 2,917,281 | \$ - |
| Net difference between expected and actual experience | - | 1,580,826 |
| Changes in assumptions | 1,958,025 | 72,921 |
| Employer contributions made subsequent to June 30, 2022 measurement date | 1,002,148 | - |
| Total | \$ 5,877,454 | \$ 1,653,747 |

| For June 30, 2022 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Net difference between projected and actual earnings | \$ - | \$ 1,793,923 |
| Net difference between expected and actual experience | - | 2,669,705 |
| Changes in assumptions | 3,301,280 | 437,533 |
| Employer contributions made subsequent to June 30, 2021 measurement date | 951,488 | - |
| Total | \$ 4,252,768 | \$ 4,901,161 |

The deferred outflows of resources at June 30, 2023, and June 30, 2022, related to OPEB resulting from Airport Authority contributions subsequent the measurement date and prior to year-end will be recognized as a reduction to the net OPEB liability in fiscal years 2024 and 2023, respectively.

Amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2023, related to the OPEB will be recognized in OPEB expense as follows:

| Years ended June 30, | |
|----------------------|---------------------|
| 2024 | \$ 888,373 |
| 2025 | 780,340 |
| 2026 | 473,166 |
| 2027 | 1,079,680 |
| | \$ 3,221,559 |



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 \$750 million providing all risk and flood coverage for physical assets.
- The Airport Authority also maintains policies for workers' compensation, commercial auto, fiduciary liability, privacy and network security, crime, and public entity and employment practices liability, among others.

SELF-INSURANCE:

Due to the exorbitant cost of earthquake insurance, the Airport Authority self-insures for losses due to earthquake damage. Effective July 1, 2007, the Airport Authority removed the purchase of commercial earthquake insurance from the Risk Management Program and increased reliance on the laws designed to assist public entities through the Federal Emergency Management Agency and the California Disaster Assistance

Act. As of June 30, 2023, and 2022, the Airport Authority has designated \$13.8 million and \$13.1 million, respectively, from its net position, as an insurance contingency.

A \$2.0 million 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 2023, 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.

During fiscal year 2022, 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.
RISK MANAGEMENT



NOTE 12.
COMMITMENTS AND CONTINGENCIES

COMMITMENTS:

As of June 30, 2023 and 2022, the Airport Authority had significant commitments for capital expenditures and other matters as described below:

The Airport Authority has funds which have been classified as noncurrent 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. June 30, 2023 and 2022, these funds totaled approximately \$99.0 million and \$50.4 million, respectively, and are classified on the accompanying statements of net position as cash and investments designated for specific capital projects and other commitments.

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, 2023, and 2022, the Airport Authority expended \$20.5 million and \$21.9 million respectively for these services.

In fiscal year 2019, the Board approved \$38.0

million contract with Ace Parking Management Inc., for parking management services. As of June 30, 2023, \$26.6 million has been spent and the contract is scheduled for completion in fiscal year 2024.

In fiscal year 2019, the Board approved \$46.8 million contract with Ace Parking Management Inc., for airport shuttle services. As of June 30, 2023, \$23.3 million has been spent for shuttle services and the contract was completed in fiscal year 2023.

In fiscal year 2023, the Board approved \$70.0 million contract with Ace Parking III, LLC for airport shuttle services. As of June 30, 2023, \$5.4 million has been spent for shuttle services and the contract is scheduled for completion in fiscal year 2027.

In fiscal year 2015, the Board approved a \$29.0 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 years 2016-2022, the Board approved an additional \$28.0 million. As of June 30, 2023, \$53.7 million had been spent and the contract was completed in fiscal year 2023.

In fiscal year 2022, the Board approved a \$103.0 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. As of June 30, 2023, \$7.8 million had been spent and the contract is scheduled for completion in fiscal year 2027.

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. In fiscal year 2020, the board approved additional \$134.8 million. As of June 30, 2023, \$78.9 million has

been spent and the contract is scheduled for completion in fiscal year 2024.

In fiscal year 2021, the Board approved a \$16.2 million contract with Granite Construction Company for the construction of the West Refueler Loading Facility and the West Solid Waste Facility. In fiscal year 2022, the board approved additional \$1.0 million. As of June 30, 2023, \$15.1 million had been spent and the contract was completed in fiscal year 2023.

In fiscal year 2021, the Board approved an \$80 million contract with Turner-Flatiron, A Joint Venture for the design-build of terminal and roadways. In fiscal year 2022, the Board approved additional \$2.5 billion. As of June 30, 2023, \$684.7 million had been spent and the contract is scheduled for completion in early fiscal year 2028.

In fiscal year 2021 the Board approved a \$97.6 million contract with Sundt Construction for the design-build administration building. As of June 30, 2023, \$66.5 million had been spent and the contract is scheduled for completion in fiscal year 2024.

In fiscal year 2020, the Board approved a \$35.0 million contract with Jacobs Engineering Group, Inc. to provide Airside-Landside Engineering consulting services. As of June 30, 2023, \$26.5 million had been spent and the contract is scheduled for completion in fiscal year 2025.

In fiscal year 2022, the Board approved a 19.4 million contract with SOLPAC Construction Inc. dba Soltek Pacific Construction to construct Solid and Liquid waste facilities. In fiscal year 2023, the board approved additional \$0.4 million. As of June 30, 2023, \$14.3 million had been spent and the contract is scheduled for completion in early fiscal year 2024.

CONTINGENCIES:

As of June 30, 2023, the Airport Authority is subject to various contingencies including, but not limited to, contingencies arising from 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.

The Airport Authority invests in various investment securities. Investment securities are exposed to various risks such as interest rate risk, market risks and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statements of net position.

NOTE 12.
COMMITMENTS AND CONTINGENCIES (CONTINUED)



NOTE 13. For the fiscal year ended June 30, 2023, the Airport Authority implemented GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Arrangements* and GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. As required when presenting prior period comparative statements, the financial statements of the fiscal year ended June 30, 2022, have been retrospectively restated. The effects of the restatement are as follows:

CHANGE IN ACCOUNTING PRINCIPLE

| Statement of Net Position | 2022 as restated | As Previously Reported | Effect of Change |
|---|------------------|------------------------|------------------|
| Tenant receivables, net | 22,784,819 | 12,087,092 | 10,697,727 |
| Partnership lease receivables, current portion (Note 3) | 2,891,820 | - | 2,891,820 |
| Other current assets | 10,291,837 | 9,909,877 | 381,960 |
| Partnership lease receivables, long-term portion (Note 3) | 125,895,083 | - | 125,895,083 |
| Subscription assets | 464,378 | - | 464,378 |
| Less accumulated depreciation and amortization | (1,300,259,420) | (1,300,166,545) | (92,875) |
| Other current liabilities | 14,502,025 | 17,029,533 | 2,527,508 |
| Lease liabilities, current portion (Note 6) | 3,586,324 | 3,471,838 | (114,486) |
| Unrestricted long-term debt, current portion (Note 6) | 323,293 | 354,139 | 30,846 |
| Restricted long-term debt, current portion (Note 6) | 40,160,000 | 40,360,000 | 200,000 |
| Other noncurrent liabilities | 663,924 | 55,458,074 | 54,794,150 |
| Lease liabilities, long-term portion (Note 6) | 229,180,542 | 228,947,243 | (233,299) |
| Long-term debt, net of current portion (Note 6) | 3,713,339,080 | 3,713,108,235 | (230,845) |
| Deferred inflow of resources from partnership leases (Note 3) | 195,544,264 | - | (195,544,264) |
| Net investment in capital assets | 420,903,099 | 418,348,504 | (2,554,595) |
| Unrestricted net position | 316,527,254 | 317,414,146 | 886,892 |

| Statements of Revenues, Expenses, and Changes in Net Position | 2022 as restated | As Previously Reported | Effect of Change |
|---|------------------|------------------------|------------------|
| Ground and non-airline terminal rentals | 19,651,356 | 23,265,430 | (3,614,074) |
| Equipment rentals and repairs | 3,471,765 | 3,584,990 | 113,225 |
| Income from operations before depreciation and amortization | 16,179,591 | 19,680,440 | 3,500,849 |
| Depreciation and amortization expense | 142,011,648 | 141,918,773 | (92,875) |
| Other Interest Income | 11,892,517 | 7,263,175 | 4,629,342 |
| Investment income (loss) | (48,883,995) | (48,883,996) | 1 |
| Net position, beginning of year | 889,557,081 | 888,924,997 | 632,084 |

NOTE 13. **CHANGE IN ACCOUNTING PRINCIPLE (CONTINUED)**

| Statement of Cash Flows | 2022 as restated | As Previously Reported | Effect of Change |
|---|------------------|------------------------|------------------|
| Receipts from customers | 371,536,489 | 324,778,280 | 46,758,209 |
| Payments to suppliers | (107,568,553) | (107,183,225) | (385,328) |
| Capital outlay | (334,497,078) | (283,494,854) | (51,002,224) |
| Other interest income | 11,892,517 | 7,263,176 | 4,629,341 |
| Principal payments received on notes receivable | 2,372,252 | (6,936,114) | 9,308,366 |
| Increase in principal on notes receivable | (9,308,366) | - | (9,308,366) |
| Operating income (loss) | 24,426,938 | 28,020,662 | (3,593,724) |
| Depreciation and amortization expense | 142,011,648 | 141,918,773 | 92,875 |
| Receivables, net | 56,568,711 | 10,954,300 | 45,614,411 |
| Other assets | (97,336) | 284,624 | (381,960) |
| Lease receivables | (8,408,150) | (11,589,245) | 3,181,095 |
| Other liabilities | 7,233,849 | 5,773,665 | 1,460,184 |

On October 25, 2023, the Airport Authority issued \$1.1 billion of Series A and B Senior Airport Revenue Bonds (Series 2023 Bonds). The Series 2023 Bonds were issued to finance certain capital improvements at SDIA including construction of the New Terminal 1, refund subordinate revolving obligations, purchase a portion of the subordinate Series 2021C Bond, fund a portion of the interest

accruing on the Series 2023 Bonds, fund the senior reserve fund, and pay the costs of issuance and underwriting fees of the Series 2023 Bonds. The Series 2023A and B Bonds are structured as both serial and term bonds that bear interest rates ranging from 5.0 percent to 5.25 percent and mature in fiscal years 2024 to 2059.

NOTE 14. **SUBSEQUENT EVENTS**



REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) FISCAL YEAR ENDED JUNE 30, 2023

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

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Total Pension Liability: | | | | | | | | | |
| Service cost | \$ 6,980,223 | \$ 7,970,646 | \$ 7,857,035 | \$ 7,632,696 | \$ 7,390,428 | \$ 6,996,180 | \$ 6,205,263 | \$ 6,154,579 | \$ 6,099,481 |
| Interest (includes interest on service cost) | 16,489,161 | 15,693,834 | 14,257,205 | 13,355,418 | 12,621,226 | 11,416,679 | 10,277,610 | 9,327,538 | 8,465,485 |
| Differences between expected and actual experience | (1,288,936) | (2,239,695) | 925,862 | (645,462) | (2,630,285) | 3,975,029 | (2,178,527) | 345,661 | - |
| Effect of changes of assumptions | - | - | 6,767,000 | - | 6,416,088 | 5,871,218 | 10,473,890 | - | - |
| Benefit payments, including refunds of member contributions | (8,578,375) | (8,820,959) | (6,733,942) | (6,429,659) | (4,462,751) | (4,669,787) | (3,023,391) | (2,482,523) | (2,913,221) |
| Net change in total pension liability | 13,602,073 | 12,603,826 | 23,073,160 | 13,912,993 | 19,334,706 | 23,589,319 | 21,754,845 | 13,345,255 | 11,651,745 |
| Total pension liability - beginning | 254,465,897 | 241,862,071 | 218,788,911 | 204,875,918 | 185,541,212 | 161,951,893 | 140,197,048 | 126,851,793 | 115,200,048 |
| Total pension liability - ending | \$ 268,067,970 | \$ 254,465,897 | \$ 241,862,071 | \$ 218,788,911 | \$ 204,875,918 | \$ 185,541,212 | \$ 161,951,893 | \$ 140,197,048 | \$ 126,851,793 |
| Plan Fiduciary Net Position: | | | | | | | | | |
| Contributions - employer | \$ 9,181,680 | \$ 8,596,163 | \$ 8,424,834 | \$ 7,848,712 | \$ 7,318,546 | \$ 5,480,984 | \$ 4,047,780 | \$ 3,897,545 | \$ 3,924,988 |
| Contributions - employee | 3,070,398 | 3,125,138 | 3,321,661 | 3,178,464 | 3,162,781 | 2,990,317 | 2,967,269 | 2,840,236 | 2,765,079 |
| Net investment income | (4,188,463) | 53,140,343 | 390,013 | 12,086,349 | 14,036,710 | 19,480,875 | 1,651,283 | 4,390,185 | 18,302,683 |
| Benefit payments, including refunds of member contributions | (8,578,375) | (8,820,959) | (6,733,942) | (6,429,659) | (4,462,751) | (4,669,787) | (3,023,391) | (2,482,523) | (2,913,221) |
| Administrative expense | (461,899) | (423,018) | (386,698) | (359,095) | (350,408) | (325,042) | (318,817) | (332,290) | (332,645) |
| Net change in plan fiduciary net position | (976,659) | 55,617,667 | 5,015,868 | 16,324,771 | 19,704,878 | 22,957,348 | 5,324,124 | 8,313,153 | 21,746,884 |
| Plan fiduciary net position - beginning | 263,460,943 | 207,843,276 | 202,827,408 | 186,502,637 | 166,797,759 | 143,840,411 | 138,516,287 | 130,203,134 | 108,456,250 |
| Plan fiduciary net position - ending | \$ 262,484,284 | \$ 263,460,943 | \$ 207,843,276 | \$ 202,827,408 | \$ 186,502,637 | \$ 166,797,759 | \$ 143,840,411 | \$ 138,516,287 | \$ 130,203,134 |
| Net pension liability (asset) - ending | \$ 5,583,686 | \$ (8,995,046) | \$ 34,018,795 | \$ 15,961,503 | \$ 18,373,281 | \$ 18,743,453 | \$ 18,111,482 | \$ 1,680,761 | \$ (3,351,341) |
| Net pension liability as a percentage of total pension liability | 97.92% | 103.53% | 85.93% | 92.70% | 91.03% | 89.90% | 88.82% | 98.80% | 102.64% |
| Covered payroll | \$ 30,809,714 | \$ 33,328,788 | \$ 32,828,449 | \$ 31,584,841 | \$ 31,628,301 | \$ 31,131,795 | \$ 29,189,357 | \$ 27,955,455 | \$ 26,380,323 |
| Net pension liability as a percentage of covered payroll | 18.12% | (26.99%) | 103.63% | 50.54% | 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, 2023 (CONTINUED)

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

| | 2023 | 2022 | 2021 | 2020 | 2019 |
|--|------------|------------|------------|------------|------------|
| Actuarially determined contribution | \$ 4,944 | \$ 6,570 | \$ 6,125 | \$ 6,159 | \$ 5,740 |
| Contributions in relation to the actuarially determined contribution | 7.664 | 9.102 | 8.522 | 8.356 | 7.783 |
| Contribution deficiency (excess) | \$ (2,720) | \$ (2,532) | \$ (2,397) | \$ (2,197) | \$ (2,043) |
| Covered payroll | \$ 33,458 | \$ 30,810 | \$ 33,329 | \$ 32,828 | \$ 31,585 |
| Contributions as a percentage of covered payroll | 22.91% | 29.54% | 25.57% | 25.45% | 24.64% |

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|------------|------------|-----------|-----------|-----------|
| Actuarially determined contribution | \$ 5,416 | \$ 3,765 | \$ 3,666 | \$ 3,823 | \$ 2,900 |
| Contributions in relation to the actuarially determined contribution | 7.247 | 5.421 | 3.948 | 3.823 | 3.728 |
| Contribution deficiency (excess) | \$ (1,831) | \$ (1,656) | \$ (282) | \$ - | \$ (828) |
| Covered payroll | \$ 31,628 | \$ 31,132 | \$ 29,189 | \$ 27,955 | \$ 26,380 |
| Contributions as a percentage of covered payroll | 22.91% | 17.41% | 13.53% | 13.68% | 14.13% |

* This schedule is presented for the fiscal year.



REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) FISCAL YEAR ENDED JUNE 30, 2023 (CONTINUED)

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

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| Total Pension Liability | | | | | | |
| Service cost | \$ 68,342 | \$ 88,557 | \$ 55,276 | \$ 49,343 | \$ 51,774 | \$ 60,994 |
| Interest cost | 51,359 | 54,559 | 62,061 | 64,133 | 53,311 | 35,323 |
| Differences between expected and actual experience | (381,597) | (195,545) | (57,318) | (64,295) | 193,013 | 388,329 |
| Changes of assumptions | (437,754) | 22,116 | 661,465 | 109,070 | (89,712) | (214,765) |
| Benefit Payments | (59,667) | (41,662) | (43,301) | (47,081) | (31,329) | - |
| Net Change in Total Pension Liability | (759,317) | (71,975) | 678,183 | 111,170 | 177,057 | 269,881 |
| Total pension liability -beginning | 2,373,440 | 2,445,415 | 1,767,232 | 1,656,062 | 1,479,005 | 1,209,124 |
| Total pension liability - ending | \$ 1,614,123 | \$ 2,373,440 | \$ 2,445,415 | \$ 1,767,232 | \$ 1,656,062 | \$ 1,479,005 |
| Covered payroll | \$ 30,809,714 | \$ 33,328,788 | \$ 32,828,449 | \$ 31,584,841 | \$ 31,628,301 | \$ 31,131,795 |
| Net Pension Liability as a percentage of payroll | 5.24% | 7.12% | 7.45% | 5.60% | 5.24% | 4.75% |

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. 68, this schedule will only present information from those years that are available.

SCHEDULE OF CONTRIBUTIONS (PENSIONS), LAST 10 FISCAL YEARS: PRESERVATION OF BENEFITS TRUST PLAN

| | 2023 | 2022 | 2021 | 2020 | 2019 |
|--|---------------|---------------|---------------|---------------|---------------|
| Actuarially determined contribution | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions in relation to the actuarially determined contribution | 20,583 | 52,398 | 42,682 | 41,249 | 45,353 |
| Contribution deficiency (excess) | \$ (20,583) | \$ (52,398) | \$ (42,682) | \$ (41,249) | \$ (45,353) |
| Covered payroll | \$ 33,458,445 | \$ 30,809,714 | \$ 33,328,788 | \$ 32,828,449 | \$ 31,584,841 |
| Contributions as a percentage of covered payroll | 0.06% | 0.17% | 0.13% | 0.13% | 0.14% |

* 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 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 CHANGES IN THE NET OPEB LIABILITY (ASSET) AND RELATED RATIOS LAST 10 FISCAL YEARS (PLAN YEAR REPORTED IN SUBSEQUENT FISCAL YEAR): OTHER POSTEMPLOYMENT BENEFITS

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) FISCAL YEAR ENDED JUNE 30, 2023 (CONTINUED)

| | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---------------|----------------|----------------|----------------|---------------|
| Total OPEB Liability | | | | | |
| Service Cost | \$ 570,006 | \$ 446,223 | \$ 501,198 | \$ 449,596 | \$ 436,501 |
| Interest Cost | 1,546,979 | 1,829,473 | 1,739,459 | 1,883,080 | 1,772,578 |
| Difference between expected and actual experience | - | (3,669,756) | - | (169,582) | - |
| Changes of Assumptions | - | 4,568,725 | - | (1,531,369) | - |
| Benefit Payments | (951,488) | 919,462 | (784,845) | (775,225) | (622,425) |
| Net Change in Total OPEB Liability | 1,165,497 | 2,255,213 | 1,455,812 | (143,500) | 1,586,654 |
| Total OPEB Liability (Beginning) | 29,372,019 | 27,116,806 | 25,660,994 | 25,804,494 | 24,217,840 |
| Total OPEB Liability (Ending) | \$ 30,537,516 | \$ 29,372,019 | \$ 27,116,806 | \$ 25,660,994 | \$ 25,804,494 |
| Plan Fiduciary Net Position | | | | | |
| Contributions—Employer | \$ 951,488 | \$ 919,462 | \$ 784,845 | \$ 775,225 | \$ 622,425 |
| Net Investment Income | (3,627,823) | 4,973,926 | 982,113 | 1,604,058 | 1,896,351 |
| Benefit Payments | (951,488) | (919,462) | (784,845) | (775,225) | (622,425) |
| Administrative Expense | (8,562) | (10,452) | (13,580) | (5,611) | (12,568) |
| Net Change in Plan Fiduciary Net Position | (3,636,385) | 4,963,474 | 968,533 | 1,598,447 | 1,883,783 |
| Plan Fiduciary Net Position (Beginning) | 33,729,495 | 28,766,021 | 27,797,488 | 26,199,041 | 24,315,258 |
| Plan Fiduciary Net Position (Ending) | \$ 30,093,110 | \$ 33,729,495 | \$ 28,766,021 | \$ 27,797,488 | \$ 26,199,041 |
| Net OPEB Asset | \$ 444,406 | \$ (4,357,476) | \$ (1,649,215) | \$ (2,136,494) | \$ (394,547) |
| Net Position as a Percentage of OPEB Liability | 98.54% | 114.84% | 106.08% | 108.33% | 101.53% |
| Covered Payroll | \$ 14,296,047 | \$ 12,786,000 | \$ 14,608,940 | \$ 13,869,000 | \$ 16,625,857 |
| Net OPEB Asset as a Percentage of Payroll | 3.11% | (34.08%) | (11.29%) | (15.40%) | (2.37%) |

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 the years that are available.

SCHEDULE OF CONTRIBUTIONS (OPEB) LAST 10 FISCAL YEARS (DOLLARS IN THOUSANDS): OTHER POSTEMPLOYMENT BENEFITS

| | 2023 | 2022 | 2021 | 2020 | 2019 |
|--|-----------|-----------|-----------|-----------|-----------|
| Actuarially determined contribution | \$ 264 | \$ 326 | \$ 365 | \$ 427 | \$ 486 |
| Contributions in relation to the actuarially determined contribution | 1,002 | 951 | 919 | 785 | 339 |
| Contribution deficiency (excess) | \$ (738) | \$ (625) | \$ (554) | \$ (358) | \$ 147 |
| Covered payroll | \$ 14,296 | \$ 12,786 | \$ 12,786 | \$ 14,609 | \$ 13,869 |
| Contributions as a percentage of covered payroll | 7.01% | 7.44% | 7.19% | 5.37% | 2.44% |

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 weight Exhibit S-10
- Aircraft landed weight by airline Exhibit S-11
- Passenger enplanements Exhibit S-12
- Enplanement market share by airline by fiscal year 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 Exhibit S-15
- San Diego County Exhibit S-16
- 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 | 2023 | 2022 ⁴ | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Airline revenue | | | | | | | | | | |
| Landing fees | \$ 44,741 | \$ 35,354 | \$ 34,046 | \$ 33,242 | \$ 24,816 | \$ 23,900 | \$ 24,612 | \$ 23,985 | \$ 21,390 | \$ 19,107 |
| Aircraft parking fees | 11,189 | 8,856 | 8,542 | 8,354 | 3,471 | 3,236 | 2,927 | 2,701 | 2,716 | 2,503 |
| Building rentals | 129,744 | 97,047 | 83,090 | 82,453 | 70,912 | 62,241 | 56,575 | 53,336 | 48,153 | 46,001 |
| Security surcharge | | | | | 33,559 | 32,303 | 29,468 | 29,223 | 25,180 | 25,777 |
| Other aviation revenue | 7,123 | 6,518 | 8,192 | 7,789 | 1,596 | 1,477 | 2,799 | 2,760 | 4,893 | 4,488 |
| Concession revenue | 75,559 | 88,138 | 41,801 | 57,243 | 71,256 | 65,610 | 61,256 | 29,249 | 52,496 | 47,770 |
| Parking and ground transportation revenue | 65,415 | 57,076 | 27,447 | 50,751 | 62,818 | 53,254 | 49,407 | 75,131 | 41,632 | 38,959 |
| Ground rentals | 23,257 | 19,651 | 19,809 | 21,386 | 22,810 | 22,109 | 20,053 | 16,226 | 13,074 | 9,603 |
| Other operating revenue | 3,735 | 2,999 | 1,680 | 1,818 | 2,441 | 1,949 | 1,750 | 1,183 | 971 | 1,529 |
| Total Operating Revenues | \$ 360,762 | \$ 315,640 | \$ 224,606 | \$ 263,036 | \$ 293,679 | \$ 266,079 | \$ 248,847 | \$ 233,994 | \$ 210,505 | \$ 195,737 |

| Operating Expenses Before Depreciation | 2023 | 2022 ⁵ | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Salaries and benefits | \$ 51,231 | \$ 46,373 | \$ 52,922 | \$ 51,667 | \$ 49,578 | \$ 47,866 | \$ 46,874 | \$ 42,025 | \$ 39,211 | \$ 39,135 |
| Contractual services | 45,581 | 34,491 | 24,977 | 37,694 | 49,903 | 45,249 | 44,372 | 38,215 | 32,422 | 31,559 |
| Safety and security | 33,043 | 34,191 | 35,086 | 29,457 | 31,397 | 30,733 | 28,422 | 28,721 | 23,464 | 24,151 |
| Space rental | 313 | 839 | 64 | 10,207 | 10,191 | 10,190 | 10,190 | 10,367 | 10,432 | 10,478 |
| Utilities | 17,567 | 14,193 | 11,730 | 12,748 | 13,194 | 12,509 | 10,736 | 11,480 | 10,152 | 8,680 |
| Maintenance | 16,417 | 10,747 | 9,111 | 11,584 | 13,436 | 12,603 | 14,270 | 14,122 | 14,516 | 13,982 |
| Equipment and systems | 922 | 340 | 425 | 336 | 375 | 598 | 506 | 708 | 1,805 | 643 |
| Materials and supplies | 661 | 496 | 450 | 651 | 656 | 655 | 611 | 536 | 519 | 440 |
| Insurance | 1,997 | 1,741 | 1,519 | 1,308 | 1,098 | 956 | 949 | 949 | 1,145 | 988 |
| Employee development and support | 691 | 537 | 442 | 967 | 1,045 | 1,248 | 1,347 | 1,242 | 1,136 | 1,171 |
| Business development | 1,916 | 1,781 | 209 | 2,033 | 2,630 | 3,246 | 2,347 | 2,390 | 2,493 | 2,661 |
| Equipment rentals and repairs | 4,010 | 3,472 | 3,380 | 3,598 | 3,614 | 3,124 | 3,095 | 2,852 | 2,951 | 2,932 |
| Total Operating Expenses Before Depreciation | \$ 174,339 | \$ 149,201 | \$ 140,313 | \$ 162,250 | \$ 177,219 | \$ 169,119 | \$ 163,725,529 | \$ 153,608,455 | \$ 140,249,709 | \$ 136,820,655 |

