

**SAN BERNARDINO INTERNATIONAL
AIRPORT AUTHORITY**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

For the Fiscal Year Ended
June 30, 2020

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY
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June 30, 2020

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Independent Auditor's Report

Board of Commissioners
San Bernardino International Airport Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the San Bernardino International Airport Authority (Authority), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's *Minimum Audit Requirements for Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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Certified Public Accountants



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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Bernardino International Airport Authority, as of June 30, 2020, and the respective changes in its financial position, and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and State regulations governing special districts.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedules listed in the supplementary information section are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 18, 2020 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Rogers, Anderson, Malody & Scott, LLP.

December 18, 2020
San Bernardino, California

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

Executive Summary

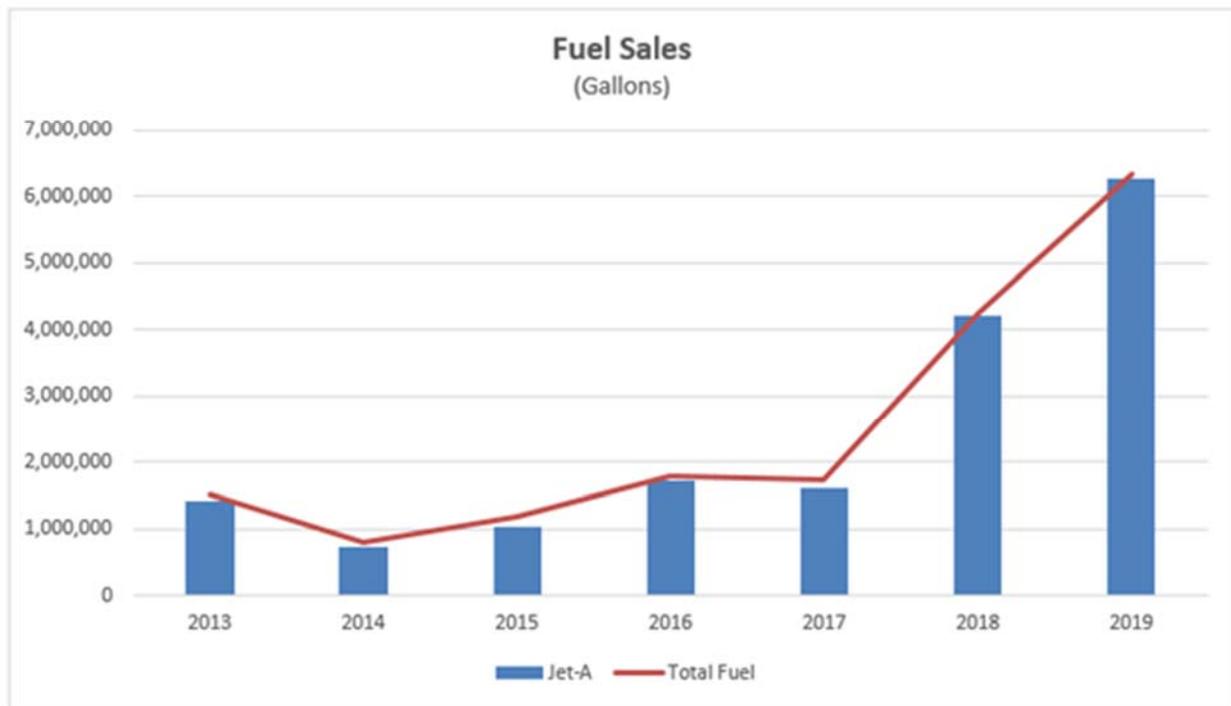
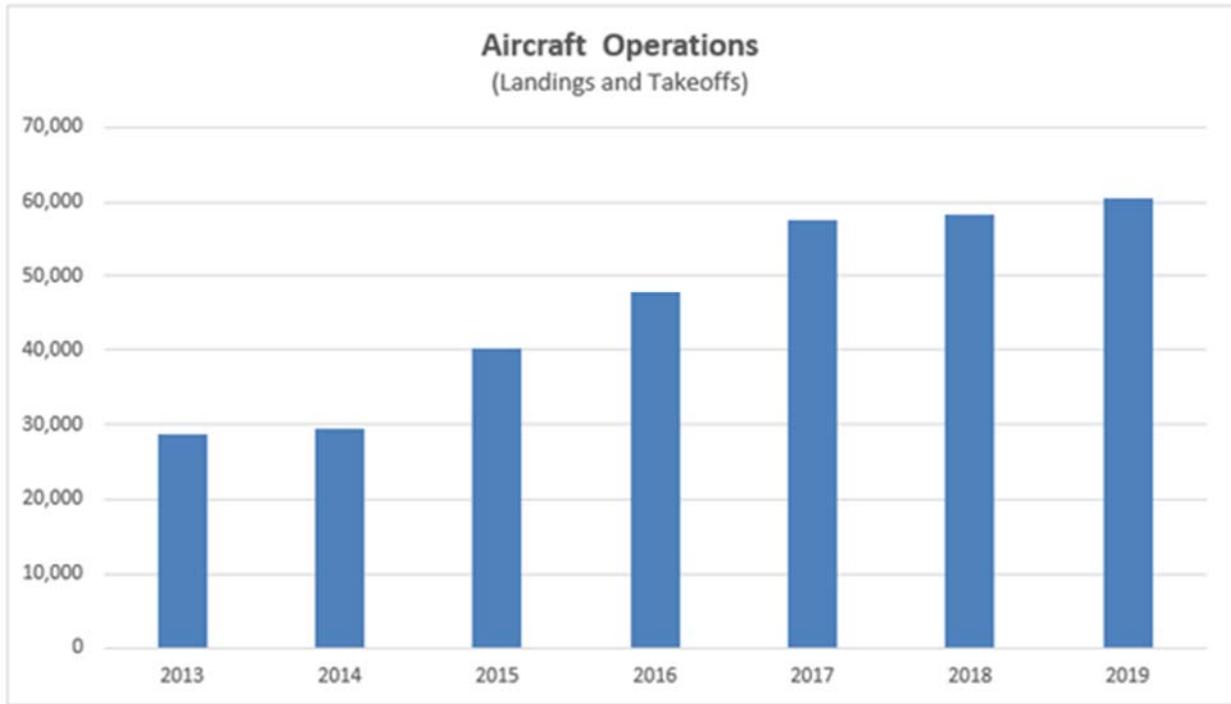
The San Bernardino International Airport Authority's ("SBIAA") Management Discussion and Analysis ("Analysis") provides an overview of SBIAA's financial activities for the fiscal year ended June 30, 2020. Since this information is designed to focus on the year's activities, resulting changes and currently known facts, it should be read in conjunction with SBIAA's financial statements.