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

Fiscal Years Ended June 30,

| | 2023 | 2022 ⁴ | 2021 ³ | 2020 | 2019 | 2018 ² | 2017 | 2016 ¹ | 2015 | 2014 |
|----------------------------------|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Net investment in capital assets | \$ 330,220 | \$ 420,903 | \$ 325,062 | \$ 266,213 | \$ 281,491 | \$ 294,937 | \$ 263,952 | \$ 310,339 | \$ 316,250 | \$ 312,780 |
| Other restricted net position | 230,636 | 176,638 | 192,484 | 211,329 | 246,508 | 230,954 | 225,088 | 214,533 | 215,968 | 204,642 |
| Unrestricted net position | 472,323 | 316,527 | 372,011 | 407,524 | 325,303 | 284,034 | 294,133 | 251,076 | 210,522 | 209,594 |
| Total net position | \$ 1,033,179 | \$ 914,068 | \$ 889,557 | \$ 885,066 | \$ 853,302 | \$ 809,925 | \$ 783,173 | \$ 775,949 | \$ 742,740 | \$ 727,016 |

¹ Amounts for 2016 were restated as per GASB 68

² Amounts for 2018 were restated as per GASB 75

³ Amounts for 2021 were restated as per GASB 87

⁴ Amounts for 2022 were restated as per GASB 94 & 96

**EXHIBIT S-3
AUTHORITY CHANGES IN NET
POSITION (\$'000)**

Fiscal Years Ended June 30,

| | 2023 | 2022 ⁴ | 2021 ³ | 2020 | 2019 | 2018 ² | 2017 | 2016 ¹ | 2015 | 2014 |
|--|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Operating revenues: | | | | | | | | | | |
| Airline revenue: | | | | | | | | | | |
| Landing fees | \$ 44,741 | \$ 35,354 | \$ 34,046 | \$ 33,242 | \$ 24,816 | \$ 23,900 | \$ 24,612 | \$ 23,985 | \$ 21,390 | \$ 19,107 |
| Aircraft parking fees | 11,189 | 8,856 | 8,542 | 8,354 | 3,471 | 3,236 | 2,927 | 2,701 | 2,716 | 2,503 |
| Building rentals | 129,744 | 97,047 | 83,090 | 82,453 | 70,912 | 62,241 | 56,575 | 53,336 | 48,153 | 46,001 |
| Security surcharge | - | - | - | - | 33,559 | 32,303 | 29,468 | 29,223 | 25,180 | 25,777 |
| Other aviation revenue | 7,123 | 6,518 | 8,192 | 7,789 | 1,596 | 1,477 | 2,799 | 2,760 | 4,893 | 4,488 |
| Concession revenue | 75,559 | 88,138 | 41,801 | 57,243 | 71,256 | 65,610 | 61,256 | 56,274 | 52,496 | 47,770 |
| Parking and ground transportation revenue | 65,415 | 57,076 | 27,447 | 50,751 | 62,818 | 53,254 | 49,407 | 48,106 | 41,632 | 38,959 |
| Ground rentals | 23,257 | 19,651 | 19,809 | 21,386 | 22,810 | 22,109 | 20,053 | 16,226 | 13,074 | 9,603 |
| Other operating revenue | 3,735 | 2,999 | 1,680 | 1,818 | 2,441 | 1,949 | 1,750 | 1,183 | 971 | 1,529 |
| Total operating revenues | 360,762 | 315,640 | 224,606 | 263,036 | 293,679 | 266,079 | 248,847 | 233,994 | 210,505 | 195,737 |
| Operating expenses before depreciation and amortization: | | | | | | | | | | |
| Salaries and benefits | 51,231 | 46,373 | 52,922 | 51,667 | 49,578 | 47,866 | 46,874 | 42,025 | 39,211 | 39,135 |
| Contractual services | 45,581 | 34,491 | 24,977 | 37,694 | 49,903 | 45,249 | 44,372 | 38,215 | 32,422 | 31,559 |
| Safety and security | 33,043 | 34,191 | 35,086 | 29,457 | 31,397 | 30,733 | 28,422 | 28,721 | 23,465 | 24,151 |
| Space rental | 313 | 839 | 64 | 10,207 | 10,191 | 10,190 | 10,190 | 10,367 | 10,433 | 10,478 |
| Utilities | 17,567 | 14,193 | 11,730 | 12,748 | 13,194 | 12,509 | 10,736 | 11,480 | 10,152 | 8,680 |
| Maintenance | 16,417 | 10,747 | 9,111 | 11,584 | 13,436 | 12,603 | 14,270 | 14,122 | 14,516 | 13,982 |
| Equipment and systems | 922 | 340 | 425 | 336 | 375 | 598 | 506 | 708 | 1,805 | 643 |
| Materials and supplies | 661 | 496 | 450 | 651 | 656 | 655 | 611 | 536 | 519 | 440 |
| Insurance | 1,997 | 1,741 | 1,519 | 1,308 | 1,200 | 1,098 | 956 | 949 | 1,145 | 988 |
| Employee development and support | 691 | 537 | 442 | 967 | 1,045 | 1,248 | 1,347 | 1,242 | 1,136 | 1,171 |
| Business development | 1,916 | 1,781 | 209 | 2,033 | 2,630 | 3,246 | 2,347 | 2,390 | 2,493 | 2,661 |
| Equipment rentals and repairs | 4,010 | 3,472 | 3,380 | 3,598 | 3,614 | 3,124 | 3,095 | 2,852 | 2,951 | 2,932 |
| Total operating expenses before depreciation and amortization | 174,339 | 149,201 | 140,313 | 162,250 | 177,219 | 169,119 | 163,725 | 153,607 | 140,348 | 136,820 |
| Income from operations before depreciation and amortization | 186,423 | 166,438 | 84,293 | 100,786 | 116,460 | 96,960 | 85,121 | 80,387 | 70,257 | 58,917 |
| Depreciation and amortization expense | 131,586 | 142,012 | 137,496 | 131,587 | 124,329 | 105,532 | 95,229 | 87,821 | 81,887 | 81,598 |
| Operating income (loss) | 54,837 | 24,427 | (53,202) | (30,801) | (7,869) | (8,572) | (10,108) | (7,434) | (11,630) | (22,681) |
| Nonoperating revenues (expenses): | | | | | | | | | | |
| Passenger facility charges | 46,755 | 40,394 | 22,110 | 34,393 | 49,198 | 46,953 | 42,200 | 40,258 | 38,517 | 35,770 |
| Customer facility charges | 30,333 | 30,333 | 15,755 | 30,240 | 41,918 | 41,036 | 36,528 | 33,208 | 32,465 | 27,545 |
| CARES Act/ACRGP Act Grants | - | 78,922 | 77,219 | 36,895 | - | - | - | - | - | - |
| Quieter Home Program, net | (2,051) | (2,541) | (3,233) | (3,295) | (3,192) | (2,747) | (785) | (3,698) | (2,811) | (2,750) |
| Joint Studies Program | - | - | - | - | (99) | (114) | - | (101) | (145) | (152) |
| Other interest income | 11,145 | 11,893 | 6,748 | - | - | - | - | - | - | - |
| Investment income | 50,882 | (48,884) | 2,495 | 32,430 | 25,533 | 9,426 | 5,689 | 5,999 | 5,747 | 5,211 |
| Interest expense | (127,464) | (109,675) | (76,628) | (73,612) | (74,501) | (68,411) | (58,179) | (50,638) | (55,187) | (51,984) |
| Build America Bonds Rebate | - | - | - | - | 4,686 | 4,666 | 4,651 | 4,656 | 4,631 | 4,636 |
| Other revenues (expenses), net | (1,654) | (13,316) | (705) | 1,442 | (510) | (9,281) | (14,678) | 2,247 | 1,367 | 434 |
| Nonoperating revenue, net | 11,987 | (12,873) | 43,761 | 58,493 | 43,033 | 21,528 | 15,428 | 31,933 | 24,584 | 18,710 |
| Income before capital grant contributions | 66,824 | 11,554 | (9,441) | 27,692 | 35,164 | 12,956 | 5,320 | 24,499 | 12,954 | (3,971) |
| Capital grant contributions | 52,287 | 12,958 | 13,932 | 4,072 | 8,213 | 13,079 | 1,904 | 10,477 | 10,765 | 3,924 |
| Change in net position | 119,111 | 24,512 | 4,491 | 31,764 | 43,377 | 26,035 | 7,224 | 34,976 | 23,719 | (47) |
| Prior Period Adjustment | - | - | - | - | - | 717 | - | (1,767) | (7,993) | - |
| Net position, beginning of year | 914,069 | 889,557 | 885,066 | 853,302 | 809,925 | 783,173 | 775,949 | 742,740 | 727,016 | 727,064 |
| Net position, end of year | \$ 1,033,180 | \$ 914,069 | \$ 889,557 | \$ 885,066 | \$ 853,302 | \$ 809,925 | \$ 783,173 | \$ 775,949 | \$ 742,742 | \$ 727,017 |

¹ Amounts for 2016 were restated as per GASB 68

² Amounts for 2018 were restated as per GASB 75

³ Amounts for 2021 were restated as per GASB 87

⁴ Amounts for 2022 were restated as per GASB 87

EXHIBIT S-4 AUTHORITY LARGEST SOURCES OF REVENUE (\$'000)

Fiscal Years Ended June 30,

| Tenant | 2023 | 2022 | 2021 ³ | 2020 | 2019 | 2018 ² | 2017 | 2016 ¹ | 2015 | 2014 |
|--------------------------------|---------------|---------------|-------------------|---------------|---------------|-------------------|---------------|-------------------|---------------|---------------|
| Southwest Airlines | \$ 59,517,741 | \$ 46,676,116 | \$ 32,981,547 | \$ 44,940,626 | \$ 42,358,547 | \$ 38,403,919 | \$ 35,960,638 | \$ 33,838,686 | \$ 33,107,335 | \$ 29,548,565 |
| Alaska Airlines ⁵ | 29,361,297 | 25,229,826 | 19,163,465 | 20,633,199 | 17,436,299 | 16,352,834 | 11,705,334 | 10,612,367 | 9,712,564 | 8,008,057 |
| Delta Airlines | 28,222,722 | 23,051,398 | 16,637,440 | 22,063,736 | 18,367,799 | 17,007,240 | 16,123,110 | 14,418,056 | 13,560,515 | 12,005,146 |
| United Airlines | 26,967,634 | 19,809,053 | 16,629,587 | 20,204,377 | 18,335,068 | 17,520,412 | 16,227,363 | 14,518,119 | 15,687,045 | 15,364,094 |
| American Airlines ⁴ | 21,754,057 | 19,653,281 | 17,009,804 | 17,150,267 | 17,073,172 | 16,581,217 | 17,075,112 | 15,321,505 | 15,888,023 | 15,785,140 |
| Avis Rent-A-Car ⁶ | 15,715,254 | 14,247,125 | 4,666,097 | 8,446,736 | - | - | - | - | - | - |
| Enterprise Rent-A-Car | 14,532,491 | 12,725,271 | 5,913,051 | 12,238,158 | 12,779,605 | 12,285,652 | 11,188,393 | 9,451,127 | 7,998,222 | 7,162,116 |
| Hertz Rent-A-Car | 12,587,839 | 11,065,293 | 5,303,020 | 10,829,239 | 11,538,847 | 11,017,486 | 11,142,905 | 8,225,179 | 6,236,082 | 6,149,759 |
| Uber Technologies, Inc | 11,222,131 | 6,805,565 | - | - | - | - | - | - | - | - |
| SSP America | 7,617,329 | - | - | - | - | - | - | - | - | - |

¹ Amounts for 2016 were restated as per GASB 68

² Amounts for 2018 were restated as per GASB 75

³ Amounts for 2021 were restated as per GASB 87

⁴ 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.

⁵ 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.

⁶ On February 2, 2020 Avis Budget Car Rental LLC entered into a purchase agreement with BW-Budget-SDA LLC acquiring all agreements at SAN. Data for BW-Budget and Avis have been combined on this table.

Note: Amounts depicted in this exhibit reflect principal and interest payments for leases subject to GASB Statement No.87, leases outside the scope of the standard reflect revenue

EXHIBIT S-6 TERMINAL RATES BILLED TO AIRLINES

Fiscal Years Ended June 30,

TERMINAL RATE PER SQUARE FOOT



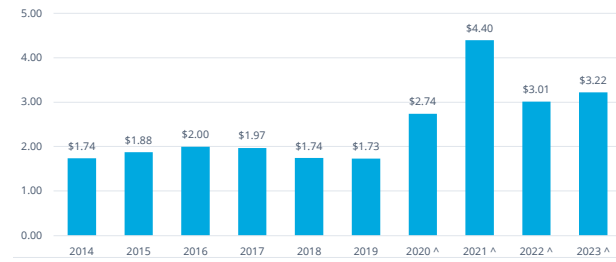
[^]Signatory Rate

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

EXHIBIT S-5 AUTHORITY LANDING FEE RATE (\$ PER 1,000 LBS)

Fiscal Years Ended June 30,

AUTHORITY LANDING FEE RATE



[^]Signatory Rate

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

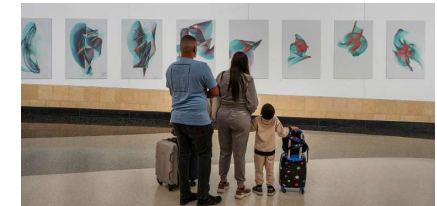
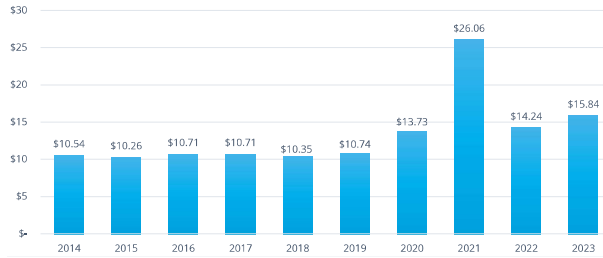


EXHIBIT S-7
AIRLINE COST PER
ENPLANED PASSENGER

Fiscal Years Ended June 30,

COST PER ENPLANED PASSENGER

| Fiscal Year | Enplaned | Cost per |
|-------------|----------|----------|
| 2014 | 9,082 | \$10.54 |
| 2015 | 9,713 | \$10.26 |
| 2016 | 10,206 | \$10.71 |
| 2017 | 10,596 | \$10.71 |
| 2018 | 11,732 | \$10.35 |
| 2019 | 12,356 | \$10.74 |
| 2020 | 9,235 | \$13.73 |
| 2021 | 4,861 | \$26.06 |
| 2022 | 9,953 | \$14.24 |
| 2023 | 11,868 | \$15.84 |



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.

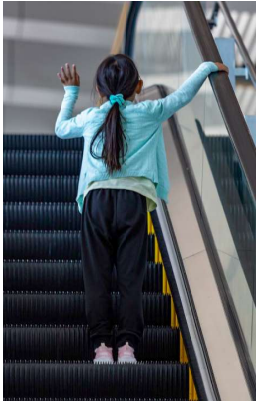
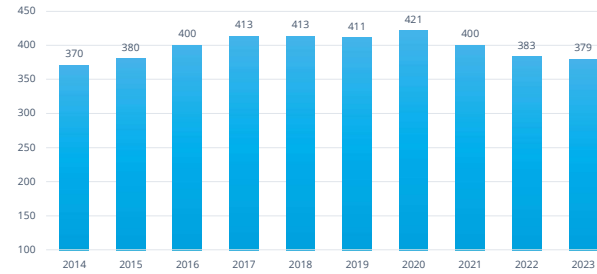


EXHIBIT S-8
AUTHORITY EMPLOYEE
HEAD COUNT

Fiscal Years Ended June 30,

AUTHORITY EMPLOYEE HEAD COUNT



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)**

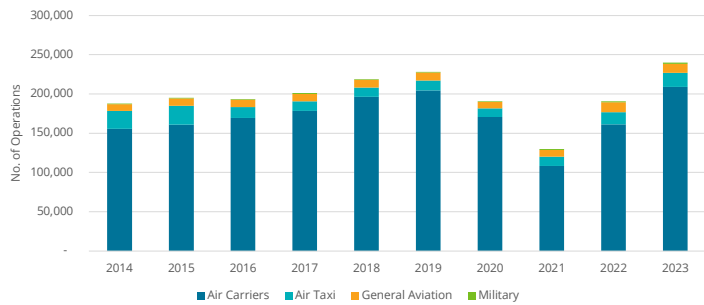
Fiscal Years Ended June 30,

| Fiscal Year | Air Carriers | Air Taxi | General | Military | Total |
|-------------|----------------|---------------|---------------|--------------|----------------|
| 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 |
| 2020 | 170,757 | 10,990 | 8,174 | 825 | 190,746 |
| 2021 | 108,240 | 11,844 | 8,835 | 1,098 | 130,017 |
| 2022 | 161,150 | 15,547 | 12,611 | 1,177 | 190,485 |
| 2023 | 209,144 | 17,623 | 11,640 | 1,421 | 239,828 |

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

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

AIRCRAFT OPERATIONS

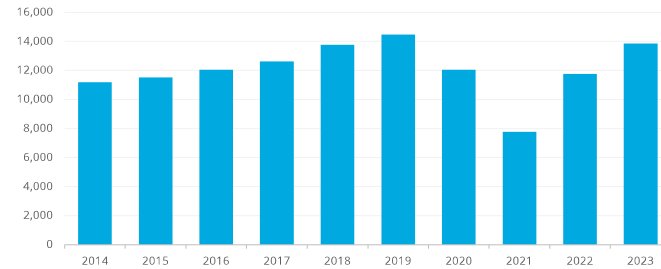


Aircraft Operations are the takeoffs and landings at SDIA. They represent the level of demand for air service by the airlines operating at SDIA.

**EXHIBIT S-10
AIRCRAFT LANDED
WEIGHTS (IN MILLIONS LBS)**

Fiscal Years Ended June 30,

AIRCRAFT LANDED WEIGHTS (IN MILLIONS LBS)



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 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--------------------------------|-------------------|-------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Southwest Airlines | 5,001,008 | 3,688,292 | 2,277,011 | 4,422,096 | 5,180,064 | 4,924,451 | 4,470,104 | 4,257,162 | 4,214,314 | 3,925,362 |
| Delta Airlines | 1,516,632 | 1,497,160 | 1,049,374 | 1,221,773 | 1,389,312 | 1,183,702 | 1,175,285 | 1,153,074 | 1,077,103 | 1,016,878 |
| American Airlines ² | 1,317,772 | 1,238,946 | 917,691 | 1,201,659 | 1,415,134 | 1,471,318 | 1,428,538 | 1,467,922 | 1,359,911 | 1,349,554 |
| Alaska Airlines ³ | 1,410,162 | 1,196,955 | 769,364 | 1,162,582 | 1,411,255 | 1,131,807 | 999,875 | 924,310 | 888,065 | 884,727 |
| United Airlines ¹ | 1,450,512 | 1,260,134 | 694,980 | 1,201,192 | 1,566,148 | 1,492,873 | 1,355,185 | 1,250,500 | 1,227,974 | 1,340,736 |
| Skywest Airlines | 755,828 | 709,412 | 504,012 | 481,705 | 637,117 | 627,038 | 465,023 | 359,197 | 408,608 | 396,054 |
| Federal Express | 405,893 | 476,195 | 466,734 | 394,288 | 375,807 | 388,782 | 390,716 | 444,038 | 384,686 | 419,127 |
| Frontier Airlines | 311,884 | 264,830 | 199,836 | 204,924 | 247,145 | 232,794 | 167,590 | 115,238 | 153,880 | 192,493 |
| JetBlue Airlines | 316,168 | 292,311 | 171,957 | 260,940 | 281,715 | 293,160 | 244,364 | 199,232 | 193,848 | 189,979 |
| Horizon Air- Alaska Airlines | 41,325 | 166,950 | 145,050 | 146,100 | 82,650 | 100,303 | 54,799 | 60,268 | 88,241 | 94,972 |
| United Parcel | 137,094 | 138,064 | 138,926 | 146,624 | 138,660 | 143,678 | 146,778 | 135,318 | 127,660 | 121,742 |
| Spirit Airlines | 288,873 | 165,464 | 125,589 | 230,911 | 331,366 | 328,424 | 286,162 | 351,977 | 296,925 | 245,669 |
| Hawaiian Airlines | 209,839 | 211,844 | 122,574 | 155,345 | 237,560 | 161,486 | 147,568 | 147,406 | 146,284 | 147,325 |
| ABX Air | 272 | 6,068 | 83,216 | 42,542 | - | - | - | - | 42,666 | 70,039 |
| Allegiant | 75,345 | 53,883 | 38,889 | 19,387 | 31,927 | 47,516 | 57,227 | 17,403 | 7,053 | 7,790 |
| Subtotal | 13,238,607 | 11,366,508 | 7,705,202 | 11,292,068 | 13,326,060 | 12,527,333 | 11,389,213 | 10,883,044 | 10,617,218 | 10,402,446 |
| All Others | 620,449 | 397,577 | 74,326 | 761,011 | 1,155,170 | 1,011,526 | 948,114 | 883,687 | 665,721 | 552,184 |
| Total | 13,859,056 | 11,764,085 | 7,779,528 | 12,053,080 | 14,481,229 | 13,769,945 | 12,616,068 | 12,048,142 | 11,523,720 | 11,186,766 |
| Annual % Change | 17.8% | -16.8% | -16.8% | -16.8% | 5.2% | 9.1% | 4.7% | 4.6% | 3.0% | 1.6% |

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.

| Airline | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Southwest Airlines | 36.1% | 31.4% | 29.3% | 36.7% | 35.8% | 35.8% | 35.4% | 35.3% | 36.6% | 35.1% |
| Delta Airlines | 10.9% | 12.7% | 13.5% | 10.1% | 9.6% | 8.6% | 9.3% | 9.6% | 9.3% | 9.1% |
| American Airlines ² | 9.5% | 10.5% | 11.8% | 10.0% | 9.8% | 10.7% | 11.3% | 12.2% | 11.8% | 12.1% |
| Alaska Airlines ³ | 10.2% | 10.2% | 9.9% | 9.6% | 9.7% | 8.2% | 7.9% | 7.7% | 7.7% | 7.9% |
| United Airlines ¹ | 10.5% | 10.7% | 8.9% | 10.0% | 10.8% | 10.8% | 10.7% | 10.4% | 10.7% | 12.0% |
| Skywest Airlines | 5.5% | 6.0% | 6.5% | 4.0% | 4.4% | 4.6% | 3.7% | 3.0% | 3.5% | 3.5% |
| Federal Express | 2.9% | 4.0% | 6.0% | 3.3% | 2.6% | 2.8% | 3.1% | 3.7% | 3.3% | 3.7% |
| Frontier Airlines | 2.3% | 2.3% | 2.6% | 1.7% | 1.7% | 1.7% | 1.5% | 1.0% | 1.3% | 1.7% |
| JetBlue Airlines | 2.3% | 2.5% | 2.2% | 2.2% | 1.9% | 2.1% | 1.9% | 1.7% | 1.7% | 1.7% |
| Horizon Air- Alaska Airlines | 0.3% | 1.4% | 1.9% | 1.2% | 0.6% | 0.7% | 0.4% | 0.5% | 0.8% | 0.8% |
| United Parcel | 1.0% | 1.2% | 1.8% | 1.2% | 1.0% | 1.0% | 1.2% | 1.1% | 1.1% | 1.1% |
| Spirit Airlines | 2.1% | 1.4% | 1.6% | 1.9% | 2.3% | 2.4% | 2.3% | 2.9% | 2.6% | 2.2% |
| Hawaiian Airlines | 1.5% | 1.8% | 1.6% | 1.3% | 1.6% | 1.2% | 1.2% | 1.3% | 1.3% | 1.3% |
| ABX Air | 0.0% | 0.1% | 1.1% | 0.4% | - | - | - | - | 0.4% | 0.6% |
| Allegiant | 0.5% | 0.5% | 0.5% | 0.2% | 0.2% | 0.3% | 0.5% | 0.2% | 0.1% | 0.1% |
| Subtotal | 95.5% | 96.6% | 99.0% | 93.7% | 92.0% | 91.0% | 90.3% | 90.3% | 92.1% | 93.0% |
| All Others | 4.5% | 3.4% | 1.0% | 6.3% | 8.0% | 9.0% | 9.7% | 9.7% | 7.9% | 7.0% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

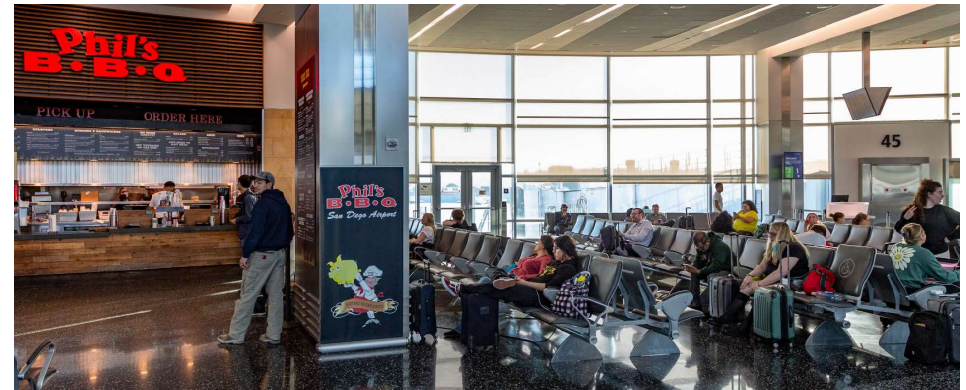


EXHIBIT S-12 PASSENGER ENPLANEMENTS

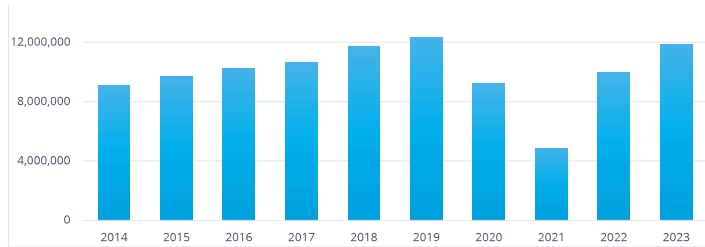
Fiscal Years Ended June 30.

| Fiscal Year | Enplaned Passengers | % Change SAN | % Change US Average |
|-------------|---------------------|---------------|---------------------|
| 2014 | 9,082,244 | 3.9 % | 2.2 % |
| 2015 | 9,713,066 | 6.9 % | 3.7 % |
| 2016 | 10,206,222 | 5.1 % | 5.4 % |
| 2017 | 10,596,483 | 3.8 % | 3.4 % |
| 2018 | 11,731,833 | 10.7 % | 4.3 % |
| 2019 | 12,356,286 | 5.3 % | 4.3 % |
| 2020 | 9,235,459 | (25.3)% | (25.9)% |
| 2021 | 4,860,931 | (47.4)% | (41.5)% |
| 2022 | 9,953,162 | 104.8 % | 91.8 % |
| 2023 | 11,867,569 | 19.2 % | 16.8 % |

Source: U.S. Department of Transportation T-100

Note: International data for April - June 2023 not available at time of publication.

PASSENGER ENPLANEMENTS



Enplaned Passenger is any revenue passenger boarding at the airport, including any passenger that previously disembarked from another aircraft (i.e. connecting passenger).



**EXHIBIT S-13
ENPLANEMENT MARKET SHARE
BY AIRLINE BY FISCAL YEAR**

Fiscal Years Ended June 30,

| Air Carrier | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--------------------------------|-------------------|------------------|------------------|------------------|-------------------|-------------------|-------------------|-------------------|------------------|------------------|
| Air Canada | 135,080 | 43,376 | - | 90,425 | 130,404 | 110,684 | 93,274 | 48,985 | 41,175 | 36,636 |
| Alaska Airlines ¹ | 1,350,550 | 1,099,999 | 474,179 | 976,326 | 1,253,433 | 1,031,537 | 918,841 | 902,705 | 871,775 | 830,349 |
| Allegiant Airlines | 75,959 | 49,355 | 22,391 | 13,162 | 30,750 | 44,934 | 49,480 | 16,825 | 7,406 | 7,859 |
| American Airlines ² | 1,282,356 | 1,238,336 | 767,833 | 1,050,613 | 1,339,334 | 1,366,634 | 1,339,489 | 1,369,003 | 747,493 | 693,995 |
| British Airways | 91,914 | 41,417 | - | 57,998 | 83,492 | 82,543 | 90,200 | 89,723 | 84,263 | 84,600 |
| Condor | - | - | - | - | - | 7,815 | 3,902 | - | - | - |
| Delta Air Lines | 1,411,595 | 1,215,201 | 567,589 | 1,058,188 | 1,336,885 | 1,126,873 | 1,088,647 | 1,061,889 | 992,498 | 915,907 |
| Edelweiss | - | - | - | 2,317 | 6,271 | 6,990 | 1,215 | - | - | - |
| Frontier Airlines | 349,379 | 272,802 | 180,181 | 201,280 | 277,320 | 254,760 | 180,235 | 118,990 | 150,595 | 185,270 |
| Hawaiian Airlines | 148,305 | 133,525 | 61,754 | 102,759 | 149,744 | 108,971 | 107,776 | 102,462 | 96,963 | 98,667 |
| Japan Airlines | 31,380 | 12,784 | 1,027 | 43,596 | 66,688 | 62,034 | 59,916 | 59,647 | 59,372 | 54,213 |
| JetBlue Airways | 285,079 | 249,217 | 90,332 | 195,279 | 230,909 | 248,325 | 224,700 | 182,605 | 178,590 | 173,282 |
| Lufthansa | 47,928 | 13,695 | - | 34,654 | 49,974 | 13,037 | - | - | - | - |
| Southwest Airlines | 4,190,108 | 3,393,713 | 1,627,594 | 3,474,860 | 4,656,029 | 4,457,984 | 3,967,487 | 3,840,455 | 3,736,688 | 3,352,870 |
| Spirit Airlines | 303,804 | 168,192 | 111,604 | 225,279 | 323,623 | 318,201 | 287,208 | 327,183 | 252,219 | 201,414 |
| Sun Country Airlines | 41,618 | 35,962 | 23,461 | 37,073 | 40,167 | 41,466 | 40,109 | 34,886 | 28,732 | 27,276 |
| Swoop, Inc. | 543 | 3,637 | - | - | - | - | - | - | - | - |
| United Airlines ³ | 1,412,222 | 1,256,748 | 552,709 | 1,043,393 | 1,481,166 | 1,405,663 | 1,266,055 | 1,165,565 | 1,113,510 | 1,167,661 |
| US Airways ² | - | - | - | - | - | - | - | - | 523,034 | 554,244 |
| Virgin America ¹ | - | - | - | - | - | 183,672 | 212,158 | 211,075 | 175,973 | 156,729 |
| Volaris | - | - | - | - | - | - | 3,948 | 21,343 | 20,004 | 23,285 |
| Westjet | 32,290 | 11,836 | - | 28,905 | 42,939 | 39,285 | 41,043 | 34,516 | 33,723 | 31,805 |
| Total Air Carrier | 11,190,110 | 9,239,795 | 4,480,654 | 8,636,107 | 11,499,128 | 10,911,408 | 9,975,683 | 9,587,857 | 9,114,013 | 8,596,062 |
| Regional | | | | | | | | | | |
| Compass | - | - | - | 161,113 | 296,091 | 251,066 | 195,126 | 249,723 | 140,012 | 8,563 |
| Horizon Air | 35,578 | 137,421 | 89,894 | 107,373 | 64,135 | 82,131 | 53,517 | 64,758 | 83,764 | 84,000 |
| Skywest Airlines | 641,881 | 575,946 | 290,383 | 330,866 | 496,932 | 487,228 | 372,157 | 301,592 | 371,979 | 341,365 |
| Other | - | - | - | - | - | - | - | 2,292 | 3,298 | 52,254 |
| Total Regional | 677,459 | 713,367 | 380,277 | 599,352 | 857,158 | 820,425 | 620,800 | 618,365 | 599,053 | 486,182 |
| Total Passengers | 11,867,569 | 9,953,162 | 4,860,931 | 9,235,459 | 12,356,286 | 11,731,833 | 10,596,483 | 10,206,222 | 9,713,066 | 9,082,244 |

¹ Alaska Airlines and Virgin America received their single operating certificate from the FAA on January 11, 2018 and began operating as Alaska Airlines on April 25, 2018. The enplanements are combined for the purpose of this table.

² US Airways merged with American Airlines on December 9, 2013. A single operating certificate was issued by the FAA and operational integration was on April 7, 2015. The enplanements are combined for the purpose of this table.

³ United and Continental completed their merger on October 1, 2010 and began operating as United on November 30, 2011. The enplanements are combined for the purpose of this table.

**EXHIBIT S-13
ENPLANEMENT MARKET SHARE
BY AIRLINE BY FISCAL YEAR**

Fiscal Years Ended June 30,

| Air Carrier | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Air Canada | 1.2% | 0.5% | 0.0% | 1.0% | 1.1% | 1.0% | 0.9% | 0.5% | 0.5% | 0.4% |
| Alaska Airlines ¹ | 12.1% | 11.9% | 10.6% | 11.3% | 10.9% | 9.5% | 9.2% | 9.4% | 9.6% | 9.7% |
| Allegiant Airlines | 0.7% | 0.5% | 0.5% | 0.2% | 0.3% | 0.4% | 0.5% | 0.2% | 0.1% | 0.1% |
| American Airlines ² | 11.5% | 13.4% | 17.1% | 12.2% | 11.6% | 12.5% | 13.4% | 14.3% | 8.2% | 8.1% |
| British Airways | 0.8% | 0.4% | 0.0% | 0.7% | 0.7% | 0.8% | 0.9% | 0.9% | 0.9% | 1.0% |
| Condor | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.1% | 0.0% | 0.0% | 0.0% | 0.0% |
| Delta Air Lines | 12.6% | 13.2% | 12.7% | 12.3% | 11.6% | 10.3% | 10.9% | 11.1% | 10.9% | 10.7% |
| Edelweiss | 0.0% | 0.0% | 0.0% | 0.0% | 0.1% | 0.1% | 0.0% | 0.0% | 0.0% | 0.0% |
| Frontier Airlines | 3.1% | 3.0% | 4.0% | 2.3% | 2.4% | 2.3% | 1.8% | 1.2% | 1.7% | 2.2% |
| Hawaiian Airlines | 1.3% | 1.4% | 1.4% | 1.2% | 1.3% | 1.0% | 1.1% | 1.1% | 1.1% | 1.1% |
| Japan Airlines | 0.3% | 0.1% | 0.0% | 0.5% | 0.6% | 0.6% | 0.6% | 0.6% | 0.7% | 0.6% |
| JetBlue Airways | 2.5% | 2.7% | 2.0% | 2.3% | 2.0% | 2.3% | 1.9% | 2.0% | 2.0% | 2.0% |
| Lufthansa | 0.4% | 0.1% | 0.0% | 0.4% | 0.4% | 0.1% | 0.0% | 0.0% | 0.0% | 0.0% |
| Southwest Airlines | 37.4% | 36.7% | 36.3% | 40.2% | 40.5% | 40.9% | 39.8% | 40.1% | 41.0% | 39.0% |
| Spirit Airlines | 2.7% | 1.8% | 2.5% | 2.6% | 2.8% | 2.9% | 2.9% | 3.4% | 2.8% | 2.3% |
| Sun Country Airlines | 0.4% | 0.4% | 0.5% | 0.4% | 0.3% | 0.4% | 0.4% | 0.3% | 0.3% | 0.3% |
| Swoop, Inc. | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| United Airlines ³ | 12.6% | 13.6% | 12.3% | 12.1% | 12.9% | 12.9% | 12.7% | 12.2% | 12.2% | 13.6% |
| US Airways ² | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 5.7% | 6.4% |
| Virgin America ¹ | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 1.7% | 2.1% | 2.2% | 1.9% | 1.8% |
| Volaris | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.2% | 0.2% | 0.3% |
| Westjet | 0.3% | 0.1% | 0.0% | 0.3% | 0.4% | 0.4% | 0.4% | 0.4% | 0.4% | 0.4% |
| Total Air Carrier | 94.3% | 92.8% | 92.2% | 93.5% | 93.1% | 93.0% | 94.1% | 93.9% | 93.8% | 94.6% |
| Regional | | | | | | | | | | |
| Compass | 0.0% | 0.0% | 0.0% | 1.7% | 2.4% | 2.1% | 1.8% | 2.4% | 1.4% | 0.1% |
| Horizon Air | 0.3% | 1.4% | 1.8% | 1.2% | 0.5% | 0.7% | 0.5% | 0.6% | 0.9% | 0.9% |
| Skywest Airlines | 5.4% | 5.8% | 6.0% | 3.6% | 4.0% | 4.2% | 3.5% | 3.0% | 3.8% | 3.8% |
| Other | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.6% |
| Total Regional | 5.7% | 7.2% | 7.8% | 6.5% | 6.9% | 7.0% | 5.9% | 6.1% | 6.2% | 5.4% |
| 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 | 49 |
| Remote aircraft parking positions | 31 |
| Terminal rentable square footage | 587,683 |
| Airport Land Area | 661 acres |
| On airport parking spaces (public) | 3,135 |
| Off airport parking spaces (public) | 643 |

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 | % Change | Per Capita Personal Income | % Change | Total Personal Income (in billions) | % Change |
|---------------|--|----------|----------------------------|----------|--|----------|
| 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 | 3,357,442 | 0.1 % | \$64,862 | 12.9 % | \$217.8 | 7.4 % |
| 2020 | 3,362,150 | 0.1 % | \$63,169 | (2.6)% | \$213.8 | (1.8)% |
| 2021 | 3,366,072 | 0.1 % | \$63,971 | 1.3 % | \$221.3 | 3.5 % |
| 2022 | NO LONGER PUBLISHED IN THE SAME FORMAT | | | | | |

Source: California Department of Transportation - San Diego County

EXHIBIT S-16
PRINCIPAL EMPLOYERS IN
SAN DIEGO COUNTY

| November 2020 | | | |
|--------------------------------------|-----------------|------|---|
| Employer | Local Employees | Rank | Percentage of Total Industry Employment |
| University of California, San Diego | 35,802 | 1 | 2.3% |
| Naval Base San Diego | 34,534 | 2 | 2.3% |
| Sharp Health Care | 19,468 | 3 | 1.3% |
| Scripps Health | 16,295 | 4 | 1.1% |
| General Atomics Aeronautical | 6,745 | 5 | 0.4% |
| San Diego State University | 6,454 | 6 | 0.4% |
| Rady's Children Hospital | 5,711 | 7 | 0.4% |
| San Diego Community College District | 5,400 | 8 | 0.4% |
| Sempra Energy | 5,063 | 9 | 0.3% |
| YMCA of San Diego | 5,057 | 10 | 0.3% |

Total Civilian Labor Force in San Diego County (June 2021): 1,527,800

Source: Employers - San Diego Journal Book of Lists: 2021 & 2012

Total Industry Employment - California Employment Development Dept., Labor Market Info

| August 2011 | | | |
|-------------------------------------|-----------------|------|---|
| Employer | Local Employees | Rank | Percentage of Total Industry Employment |
| U.S. Federal Government | 46,300 | 1 | 3.0% |
| State of California | 45,500 | 2 | 3.0% |
| University of California, San Diego | 27,393 | 3 | 1.8% |
| County of San Diego | 15,109 | 4 | 1.0% |
| Sharp Health Care | 14,696 | 5 | 1.0% |
| Scripps Health | 13,830 | 6 | 0.9% |
| San Diego Unified School District | 13,730 | 7 | 0.9% |
| Qualcomm Inc. | 10,509 | 8 | 0.7% |
| City of San Diego | 10,211 | 9 | 0.7% |
| Kaiser Permanente | 8,200 | 10 | 0.5% |

Total Civilian Labor Force in San Diego County (June 2012): 1,540,500

Source: Employers - San Diego Journal Book of Lists: 2021 & 2012

Total Industry Employment - California Employment Development Dept., Labor Market Info.

**EXHIBIT S-17
LABOR FORCE, EMPLOYMENT,
& UNEMPLOYMENT RATES**

| Year | Labor Force | Employment | Unemployment | Unemployment Rate | |
|-------------|------------------|------------------|---------------|-------------------|-------------|
| | | | | SD County | State |
| 2013 | 1,537,600 | 1,415,600 | 122,000 | 7.9% | 9.0% |
| 2014 | 1,537,500 | 1,437,400 | 100,100 | 6.5% | 7.6% |
| 2015 | 1,548,800 | 1,467,700 | 81,100 | 5.2% | 6.3% |
| 2016 | 1,563,200 | 1,489,100 | 74,100 | 4.7% | 5.5% |
| 2017 | 1,570,800 | 1,507,200 | 63,600 | 4.0% | 4.8% |
| 2018 | 1,579,600 | 1,526,100 | 53,500 | 3.4% | 4.3% |
| 2019 | 1,582,900 | 1,531,000 | 51,800 | 3.3% | 4.1% |
| 2020 | 1,542,000 | 1,395,700 | 146,200 | 9.5% | 10.2% |
| 2021 | 1,543,700 | 1,443,800 | 99,900 | 6.5% | 7.3% |
| 2022 | 1,578,467 | 1,523,067 | 55,400 | 3.5% | 4.3% |

Source: California Employment Development Dept., Labor Market Information Division
Unemployment Rate and Labor Force, not seasonally adjusted

Source: California Employment Development Department Labor Market Information Division
Unemployment Rate and Labor Force, not seasonally adjusted.



**EXHIBIT S-18
DEBT SERVICE COVERAGE**

Fiscal Years Ended June 30,

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Senior Bonds | | | | | | | | | | |
| Revenues ¹ | \$ 409,432,063 | \$ 324,096,640 | \$ 227,573,518 | \$ 280,572,989 | \$ 306,683,097 | \$ 276,983,726 | \$ 255,540,858 | \$ 238,640,326 | \$ 214,770,544 | \$ 199,834,430 |
| Operating and Maintenance Expenses | (177,921,959) | (96,134,968) | (88,039,540) | (136,297,647) | (165,925,555) | (157,246,523) | (154,455,699) | (151,327,220) | (142,781,639) | (136,604,105) |
| Net Revenues ² | \$ 231,510,103 | \$ 227,961,672 | \$ 139,533,978 | \$ 144,275,342 | \$ 140,757,542 | \$ 119,737,204 | \$ 101,085,159 | \$ 87,313,106 | \$ 71,988,905 | \$ 63,230,325 |
| Senior Bond Debt Service ³ | | | | | | | | | | |
| Principal | \$ - | \$ 3,635,598 | \$ 8,315,000 | \$ 7,925,000 | \$ 2,330,000 | \$ 2,340,000 | \$ 2,155,000 | \$ 2,090,000 | \$ 2,030,000 | \$ - |
| Interest | - | 7,195,563 | 17,685,100 | 18,081,350 | 18,174,150 | 18,263,750 | 18,349,950 | 18,414,600 | 18,034,575 | 16,645,435 |
| PFCs used to pay debt service | - | (4,691,941) | (11,172,249) | (11,260,741) | (9,544,261) | (9,547,482) | (9,548,626) | (9,490,326) | (8,669,966) | (7,140,301) |
| Federal Relief used to pay debt service | - | (1,539,286) | (3,406,934) | (6,501,585) | - | - | - | - | - | - |
| Total Debt Service for the Senior Bond | \$ - | \$ 4,599,934 | \$ 11,420,918 | \$ 8,244,024 | \$ 10,949,889 | \$ 10,956,268 | \$ 10,956,324 | \$ 11,014,274 | \$ 11,394,609 | \$ 9,505,134 |
| Senior Bonds Debt Service Coverage | | | | | | | | | | |
| Subordinate Debt | | | | | | | | | | |
| Subordinate Net Revenues ⁴ | \$ 231,510,103 | \$ 223,361,738 | \$ 128,113,061 | \$ 136,031,318 | \$ 129,807,653 | \$ 108,780,936 | \$ 90,128,835 | \$ 76,298,832 | \$ 60,594,296 | \$ 53,725,191 |
| Subordinate Annual Debt Service ⁴ | | | | | | | | | | |
| Principal | \$ 43,385,000 | \$ 34,040,000 | \$ 22,315,000 | \$ 17,745,000 | \$ 15,895,000 | \$ 14,830,000 | \$ 9,430,000 | \$ 9,000,000 | \$ 8,665,000 | \$ 5,785,000 |
| Interest | 56,052,373 | 48,876,516 | 41,720,733 | 39,044,449 | 37,917,500 | 37,197,656 | 26,085,029 | 26,495,600 | 26,853,179 | 27,069,283 |
| Variable Rate Debt ⁵ | - | - | - | 1,894,813 | 7,497,649 | 7,335,123 | 7,000,066 | 6,760,189 | 6,736,945 | 6,446,951 |
| PFCs used to pay debt service | - | (25,313,393) | (8,833,085) | (18,744,592) | (20,461,072) | (20,457,851) | (20,456,707) | (20,331,674) | (21,554,245) | (20,718,863) |
| Federal Relief used to pay debt service | - | (16,460,714) | (22,593,066) | (14,313,843) | - | - | - | - | - | - |
| Total Subordinate Annual Debt Service | \$ 99,437,373 | \$ 41,142,409 | \$ 32,609,582 | \$ 25,985,827 | \$ 40,849,077 | \$ 38,904,928 | \$ 22,058,389 | \$ 21,864,115 | \$ 20,700,879 | \$ 18,582,371 |
| Subordinate Obligations Debt Service Coverage | 2.33 | 5.43 | 3.93 | 5.23 | 3.18 | 2.80 | 4.09 | 3.48 | 2.93 | 2.89 |
| Aggregate Debt | | | | | | | | | | |
| Aggregate Net Revenues | \$ 231,510,103 | \$ 227,961,672 | \$ 139,533,978 | \$ 144,275,342 | \$ 140,757,542 | \$ 119,737,204 | \$ 101,085,159 | \$ 87,313,106 | \$ 71,988,905 | \$ 63,230,325 |
| Aggregate Annual Debt Service | | | | | | | | | | |
| Principal | 43,385,000 | 37,675,598 | 30,630,000 | 25,670,000 | 18,215,000 | 17,070,000 | 11,585,000 | 11,090,000 | 10,695,000 | 5,785,000 |
| Interest | 56,052,373 | 56,072,079 | 59,405,833 | 57,485,799 | 56,091,650 | 55,461,406 | 44,434,979 | 44,910,200 | 44,887,754 | 43,714,718 |
| Variable Rate Debt ⁵ | - | - | - | 1,894,813 | 7,497,649 | 7,335,123 | 7,000,066 | 6,760,189 | 6,736,945 | 6,446,951 |
| PFC Funds Applied to Debt Service | - | (30,005,334) | (20,005,333) | (30,005,333) | (30,005,333) | (30,005,333) | (30,005,333) | (29,822,000) | (30,224,211) | (27,859,164) |
| CARES Act used to pay debt service | - | (18,000,000) | (26,000,000) | (20,815,428) | - | - | - | - | - | - |
| Total Annual Debt Service | \$ 99,437,373 | \$ 45,742,343 | \$ 44,030,500 | \$ 34,229,851 | \$ 51,798,966 | \$ 49,861,196 | \$ 33,074,712 | \$ 32,938,389 | \$ 32,095,488 | \$ 28,087,505 |
| Aggregate Obligations Debt Service Coverage | 2.33 | 4.98 | 3.17 | 4.21 | 2.72 | 2.40 | 3.06 | 2.65 | 2.24 | 2.25 |
| Aggregate Net Revenues (Including PFC, BAB Subsidy and | \$ 231,510,103 | \$ 275,967,006 | \$ 185,539,311 | \$ 197,185,501 | \$ 175,449,049 | \$ 154,408,727 | \$ 135,721,711 | \$ 121,791,304 | \$ 106,844,335 | \$ 95,725,704 |
| Total Annual Debt Service (Excluding PFC, BAB Subsidy and | 99,437,373 | 93,747,677 | 90,035,833 | 87,140,009 | 86,490,473 | 84,532,719 | 67,651,265 | 67,416,588 | 66,950,918 | 60,582,884 |
| Revenue Method - Debt Service Coverage on Aggregate | 2.33 | 2.94 | 2.06 | 2.26 | 2.03 | 1.83 | 2.01 | 1.81 | 1.60 | 1.58 |

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

**EXHIBIT S-19
DEBT SERVICE COVERAGE -
SERIES 2014 CFC BONDS**

Fiscal Years Ended June 30,

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| CFC Collections | \$ 34,374,844 | \$ 30,333,350 | \$ 15,755,254 | \$ 30,239,698 | \$ 41,918,554 | \$ 41,036,526 | \$ 36,527,853 | \$ 33,207,946 | \$ 32,464,843 | \$ 27,545,001 |
| Bond Funding Supplemental Consideration | - | - | - | - | - | - | - | - | - | - |
| Transfers from CFC Stabilization Fund | - | 14,357 | 9,540,452 | 3,563,874 | - | - | - | - | - | - |
| Interest Earnings ¹ | 1,405,285 | 324,938 | 855,813 | 1,502,382 | 1,544,474 | 919,740 | 466,134 | 332,761 | 295,726 | 204,194 |
| Total Amounts Available | 35,780,128 | 30,672,645 | 26,151,519 | 35,305,954 | 43,463,028 | 41,956,266 | 36,993,987 | 33,540,707 | 32,760,569 | 27,749,195 |
| Rolling Coverage Fund Balance ² | 6,575,173 | 6,576,235 | 6,575,382 | 6,575,637 | 6,575,894 | 6,576,363 | 4,902,363 | 2,451,182 | - | - |
| Total Amounts Available, plus Rolling Coverage Fund Balance | \$ 42,355,301 | \$ 37,248,880 | \$ 32,726,901 | \$ 41,881,591 | \$ 50,038,922 | \$ 48,532,629 | \$ 41,896,350 | \$ 35,991,889 | \$ 27,749,195 | \$ 27,749,195 |
| Series 2014 Debt Service Requirements | 21,930,783 | 21,930,783 | 21,917,940 | 21,918,789 | 21,919,646 | 21,921,210 | 16,341,210 | 8,170,605 | - | - |
| Coverage excluding Rolling Coverage Fund | 1.63 | 1.40 | 1.19 | 1.61 | 1.98 | 1.91 | 2.26 | 4.11 | N/A | N/A |
| Coverage including Rolling Coverage Fund | 1.99 | 1.70 | 1.49 | 1.91 | 2.28 | 2.21 | 2.56 | 4.41 | N/A | N/A |

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 Short-Term Debt | Capital Leases | Total Outstanding Debt | Enplaned Passengers | Debt per Enplaned Passenger |
|-------------|------------------------------------|-----------------------------|------------------|------------------------|---------------------|-----------------------------|
| 2014 | 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 |
| 2020 | 1,881,208,470 | - | 6,496,837 | 1,887,705,307 | 9,235,459 | 204.40 |
| 2021 | 1,835,597,883 | - | 6,201,974 | 1,841,799,857 | 4,860,931 | 378.90 |
| 2022 | 3,667,843,691 | 80,100,000 | 5,878,682 | 3,753,822,373 | 9,953,162 | 377.15 |
| 2023 | 3,600,793,592 | 80,100,000 | 5,524,543 | 3,686,418,135 | 11,867,569 | 310.63 |

¹ Outstanding Bond Debt includes unamortized bond premium.
² Starting in 2014, Outstanding Bond Debt includes CFC Bond issuance.





SAN DIEGO
INTERNATIONAL AIRPORT

Audit Committee Report

Meeting Date: November 13, 2023

Subject:

Fiscal Year 2023 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 communicate to the Authority's Audit Committee and Executive Management on the performance relative to the Office of the Chief Auditor's (OCA) Audit Plan, results of audit engagements or other activities completed, and to report any risk exposures or control issues identified.

Additionally, the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (*Standards*) requires the Office of the Chief Auditor to make disclosures to the Audit Committee and Board at least annually.

The Fiscal Year 2023 Annual Report from the Office of the Chief Auditor is submitted to the Audit Committee as Attachment A. The report describes the activities and accomplishments of the OCA during the period July 1, 2022, through June 30, 2023, and includes details on all recommendations completed or in progress during the 4th Quarter of Fiscal Year 2023.

In addition, the report provides required disclosures in conformance with the *Standards* or as required in the Charter for the Office of the Chief Auditor.

Staff requests that the Audit Committee review the Fiscal Year 2023 Annual Report and forward the report to the Board for acceptance.

Audit Committee Report

Meeting Date: November 13, 2023

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.

C. NEPA: This Board action is not a project that involves additional approvals or actions by the Federal Aviation Administration ("FAA") and, therefore, no formal review under the National Environmental Policy Act ("NEPA") is required.

Application of Inclusionary Policies:

Not Applicable

Prepared by:

Lee M. Parravano
Chief Auditor

Office of the Chief Auditor Fiscal Year 2023 Annual Report

ATTACHMENT A

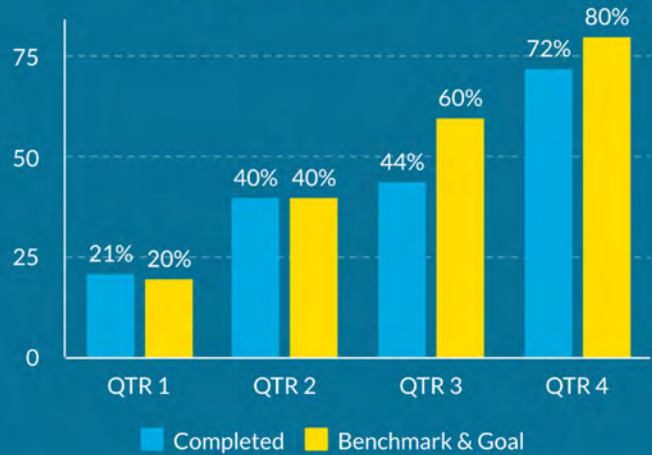
SAN DIEGO
COUNTY
REGIONAL
AIRPORT
AUTHORITY

Audit Engagement Progress



■ Completed (72.22%) ■ In Progress (27.78%)

Audit Engagements Completed vs. Benchmark & Goal



By The Numbers

31

Recommendations
Issued

4.9

Customer
Satisfaction
Rating

85%

Engagements
Completed Under
Budget

83%

Auditor Utilization
Percentage

100%

Recommendations
Accepted By
Management



Fiscal Year 2023

ANNUAL REPORT

SAN DIEGO
COUNTY
REGIONAL
AIRPORT
AUTHORITY

Issue Date: September 11, 2023

OFFICE OF THE CHIEF AUDITOR

Table of Contents

Summary 1

Audit and Consulting Engagements 4

General Audit Activities..... 6

Administrative..... 10

Quality Assurance and Improvement Program 13

Appendix A - Fiscal Year 2023 Audit Plan 16

Appendix B - Status of OCA Recommendations 18

Appendix C - Performance Measures Historical Data..... 28

Appendix D - Disclosures..... 29

Summary

Executive Summary

The purpose of the Fiscal Year 2023 Annual Report is to provide information regarding the activities performed by the Office of the Chief Auditor (OCA) and to communicate required disclosures in conformance with The Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing (*Standards*).