SBIAA is an airport that operates under a public utility business model. It constantly seeks to increase aviation activity, fuel sales, and airport services. Our vision is to maximize opportunities for the flying public while achieving fair, non-discriminatory, and equitable investment returns to support the airport utility over the long run. To accomplish this, SBIAA creates an airport business environment that supports dynamic leadership, sound capital investment, and long-term employment opportunities for the benefit of the airport, its customers, stakeholders, the region, and the National Air Transportation System.

SBIAA also seeks to ensure that inter-governmental and community support to the San Bernardino International Airport is provided as appropriate. SBIAA should consistently deliver quality airport planning, infrastructure development, community development, and environmental programs, projects, and initiatives.

Finally, SBIAA seeks to realize its potential to provide high quality, higher wage producing employment opportunities for its member agencies and the communities they serve. Overall business attraction and retention across market segments: Air Cargo, Commercial Air Passenger, General Aviation, Corporate Aviation, and Maintenance and Repair Operations.

SBD Annual Operations 2013 - 2019



Annual Airport Operations statistics are based on calendar year information; therefore information for 2020 operations are not available yet.

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

From the full calendar year 2009 until 2012, aircraft operations were essentially flat at approximately 25,000 operations per year. However, in calendar year 2013 aircraft operations began a trend of successive increases. During calendar years 2013 through 2019, the Aircraft Operations chart shows aircraft operations experienced year over year increases of 17%, 3%, 37%, 19%, 21%, 1% and 4% respectively, each successive calendar year. The compounded annual growth rate from 2009 to 2019 was 9.1%. Measured on a fiscal year basis, aircraft operations increased as well. This increase in operations subsequently supported increased jet fuel sales/services and lease revenues by \$3,969,256 for the fiscal year and is reflected on the "Operating Revenue and Expenses" chart shown later in the Analysis.

Fuel sale activity is measured in gallons sold to enhance comparability by removing fuel cost volatility. As discussed above, aircraft operations support aviation fuel sales. The Fuel Sales chart displays gallons sold for calendar years 2013 through 2019. Total Fuel includes both Jet A fuel, displayed on the chart, and AV gas. Beginning on calendar years 2018, the ongoing expansion of air cargo operations increased both the frequency and size of aircraft using SBD. SBD's compounded annual growth rate for gallons of aviation sold for calendar years 2013 to 2019 is 27.1 percent.

The "Financial Statements Summary" and the "Operating Revenue and Expenses" charts reflect the continued capital investments in the Airport's infrastructure coupled with a sharp increase in aircraft operations over successive fiscal years since 2013, including increased fuel sales. As a result, the Airport continues to gain awareness amongst pilots and travelers in the Southern California market. During fiscal year 2014 the Airport contracted with a marketing firm in an effort to rebrand the Airport and its fixed based operator, Luxivair SBD. Improving financial results are attributable to new marketing campaigns, key management changes, and clear goals focused on achieving Commission and management's vision for growth. In fiscal year 2020, fuel sales and associated fuel revenues increased over fiscal year 2019 as the fleet mix of aircraft using the airport continued to trend toward larger jet and commercial size aircraft.

San Bernardino International Airport Authority

SBIAA is a joint powers authority created in 1992. It was created for the purpose of acquiring, operating, repairing, maintaining and administering the aviation-related activities of the former Norton Air Force Base.

SBIAA members are the City of Colton, City of Loma Linda, City of Highland, City of San Bernardino, and the County of San Bernardino in California.

Financial Statements

SBIAA is considered a special-purpose governmental joint powers authority engaged in activities that supports the entity through user charges. Accordingly, the accompanying financial statements are presented in the format prescribed for proprietary funds by the Governmental Accounting Standards Board. SBIAA's fiscal year ends June 30.

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

Financial Statements

These financial statements consist of three interrelated statements designed to provide the reader with relevant, understandable information about SBIAA's financial condition and operating results. They are the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. The statements are presented in a fiscal year format for the year ended June 30, 2020.

The *Statement of Net Position* presents SBIAA's assets and liabilities and the difference, or net position, between what is owned and what is owed as of the last day of the SBIAA's fiscal year.

The *Statement of Revenues, Expenses and Changes in Net Position* describes the financial results of SBIAA's operations for the years reported. These results, or Changes in Net Position, are the increases or decreases to the bottom line of the Statement of Net Position.

The *Statement of Cash Flows* conveys how SBIAA managed cash resources during the fiscal year. This statement converts the Change in Net Position presented on the Statement of Revenues, Expenses and Changes in Net Position into cash provided by or used for operations. The Statement of Cash Flows also details how SBIAA obtains cash through financing and investing activities, and, conversely, how cash is spent.

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020**

Financial Statements Summary and Charts

The following Financial Statements Summary provides highlights of the financial activity for fiscal years 2019 and 2020. Also provided are explanations as to the differences in amounts between the two fiscal years.