Fiscal Year 2023 was a very productive year for the OCA. Aside from the continued audit assurances, the OCA had several notable accomplishments in the year. In Fiscal Year 2023 we continued our partnership with the outside construction auditing firm Baker Tilly to provide assurances related to the New Terminal 1, provided Ethics training to over 97% of Authority staff, completed two outside peer reviews, and we issued our first data analytics audit on Rental Car Companies which examined over \$61 million in fees.

Performance Measures

For Fiscal Year 2023, six major performance measures were developed to evaluate the OCA. The OCAs performance against the selected performance measures is displayed in Table 1 below and are presented to the Audit Committee/Board quarterly unless noted otherwise.

Table 1: Status of Performance Measures as of June 30, 2023

| # | Performance Measure | Goal | Actual | Benchmark |
|---|--|------|-------------------------------|-----------|
| 1 | Conduct engagements that add value measured by: a) Customer Satisfaction Ratings from i. Audit Committee/Board (reported annually) ii. Executive Management (reported annually) iii. Auditee b) Number of Recommendations | 4.0 | i) 5.0 ii) 5.0 iii) 4.9 | 4.0 |
| | | 30 | 31 | 30 |
| 2 | Percentage of audit and consulting engagements completed. | 80% | 72% | 80% |
| 3 | Percentage of recommendations accepted. | 95% | 100% | 83% |
| 4 | Provide tools and training for staff measured by: a) Percentage of staff meeting CPE requirements (reported annually) b) Number of non-CPE training hours per staff (reported annually) | 100% | 100% | 99% |
| | | 6 | 6.1 | n/a |
| 5 | Percentage of staff time spent on audit and consulting engagements and general audit activities. | 81% | 83% | 81% |
| 6 | Percentage of audit and consulting engagements completed within budget. | 80% | 85% | 73% |

Customer Satisfaction Rating

The OCA sends surveys to the following three customer categories:

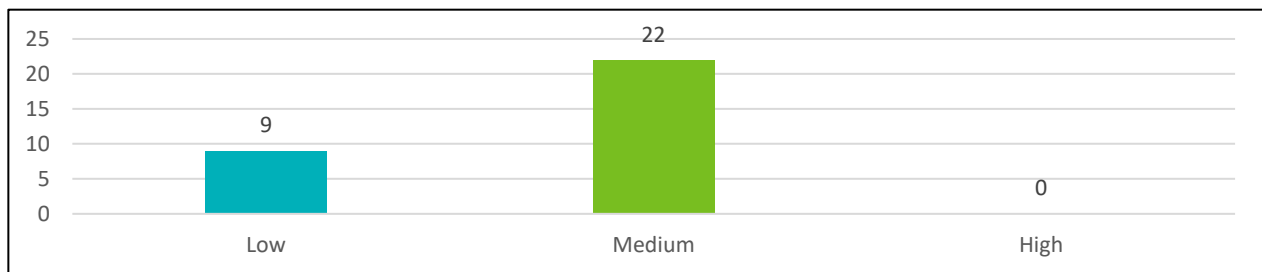
- Authority Board/Audit Committee
- Executive Management
- Auditee

Each survey contains multiple questions, and each response is utilized by the OCA to gauge the performance of audits and activities completed. The OCA gauges customer satisfaction based on scores received on the question, “How would you rate your level of satisfaction with the Office of the Chief Auditor?”. Annually, in the 4th Quarter, the Authority Board, Audit Committee, and the Authority’s Executive Management are surveyed. Following the completion of each audit (or consulting engagement) auditees are sent a “post-audit” survey questionnaire. Survey results from the auditees are presented quarterly to the Audit Committee and Board. The OCA tracks each customer category separately. For Fiscal Year 2023 aggregate category scores of 5.0, 5.0, and 4.9, respectively, were received, which exceeded the goal of 4.0 for each category.

Number of Recommendations

One of the OCAs primary objectives is to identify risks that could pose a threat to the Authority. During the fiscal year, the OCA provided 31 recommendations to management to remediate a risk identified. Each of the recommendations are rated based on a qualitative value of risk, identified as Low, Medium, or High. A summary of the ratings is shown below in Table 2.

Table 2: Rating of Recommendations



Percentage of Audit and Consulting Engagements Completed

The OCA completed 11 audits and 2 consulting engagements for a total of 13 completed engagements. This represents 72%¹, of audit and consulting engagements on the Fiscal Year 2023 Audit Plan. For the status of all Fiscal Year 2023 Audit Plan activities on June 30, 2023, see Appendix A.

¹ The 72% is equal to 13 completed engagements divided by 18 (20 total audit and consulting engagements minus 2 that were approved to be completed in Fiscal Year 2024: 1.) Tenant Lease Administration & Management – FY 2023 Rental Car Companies, 2.) Turner-Flatiron Self Perform Work).

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 issued. In Fiscal Year 2023, management accepted 100% of all audit recommendations.

Percentage of Staff that Meet Continuing Professional Education (CPE) Requirements

During the year, 100% of staff met their education requirements.

Number of Non-Continuing Professional Education Training Hours per Staff

The OCA provides non-CPE training to audit staff to emphasize or enhance skills on a particular topic. In Fiscal Year 2023 the OCA provided 6.1 hours of training per staff. Training included topics such as Recommendation Ratings, Quality Assurance and Improvements Programs, Quality Assurance Reviews, Construction, On Call Contract Auditing, and Ethics.

Percentage of Staff Time Spent on Audit and Consulting Engagements and General Audit Activities

This measure tracks the time spent on audit and consulting engagements and general audit activities.² The OCAs goal is for staff to spend 81% of their working hours³ on audit engagements, consulting engagements, and general audit activities. For Fiscal Year 2023, the OCA spent 83% of time on audit and consulting engagements and on general audit activities, exceeding the goal established.

Percentage of Audit and Consulting Engagements Completed within Budgeted Time

This category monitors the efficiency of audit staff in performing audits and consulting engagements. Specifically, audit staff is responsible for the internally prepared budget hours assigned to each audit or consulting engagement. In Fiscal Year 2023, the OCA completed 85% of its projects within the budgeted time, exceeding the benchmark and the OCAs goal.

² Appendix A details all planned activities in these categories for Fiscal Year 2023.

³ Time Off (e.g., Holidays, Paid Time off) has been excluded from this calculation.

Audit and Consulting Engagements

The Fiscal Year 2023 Audit Plan had 20 total audit and consulting engagements that were to be initiated. Of these, two engagements were not anticipated to be completed in the fiscal year due to the reporting deadline requirements of the auditee and due to an engagement which was added later in the fiscal year. These two engagements are included in the Fiscal Year 2024 Audit Plan. This left 18 engagements for the OCA to complete.

During Fiscal Year 2023, the OCA initiated work on all 18 engagements and completed 13. This resulted in the OCA completing 72% of engagements, falling short of its 80% goal. The five remaining audits will carry over to the Fiscal Year 2024 Audit Plan for completion. An agenda item included in the September 11, 2023, Audit Committee meeting will add the audits to the Fiscal Year 2024 Audit Plan.

Below are highlights from the audits completed by the OCA during the fourth quarter of Fiscal Year 2023. Audits completed in the first three quarters were provided to the Audit Committee and Board in the OCAs quarterly activity reports. Also, when completed audit reports are distributed electronically by the OCA to specified recipients.

Tenant Lease Admin. & Management – FY 2022 Rental Car Companies:

Together with the Authority’s Business Intelligence Department, the OCA developed a continuous auditing program using data analytics to examine financial data received each month from 7 Car Rental Companies (CRCs). Continuous auditing enables the Authority to detect potential issues earlier through automated real time reporting on critical information. The objective of this audit was to determine if concession fees, Customer Facility Charges (CFCs) and Transportation Facility Charges (TFCs) were accurately paid in all material respects. In total over \$61million of concessions and CFCs/TFCs were collected by the Authority from these 7 CRC. The audit concluded that concession fees and CFCs/TFCs were materially accurate for 5 of the 7 CRCs. The 2 CRCs outside of the materiality range established have been included in the FY2024 Audit Plan for more comprehensive testing. The audit provided three recommendations, all of which were accepted by management.



Harbor Police Contract Management – Fiscal Year 2021 Costs: The objective of this audit was to determine if the Harbor Police Department costs for depreciation and transferred-in costs for fiscal year 2021 were accurate and allowed. The audit has been completed; however, was not issued as of September 1, 2023. This audit report references an “In-Progress” audit titled “Harbor Police Contract Management – Fiscal Year 2018, 2019, 2020 Costs” and the OCA believes issuing them concurrently will aid in a reader’s understanding.

The conclusion and number of recommendations are not listed as the report has not been released. It is anticipated both reports will be issued in the Fall of 2023.

Construction Change Order Process: The objective of this audit was to determine if the Airport Design & Construction Change Order process is effective and efficient. The audit concluded that the process is effective with a robust review and approval process. The audit identified four recommendations to improve the efficiency of the process, which were all accepted by management.

New T1 Guaranteed Maximum Price Development Phase Direct Labor Billing: The objective of this audit was to determine if labor billed by Turner-Flatiron and consultants during the audit period complied with contract terms. The audit concluded that Turner-Flatiron and its consultants were generally compliant with the terms of the contract. However, we did identify small potential overcharges totaling \$7,821 and opportunities to improve the process. The audit provided five recommendations, which were all accepted by management. This audit was done in partnership with an on-call construction audit consultant Baker Tilly.

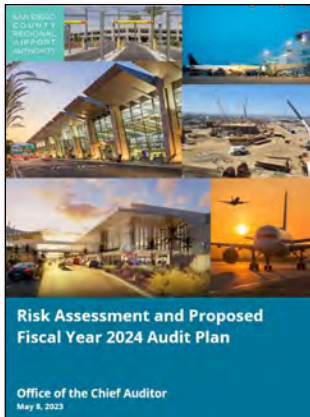
Grants Consulting: The objective of this engagement was to assist management in research and interpretation of federal requirements. The OCA provided assistance and appreciated the opportunity to collaborate with management. The OCA did not make any management decisions or perform any management functions during this engagement.

General Audit Activities

In addition to performing audit and consulting engagements, the OCA is involved in other general audit activities that do not result in a formal audit report/opinion being issued. The OCA is either required⁴ 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. See Appendix A for a listing of all General Audit Activities.

Risk Assessment and Audit Plan

The OCA is required to submit a risk-based internal Audit Plan to the Audit Committee annually. Performing the Fiscal Year 2024 Risk Assessment included obtaining input from the Board, Audit Committee, Authority Management, and staff. During Fiscal Year 2023, 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. The resulting Fiscal Year 2024 Audit Plan was then developed, based on the results of the Risk Assessment process and the discussions with key stakeholders. The Fiscal Year 2024 Risk Assessment and Audit Plan was submitted to the Audit Committee on May 8, 2023, and subsequently approved by the Board on June 1, 2023.



Construction Activities

Construction audit activities for Fiscal Year 2023 consisted of attending meetings regarding the New T1 Terminal & Roadway, the Airport Administration Building, the Airside Improvements, and other airport construction projects. Audits of the Construction Change Order Process, Terminals and Roadway Validation Phase Cost Controls, and New T1 Guaranteed Maximum Price Development Phase Direct Labor Billing, were completed as part of the Fiscal Year 2023 OCA Audit Plan. The Cost Controls and Direct Labor Billings audit were completed in partnership with Baker Tilly, the on-call construction audit consultant. Additionally, audits of the New Administration Building, Turner-Flatiron Insurance for the New T1, and Turner-Flatiron Self Perform Work were initiated and will be completed as part of the Fiscal Year 2024 OCA Audit Plan.

The OCA Construction Auditor continues to work closely with the Airport Design & Construction team to address any issues with the increase in personnel and with processes, as construction on the New T1 continues to expand. The OCA remains involved with any issues identified by Authority Management, provides assistance, and attends meetings specific to the aspects of the Authority's construction activities.

⁴ Requirements are dictated by the Charter for the Office of the Chief Auditor, Charter of the Audit Committee, or the International Standards for the Professional Practice of Internal Auditing.

Information Technology Meeting Attendance

Information technology's central role to Authority operations makes meeting attendance on this subject a vital activity for the Chief Auditor. The OCA has been involved in meetings focused on the audit related to the Authority's web facing sites and future initiatives. Additionally, the OCA participated in a two-day onsite visit by the Transportation Security Administration (TSA) to discuss cybersecurity.

Development of Data Analytics

As discussed in the Audits and Consulting Engagements section of this report, the OCA partnered with the Authority's Business Intelligence Department to develop a continuous auditing program using data analytics to examine financial data from Rental Car Companies. The OCA is building off the success of this audit to improve the process and decrease the level of effort needed to analyze the data received. The Tenant Lease Admin. & Management – FY 2022 Rental Car Companies audit had over 631 Megabytes and 176 million cells of data that needed to be analyzed.

The OCA is planning to use the efforts related to the Rental Car Company data analytics project to develop future audits.

Ethics Program Activities

The OCA manages the Authority's Ethics Program that includes a confidential Fraud, Waste, Abuse, and Ethics reporting hotline. During Fiscal Year 2023, there were 39 tips/reports received. These tips ultimately did not require any investigation by the OCA. Tips/reports that are not investigated by the OCA are forwarded to management, as appropriate.

The OCA also provides ethics-specific training every other year to Authority employees. During the fourth quarter of Fiscal Year 2023 training was scheduled and tracked through the Authority's Learning Management System (LMS). As of the mid-August 2023 over 97% of Authority employees have completed the training. A recorded training will be utilized to provide the training for the remaining employees.

A summary of the tips/reports received in Fiscal Year 2023 is shown in Table 3 below.

Table 3: Ethics Program Tips/Reports Received in Fiscal Year 2023

| | 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) |
|--|-----------------------------------|------------------------------------|------------------------------|---|--|
| Category | | | | | |
| Human Resource, Diversity, and Workplace Respect | 34 | - | - | - | - |
| Environment, Health and Safety | 4 | - | - | - | - |
| Other | 1 | - | - | - | - |
| Total | 39 | - | - | - | - |

*As required by the Charter for the Office of the Chief Auditor, any fraud or illegal acts that the Chief Auditor becomes aware of are communicated to the Chair of the Audit Committee, General Counsel, and the President/CEO.

Recommendation Follow-up

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

During Fiscal Year 2023, the OCA issued 31 recommendations that were/are tracked for implementation along with any open recommendations issued during prior fiscal years. Appendix B contains a current status on recommendations *Completed* or *In Progress* as of the fourth quarter (Note, recommendations in confidential audit reports are not tracked publicly.) The Audit Committee is updated each quarter on the status of recommendations. The recommendations that have been remediated by management in prior quarters of Fiscal Year 2023 were presented to the Audit Committee on the following Committee Meeting dates: November 21, 2022, February 6, 2023, and May 8, 2023.

Table 4 below shows the number of recommendations that were *Completed* or *In Progress* as of the fourth quarter of Fiscal Year 2023, along with the estimated/actual implementation timeframes based on the audit report issue date. Of the Completed recommendations, 3 were implemented within the initial timeframe identified when the recommendations were

issued. Of the In Progress recommendations, 16 recommendations were still within the initial timeframe identified for implementation. Additionally, 12 of the 21 In Progress recommendations were issued in the fourth quarter of Fiscal Year 2023.

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.

Table 4: Recommendations with Estimated/Actual Implementation Timeframe

| Recommendations | Zero to 7 Months | 7 Months to 1 Year | Over 1 Year | Total |
|------------------------|-------------------------|---------------------------|--------------------|--------------|
| Completed | 3 | - | 2 | 5 |
| In Progress | 14 | 2 | 5 | 21 |

Quality Assurance and Improvement Program

The Institute of Internal Auditors’ (IIA) *Standards* require the OCA to maintain a Quality Assurance and Improvement Program (QAIP). Comprehensive details are included under the *Quality Assurance and Improvement Program* section of this report.

Peer Review Participation

A QAIP requires that the OCA undergo an external Quality Assurance Review (QAR) at least every five years by a qualified, independent, assessor or assessment team from outside the organization to determine if the OCA conforms to the *Standards*. The Association of Local Government Auditors (ALGA) conducted the most recent external QAR in 2019. ALGA is a professional organization committed to improving government auditing and is comprised of audit groups from various government jurisdictions throughout the United States.

The 2019 QAR peer review performed by ALGA contains a reciprocal provision that requires the OCA to volunteer two audit staff to serve on future QAR peer reviews in other organizations within a five-year period. In Fiscal year 2023, the OCA completed two peer reviews for reciprocal agencies. Shane Ellis, Senior Auditor, completed a peer review of the greater Orlando Aviation Authority and Fred Bolger, Manager, Audit Services, completed a peer review of the County of San Luis Obispo.

Administrative

The activities that reside within the Administrative classification of the Fiscal Year 2023 Audit Plan include meeting attendance by the OCA, holiday and vacation time, and the fulfillment of Continuing Professional Education (CPE) requirements.

Qualifications and Training

Proficiency and due care for the OCA are the responsibility of the Chief Auditor. Cumulatively, the OCA has over 120 years of auditing experience. The OCA staff maintains 14 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)
- 1 - Certified Fraud Examiner (CFE)



Each of these certifications requires that the holder complete a specified number of hours of CPE. As noted above, all CPE requirements were met for all OCA staff during calendar year 2022.⁵

⁵ Professional organizations track Continuing Professional Education (CPE) either by calendar year or a fiscal year. The OCA verifies CPE compliance on a calendar year basis.

Audit Committee Support

During Fiscal Year 2023, the Audit Committee met four times for regularly scheduled meetings on the following dates:

- September 12, 2022
- November 21, 2022
- February 6, 2023
- May 8, 2023

Before each meeting of the Audit Committee the OCA coordinated all activities with the Committee Chair and the Board Services Department relating to agenda preparation and materials required.

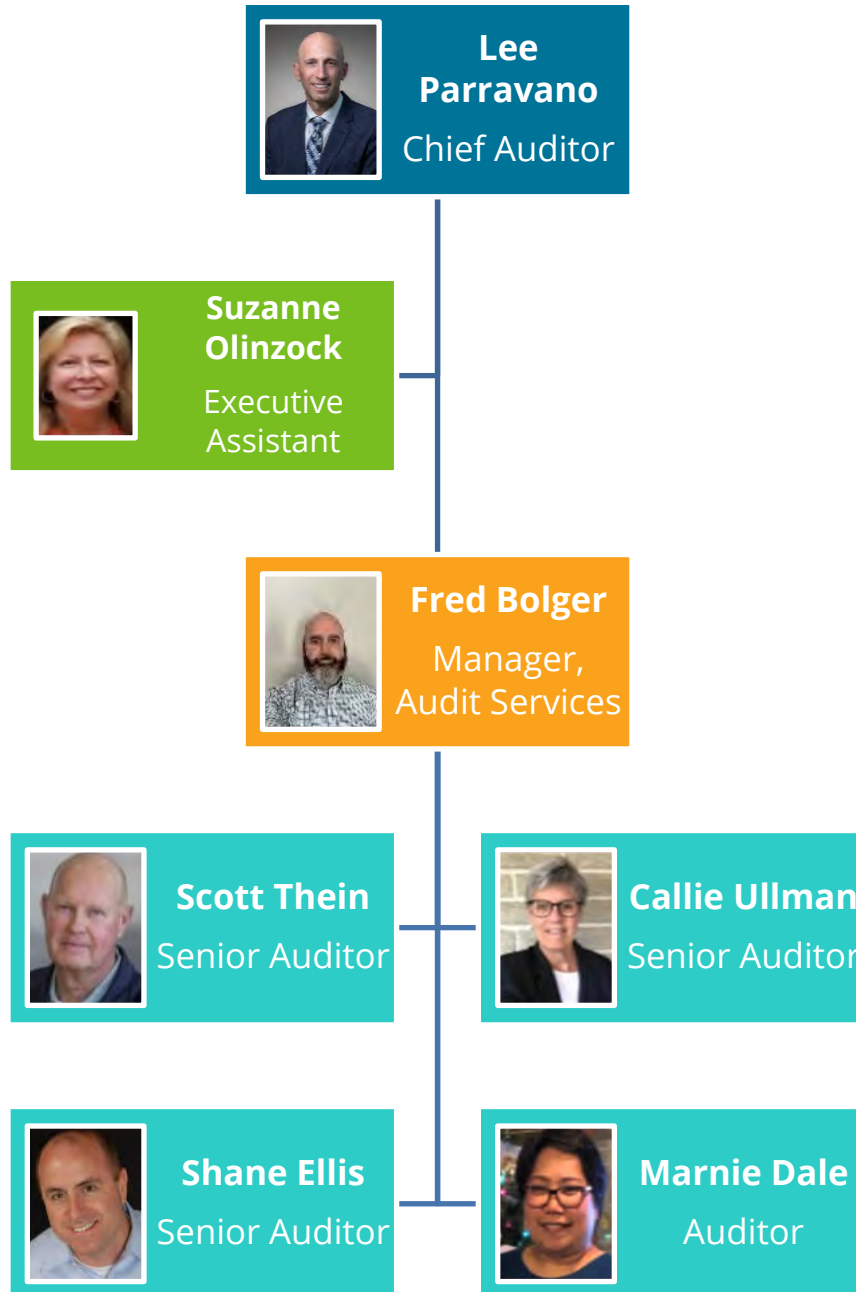
Outside Activities

In addition to the services provided to the San Diego County Regional Airport Authority, OCA staff are involved in various audit related organizations and activities in their personal time. As of June 30, 2023, OCA staff members served on the following community groups:

- Audit Committee Member for the San Diego Girl Scouts
- Board of Directors for the Association of Airport Internal Auditors
- Board of Directors for the University of Philippines Alumni Association - San Diego.

Organization Chart

As of June 30, 2023, the OCA organizational structure was as follows.



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 external assessments and internal (self) assessments.

- **External Assessment:** Known as a Quality Assessment Review (QAR), or peer review; must be conducted at least once every five years by an independent assessor or an 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 Assessment:** 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 D.

External Assessment - Quality Assessment Review

The most recent external assessment of the OCA was performed by the Association of Local Government Auditors (ALGA) for the five-year period from July 1, 2013, through June 30, 2018. The peer review was performed in April 2019, with results presented to the Audit Committee during its May 13, 2019, meeting. The peer review determined that the OCA provides reasonable assurance of compliance with the *Standards*. This is the highest level of conformance an internal audit function can achieve. The next external assessment will be required for the five-year period ending June 30, 2023. The OCA has included an item on the

September 11, 2023 Audit Committee agenda to discuss the upcoming External Quality Assessment Review.



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.

Internal Assessment – Self-Assessment & Ongoing Monitoring

In July and August of 2023, the OCA conducted a Self-Assessment and performed ongoing monitoring related to Fiscal Year 2023 operations, as required by the *Standards*. The results are provided below.

Scope and Objectives of Ongoing Monitoring

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

- Performance Measures
- Engagement Planning and Supervision
- Work Paper Reviews and Sign-offs
- Feedback from Audit Clients
- General Audit Practices
- Standard Working Practices
- Audit Report Reviews
- Prior Recommendations

Results of Ongoing Monitoring

There are numerous processes in place to ensure that quality is consistently delivered on each audit engagement. There were no items identified within the OCA that would impact audit report quality.

Frequency, Objectives, and Scope of a Self-Assessment

The Standards require periodic Self-Assessments to be performed, and the results must be communicated to the Audit Committee and Board when completed. The last Self-Assessment was performed in 2019 in connection with the External Assessment performed by ALGA. The main objectives are to identify the quality of performance and opportunities for improvement. The focus is to determine conformance with the Institute of Internal Auditor's Code of Ethics and the *Standards*. The scope of this Self-Assessment includes all audit and consulting engagements completed from Fiscal Year 2019-2023.⁶ The IIA Implementation Guide states that performing a Self-Assessment shortly before an external assessment may help reduce the time and effort required. The next external assessment is expected to occur in Fiscal Year 2024.

Results of Self-Assessment

The Self-Assessment validated that the OCA continues to conform with the *International Standards for the Professional Practice of Internal Auditing (Standards)* and the Code of Ethics. The rating of the Self-Assessment was "Generally Conforms". The term "Generally Conforms" is the top rating, which means that the OCA has a charter, policies, and processes, and the execution and results of these are judged to be in conformance with the Standards. This Self-Assessment will be examined and validated by an external assessor in Fiscal Year 2024.

⁶ Consistent with the Association of Local Government Auditors Peer Review Guide, Fiscal Year 2023 engagements were selected as it reflects the most current processes.

QAIP Recommendations/Corrective Actions Plans Identified

As stated above, the QAIP did not identify any items that would impact audit report quality. However, the OCA did note the following items:

1. The Charter for the Office of the Chief Auditor should be updated to remove outdated process language. The process to report any potential ethical violations is included in Authority Code 2.16. The OCA recommends removing the process language from the Charter.

The proposed change will be included as part of the annual review of the Charter for the Office Of the Chief Auditor. This has been included as part of the September 2024 Audit Committee materials.

2. The OCA identified some potential process improvements that could be implemented to improve items such as communication and documentation.

The OCA is exploring implementing the potential process improvements.

Appendix A – Fiscal Year 2023 Audit Plan

| # | Activity | Status as of 6/30/2023 | Over/Under Budget | No. of Recs. |
|----------------------|--|------------------------|-------------------|--------------|
| Audit | | | | |
| 1 | Tenant Lease Admin. & Management – FY 2022 Rental Car Companies | Completed | Over | 3 |
| 2 | Terminals and Roadway Validation Phase Cost Controls | Completed | Under | - |
| 3 | Tenant Lease Admin. & Management – 2% Surcharge | Completed | Under | 4 |
| 4 | Tenant Lease Admin. & Management – FY 2023 Rental Car Companies ⁷ | In Progress | | |
| 5 | System Security –Web Facing Sites and Applications | Completed | Under | 1 |
| 6 | Harbor Police Contract Management – Fiscal Year 2021 Costs | Completed ⁸ | Under | - |
| 7 | Contractor Monitoring – Administration Building | In Progress | | |
| 8 | Employee Benefits – Payroll Deductions | In Progress | | |
| 9 | Records Management – Official Records & Electronic Signatures | Completed | Under | - |
| 10 | Parking Management- Ace Parking Mngt. of Terminal 2 Parking Plaza | Completed | Over | 10 |
| 11 | Harbor Police Contract Management – Fiscal Year 2018, 2019, 2020 Costs | In Progress | | |
| 12 | Harbor Police Contract Management –True-Up Controls | Completed | Under | - |
| 13 | Tenant Lease Admin. & Management – Avis | Completed | Under | 4 |
| 14 | Accounts Payable – Paymode X | In Progress | | |
| 15 | Construction Change Order Process | Completed | Under | 4 |
| 16 | Turner-Flatiron Insurance | In Progress | | |
| 17 | Turner-Flatiron Self Perform Work ⁷ | In Progress | | |
| 18 | New T1 Guaranteed Maximum Price Development Phase Direct Labor Billing | Completed | Under | 5 |
| | Total | | | 31 |
| Consulting | | | | |
| 19 | Grant, PFC & CFC Administration – Grants (2022) | Completed | Under | - |
| 20 | Grant, PFC & CFC Administration – Grants (2023) | Completed | Under | - |
| General Audit | | | | |
| 21 | Risk Assessment & Audit Plan | Completed | | |
| 22 | Construction Meeting Attendance & Coordination | Completed | | |
| 23 | Information Technology Meeting Attendance | Completed | | |
| 24 | Development of Data Analytics | Completed | | |
| 25 | Ethics Program | Completed | | |
| 26 | Recommendation Follow-up | Completed | | |
| 27 | Quality Assurance & Improvement Program | Completed | | |
| 28 | Peer Review Participation | Completed | | |

⁷ Audit engagement was not anticipated to be completed in Fiscal Year 2023 and was planned to be carried forward to Fiscal Year 2024.

⁸ Audit Engagement is completed. Will be released concurrently with Audit Report Titled “Harbor Police Contract Management – Fiscal Year 2018, 2019, 2020 Costs”. This audit report references the audit “Harbor Police Contract Management – Fiscal Year 2018, 2019, 2020 Costs” and the OCA believes issuing them concurrently will aid in a reader’s understanding. The number of recommendations is not listed since the report has not been released.

Appendix A – Fiscal Year 2023 Audit Plan (Continued)

| # | Activity | Status as of 6/30/2023 | Over/Under Budget | No. of Recs. |
|-----------------------|---|------------------------|-------------------|--------------|
| Administrative | | | | |
| 29 | Indirect - Attendance at Staff/Board/Committee Meetings, Continuing Professional Development, and Other | Completed | | |
| 30 | Benefit - Vacation, Holiday Time, and Other Leave/Time Off | Completed | | |

Appendix B - Status of Recommendations

| Rec. No. | Audit Report Description | Priority Rating | Recommendation | Initial Estimated Completion Date | Revised / Current Estimated Completion Date | Status as of June 30, 2023 |
|------------------|---|-----------------|---|-----------------------------------|---|---|
| Completed | | | | | | |
| 21-30 | Audit Report 21005 Issued: June 30, 2021 Title: Automobile Citations Department: GROUND TRANSPORTATION | Medium | GT should develop and implement a methodology to review citation fine amounts periodically and adjust the amounts as appropriate. | 9/30/2021 | 4/19/2023 | The first citation benchmarking review was completed on 04/19/23. Subsequent citation reviews will occur annually in April. |
| 22-22 | Audit Report 22004 Issued: May 25, 2022 Title: Employee Training & Development Department: HUMAN RESOURCES | Low | The training hours contained in the Sustainability Report (or other public documents) should aggregate both internal and external trainings completed by employees. Additionally, management should determine if the new LMS365 will be used by HR to track both internal and external training completed by employees. | 12/31/2022 | 6/30/2023 | Employees now have the ability to log their external training into LMS 365/SAN University. Internal trainings are already captured in LMS365. |
| 23-10 | Audit Report 23007 Issued: March 31, 2023 Title: ACE Parking Management of Terminal 2 Parking Plaza Department: GROUND TRANSPORTATION | Low | We recommend ACE develop and maintain a standard operating procedure document for the [parking] process. | 6/30/2023 | 6/30/2023 | All SOPs have been completed. |

Appendix B - Status of Recommendations

| Rec. No. | Audit Report Description | Priority Rating | Recommendation | Initial Estimated Completion Date | Revised / Current Estimated Completion Date | Status as of June 30, 2023 |
|------------------|---|-----------------|--|-----------------------------------|---|---|
| Completed | | | | | | |
| 23-18 | Audit Report 23007 Issued: March 31, 2023 Title: ACE Parking Management of Terminal 2 Parking Plaza Department: GROUND TRANSPORTATION | Low | We recommend ACE develop a standard operating procedure to transfer their nightly inventory records of Out-of-State and Vanity plates onto an electronic file to allow ACE to easily search/access accurate information. | 4/30/2023 | 4/30/2023 | ACE developed the recommended standard operating procedure. |
| 23-19 | Audit Report 23007 Issued: March 31, 2023 Title: ACE Parking Management of Terminal 2 Parking Plaza Department: GROUND TRANSPORTATION | Low | We recommend ACE develop a standard operating procedure to perform T2PP vehicle counts and document any adjustment to the SKIDATA counters. | 6/30/2023 | 6/30/2023 | ACE developed the recommended standard operating procedure. |

Appendix B - Status of Recommendations

| Rec. No. | Audit Report Description | Priority Rating | Recommendation | Initial Estimated Completion Date | Revised / Current Estimated Completion Date | Status as of June 30, 2023 |
|--------------------|--|-----------------|---|-----------------------------------|---|---|
| In Progress | | | | | | |
| 22-30 | Audit Report 22010 Issued: June 30, 2022 Title: Turner-Flatiron, a Joint Venture, Direct Labor Billing During Validation Phase Department: AIRPORT DESIGN & CONSTRUCTION | High | We recommend that ADC notify the JV concerning the over-billing based on the actual payroll hours and determine the most appropriate method to receive the \$37,525 incorrectly billed to the Authority. | 2/1/2023 | 10/1/2023 | ADC and the JV have identified a portion that will be credited back to the Authority in the September pay application. ADC and the JV are working together to resolve the remaining issues. |
| 22-33 | Audit Report 22010 Issued: June 30, 2022 Title: Turner-Flatiron, a Joint Venture, Direct Labor Billing During Validation Phase Department: AIRPORT DESIGN & CONSTRUCTION | High | We recommend that ADC notify the JV of the \$4,814 overcharge for holiday and paid time-off for the JV staff and the \$12,917 overcharge for the consultants to determine the most appropriate method to receive the total incorrectly billed to the Authority. | 2/1/2023 | 10/1/2023 | ADC and the JV have identified a portion that will be credited back to the Authority in the September pay application. ADC and the JV are working together to resolve the remaining issues. |
| 22-10 | Audit Report 22005 Issued: Nov. 22, 2021 Title: Terminal Space Management Department: REVENUE GENERATION & PARTNERSHIP DEVELOPMENT | Medium | Authority staff should cleanup E1 Plat Management and GIS Space Manager for mismatched or incorrect data and perform regular maintenance, review, and reconciliation of the data between E1 Plat Management and GIS Space Manager. | 1/2/2023 | 9/30/2023 | RGPD staff continues to work with ABRM vendor (Civix) on determining development work needed to integrate GIS with ABRM lease management modules. RGPD has updated concession lease plats to be consistent with GIS and E1. |

Appendix B - Status of Recommendations

| Rec. No. | Audit Report Description | Priority Rating | Recommendation | Initial Estimated Completion Date | Revised / Current Estimated Completion Date | Status as of June 30, 2023 |
|--------------------|--|-----------------|---|-----------------------------------|---|---|
| In Progress | | | | | | |
| 22-11 | Audit Report 22005 Issued: Nov. 22, 2021 Title: Terminal Space Management Department: REVENUE GENERATION & PARTNERSHIP DEVELOPMENT | Medium | Authority Management should perform a physical inventory of plats throughout Terminal 2, and the New Terminal 1 when completed, to ensure that the reported attributes of space in the E1 Plat Management and GIS Space Manager reports reflect the physical space in the terminals. Any discrepancies should be timely corrected. Additionally, the written procedures referred to in Recommendation #22-8 should include a procedure for the periodic physical inventory of plats in Terminals 1 and 2. | 12/1/2022 | 10/31/2023 | ADC is the lead on physical inventory of plats. RGPD is currently transitioning to utilizing ABRM for contract management and aims to upload all relevant data by 10/31/23. |
| 22-31 | Audit Report 22010 Issued: June 30, 2022 Title: Turner-Flatiron, a Joint Venture, Direct Labor Billing During Validation Phase Department: AIRPORT DESIGN & CONSTRUCTION | Medium | We recommend that ADC notify the JV concerning the underbilling based on the actual payroll register pay rates and determine the most appropriate method to address the \$1,750 that was not billed to the Authority. | 2/1/2023 | 10/1/2023 | JV will include this in the September pay application. |
| 23-12 | Audit Report 23007 Issued: March 31, 2023 Title: ACE Parking Management of Terminal 2 Parking Plaza Department: GROUND TRANSPORTATION | Medium | We recommend GT and ACE run SKIDATA on active mode, when the system upgrade/update is completed, to prevent the risk of system circumvention and possible loss of revenues. | 7/31/2023 | 9/30/2023 | (1) The audit recommendation to run the system on active mode requires the replacement of all entry and exit ALPR cameras and light kits to ensure image capture accuracy. (2) All the camera's were installed by 7/1/2023. (3) Pending the lighting kits that are on order, the system will be configured, and tested before running on active mode. |

Appendix B - Status of Recommendations

| Rec. No. | Audit Report Description | Priority Rating | Recommendation | Initial Estimated Completion Date | Revised / Current Estimated Completion Date | Status as of June 30, 2023 |
|--------------------|---|-----------------|---|-----------------------------------|---|---|
| In Progress | | | | | | |
| 23-16 | Audit Report 23007 Issued: March 31, 2023 Title: ACE Parking Management of Terminal 2 Parking Plaza Department: GROUND TRANSPORTATION | Medium | We recommend that ACE develop a standard operating procedure to perform a nightly license plate inventory. | 6/30/2024 | 9/30/2023 | 1. As stated in the audit report, Ace does not currently have a mobile LPR system to meet this requirement. 2. Ace will explore existing system technology capabilities to meet this recommendation. 3. Ace will also procure quotes for a mobile system to be used for periodic inventories. 4. Ace will also develop an SOP to perform a nightly license plate inventory with available technology solutions. |
| 23-17 | Audit Report 23007 Issued: March 31, 2023 Title: ACE Parking Management of Terminal 2 Parking Plaza Department: GROUND TRANSPORTATION | Medium | We recommend ACE develop a standard operating procedure to regularly perform a reconciliation of open tickets versus license plates of vehicles parked at T2PP and close out any tickets where an entry and a legitimate exit is found. | 7/31/2023 | 9/30/2023 | 1. The SKIDATA/ALPR system is scheduled to run on active mode by September 30, 2023, which will minimize the number of open tickets in the system. Currently, the system is scheduled to purge open tickets at 184 days. 2. Ace will develop an SOP to conduct a license plate inventory of all vehicles in the T2PP and overflow lot before the system is switched to active mode. 3. Ace will develop an SOP to conduct periodic license plate inventory and reconcile to the system. |

Appendix B - Status of Recommendations

| Rec. No. | Audit Report Description | Priority Rating | Recommendation | Initial Estimated Completion Date | Revised / Current Estimated Completion Date | Status as of June 30, 2023 |
|--------------------|--|-----------------|--|-----------------------------------|---|---|
| In Progress | | | | | | |
| 23-20 | Audit Report 22002 Issued: June 13, 2023 Title: Car Rental Companies - Fiscal Year 2022 Department: REVENUE GENERATION & PARTNERSHIP DEVELOPMENT | Medium | Revenue Generation & Partnership Development (RG&PD) should evaluate the data provided by the OCA, and collaborate with the OCA, to determine if any other Agreement requirements should be included in the proposed audit scope for the two CRCs. | 7/31/2023 | 7/31/2023 | RG&PD has initiated the effort required to implement this recommendation. |
| 23-23 | Audit Report 23009 Issued: June 29, 2023 Title: Construction Change Order Process Department: AIRPORT DESIGN & CONSTRUCTION | Medium | We recommend that ADC, Procurement, and Finance work with the Information & Technology Services Department (I&TS) to identify what changes to E1 are feasible to improve the Change Order process. | 12/1/2023 | 12/1/2023 | This recommendation was issued at the end of the quarter so no follow-up activity was performed. At the time of the audit's issuance, ADC indicated that: ADC has already begun meeting with various departments to attempt to improve the Change Order process in E-1. |
| 23-24 | Audit Report 23009 Issued: June 29, 2023 Title: Construction Change Order Process Department: AIRPORT DESIGN & CONSTRUCTION | Medium | We recommend ADC ensure that the supporting documentation for all Change Orders includes justification for the Change Order. | 9/1/2023 | 9/1/2023 | This recommendation was issued at the end of the quarter so no follow-up activity was performed. At the time of the audit's issuance, ADC indicated that: Providing justification for change orders is part of the ADC standard process and ADC will ensure that justifications are included as part of supporting documentation for all future change orders. |

Appendix B - Status of Recommendations

| Rec. No. | Audit Report Description | Priority Rating | Recommendation | Initial Estimated Completion Date | Revised / Current Estimated Completion Date | Status as of June 30, 2023 |
|--------------------|--|-----------------|---|-----------------------------------|---|--|
| In Progress | | | | | | |
| 23-25 | Audit Report 23009 Issued: June 29, 2023 Title: Construction Change Order Process Department: AIRPORT DESIGN & CONSTRUCTION | Medium | We recommend ADC review the documentation supporting CIP Change Orders to verify the necessity of the Internal Form and the External Form to eliminate or revise the forms as determined necessary. Forms that have spaces for signature should be completed as designed. | 1/31/2024 | 1/31/2024 | This recommendation was issued at the end of the quarter so no follow-up activity was performed. At the time of the audit's issuance, ADC indicated that: ADC is completing a major update to change order processes and, as part of that process, is reviewing forms to determine their utility and necessity. |
| 23-26 | Audit Report 23009 Issued: June 29, 2023 Title: Construction Change Order Process Department: AIRPORT DESIGN & CONSTRUCTION | Medium | We recommend ADC clarify the signatory approval levels within the ADC procedures when there are decreases to award amounts or both increases and decreases to award amounts combined into one Change Order. | 1/31/2024 | 1/31/2024 | This recommendation was issued at the end of the quarter so no follow-up activity was performed. At the time of the audit's issuance, ADC indicated that: ADC has incorporated the recommended clarification into the draft updated ADC procedures that will be published upon the completion of the ADC change order process update. |
| 23-27 | Audit Report 23012 Issued: June 30, 2023 Title: New T1 Terminal and Roadway GMP Development Phase Direct Labor Billing Department: AIRPORT DESIGN & CONSTRUCTION | Medium | ADC should require the JV to specifically review all future payment applications for inappropriate billing of holiday or paid time-off hours prior to submission. | 1/5/2024 | 1/5/2024 | This recommendation was issued at the end of the quarter so no follow-up activity was performed. At the time of the audit's issuance, ADC indicated that: ADC will work with the JV to identify and implement a cost control process associated with the payment application process that addresses this concern. |

Appendix B - Status of Recommendations

| Rec. No. | Audit Report Description | Priority Rating | Recommendation | Initial Estimated Completion Date | Revised / Current Estimated Completion Date | Status as of June 30, 2023 |
|--------------------|--|-----------------|---|-----------------------------------|---|---|
| In Progress | | | | | | |
| 23-28 | Audit Report 23012 Issued: June 30, 2023 Title: New T1 Terminal and Roadway GMP Development Phase Direct Labor Billing Department: AIRPORT DESIGN & CONSTRUCTION | Medium | We recommend that ADC notify the JV of the overcharge of \$2,594 for holiday time for the JV staff. Additionally, we recommend ADC request all holiday policies, and other records as necessary, from each consultant listed above with the total of \$4,475 to determine if the Authority's approved labor billing rates already included holiday pay and are duplications. Reimbursement should be requested for duplicate costs. | 1/5/2024 | 1/5/2024 | This recommendation was issued at the end of the quarter so no follow-up activity was performed. At the time of the audit's issuance, ADC indicated that: ADC has notified the JV of overbilling for JV staff and is working to receive reimbursement from the JV. ADC will notify the JV to review potential overbilling identified for consultants against consultant payroll policies and will request reimbursement for the overbilling of those instances in which consultant's burden rate does include Holidays and PTO in the billing rates. |
| 23-30 | Audit Report 23012 Issued: June 30, 2023 Title: New T1 Terminal and Roadway GMP Development Phase Direct Labor Billing Department: AIRPORT DESIGN & CONSTRUCTION | Medium | We recommend ADC require the JV to specifically review all future payment applications for inappropriate billing of professional staff lacking Authority approved billing rates. | 1/5/2024 | 1/5/2024 | This recommendation was issued at the end of the quarter so no follow-up activity was performed. At the time of the audit's issuance, ADC indicated that: ADC is working with the JV to ensure consistent implementation of cost controls associated with the payment application process that addresses this concern. |

Appendix B - Status of Recommendations

| Rec. No. | Audit Report Description | Priority Rating | Recommendation | Initial Estimated Completion Date | Revised / Current Estimated Completion Date | Status as of June 30, 2023 |
|--------------------|--|-----------------|--|-----------------------------------|---|--|
| In Progress | | | | | | |
| 23-31 | Audit Report 23012 Issued: June 30, 2023 Title: New T1 Terminal and Roadway GMP Development Phase Direct Labor Billing Department: AIRPORT DESIGN & CONSTRUCTION | Medium | ADC should determine the most appropriate way to receive the overbilling of \$752 for the unapproved rates. | 1/5/2024 | 1/5/2024 | This recommendation was issued at the end of the quarter so no follow-up activity was performed. At the time of the audit's issuance, ADC indicated that: ADC has notified the JV for this overbilling and is working with the JV to receive reimbursement for overbilling. |
| 23-15 | Audit Report 23007 Issued: March 31, 2023 Title: ACE Parking Management of Terminal 2 Parking Plaza Department: GROUND TRANSPORTATION | Low | We recommend GT continue to monitor the wayfinding and available space signage repair part supply issues and provide support to ACE as needed. | 8/31/2023 | 9/30/2023 | 1. GT directed Ace to escalate this issue with SKIDATA and or Indect to resolve. 2. Ace contacted Indect directly for support to resolve existing wayfinding signage and system issues. 3. GT will monitor this issue each month until resolved. |
| 23-21 | Audit Report 22002 Issued: June 13, 2023 Title: Car Rental Companies - Fiscal Year 2022 Department: REVENUE GENERATION & PARTNERSHIP DEVELOPMENT | Low | Revenue Generation & Partnership Development (RG&PD) should educate Avis, Budget, and Hertz on how to accurately report gross revenues, exclusions to concessionable revenue, concession fees, and CFCs/TFCs on the summary reports. | 7/31/2023 | 7/31/2023 | RG&PD has initiated the effort required to implement this recommendation. |

Appendix B - Status of Recommendations

| Rec. No. | Audit Report Description | Priority Rating | Recommendation | Initial Estimated Completion Date | Revised / Current Estimated Completion Date | Status as of June 30, 2023 |
|--------------------|--|-----------------|---|-----------------------------------|---|---|
| In Progress | | | | | | |
| 23-22 | Audit Report 22002 Issued: June 13, 2023 Title: Car Rental Companies - Fiscal Year 2022 Department: REVENUE GENERATION & PARTNERSHIP DEVELOPMENT | Low | Revenue Generation & Partnership Development (RG&PD) should take steps to ensure that all CRCs submit audited certified public accountant (CPA) reports by August 31 of each calendar year during the term of the Concession Agreement. | 7/31/2023 | 7/31/2023 | RG&PD has initiated the effort required to implement this recommendation. |
| 23-29 | Audit Report 23012 Issued: June 30, 2023 Title: New T1 Terminal and Roadway GMP Development Phase Direct Labor Billing Department: AIRPORT DESIGN & CONSTRUCTION | Low | We recommend that ADC consider charging the JV the audit costs in the amount of \$65,251. | 1/5/2024 | 1/5/2024 | This recommendation was issued at the end of the quarter so no follow-up activity was performed. At the time of the audit's issuance, ADC indicated that: ADC has begun working with Authority management to determine if the Authority will be requesting reimbursement of audit costs. |

Appendix C – Performance Measures Historical Data

| Performance Measure | Fiscal Year | | | | |
|---|-------------|----------|----------|----------|----------|
| | 2019 | 2020 | 2021 | 2022 | 2023 |
| Customer satisfaction ratings from: | | | | | |
| i. Audit Committee/Board | i) | i) 5.0 | i) 4.4 | i) 4.8 | i) 5.0 |
| ii. Executive Management | ii) | ii) 4.5 | ii) 4.3 | ii) 5.0 | ii) 5.0 |
| iii. Auditee ⁹ | iii) 4.6 | iii) 4.6 | iii) 4.6 | iii) 4.4 | iii) 4.9 |
| Number of recommendations | 35 | 37 | 33 | 37 | 31 |
| Percentage of audit and consulting engagements completed annually | 76% | 81% | 88% | 75% | 72% |
| Percentage of audit recommendations accepted | 100% | 100% | 100% | 100% | 100% |
| Percentage of staff meeting educational requirements | 100% | 100% | 100% | 100% | 100% |
| Number of non-CPE training hours per staff ¹⁰ | | 6.1 | 6.1 | 6.1 | 6.1 |
| Percentage of staff time spent on audit and consulting engagements and general audit activities ¹¹ | 71% | 70% | 71% | 66% | 83% |
| Percentage of audit and consulting engagements completed within budget | 45% | 59% | 86% | 89% | 85% |

⁹ This performance measure was added in Fiscal Year 2019. In Fiscal Year 2020 the OCA began sending surveys to the Audit Committee/Board and to Executive Management.

¹⁰ This performance measure was added in Fiscal Year 2020.

¹¹ Beginning in Fiscal Year 2023 Time Off (e.g., Holidays, Paid Time Off) are excluded from the calculation. Fiscal Years 2019-2022 included Time Off in the calculation. Percentage excludes the Chief Auditor's hours.

Appendix D – Disclosures

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

Purpose, Authority, & Responsibility

International Professional Practices Framework (IPPF) Standard 2060 requires the OCA to periodically report on the OCA's purpose, authority & responsibility. These are included in the Charter for the OCA and are listed below for reference.

Purpose

The purpose of the OCA is to provide independent objective assurance and consulting services designed to add value and improve the Authority's operations. The Mission of the OCA is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The OCA 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 is accountable to the Board of Directors under Public Utilities Code §170026, and pursuant to the Chief Auditor's employment agreement. The Chief Auditor will report directly to the Board through the Audit Committee and has unrestricted access to communicate and interact directly with the Audit Committee and Board, including private meetings without management present.

Responsibility

The responsibilities of the Office of the Chief Auditor are outlined in the Charter for the Office of the Chief Auditor. They include but are not limited to submitting risk-based Audit plan, communicating any fraud or illegal acts that could affect the Authority, ensuring engagements are executed and communicating the results to appropriate parties, following up on engagement findings and recommendations, and ensuring compliance 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 directly to the Board through the Audit Committee, which provides the independence necessary for the OCA to adequately perform its function, separate from the Airport Authority organization.

Impairments to Independence or Objectivity

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed based on the International Professional Practices Framework (IPPF) Standard 1130.

- ✓ There were no audits or consulting engagements conducted during Fiscal Year 2023 that had any impairment of independence or objectivity in fact or appearance.

Disclosure of Nonconformance

Occasionally, circumstances require the completion of projects/engagements in a manner that is not consistent with the *Standards*. When this occurs, the OCA must disclose the non-conformance and the impact to senior management and the Board.

- ✓ During Fiscal Year 2023 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 may 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 were no such instances related to risk during the 2023 Fiscal Year.

Use of Report

The information in this report is intended solely for the use of the San Diego County Regional Airport Authority's (SDCRAA) Audit Committee, Board, and management and is not intended to be, and should not be, used by anyone other than the specified parties.

This report has been authorized for distribution to the Audit Committee and as specified:

- Board Members
- President/Chief Executive Officer
- General Counsel
- Vice Presidents
- Director, Authority Clerk
- Director, Government Relations
- Assistants specified by Board Members and SDCRAA

Fiscal Year 2023 Annual Report from the Office of the Chief Auditor

July 1, 2022, through June 30, 2023

Audit Committee Meeting November 13, 2023

Agenda

- Fiscal Year 2023 Performance Measures
- General Audit Activities
 - Recommendation Follow-Up
 - Ethics
 - Peer Review Participation
 - Quality Assurance and Improvement Program (QAIP)
- Audit Spotlight: Car Rental Companies - Fiscal Year 2022



Fiscal Year 2023 Performance Measures

| Performance Measure | Goal | Actual | Benchmark |
|---|------|--------|-----------|
| Percentage of Audits & Consulting Engagements Completed | 80% | 72% | 80% |
| Number of Recommendations | 30 | 31 | 30 |
| Percentage of Staff Time Spent on Audit and Consulting Engagements and General Audit Activities | 81% | 83% | 81% |
| Percentage of Audit/Consulting Engagements Completed within Budget | 80% | 85% | 73% |
| Percentage of Recommendations Accepted | 95% | 100% | 83% |
| Auditee Satisfaction Rating | 4.0 | 4.9 | 4.0 |

General Audit Activities - Recommendation Follow-Up

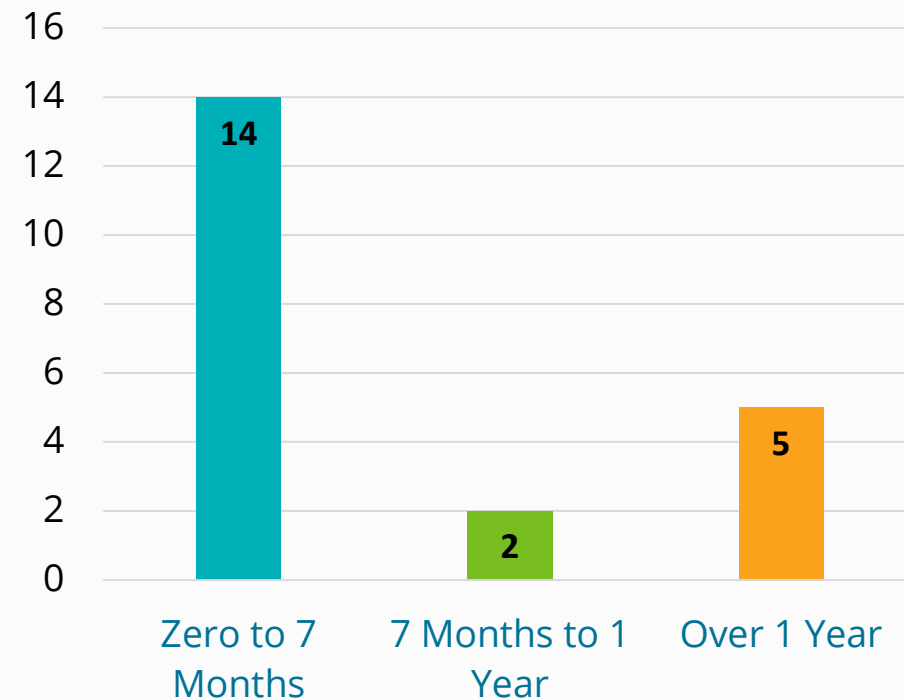
Recommendation Follow Up

| Status as of June 30, 2023 | | | |
|----------------------------|-------------|--------------|---------|
| Completed | In Progress | Not Accepted | Tracked |
| 5* | 21** | - | 26 |

* 3 recommendations were completed within the initial timeframe identified for implementation.