**FINANCIAL STATEMENTS SUMMARY
(in thousands)**

	June 30, 2020	June 30, 2019	Difference	Ref No.
Current assets	\$ 5,464	\$ 5,312	\$ 152	1
Noncurrent assets:				
Restricted cash and cash equivalents	50	50	-	2
Capital assets, not being depreciated	32,924	33,066	(142)	3
Capital assets, net of accumulated depreciation	<u>282,194</u>	<u>294,374</u>	<u>(12,180)</u>	4
 Total assets	 <u>320,632</u>	 <u>332,802</u>	 <u>(12,170)</u>	
Current liabilities	12,051	11,765	286	5
Noncurrent liabilities	<u>4,450</u>	<u>3,896</u>	<u>554</u>	6
 Total liabilities	 <u>16,501</u>	 <u>15,661</u>	 <u>840</u>	
Net investment in capital assets	311,732	323,988	(12,256)	7
Restricted	1,485	1,680	(195)	8
Unrestricted (deficit)	<u>(9,086)</u>	<u>(8,527)</u>	<u>(559)</u>	9
 Total net position	 <u>\$ 304,131</u>	 <u>\$ 317,141</u>	 <u>\$ (13,010)</u>	
Operating revenues	\$ 26,459	\$ 22,489	\$ 3,970	10
Operating expenses	(41,950)	(45,381)	3,431	11
Nonoperating revenues	10	11	(1)	
Nonoperating expenses	(106)	(110)	4	
Other	<u>(35)</u>	<u>(494)</u>	<u>459</u>	
Income (loss) before contributions	<u>(15,622)</u>	<u>(23,485)</u>	<u>7,863</u>	
Contributions	<u>669</u>	<u>1,940</u>	<u>(1,271)</u>	12
Change in net position	<u>\$ (14,953)</u>	<u>\$ (21,545)</u>	<u>\$ 6,592</u>	

1. Current assets increased due to the net effect of increased accounts receivable, decreased grants receivable resulting from capital project reimbursements, and decreased fuel inventory at fiscal year-end.
2. No change from prior year, same restrictions from prior year apply, see Note 6.
3. Decrease in the balance of Construction in Progress due to completion of construction projects.
4. Net effect of current year's additions and depreciation expense for the year being accumulated.
5. Increase in the balance is a result of increase of the due-to-due-from between IVDA and SBIAA.
6. Increase in the balance is a result of the restated and amended principal amount of the IVDA loans, see Note 5.
7. Net effect of current year's addition and depreciation expense for the year being accumulated.
8. Restricted assets decreased due to use of cash authorized for related capital projects.

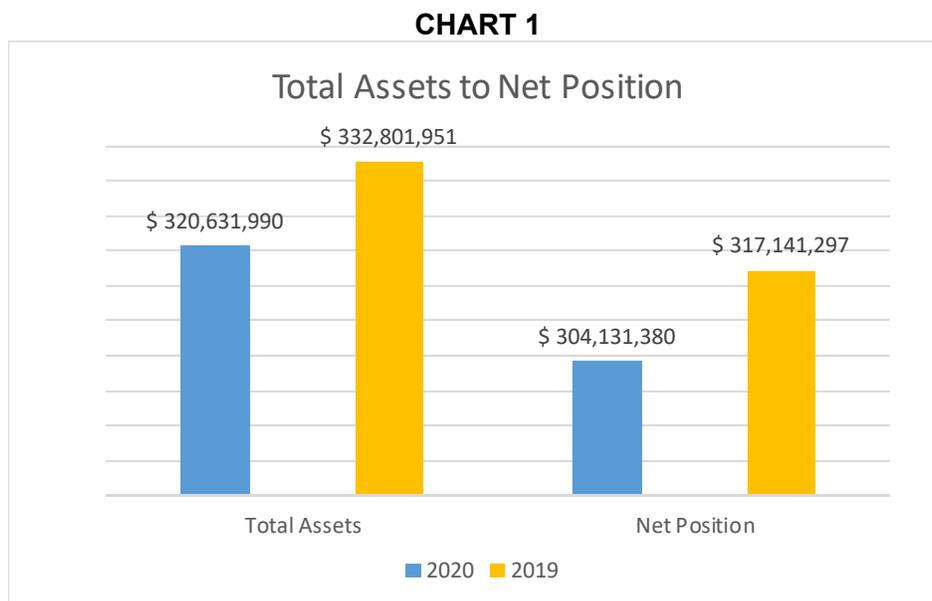
SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

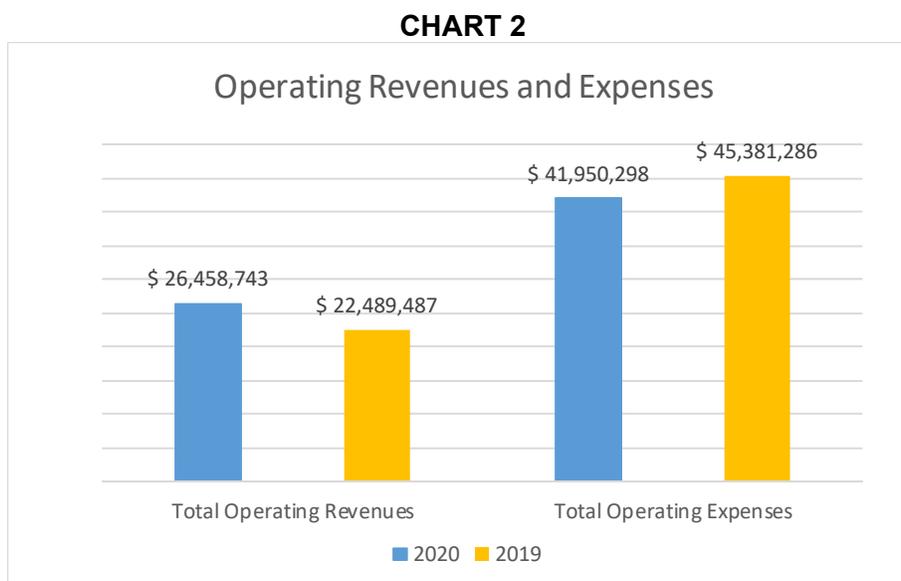
9. Total net position decreased. Overall decrease is principally due to depreciation expense (a non-cash expense).
10. Increase in revenues mainly due to increased fuel sales and a lease option fee.
11. Associated increase in expenses due to increased fuel sales and airport activity.
12. Decrease due to comparatively fewer capital and operating grants or Rialto Airport land sales proceeds within the fiscal year.

The following CHART 1 describes total assets and net position as of June 30, 2019 and 2020.



The decrease in total assets and net position was primarily due to depreciation expense incurred during the fiscal year.

The following CHART 2 describes total operating revenues and expenses for fiscal years June 30, 2019 and 2020.