** 16 recommendations are still within the initial timeframe identified for implementation.

Estimated Implementation Timeframe for In Progress Recommendations



General Audit Activities - Ethics

| | Number of Tips / Reports Received | Full Investigation Initiated by OCA | Investigation Results Supported Code Violation |
|--|-----------------------------------|-------------------------------------|--|
| Category | | | |
| Human Resource, Diversity, and Workplace Respect | 34 | - | - |
| Environment, Health and Safety | 4 | - | - |
| Other | 1 | - | - |
| Total | 39 | - | - |

97.5% of Employees Have Taken Ethics Training



General Audit Activity - Peer Review Participation



Peer Review Participation

Reciprocal Agreement:

- OCA is required to participate on two peer review teams with the Association of Local Government Auditors (ALGA)
 1. Greater Orlando Aviation Authority - Completed September 2022
 2. County of San Luis Obispo - Completed April 2023

General Audit Activities - QAIP

Internal auditing *Standards* require the OCA to maintain a Quality Assurance and Improvement Program (QAIP). The QAIP must include both internal assessments and external assessments.

Internal Assessments:

- Ongoing Monitoring
 - Required annually
 - Focus is audit quality
- Self Assessments
 - Required periodically
 - Focus is conformance with *Standards* and Code of Ethics

External Assessments:

- Required every 5 years by a qualified independent assessor
- Focus is conformance with *Standards* and Code of Ethics



General Audit Activities - QAIP (Cont.)

Ongoing Monitoring & Self-Assessment Results:

Ongoing Monitoring: The OCA did not identify any items that would impact audit quality.

Self-Assessment: The OCAs Self-Assessment rating was “Generally Conforms”.

Two Recommendations:

1. Amend the Charter for the OCA to remove outdated process language related to potential ethical violations. The process is included in Code 2.16.
2. Potential Process Improvements – Consider workpaper improvements for communication and documentation.

OCA Response:

1. The Charter for the OCA was included as Item 5 on the September 11, 2023, Audit Committee agenda. Items was approved.
2. The OCA is currently exploring implementing the potential process improvements.

General Audit Activities - QAIP (Cont.)

Required Disclosures

Disclosure of OCA Purpose, Authority, & Responsibility

- ✓ Included in Fiscal Year 2023 Annual Report

Operational Independence

- ✓ No independence issues noted

Impairments to Independence or Objectivity

- ✓ No impairments noted

Disclosures of Nonconformance

- ✓ No instances noted

Management's Acceptance of Risk

- ✓ No items noted

Audit Spotlight - Car Rental Companies-FY 2022

Office of the Chief Auditor
Car Rental Companies – Fiscal Year 2022
Audit Report No. 22002
Issue Date: June 13, 2023



SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

Board Members
Gil Cabrera
Chair
Mary Castillas Salas
Lidia S. Martinez
Paul McNamara
Rafael Perez
Esther C. Sanchez
James Sly
Marni von Wilpert

Ex-Officio Board Members
Col. Thomas M. Bedell
Gustavo Dallarda
Gayle Miller

President / CEO
Kimberly J. Becker

Audit Committee
Gretchen Newsom
Chair
Mary Castillas Salas
Claudia Huerta
Lidia S. Martinez
Rafael Perez
Mayor Esther C. Sanchez
Agnes Wong Nickerson

Office of the Chief Auditor
Lee Parravano
Chief Auditor
Fred Bolger
Manager,
Audit Services
Marnie Dale
Auditor
Shane Ellis
Senior Auditor
Scott Thein
Senior Auditor
Callie Ullman
Senior Auditor
Suzanne Olinzock
Executive Assistant


Lee Parravano
Chief Auditor

Background

Multiple Car Rental Companies (CRCs) operate at SDIA.

In exchange, CRCs must remit:

- 10% of Concessionable Revenue
- A Consolidated Facilities Charge (CFC)/ Transportation Facilities Charge (TFC) of \$9/\$3.41 per day, for the first 5 days of each rental transaction.

In FY 2022 the Authority Collected:

\$61,913,295

In Concessions Fees and CFCs/TFCs from 7 CRCs

Audit Spotlight - Car Rental Companies-FY 2022

Is the
\$61.9M
correct?

Objective

Determine if the Concession Fee and CFC/TFCs paid by each CRC were accurately paid in all material respects*.

*Material Respects = Within 1% and \$50,000 of OCA calculated amount.



Scope

- July 2021 – June 2022
- Avis, Budget, Hertz, Enterprise, Payless, NU Car, and Go Rentals

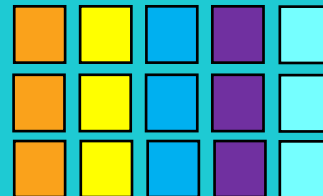
Audit Spotlight - Car Rental Companies-FY 2022

Data Analytics & Continuous Auditing

- Worked with CRCs to obtain monthly detailed files and details of accounts.
- Partnered with the Authority's Data Analytics team to load information into a data analytics software tool to create custom visualizations.



1.3 Million
Rows of Data



176 Million
Cells of Data

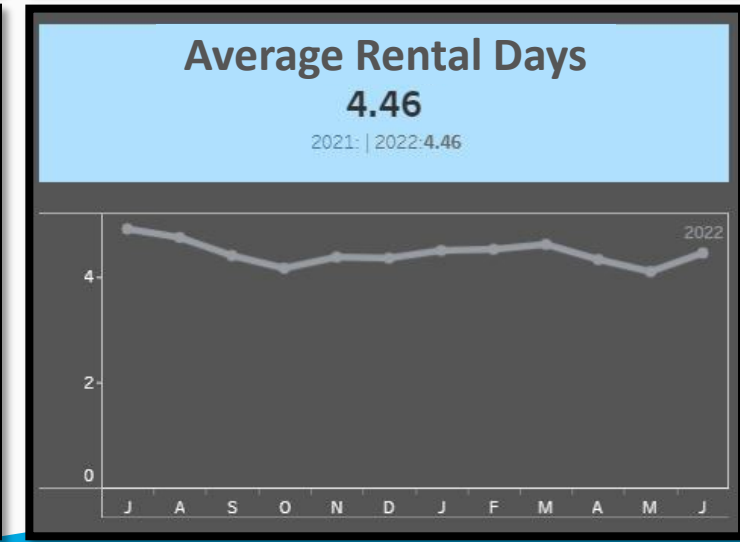
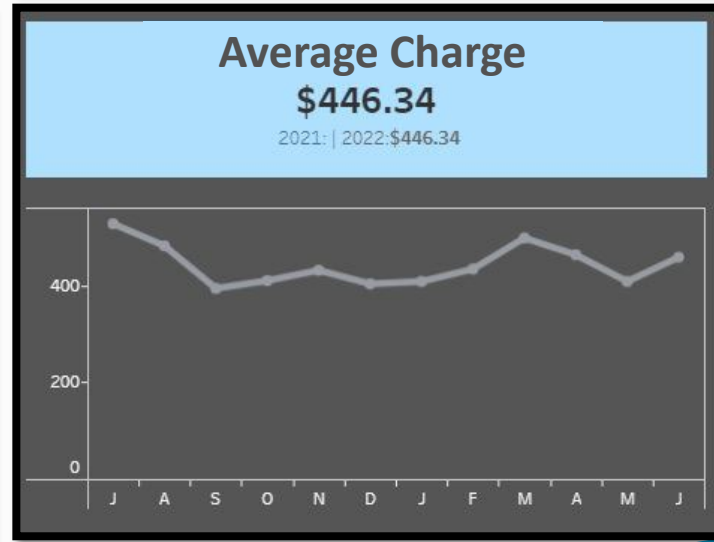
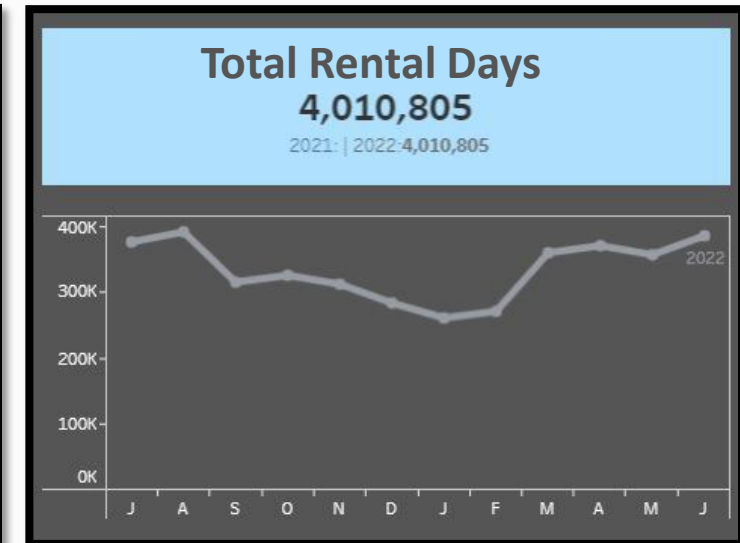
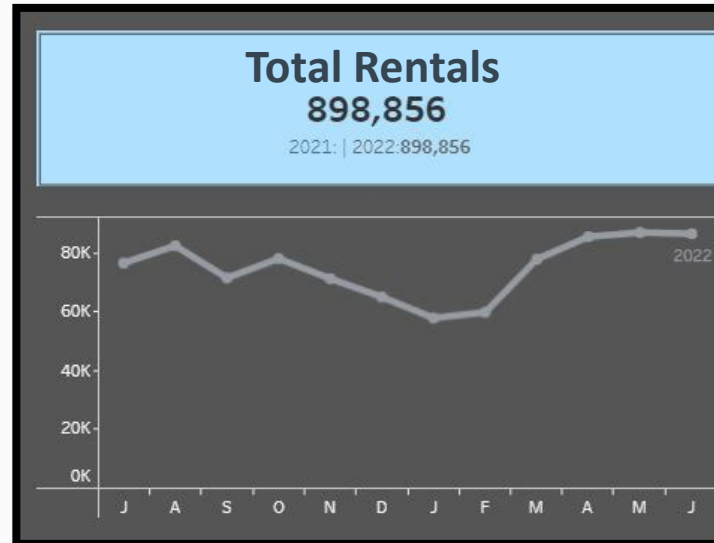


631 Megabytes
Of Data

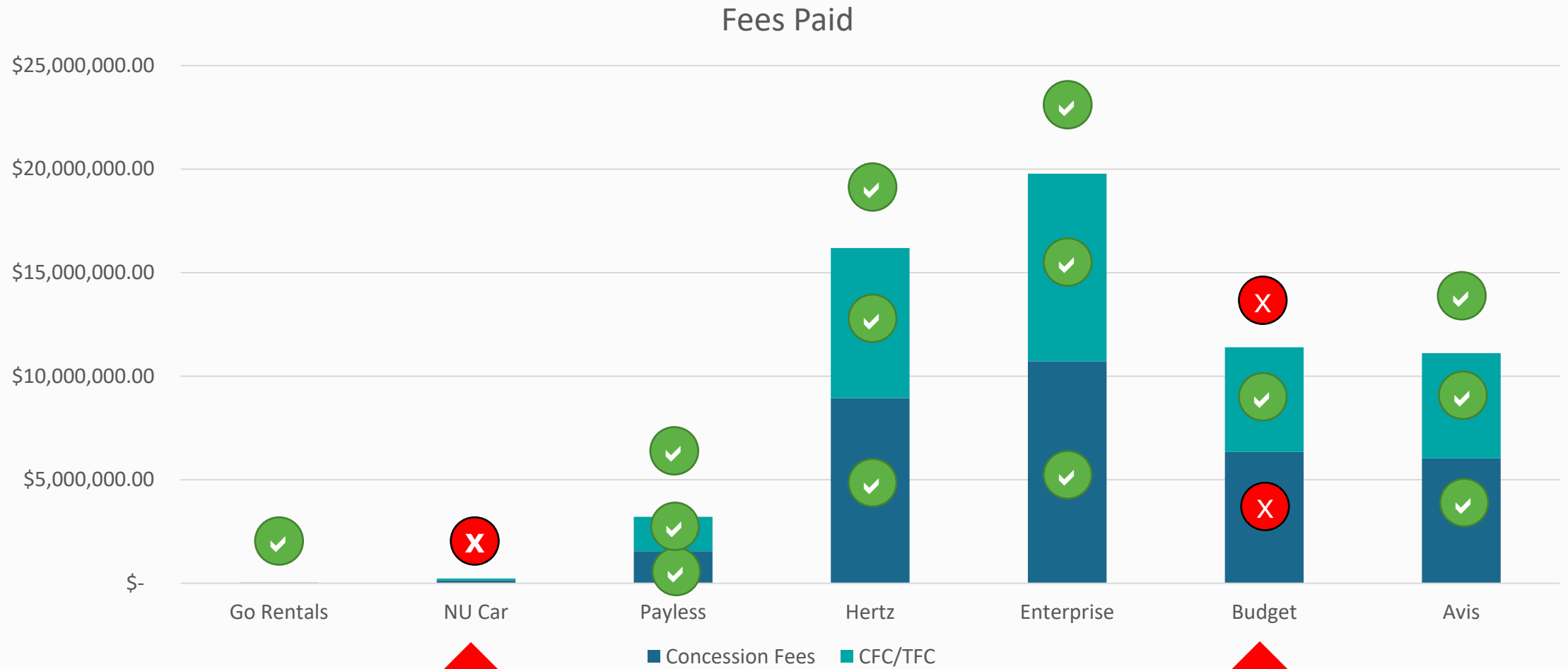
Audit Spotlight - Car Rental Companies-FY 2022

Visualizations

- Approximately 20 created
 - Filterable by CRC, month, & year
 - Allows comparisons between prior periods and to other CRCs
 - Assists in decisions to initiate audit



Audit Spotlight - Car Rental Companies-FY 2022

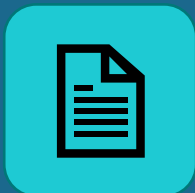


Audit Spotlight - Car Rental Companies-FY 2022

Findings 2 & 3



Monthly Summary Reports don't equal Detailed Reports



Annual Reports were not received for 3 CRCs

Conclusion & What's Next?

Conclusion

Concessions & CFCs/TFC are:

1. Materially accurate for 5 of the 7 CRCs
2. Outside of materiality range for 2 of 7 CRCs



What's Next

The OCA has proposed individual audits for:

- NU Car
- Budget



Questions?

Audit Committee Report

Meeting Date: November 13, 2023

Subject:

Fiscal Year 2024 First Quarter 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.

Background/Justification:

As directed in the Charter for the Office of the Chief Auditor, the Chief Auditor shall communicate to the Authority's Audit Committee and executive management on the performance relative to the Office of the Chief Auditor's (OCA) Audit Plan, results of audit engagements or other activities completed, and to report any risk exposures or control issues identified.

The attached Fiscal Year 2024 First Quarter Report from the OCA (Attachment A) is submitted to the Audit Committee to provide an account of activities and undertakings of the OCA during the period July 1, 2023, through September 30, 2023, and includes details on all recommendations completed or in progress during the first quarter.

A presentation by the OCA on its first quarter activities will be provided to the Audit Committee on November 13, 2023. Upon review of the Fiscal Year 2024 First Quarter Report, staff requests that the Audit Committee forward the report to the Board for acceptance.

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.
- C. NEPA: This Board action is not a project that involves additional approvals or actions by the Federal Aviation Administration ("FAA") and, therefore, no formal review under the National Environmental Policy Act ("NEPA") is required.

Application of Inclusionary Policies:

Not Applicable

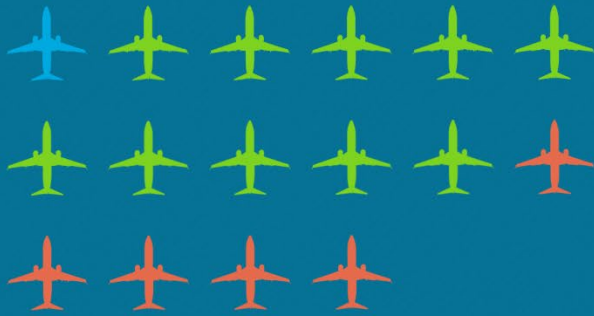
Prepared by:

Lee M. Parravano
Chief Auditor

Office of the Chief Auditor Fiscal Year 2024 1st Quarter Report



Audit Engagement Progress

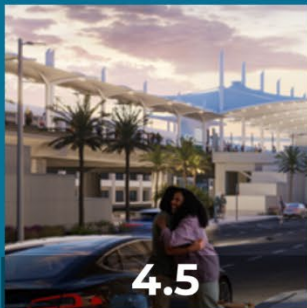


■ Completed (6.25%)
 ■ In Progress (62.5%)
 ■ Not Started (31.25%)

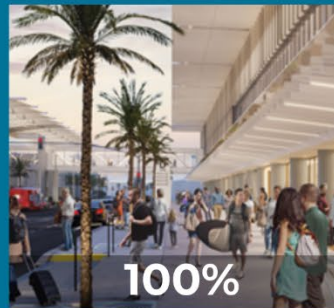
Audit Engagements Completed vs. Benchmark & Goal



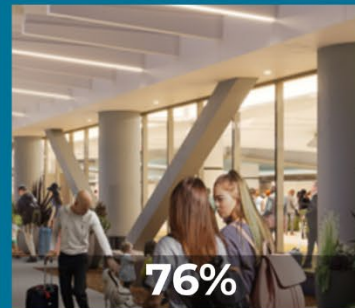
By The Numbers



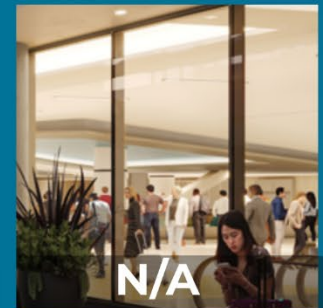
4.5
Customer Satisfaction Rating



100%
Engagements Completed Under Budget



76%
Auditor Utilization Percentage



N/A
Recommendations Accepted By Management



Fiscal Year 2024

First Quarter Report

Issue Date: November 13, 2023

OFFICE OF THE CHIEF AUDITOR

First Quarter Summary

Executive Summary

During the first quarter the Office of the Chief Auditor (OCA) began work on the Fiscal Year 2024 Audit Plan. As of the end of the quarter, one audit report was issued, and 10 audits are in process. Also, as part of the Audit Plan, the OCA completed two major components of the Quality Assurance and Improvement Program: ongoing monitoring and the self-assessment.¹ The OCA also began the implementation of our new cloud-based audit software (TeamMate+), which, once fully implemented, should increase the productivity and collaboration within the department. Details on all activities included in the Audit Plan are described below.

Performance Measures

For Fiscal Year 2024, five major performance measures were developed to evaluate the OCA. The OCAs performance against the selected performance measures is displayed in Table 1.²

Table 1: Status of Performance Measures as of September 30, 2023

| # | Performance Measure | Goal | Actual | Benchmark |
|---|---|------|--------|-----------|
| 1 | Customer satisfaction ratings from auditee | 4.0 | 4.5 | 4.0 |
| 2 | Percentage of audit and consulting engagements completed | 20% | 6% | 20% |
| 3 | Percentage of recommendations accepted | 95% | N/A | 95% |
| 4 | Percentage of staff time spent on audit and consulting engagements and general audit activities | 76% | 76% | 76% |
| 5 | Percentage of audit and consulting engagements completed within budget | 70% | 100% | 66% |

Customer Satisfaction Rating:

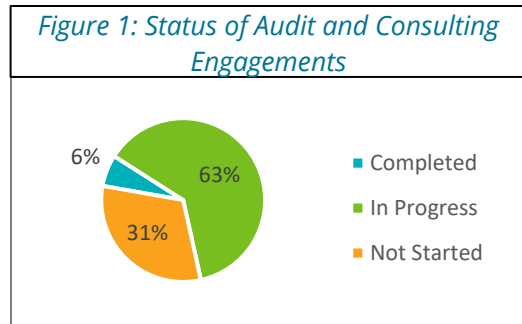
After the completion of an audit or consulting engagement, a survey is sent to the department to obtain customer satisfaction data. The OCAs goal for customer satisfaction is 4.0, on a 1 to 5 scale (with 1 being very dissatisfied and 5 being very satisfied). To date this fiscal year, we have achieved a score of 4.5.

¹ The QAIP must include ongoing and periodic internal assessments (self-assessments). As part of the Internal Audit Department's QAIP, we periodically perform self-assessments to evaluate our conformance to the International Standards for the Professional Practice of Internal Auditing (the Standards) and the Code of Ethics issued by the Institute of Internal Auditors (IIA) as well as to our own internal policies and procedures. See the OCA Fiscal Year 2023 Annual Report for additional details.

² The OCA tracks additional performance measures that are not shown above. Their results are compiled and shared with the Audit Committee annually.

Percentage of Audit and Consulting Engagements Completed:

As of the first quarter, the OCA completed 1 audit engagement, or 6%, of audit and consulting engagements (1/16 = 6%) that are planned to be completed in the Fiscal Year 2024 Audit Plan.³ In addition to the one engagement completed, the OCA had 10⁴ engagements (63%) in progress as of the end of the first quarter, as shown in Figure 1. The engagement completed in the first quarter is summarized in the upcoming section titled Audit Engagements Issued.



The status of all activities in the Fiscal Year 2024 Audit Plan is included in Appendix A.

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 issued. There have been no recommendations issued as of the end of the first quarter. Therefore, this performance metric is reported as N/A as of the first quarter.

Percentage of Staff Time Spent on Audit & Consulting Engagements and General Audit Activities:

This measure tracks the time spent on audit and consulting engagements and general audit activities.⁵ The OCAs goal is for staff to spend 76% of their working hours⁶ on audit engagements, consulting engagements, and general audit activities. The OCA is currently meeting the goal established, spending 76% of time on audit engagements, consulting engagements, and general audit activities.

Percentage of Audit and Consulting Engagements Completed within Budgeted Time:

This category monitors the efficiency of audit staff in performing audits and consulting engagements. Specifically, audit staff is responsible for the internally prepared budget hours assigned to each audit or consulting engagement. As of the first quarter of Fiscal Year 2024, the OCA completed 100% of its projects within the budgeted time, exceeding the benchmark and the OCAs goal.

³ The Fiscal Year 2024 Audit Plan has 16 audits and 1 consulting engagement. However, the audit identified as "Tenant Lease Administration and Management – FY2024 Rental Car Companies" will be carried forward, as anticipated, into Fiscal Year 2025, when required data is captured to complete the audit. This results in 15 audits and 1 consulting engagement (16 total engagements) on the Fiscal Year 2024 Audit Plan to be completed in the fiscal year.

⁴ The audit identified as "Tenant Lease Administration and Management – FY2024 Rental Car Companies" is not counted in the 10 audits in progress as it will be carried forward, as anticipated, into Fiscal Year 2025, when required data is captured to complete the audit.

⁵ Appendix A details all planned activities in these categories for Fiscal Year 2024.

⁶ Excludes Time Off (e.g., Holidays, Paid Time off).

Audit Engagements Issued

The Office of the Chief Auditor completed one audit during the first quarter. Below is a summary of this engagement.



New Administration Building – Sundt Construction, Inc.:

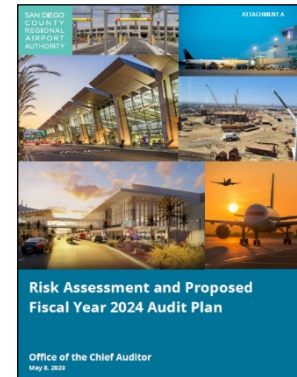
The objective of this audit was to determine if the contract with Sundt for construction of the new administration building is properly managed and monitored. Audit work found that the Airport Design & Construction Department properly managed and monitored construction of the new administration building. The audit did not identify any findings or provide any recommendations.

General Audit Activities

In addition to performing audit engagements, the OCA is involved in other general audit activities that do not result in a formal audit report/opinion being issued. The OCA is either required⁷ 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 and Audit Plan

The OCA is required to submit a formal risk-based internal Audit Plan to the Audit Committee annually. The Risk Assessment & Audit Plan is the culminating result of data gathering, management discussions, surveys, and data analysis. The annual Risk Assessment and Audit Plan is generally initiated during the third quarter of each Fiscal Year. However, informally, the OCA is constantly assessing risk and adjusting the Audit Plan as needed.



Construction Activities

Construction audit activity for the first quarter of Fiscal Year 2024 included continued work with Baker Tilly, U.S., LLP (Baker Tilly) on the Turner-Flatiron Insurance audit and the Turner-Flatiron Self-Perform Work audit. The OCA completed the audit titled “New Administration Building – Sundt Construction Inc.” and began an audit of Small Business Management. The OCA also attended meetings regarding the New T1 terminal and roadways, the new administration building, and the New T1 airside improvements projects. The OCA remains involved with issues identified by ADC and Authority management, providing assistance as requested, and attending meetings specific to all aspects of the Authority’s construction activity.

Information Technology Meeting Attendance

Information technology’s central role to Authority operations makes meeting attendance on this subject a vital activity for the Chief Auditor. In Fiscal Year 2024, meetings have been focused on system security.

Development of Data Analytics

The OCA is actively exploring options to increase its audit coverage through data analytics and to identify where in-depth audits should be initiated. The Fiscal Year 2024 Audit Plan has two data analytics audits related to rental car companies, which exemplifies our move in the data analytics direction. These audits are serving as a foundation to explore other areas where data analytics could benefit the Authority and the OCA.

The two rental car audits included in the Fiscal Year 2024 Audit Plan resulted from the *Fiscal Year 2022 Car Rental Companies* audit issued in June 2023 that utilized data analytics.

⁷ Requirements are dictated by the Charter for the Office of the Chief Auditor, Charter of the Audit Committee, or the International Standards for the Professional Practice of Internal Auditing.

Fraud, Waste, Abuse, and Ethics Program Activities

The OCA manages the Authority’s Ethics Program that includes a confidential Fraud, Waste, Abuse, and Ethics reporting hotline. During the first quarter of Fiscal Year 2024, the OCA received 9 tips/reports. Tips/reports that are not investigated by the OCA are forwarded to management, as appropriate.

The hotline also allows individuals to ask questions about possible ethical matters, thus allowing individuals to make an informed ethical decision. During the first quarter of Fiscal Year 2024, one (1) question was received. We appreciate the efforts made by any individual aiming to ensure an ethical decision is reached.

A summary of the tips/reports received in the first quarter is shown in Table 2 below.