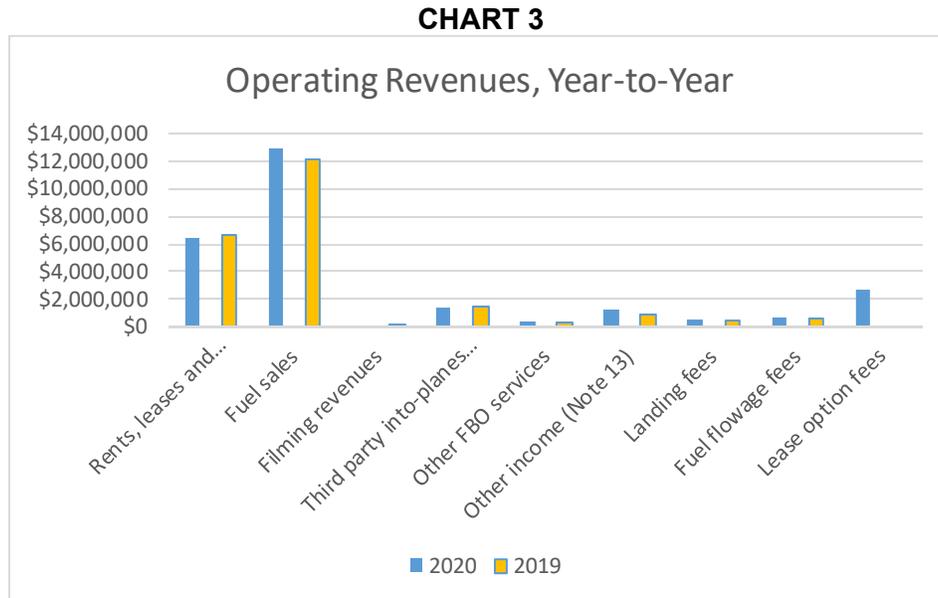


SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2020

Total operating revenues increased by 18% with an associated decrease in total operating expenses of -8% year-over-year. Total operating revenues increased due to increased fuel sales/services and lease option fees in fiscal year 2020.

The following CHART 3 breaks down the categories of revenue year-over-year.

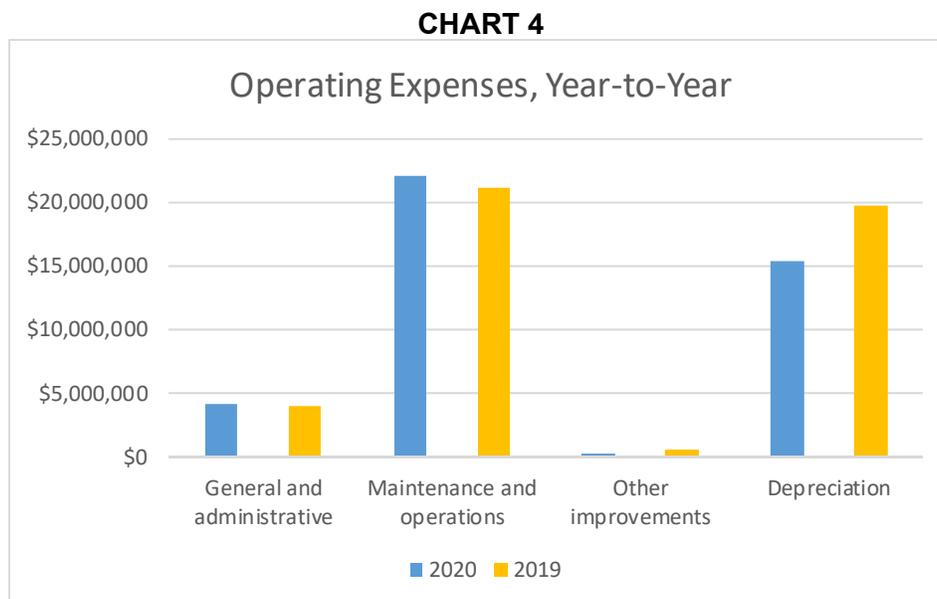


Rents, leases, and storage operating revenues decreased by \$(185,446) or -3% year-over-year and fuel sales increased by \$745,832 or 6% year-over-year. Including Into-Plane fees and other revenue, the FBO revenue is \$15,139,938, which is 6% increase from the previous fiscal year. Lease option fees of \$2,688,000 represents the majority of the overall increase of \$3,969,256 in total operating revenues between FY's 2019 and 2020 as reflected in Chart 2. The \$745,832 increase in fuel sales revenue was due to increase in aircraft activity.

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2020

The following Chart 4 breaks down the four main operating expenses year-over-year.