Table 2: Hotline Tips/Reports Received in the First Quarter Fiscal Year 2024

| | Number of Tips / Reports Received | Investigation Initiated by OCA | Investigation Results Supported Code Violation |
|--|-----------------------------------|--------------------------------|--|
| Category | | | |
| Human Resource, Diversity, and Workplace Respect | 9 | - | - |
| Total | 9 | - | - |

Recommendation Follow-up

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

Table 3 below shows the number of recommendations that were *Completed* or *In Progress* as of the first quarter of Fiscal Year 2024, along with the estimated/actual implementation timeframes based on the audit report issue date. Of the Completed recommendations, all seven were implemented within the initial timeframe identified when the recommendations were issued. Of the In Progress recommendations, six recommendations were still within the initial timeframe identified for implementation.

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.

Table 3: Recommendations with Estimated/Actual Implementation Timeframe

| Recommendations | Zero to 7 Months | 7 Months to 1 Year | Over 1 Year | Total ⁸ |
|-----------------|------------------|--------------------|-------------|--------------------|
| Completed | 7 | - | - | 7 |
| In Progress | 3 | 6 | 5 | 14 |

Quality Assurance and Improvement Program

The Institute of Internal Auditors' (IIA) *Standards* require the OCA to maintain a Quality Assurance and Improvement Program (QAIP) that includes:

1. Ongoing monitoring (required annually).
2. Internal assessments (required periodically).
3. External assessments (required every 5 years).

The OCA completed ongoing monitoring of its Fiscal Year 2023 activities and operations during the first quarter of Fiscal Year 2024. The OCA found no items that would impact audit report quality. Full results are included in the Fiscal Year 2023 OCA Annual Report as part of the November 13, 2023, Audit Committee Meeting materials.⁹

The OCA also completed an Internal assessment (self-assessment). The OCA validated that the OCA continues to conform with the *International Standards for the Professional Practice of Internal Auditing (Standards)* and the Code of Ethics. Full results are included in the Fiscal Year 2023 OCA Annual Report as part of the November 13, 2023, Audit Committee Meeting materials.¹⁰ The OCA continues to monitor its activities and report on performance measures each quarter. Those results are presented in quarterly reports to the Audit Committee.

⁸ Recommendation(s) contained in confidential audit reports are not included in Table 3 or in Appendix B. They are tracked separately by the OCA.

⁹ The Fiscal Year 2023 OCA Annual Report, which contains results of on-going monitoring, was initially included in the September 11, 2023, Audit Committee materials. The report was required to be re-submitted to the Audit Committee during its November 13, 2023, meeting.

¹⁰ The results of the self-assessment were included in the September 11, 2023, Audit Committee materials and were required to be re-submitted to the Audit Committee during its November 13, 2023, meeting.

Administrative

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

Tracking Budget and Expenses

The OCA expenses totaled approximately \$300,000 through the end of the first quarter, which represents 21% of the Fiscal Year 2024 budget. No unexpected or large outlays occurred within the department during the first quarter of Fiscal Year 2024. The OCA expects to remain close to budget through the fiscal year-end.

Continuing Professional Development

OCA staff continues to obtain Continuing Professional Education (CPE) credits as required by their various certifications. The OCAs CPE credits are tracked on a calendar year basis. At the end of calendar year 2022 all OCA staff met their respective CPE requirements. In the first quarter, staff attended training on topics that included Construction, IT Risks, ESG (Environmental, Social and Governance factors), and TeamMate+ audit software.

Procedural/Supervisory

One Audit Committee meeting took place during the first quarter, which occurred September 11, 2023. The meeting contained all regularly scheduled agenda items, of which the OCA assisted in coordination with the Committee Chair and Board Services.

TeamMate+

During the first quarter, we began the implementation of TeamMate+, our new cloud-based audit software, which, once fully implemented, should increase the productivity and collaboration within the department. OCA staff provided departmental policies, procedures, and manuals to implementation consultants and worked together with them to create the OCAs environment within the software. Staff also met multiple times with the consultants to review the progress of the environment's creation and to provide feedback. All OCA staff also received between 7 and 28 hours of training on implementing and/or utilizing the new software. The software will be tested by audit staff in mid-October and should be ready for full use in November.

Use of Report

The information in this report is intended solely for the use of the San Diego County Regional Airport Authority's (SDCRAA) Audit Committee, Board, and management and is not intended to be, and should not be, used by anyone other than the specified parties.

This report has been authorized for distribution to the Audit Committee and as specified:

- Board Members
- President/Chief Executive Officer
- General Counsel
- Vice Presidents
- Director, Authority Clerk
- Director, Government Relations
- Assistants specified by Board Members and SDCRAA

FISCAL YEAR 2024 FIRST QUARTER REPORT

Appendix A – Fiscal Year 2024 Audit Plan

| # | Activity | Status as of 9/30/2023 | Over/ Under Budget |
|-----------------------|---|------------------------|--------------------|
| Audit | | | |
| 1 | Tenant Lease Admin. & Management – FY 2023 Rental Car Companies | In Progress | |
| 2 | Turner-Flatiron Self Perform Work | In Progress | |
| 3 | Harbor Police Contract Management – Fiscal Year 2018, 2019, 2020 Costs | In Progress | |
| 4 | Employee Benefits – Payroll Deductions ¹¹ | In Progress | |
| 5 | Accounts Payable – Paymode X | In Progress | |
| 6 | Contractor Monitoring – Administration Building ¹¹ | Completed | Under |
| 7 | Turner-Flatiron Insurance ¹¹ | In Progress | |
| 8 | Tenant Lease Admin. & Management – FY 2024 Rental Car Companies ¹² | In Progress | |
| 9 | System Security | Not Started | |
| 10 | Harbor Police Contract Management – Fiscal Year 2022 Costs | Not Started | |
| 11 | Tenant Lease Admin. & Management - In Terminal Concessionaire Compliance | In Progress | |
| 12 | Tenant Lease Admin. & Management – ABRM Internal Controls | Not Started | |
| 13 | Account Provisioning / Deprovisioning | Not Started | |
| 14 | Tenant Lease Admin. & Management – Budget | In Progress | |
| 15 | Tenant Lease Admin. & Management – Fast Track | In Progress | |
| 16 | Small Business Management | In Progress | |
| | To Be Determined – Construction | N/A | |
| | To Be Determined - Discretionary | N/A | |
| | Total | | |
| Consulting | | | |
| 17 | Harbor Police Contract Management | Not Started | |
| General Audit | | | |
| 16 | Risk Assessment & Audit Plan | In Progress | |
| 17 | Construction Meeting Attendance & Coordination | In Progress | |
| 18 | Information Technology Meeting Attendance | In Progress | |
| 19 | Development of Data Analytics | In Progress | |
| 20 | Fraud, Waste, Abuse, and Ethics Program | In Progress | |
| 21 | Recommendation Follow-up | In Progress | |
| 22 | Quality Assurance & Improvement Program | In Progress | |
| Administrative | | | |
| 24 | Indirect - Attendance at Staff/Board/Committee Meetings, Continuing Professional Development, and Other | In Progress | |
| 25 | Benefit - Vacation, Holiday Time, and Other Leave/Time Off | In Progress | |

¹¹ Audit Engagement is included on the November 13, 2023, Audit Committee Agenda Item: Revision to the Fiscal Year 2024 Audit Plan of the Office of the Chief Auditor

¹² Audit engagement is not anticipated to be completed in Fiscal Year 2024 and will be carried forward to Fiscal Year 2025.

Appendix B - Status of Recommendations

| Rec. No. | Audit Report Description | Priority Rating | Recommendation | Initial Estimated Completion Date | Revised / Current Estimated Completion Date | Status as of September 30, 2023 |
|------------------|--|-----------------|--|-----------------------------------|---|---|
| Completed | | | | | | |
| 23-20 | Audit Report 22002 Issued: June 13, 2023 Title: Car Rental Companies - Fiscal Year 2022 Department: REVENUE GENERATION & PARTNERSHIP DEVELOPMENT | Medium | Revenue Generation & Partnership Development (RG&PD) should evaluate the data provided by the OCA, and collaborate with the OCA, to determine if any other Agreement requirements should be included in the proposed audit scope for the two CRCs. | 7/31/2023 | 7/31/2023 | This task was completed and audits of the two CRCs are on-going. |
| 23-23 | Audit Report 23009 Issued: June 29, 2023 Title: Construction Change Order Process Department: AIRPORT DESIGN & CONSTRUCTION | Medium | We recommend that ADC, Procurement, and Finance work with the Information & Technology Services Department (I&TS) to identify what changes to E1 are feasible to improve the Change Order process. | 12/1/2023 | 9/30/2023 | ADC meets regularly with Procurement, Finance, Accounting, and Information and Technology Services and has identified changes in E1 that are feasible. These changes are being reviewed for implementation. |
| 23-24 | Audit Report 23009 Issued: June 29, 2023 Title: Construction Change Order Process Department: AIRPORT DESIGN & CONSTRUCTION | Medium | We recommend ADC ensure that the supporting documentation for all Change Orders includes justification for the Change Order. | 9/1/2023 | 9/1/2023 | ADC is reviewing change orders as they are routing for approval to ensure that justification and supporting documentation is being provided. |

Appendix B - Status of Recommendations

| Rec. No. | Audit Report Description | Priority Rating | Recommendation | Initial Estimated Completion Date | Revised / Current Estimated Completion Date | Status as of September 30, 2023 |
|------------------|--|-----------------|--|-----------------------------------|---|---|
| Completed | | | | | | |
| 23-27 | Audit Report 23012 Issued: June 30, 2023 Title: New T1 Terminal and Roadway GMP Development Phase Direct Labor Billing Department: AIRPORT DESIGN & CONSTRUCTION | Medium | ADC should require the JV to specifically review all future payment applications for inappropriate billing of holiday or paid time-off hours prior to submission. | 1/5/2024 | 9/30/2023 | The JV has implemented a quality control step into their pay application process to addresses this concern. |
| 23-30 | Audit Report 23012 Issued: June 30, 2023 Title: New T1 Terminal and Roadway GMP Development Phase Direct Labor Billing Department: AIRPORT DESIGN & CONSTRUCTION | Medium | We recommend ADC require the JV to specifically review all future payment applications for inappropriate billing of professional staff lacking Authority approved billing rates. | 1/5/2024 | 9/30/2023 | The JV has implemented a quality control step into their pay application process to addresses this concern. |
| 23-21 | Audit Report 22002 Issued: June 13, 2023 Title: Car Rental Companies - Fiscal Year 2022 Department: REVENUE GENERATION & PARTNERSHIP DEVELOPMENT | Low | Revenue Generation & Partnership Development (RG&PD) should educate Avis, Budget, and Hertz on how to accurately report gross revenues, exclusions to concessionable revenue, concession fees, and CFCs/TFCs on the summary reports. | 7/31/2023 | 7/31/2023 | Reporting requirements were communicated. In addition, the CRCs have agreed to notify RGPD when key staffing changes occur so that reoccurring training can take place. |

Appendix B - Status of Recommendations

| Rec. No. | Audit Report Description | Priority Rating | Recommendation | Initial Estimated Completion Date | Revised / Current Estimated Completion Date | Status as of September 30, 2023 |
|------------------|--|-----------------|---|-----------------------------------|---|---|
| Completed | | | | | | |
| 23-22 | Audit Report 22002 Issued: June 13, 2023 Title: Car Rental Companies - Fiscal Year 2022 Department: REVENUE GENERATION & PARTNERSHIP DEVELOPMENT | Low | Revenue Generation & Partnership Development (RG&PD) should take steps to ensure that all CRCs submit audited certified public accountant (CPA) reports by August 31 of each calendar year during the term of the Concession Agreement. | 7/31/2023 | 7/31/2023 | RGPD has implemented in a new process in regard to the annual report. Thirty days prior to due date, a reminder is issues to each CRC. Two weeks later, send a friendly reminder. On 9/30, a Notice to Cure will be issued, followed by a Notice of Default if no report is received. When ABRM is fully implemented, that system will provide alerts to initiate this process. |

Appendix B - Status of Recommendations

| Rec. No. | Audit Report Description | Priority Rating | Recommendation | Initial Estimated Completion Date | Revised / Current Estimated Completion Date | Status as of September 30, 2023 |
|--------------------|--|-----------------|---|-----------------------------------|---|---|
| In Progress | | | | | | |
| 22-30 | Audit Report 22010 Issued: June 30, 2022 Title: Turner-Flatiron, a Joint Venture, Direct Labor Billing During Validation Phase Department: AIRPORT DESIGN & CONSTRUCTION | High | We recommend that ADC notify the JV concerning the over-billing based on the actual payroll hours and determine the most appropriate method to receive the \$37,525 incorrectly billed to the Authority. | 2/1/2023 | 10/1/2023 | The JV credited \$512 for staff costs in a past pay application and will be crediting \$5,068.80 for consultants in a future pay application. JV has provided documentation to justify remainder. ***This recommendation will be reclassified as completed after the OCA traces the credits into the pay application billing(s). |
| 22-33 | Audit Report 22010 Issued: June 30, 2022 Title: Turner-Flatiron, a Joint Venture, Direct Labor Billing During Validation Phase Department: AIRPORT DESIGN & CONSTRUCTION | High | We recommend that ADC notify the JV of the \$4,814 overcharge for holiday and paid time-off for the JV staff and the \$12,917 overcharge for the consultants to determine the most appropriate method to receive the total incorrectly billed to the Authority. | 2/1/2023 | 10/1/2023 | The JV credited \$1,110.64 for holiday costs in a past pay application. JV has provided documentation to justify remainder. ***This recommendation will be reclassified as completed after the OCA traces the credits into the pay application billing(s). |
| 22-31 | Audit Report 22010 Issued: June 30, 2022 Title: Turner-Flatiron, a Joint Venture, Direct Labor Billing During Validation Phase Department: AIRPORT DESIGN & CONSTRUCTION | Medium | We recommend that ADC notify the JV concerning the underbilling based on the actual payroll register pay rates and determine the most appropriate method to address the \$1,750 that was not billed to the Authority. | 2/1/2023 | 10/1/2023 | The JV invoiced \$1,750 in a past pay application. ***This recommendation will be reclassified as completed after the OCA traces the credits into the pay application billing(s). |

Appendix B - Status of Recommendations

| Rec. No. | Audit Report Description | Priority Rating | Recommendation | Initial Estimated Completion Date | Revised / Current Estimated Completion Date | Status as of September 30, 2023 |
|--------------------|---|-----------------|---|-----------------------------------|---|--|
| In Progress | | | | | | |
| 22-10 | Audit Report 22005 Issued: Nov. 22, 2021 Title: Terminal Space Management Department: REVENUE GENERATION & PARTNERSHIP DEVELOPMENT | Medium | Authority staff should cleanup E1 Plat Management and GIS Space Manager for mismatched or incorrect data and perform regular maintenance, review, and reconciliation of the data between E1 Plat Management and GIS Space Manager. | 1/2/2023 | 2/28/2024 | This work is ongoing with the implementation of ABRM. |
| 22-11 | Audit Report 22005 Issued: Nov. 22, 2021 Title: Terminal Space Management Department: REVENUE GENERATION & PARTNERSHIP DEVELOPMENT | Medium | Authority Management should perform a physical inventory of plats throughout Terminal 2, and the New Terminal 1 when completed, to ensure that the reported attributes of space in the E1 Plat Management and GIS Space Manager reports reflect the physical space in the terminals. Any discrepancies should be timely corrected. Additionally, the written procedures referred to in Recommendation #22-8 should include a procedure for the periodic physical inventory of plats in Terminals 1 and 2. | 12/1/2022 | 2/28/2024 | ADC is still the lead on physical inventory of plats. To the degree that ADC conducts any review of plats, RGPD continues to request notifications of revisions. Full implementation of ABRM has been delayed somewhat due to the decision to add the accounts receivables module which will shift billing from a cumbersome E1 environment to ABRM. As a result, data will not be fully uploaded until 2/28/2024. |

Appendix B - Status of Recommendations

| Rec. No. | Audit Report Description | Priority Rating | Recommendation | Initial Estimated Completion Date | Revised / Current Estimated Completion Date | Status as of September 30, 2023 |
|--------------------|---|-----------------|---|-----------------------------------|---|---|
| In Progress | | | | | | |
| 23-12 | Audit Report 23007 Issued: March 31, 2023 Title: ACE Parking Management of Terminal 2 Parking Plaza Department: GROUND TRANSPORTATION | Medium | We recommend GT and ACE run SKIDATA on active mode, when the system upgrade/update is completed, to prevent the risk of system circumvention and possible loss of revenues. | 7/31/2023 | 1/31/2024 | (1) The audit recommendation to operate the Skidata system on ACTIVE mode requires the replacement of all entry & exit ALPR cameras; along with new, higher powered light kits at these locations. (2) All of the ALPR cameras were replaced on 07/01/23. (3) The light kits are on backorder with the supplier since May 2023. These light kits are required to ensure accurate and reliable ALPR image capture, which enables Skidata to associate the vehicle to the specific parking transaction. Current ETA for the light kits from supplier is Jan 2024. (4) Ace tested Skidata on ACTIVE mode with the new cameras (but without the new light kits) and had good results. Ace is assessing whether to switch to active mode without the light kits. (5) Ace will also await delivery and installation of the new light kits to permanently switch the system over to ACTIVE mode. |
| 23-16 | Audit Report 23007 Issued: March 31, 2023 Title: ACE Parking Management of Terminal 2 Parking Plaza Department: GROUND TRANSPORTATION | Medium | We recommend that ACE develop a standard operating procedure to perform a nightly license plate inventory. | 6/30/2024 | 12/31/2023 | (1) Skidata is currently working on a system solution to enable a nightly license plate inventory. (2) Once Ace has access to the system and its capabilities, they will develop an SOP for the nightly license plate inventory. |

Appendix B - Status of Recommendations

| Rec. No. | Audit Report Description | Priority Rating | Recommendation | Initial Estimated Completion Date | Revised / Current Estimated Completion Date | Status as of September 30, 2023 |
|--------------------|---|-----------------|---|-----------------------------------|---|--|
| In Progress | | | | | | |
| 23-17 | Audit Report 23007 Issued: March 31, 2023 Title: ACE Parking Management of Terminal 2 Parking Plaza Department: GROUND TRANSPORTATION | Medium | We recommend ACE develop a standard operating procedure to regularly perform a reconciliation of open tickets versus license plates of vehicles parked at T2PP and close out any tickets where an entry and a legitimate exit is found. | 7/31/2023 | 12/31/2023 | (1) The SKIDATA/ALPR system is scheduled to run on active mode by 01/31/24 - based on new light kit availability from the supplier. (2) This will minimize the number of open tickets in the system. Currently, the system is scheduled to purge open tickets at 184 days. (3) As mentioned above, once Skidata is on ACTIVE mode, and a nightly license plate inventory is performed, Ace will implement the SOP with an automated process to reconcile open tickets to license plates present or absent from the T2PP. |
| 23-25 | Audit Report 23009 Issued: June 29, 2023 Title: Construction Change Order Process Department: AIRPORT DESIGN & CONSTRUCTION | Medium | We recommend ADC review the documentation supporting CIP Change Orders to verify the necessity of the Internal Form and the External Form to eliminate or revise the forms as determined necessary. Forms that have spaces for signature should be completed as designed. | 1/31/2024 | 1/31/2024 | ADC continues to update Change Order processes and continues to review forms that are used. This process is in progress. |
| 23-26 | Audit Report 23009 Issued: June 29, 2023 Title: Construction Change Order Process Department: AIRPORT DESIGN & CONSTRUCTION | Medium | We recommend ADC clarify the signatory approval levels within the ADC procedures when there are decreases to award amounts or both increases and decreases to award amounts combined into one Change Order. | 1/31/2024 | 1/31/2024 | ADC has incorporated the recommended clarification into the draft updated ADC procedures that will be published upon the completion of the ADC change order process update. |

Appendix B - Status of Recommendations

| Rec. No. | Audit Report Description | Priority Rating | Recommendation | Initial Estimated Completion Date | Revised / Current Estimated Completion Date | Status as of September 30, 2023 |
|--------------------|--|-----------------|---|-----------------------------------|---|--|
| In Progress | | | | | | |
| 23-28 | Audit Report 23012 Issued: June 30, 2023 Title: New T1 Terminal and Roadway GMP Development Phase Direct Labor Billing Department: AIRPORT DESIGN & CONSTRUCTION | Medium | We recommend that ADC notify the JV of the overcharge of \$2,594 for holiday time for the JV staff. Additionally, we recommend ADC request all holiday policies, and other records as necessary, from each consultant listed above with the total of \$4,475 to determine if the Authority's approved labor billing rates already included holiday pay and are duplications. Reimbursement should be requested for duplicate costs. | 1/5/2024 | 1/5/2024 | The JV credited \$2,594 for staff costs in a past pay application and will provide \$545 credit for consultant overcharge in a future pay application. The JV provided justification for remainder of consultants. ***This recommendation will be reclassified as completed after the OCA traces the credits into the pay application billing(s). |
| 23-31 | Audit Report 23012 Issued: June 30, 2023 Title: New T1 Terminal and Roadway GMP Development Phase Direct Labor Billing Department: AIRPORT DESIGN & CONSTRUCTION | Medium | ADC should determine the most appropriate way to receive the overbilling of \$752 for the unapproved rates. | 1/5/2024 | 1/5/2024 | The JV provided a credit for \$752 in a past pay application. ***This recommendation will be reclassified as completed after the OCA traces the credits into the pay application billing(s). |

Appendix B - Status of Recommendations

| Rec. No. | Audit Report Description | Priority Rating | Recommendation | Initial Estimated Completion Date | Revised / Current Estimated Completion Date | Status as of September 30, 2023 |
|--------------------|--|-----------------|--|-----------------------------------|---|--|
| In Progress | | | | | | |
| 23-15 | Audit Report 23007 Issued: March 31, 2023 Title: ACE Parking Management of Terminal 2 Parking Plaza Department: GROUND TRANSPORTATION | Low | We recommend GT continue to monitor the wayfinding and available space signage repair part supply issues and provide support to ACE as needed. | 8/31/2023 | 12/31/2023 | (1) Skidata is working with the wayfinding system provider Indect to address the ongoing problems with signage. They must be properly weatherized to avoid ongoing signage replacements as moisture is getting into the housings and shorting out the signs. (2) Ace is working with Skidata to repair/replace any malfunctioning signs. Expected completion is 12/31/23. (3) GT is monitoring the wayfinding signage issue. |
| 23-29 | Audit Report 23012 Issued: June 30, 2023 Title: New T1 Terminal and Roadway GMP Development Phase Direct Labor Billing Department: AIRPORT DESIGN & CONSTRUCTION | Low | We recommend that ADC consider charging the JV the audit costs in the amount of \$65,251. | 1/5/2024 | 1/5/2024 | ADC continues to work with Authority management to determine if the Authority will be requesting reimbursement of audit costs. |

Fiscal Year 2024 First Quarter Report from the Office of the Chief Auditor

July 1, 2023, through September 30, 2023

Audit Committee Meeting November 13, 2023

Agenda

- Performance Measures
- General Audit Activities
 - Recommendation Follow-Up
 - Ethics
- Administrative

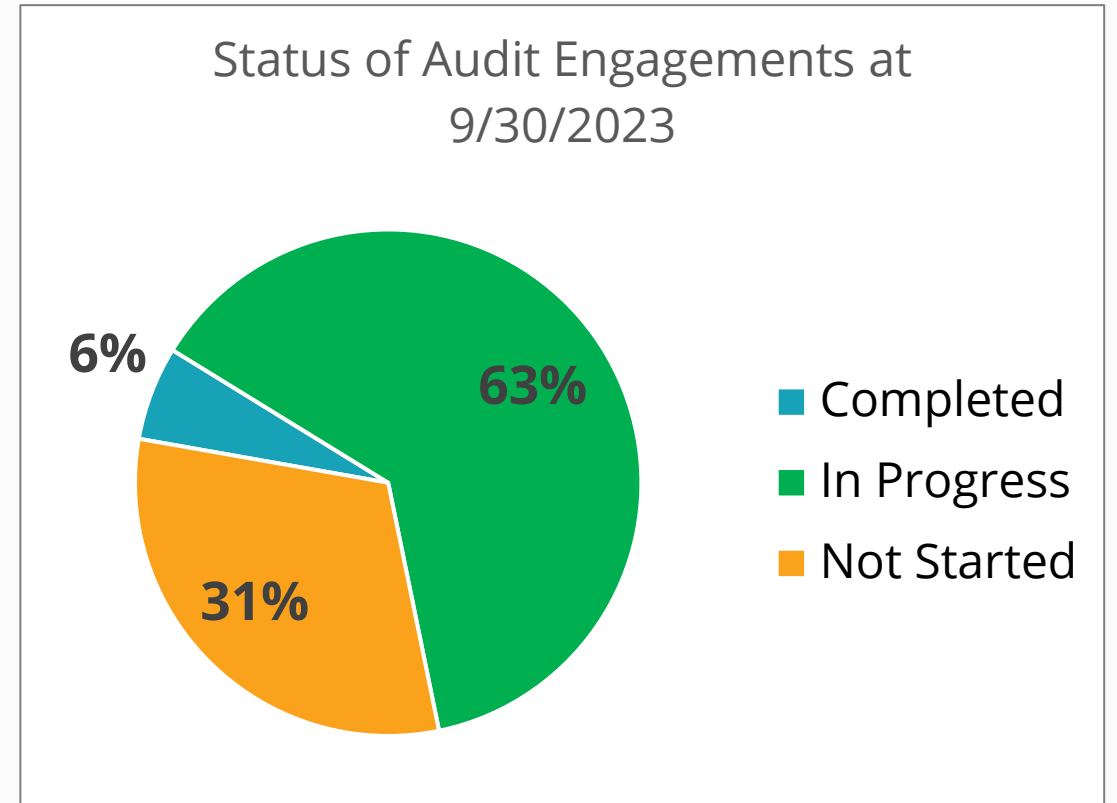
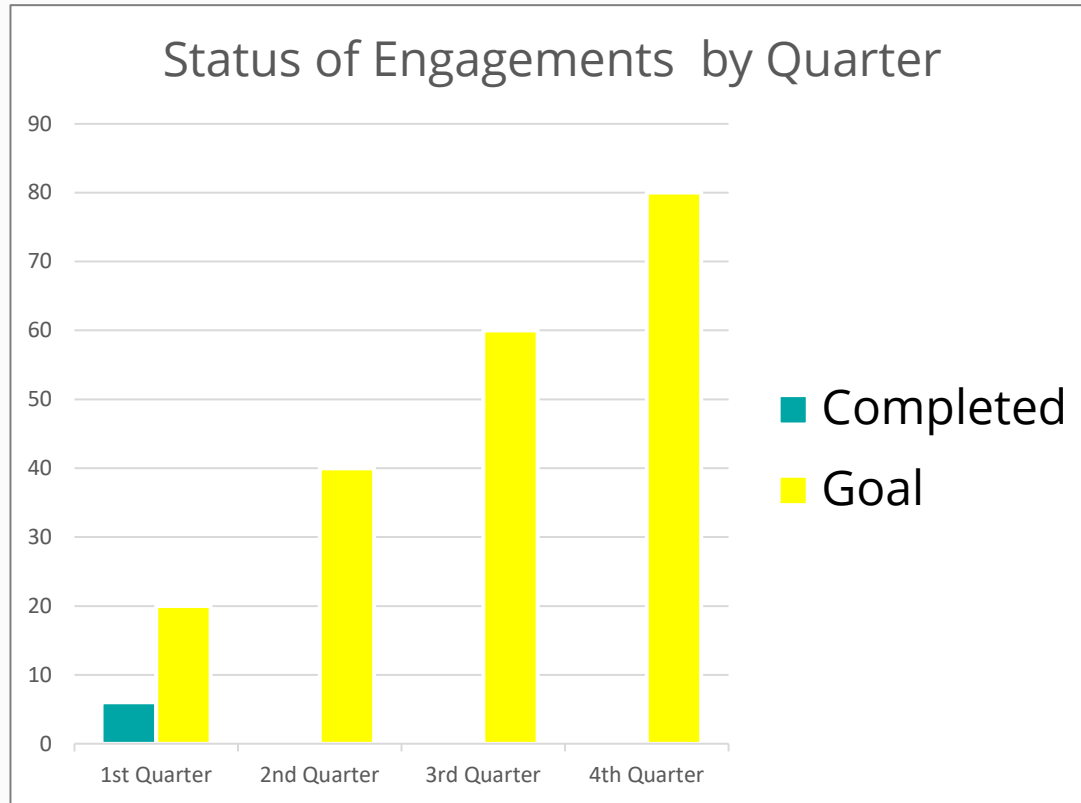


Fiscal Year 2024 Performance Measures

| Performance Measure | Goal | Actual | Benchmark |
|---|------|--------|-----------|
| Customer Satisfaction Rating from Auditee | 4.0 | 4.5 | 4.0 |
| Percentage of Audit and Consulting Engagements Completed | 20% | 6% | 20% |
| Percentage of Recommendations Accepted | 95% | N/A | 95% |
| Percentage of Staff Time Spent on Audit and Consulting Engagements and General Audit Activities | 76% | 76% | 76% |
| Percentage of Audits and Consulting Engagements Completed within Budget | 70% | 100% | 66% |

Performance Measures - Additional Details

Percentage of Engagements Completed



General Audit Activity - Recommendation Follow-Up

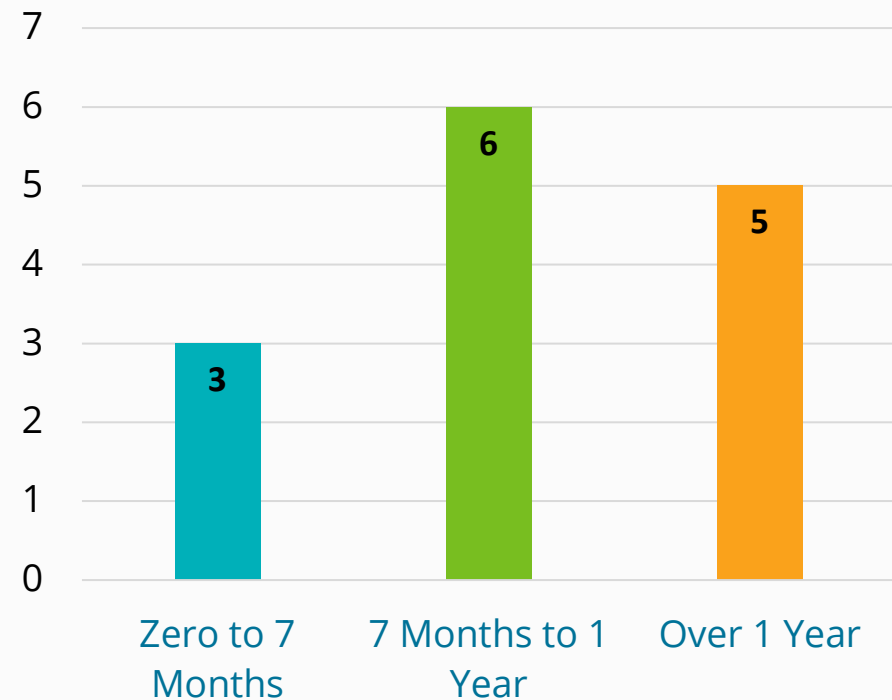
Recommendation Follow Up

| Status as of September 30, 2023 | | | |
|---------------------------------|-------------|--------------|---------|
| Completed | In Progress | Not Accepted | Tracked |
| 7* | 14** | - | 21 |

* 7 recommendations were completed within the initial timeframe identified for implementation.

** 6 recommendations are still within the initial timeframe identified for implementation.

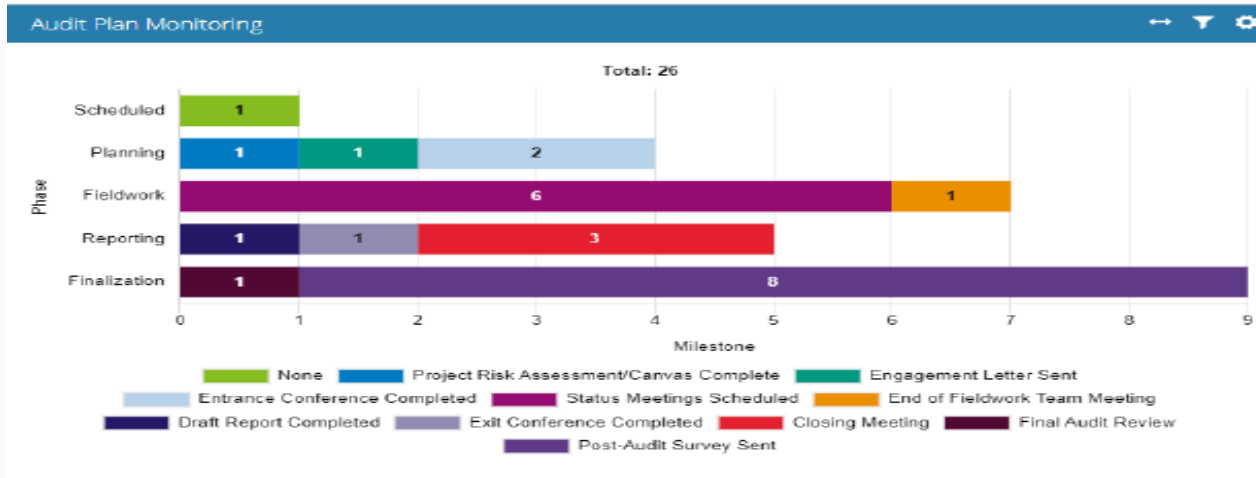
Estimated Implementation Timeframe for In Progress Recommendations



General Audit Activity - Ethics

| | Number of Tips / Reports Received as of Sept. 30, 2023 | Full Investigation Initiated by OCA | Investigation Results Supported Code Violation (Ethics or Workplace) |
|--|--|-------------------------------------|--|
| Category | | | |
| Human Resource, Diversity, and Workplace Respect | 9 | - | - |
| Total | 9 | - | - |

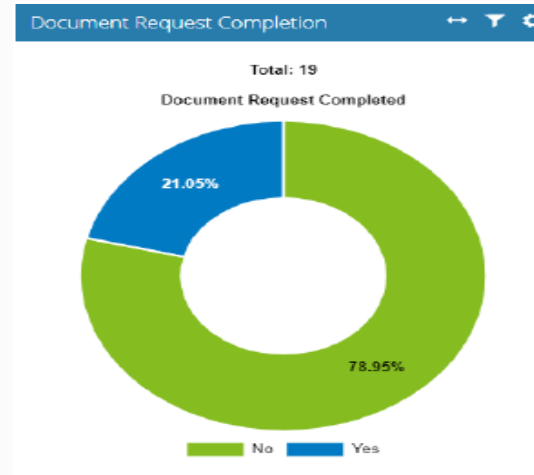
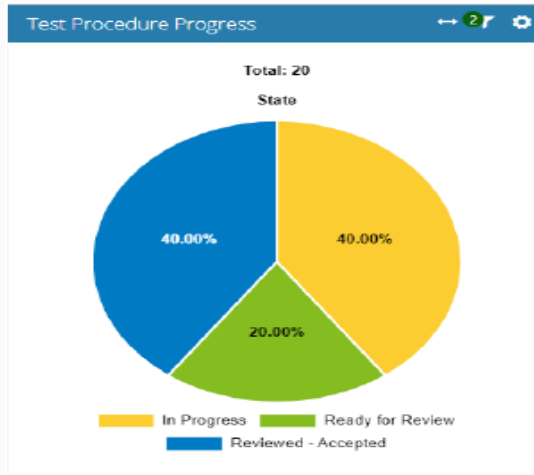
Administrative



New Cloud Based Audit Software

TeamMate+ enhancements:

- Integrated Risk Assessments
- Audit Plan Management
- Performance Monitoring
- Audit Workpapers
- Real Time Management Review
- Integrated Surveys
- Integrated Recommendation Follow up



A large commercial airplane is flying in the upper left quadrant of the frame against a sky filled with soft, pinkish-orange clouds. Below the plane, a city skyline is visible, featuring numerous high-rise buildings. In the foreground, there is a body of water and a line of green trees. The overall scene is captured during the "golden hour" of sunset.

Questions?

Audit Committee Report

Meeting Date: November 13, 2023

Subject:

Revision to the Fiscal Year 2024 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 5, 2023, per Board Resolution No. 2023-0086, 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 the 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 Audit Plan for Fiscal Year 2024 was initially accepted by the Audit Committee during its May 8, 2023, meeting, and was subsequently approved on June 1, 2023, by Board Resolution No. 2023-0041. The Audit Plan estimated the hours required to complete the new Fiscal Year 2024 audits and estimated the hours to complete the Fiscal Year 2023 audits that would be issued by Fiscal Year-end June 30, 2023, or would carry forward to the Fiscal Year 2024 Audit Plan.

During the first quarter of Fiscal Year 2024 a review of the Audit Plan was undertaken by the OCA and a revision is now requested. The proposed revision precisely accounts for the audits that carried over from Fiscal Year 2023 and adjusts the allocation of audit hours to reflect the OCAs current operational requirements.

Staff requests that the Audit Committee accept the proposed revision to the Audit Plan and forward it to the Board for subsequent approval. The proposed revision to the Fiscal Year 2024 Audit Plan is provided as Attachment A. The Fiscal Year 2024 Audit Plan with all changes incorporated is provided as Attachment B.

Fiscal Impact:

The Chief Auditor Department's adopted Operating Expense Budget for Fiscal Year 2024 and conceptually approved budget for Fiscal Year 2025 have been sufficiently funded to meet the allotted budget requirements for the proposed revision to the Fiscal Year 2024 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.
- C. NEPA: This Board action is not a project that involves additional approvals or actions by the Federal Aviation Administration ("FAA") and, therefore, no formal review under the National Environmental Policy Act ("NEPA") is required.

Audit Committee Report

Meeting Date: November 13, 2023

Page 3 of 3

Application of Inclusionary Policies:

Not Applicable

Prepared by:

Lee M. Parravano
Chief Auditor

Office of the Chief Auditor
Fiscal Year 2024
Proposed Audit Plan November 13, 2023

ATTACHMENT A

| Key Work Activity | Objective ¹ | Prior Estimated Hours | Change Requested | Revised Hours |
|---|---|-----------------------|------------------|---------------|
| Audit Hours | | | | |
| Tenant Lease Administration and Management ² | To determine if fiscal year 2023 concessions and Customer Facility Charges (CFC) / Transportation Facilities Charges (TFC) reported to the Authority are accurate for Airport Rental Car Companies. | 300 | - | 300 |
| Turner-Flatiron Self Perform Work ² | To determine if work self-performed by Turner-Flatiron complies with the agreement. ³ | 104 | 50 | 154 |
| Harbor Police Contract Mgmt. ² | To determine if selected Harbor Police costs and services are appropriate and equitable for the fiscal years 2018, 2019, and 2020. | 100 | - | 100 |
| Employee Benefits ² | To determine if employee payroll deductions are administered appropriately. | 150 | 100 | 250 |
| Accounts Payable ² | To determine if the controls for Paymode X are appropriate. | 200 | - | 200 |
| Contractor Monitoring ² | To determine if the construction of the new administration building is properly managed. | - | 40 | 40 |
| Turner-Flatiron Insurance ² | To determine if insurance billed is appropriate and complies with the agreement. ³ | - | 250 | 250 |
| Tenant Lease Administration and Management | To determine if fiscal year 2024 concessions and Customer Facility Charges (CFC) / Transportation Facilities Charges (TFC) reported to the Authority are accurate for Airport rental car companies. | 500 | - | 500 |
| System Security | To evaluate the Authority's security posture by performing testing of the Authority's Virtual Private Network access. | 350 | - | 350 |
| Harbor Police Contract Mgmt. | To determine if selected Harbor Police costs or services are appropriate related to fiscal year 2022. | 425 | - | 425 |
| Tenant Lease Administration and Management | To determine in terminal concessionaires are complying with selected elements of their contracts. | 550 | - | 550 |
| Tenant Lease Administration and Management | To determine if appropriate internal controls in the property management software (ABRM) are appropriate and if data is accurate. | 550 | - | 550 |
| Account Provisioning /De-Provisioning | To determine if account provisioning and de-provisioning are performed timely. | 450 | - | 450 |

¹ Objective may change based on the preliminary survey performed by the OCA.

² Audit activity has been carried forward from fiscal year 2023.

³ This audit is being performed in partnership with the external construction audit firm, Baker Tilly. The hours listed are the hours for OCA staff only and do not include the hours for Baker Tilly.

Office of the Chief Auditor
Fiscal Year 2024
Proposed Audit Plan November 13, 2023

ATTACHMENT A

| Key Work Activity | Objective ¹ | Prior Estimated Hours | Change Requested | Revised Hours |
|--|---|-----------------------|------------------|---------------|
| Tenant Lease Administration and Management | To determine if Budget Rent a Car accurately paid concessions and Customer Facility Charges (CFC). | 300 | (50) | 250 |
| Tenant Lease Administration and Management | To determine if Fast Track Rent a Car accurately paid concessions and Transportation Facility Charges (TFC). | 350 | - | 350 |
| Small Business Management | To determine if Small Business Management is managed appropriately. | 550 | - | 550 |
| To Be Determined - Construction | To initiate audits related to the New T1 based on a Risk Assessment(s) performed by Baker Tilly. | 700 | (340) | 360 |
| To Be Determined | To initiate audit(s)/consulting engagements based on risks identified at the discretion of the Chief Auditor. | 573 | (50) | 523 |
| | Total Audit Hours | 6,152 | - | 6,152 |
| Consulting Hours | | | | |
| Harbor Police Contract Mgmt. | To provide management assistance with recommendations related to the Harbor Police Contract. | 200 | - | 200 |
| | Total Consulting Hours | 200 | - | 200 |

Office of the Chief Auditor
Fiscal Year 2024
Proposed Audit Plan November 13, 2023

ATTACHMENT A

| Key Work Activity | Objective ¹ | Prior Estimated Hours | Change Requested | Revised Hours |
|--|--|-----------------------|------------------|---------------|
| General Audit Hours | | | | |
| Risk Assessment and Audit Plan ⁴ | To conduct a Risk Assessment that will identify the high-risk activities to be considered when preparing the annual Audit Plan. | 252 | - | 252 |
| Construction Meeting Attendance & External Construction Auditor Coordination | Attend various construction meetings and incorporate knowledge into ongoing risk assessments and management of the External Construction Auditor. | 380 | - | 380 |
| Information Technology Meeting Attendance | Attend various Information Technology meetings, incorporate knowledge into ongoing risk assessments, and initiate audits, if needed. | 20 | - | 20 |
| Development of Data Analytics | Develop a data analytics program for in-terminal concessions or other programs. | 200 | - | 200 |
| Ethics Program ⁴ | To review ethics policies, perform training, and investigate reported incidents. | 300 | - | 300 |
| Recommendation Follow-up ⁴ | To verify that internal and external audit recommendations have been implemented as intended. | 160 | - | 160 |
| Quality Assurance & Improvement Program ⁴ | To assess conformance with the <i>Standards</i> , whether internal auditors apply the Code of Ethics, and allow for the identification of improvement opportunities. | 350 | - | 350 |
| | Total General Audit Hours | 1,662 | - | 1,662 |
| Administrative Hours | | | | |
| Administrative - Indirect | Attendance at Staff/Board/Committee Meetings, Continuing Professional Development and Other. | 2,290 | - | 2,290 |
| Administrative - Benefit | Vacation, Holiday Time, and Other Time Off. | 2,176 | - | 2,176 |
| | Total Administrative Hours | 4,466 | - | 4,466 |
| | Total Hours | 12,480 | - | 12,480 |

⁴ Required activity in the Charter for the Office of the Chief Auditor or Charter of the Audit Committee.

| Key Work Activity | Objective ⁵ | Estimated Hours | Change Requested | Revised Hours |
|--|---|-----------------|------------------|---------------|
| Contingent Audit Hours | | | | |
| Tenant Lease Administration and Management | To determine if concessions and Customer Facility Charges (CFC) / Transportation Facilities Charges (TFC) reported to the Authority are accurate for a selected Airport Rental Car Company. | 400 | - | 400 |
| Diversity & Inclusion | To determine if the Diversity & Inclusion Program is accurately tracking metrics and best practices. | 500 | - | 500 |
| Social Media/Website / Webmaster | To determine if the controls around social media and/or website administration are appropriate and adequate. | 450 | - | 450 |
| Accounts Payable | To determine if the controls related to the Accounts Payable automated payment files are appropriate. | 450 | - | 450 |
| Tenant Lease Administration and Management | To determine if the food and beverage concessionaire surcharge is administered appropriately. | 450 | - | 450 |
| Rental Car Shuttle Service Contract Administration | To determine if the Shuttle Service operations are administered appropriately. | 650 | - | 650 |
| Tenant Lease Administration and Management | To determine if airport lounge concession contracts are administered appropriately. | 500 | - | 500 |
| Asset Management | To determine if computer imaging is administered appropriately. | 500 | - | 500 |
| Parking Management Contract Administration | To determine if Dynamic Pricing is being managed appropriately. | 550 | - | 550 |
| TNC Contract Administration & Revenue Collection | To determine if the TNC contract is administered appropriately. | 475 | - | 475 |
| Curfew Violations | To determine if curfew violations are administered appropriately. | 450 | - | 450 |
| Leaves of Absence / Catastrophic Leave | To determine leaves of absences are administered appropriately. | 525 | - | 525 |
| Advertising | To determine if the concessions marketing program is managed appropriately. | 500 | - | 500 |
| Parking Management Contract Administration | To determine if the close out process for parking management contract is administered appropriately. | 600 | - | 600 |
| ARFF Management | To determine if costs included in ARFF billings are appropriate. | 500 | - | 500 |

⁵ Objective may change based on the preliminary survey performed by the OCA.

Office of the Chief Auditor
 Fiscal Year 2024
 Proposed Audit Plan November 13, 2023

ATTACHMENT A

| Key Work Activity | Objective ⁵ | Estimated Hours | Change Requested | Revised Hours |
|--|--|-----------------|------------------|---------------|
| Contingent Audit Hours | | | | |
| Air Service Management | To determine if fuel rights are administered appropriately. | 500 | - | 500 |
| Tenant Lease Administration and Management | To determine the operations of a new SDIA Rental Car Company Agreement holder. | - | 400 | 400 |
| | Total Contingent Audit Hours | 8,000 | 400 | 8,400 |

Office of the Chief Auditor
Fiscal Year 2024
Proposed Audit Plan November 13, 2023

ATTACHMENT B

| Key Work Activity | Objective ¹ | Revised Hours |
|---|---|---------------|
| Audit Hours | | |
| Tenant Lease Administration and Management ² | To determine if fiscal year 2023 concessions and Customer Facility Charges (CFC) / Transportation Facilities Charges (TFC) reported to the Authority are accurate for Airport Rental Car Companies. | 300 |
| Turner-Flatiron Self Perform Work ² | To determine if work self-performed by Turner-Flatiron complies with the agreement. ³ | 154 |
| Harbor Police Contract Mgmt. ² | To determine if selected Harbor Police costs and services are appropriate and equitable for the fiscal years 2018, 2019, and 2020. | 100 |
| Employee Benefits ² | To determine if employee payroll deductions are administered appropriately. | 250 |
| Accounts Payable ² | To determine if the controls for Paymode X are appropriate. | 200 |
| Contractor Monitoring ² | To determine if the construction of the new administration building is properly managed. | 40 |
| Turner-Flatiron Insurance ² | To determine if insurance billed is appropriate and complies with the agreement. ³ | 250 |
| Tenant Lease Administration and Management | To determine if fiscal year 2024 concessions and Customer Facility Charges (CFC) / Transportation Facilities Charges (TFC) reported to the Authority are accurate for Airport rental car companies. | 500 |
| System Security | To evaluate the Authority's security posture by performing testing of the Authority's Virtual Private Network access. | 350 |
| Harbor Police Contract Mgmt. | To determine if selected Harbor Police costs or services are appropriate related to fiscal year 2022. | 425 |
| Tenant Lease Administration and Management | To determine in terminal concessionaires are complying with selected elements of their contracts. | 550 |
| Tenant Lease Administration and Management | To determine if appropriate internal controls in the property management software (ABRM) are appropriate and if data is accurate. | 550 |
| Account Provisioning /De-Provisioning | To determine if account provisioning and de-provisioning are performed timely. | 450 |
| Tenant Lease Administration and Management | To determine if Budget Rent a Car accurately paid concessions and Customer Facility Charges (CFC). | 250 |
| Tenant Lease Administration and | To determine if Fast Track Rent a Car accurately paid concessions and Transportation Facility Charges (TFC). | 350 |

¹ Objective may change based on the preliminary survey performed by the OCA.

² Audit activity has been carried forward from fiscal year 2023.

³ This audit is being performed in partnership with the external construction audit firm, Baker Tilly. The hours listed are the hours for OCA staff only and do not include the hours for Baker Tilly.

Office of the Chief Auditor
 Fiscal Year 2024
 Proposed Audit Plan November 13, 2023

ATTACHMENT B

| Key Work Activity | Objective ¹ | Revised Hours |
|---------------------------------|---|---------------|
| Management | | |
| Small Business Management | To determine if Small Business Management is managed appropriately. | 550 |
| To Be Determined - Construction | To initiate audits related to the New T1 based on a Risk Assessment(s) performed by Baker Tilly. | 360 |
| To Be Determined | To initiate audit(s)/consulting engagements based on risks identified at the discretion of the Chief Auditor. | 523 |
| | Total Audit Hours | 6,152 |
| Consulting Hours | | |
| Harbor Police Contract Mgmt. | To provide management assistance with recommendations related to the Harbor Police Contract. | 200 |
| | Total Consulting Hours | 200 |

Office of the Chief Auditor
Fiscal Year 2024
Proposed Audit Plan November 13, 2023

ATTACHMENT B

| Key Work Activity | Objective ¹ | Revised Hours |
|--|--|---------------|
| General Audit Hours | | |
| Risk Assessment and Audit Plan ⁴ | To conduct a Risk Assessment that will identify the high-risk activities to be considered when preparing the annual Audit Plan. | 252 |
| Construction Meeting Attendance & External Construction Auditor Coordination | Attend various construction meetings and incorporate knowledge into ongoing risk assessments and management of the External Construction Auditor. | 380 |
| Information Technology Meeting Attendance | Attend various Information Technology meetings, incorporate knowledge into ongoing risk assessments, and initiate audits, if needed. | 20 |
| Development of Data Analytics | Develop a data analytics program for in-terminal concessions or other programs. | 200 |
| Ethics Program ⁴ | To review ethics policies, perform training, and investigate reported incidents. | 300 |
| Recommendation Follow-up ⁴ | To verify that internal and external audit recommendations have been implemented as intended. | 160 |
| Quality Assurance & Improvement Program ⁴ | To assess conformance with the <i>Standards</i> , whether internal auditors apply the Code of Ethics, and allow for the identification of improvement opportunities. | 350 |
| | Total General Audit Hours | 1,662 |
| Administrative Hours | | |
| Administrative - Indirect | Attendance at Staff/Board/Committee Meetings, Continuing Professional Development and Other. | 2,290 |
| Administrative - Benefit | Vacation, Holiday Time, and Other Time Off. | 2,176 |
| | Total Administrative Hours | 4,466 |
| | Total Hours | 12,480 |

⁴ Required activity in the Charter for the Office of the Chief Auditor or Charter of the Audit Committee.

| Key Work Activity | Objective ⁵ | Revised Hours |
|--|---|---------------|
| Contingent Audit Hours | | |
| Tenant Lease Administration and Management | To determine if concessions and Customer Facility Charges (CFC) / Transportation Facilities Charges (TFC) reported to the Authority are accurate for a selected Airport Rental Car Company. | 400 |
| Diversity & Inclusion | To determine if the Diversity & Inclusion Program is accurately tracking metrics and best practices. | 500 |
| Social Media/Website / Webmaster | To determine if the controls around social media and/or website administration are appropriate and adequate. | 450 |
| Accounts Payable | To determine if the controls related to the Accounts Payable automated payment files are appropriate. | 450 |
| Tenant Lease Administration and Management | To determine if the food and beverage concessionaire surcharge is administered appropriately. | 450 |
| Rental Car Shuttle Service Contract Administration | To determine if the Shuttle Service operations are administered appropriately. | 650 |
| Tenant Lease Administration and Management | To determine if airport lounge concession contracts are administered appropriately. | 500 |
| Asset Management | To determine if computer imaging is administered appropriately. | 500 |
| Parking Management Contract Administration | To determine if Dynamic Pricing is being managed appropriately. | 550 |
| TNC Contract Administration & Revenue Collection | To determine if the TNC contract is administered appropriately. | 475 |
| Curfew Violations | To determine if curfew violations are administered appropriately. | 450 |
| Leaves of Absence / Catastrophic Leave | To determine leaves of absences are administered appropriately. | 525 |
| Advertising | To determine if the concessions marketing program is managed appropriately. | 500 |
| Parking Management Contract Administration | To determine if the close out process for parking management contract is administered appropriately. | 600 |
| ARFF Management | To determine if costs included in ARFF billings are appropriate. | 500 |
| Air Service Management | To determine if fuel rights are administered appropriately. | 500 |
| Tenant Lease Administration and Management | To determine the operations of a new SDIA Rental Car Company Agreement holder. | 400 |
| Total Contingent Audit Hours | | 8,400 |

⁵ Objective may change based on the preliminary survey performed by the OCA.

Revision to the Fiscal Year 2024 Audit Plan of the Office of the Chief Auditor

Audit Committee Meeting November 13, 2023

Reasons for Revision



| Description* | Hours |
|---|------------|
| Turner-Flatiron Self Perform Work | 50 |
| Employee Benefits | 100 |
| Contractor Monitoring – Sundt Administration Building | 40 |
| Turner-Flatiron Insurance | 250 |
| Total | 440 |

* Contingent Audit - Tenant Lease Administration and Management – Rental Car Company 400

| Description | Hours |
|---|--------------|
| Tenant Lease Administration and Management - Budget | (50) |
| To Be Determined – Construction | (340) |
| To Be Determined | (50) |
| Total | (440) |

Questions?