Total Airport maintenance and operations expenses increased by \$991,527 between the two fiscal years. This was due to increased fuel inventory purchases and related support services at the FBO and airport in operational activities. Depreciation expenses accounted for about 36% of all operating expenses. Depreciation expense decreased 21% from the prior year due to certain buildings, structures, and infrastructure assets reaching their maximum depreciation.

Net income (net loss) for the airport includes \$15.4 million of depreciation expenses which doesn't affect the cash flow.

Categories of Net Position

SBIAA is required to present its net position in three categories: net investment in capital assets, restricted, and unrestricted.

Net Investment in Capital Assets

At June 30, 2020, net investment in capital assets was \$311.7 million.

Restricted

At June 30, 2020, SBIAA had \$1.5 million in restricted net position primarily for airport infrastructure.

Unrestricted

At June 30, 2020, SBIAA had an unrestricted deficit net position of \$9.1 million.

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

Capital Assets Additions, Construction in Progress, and Future Capital Improvements

Capital Asset Additions

\$0.9 million dollars were added to capital assets during the fiscal year June 30, 2020, which included completion of projects from construction in process in the amount of \$0.5 million.

Construction in Progress

The following projects were capitalized during the fiscal year from construction in process:

- Completion of Building 680 and Building 610 improvements
- Luxivair SBD HVAC system replacement
- Corporate and General Aviation hangar and facility improvements.
- Parking lot and pavement improvements on the airport.

Long-term Debt

During 2004-05 fiscal year, SBIAA acquired two loans in total amount of \$5.2 million from the Inland Valley Development Agency. During the 2014 fiscal year, SBIAA consolidated both loans into one and entered into a restated loan agreement for the balance of \$3.9M from the above loans. In May 2020, the loan was restated and amended for a principal amount of \$1.8 million to be paid semi-annually over a seven year term at an interest rate of at least 2%.

During 2017-18 fiscal year, IVDA funded certain improvements on Hangar 795. SBIAA has entered into a loan agreement with the IVDA for the above funds in the amount of \$3.4 million with an interest rate of 2% for a 10 year term. No payments have been made and the full amount is outstanding as of June 30, 2020.

SBIAA also has entered into certain long term lease agreements with IVDA for General Aviation hangars which was funded by IVDA.

Budget to Actual Analysis

There were no significant variations between actual expenditures and the original budget that was adopted on June 26, 2019 and subsequently adjusted by action of the Commission.

BASIC FINANCIAL STATEMENTS

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

STATEMENT OF NET POSITION JUNE 30, 2020

ASSETS

Current assets:

Cash and cash equivalents	\$ 2,439,414
Accounts receivable, net	1,421,651
Grants receivable	68,999
Due from related party	1,332,700
Interest receivable	1,152
Fuel inventory	200,454
	<hr/>
Total current assets	5,464,370

Noncurrent assets:

Restricted cash and cash equivalents	50,000
Capital assets, not being depreciated:	
Land	32,854,050
Construction in progress	69,831
Capital assets, net of accumulated depreciation	282,193,739
	<hr/>
Total noncurrent assets	315,167,620
	<hr/>
Total assets	320,631,990

LIABILITIES

Current liabilities:

Accounts payable	2,007,258
Other accrued liabilities	58,614
Unearned revenues	170,425
Deposits payable	707,042
Due to related party	8,565,480
Accrued interest payable - related parties	133,590
Compensated absence, current portion	134,904
Long-term debt, current portion	273,420
	<hr/>
Total current liabilities	12,050,733

Noncurrent liabilities:

Compensated absences, noncurrent portion	134,903
Long-term debt, noncurrent portion	4,314,974
	<hr/>
Total Noncurrent liabilities	4,449,877
	<hr/>
Total liabilities	16,500,610

NET POSITION

Net investment in capital assets	311,732,539
Restricted	1,485,335
Unrestricted	(9,086,494)
	<hr/>
Total net position	\$ 304,131,380

The accompanying notes are an integral part of these financial statements.

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2020**

OPERATING REVENUES	
Rents, leases and storage	\$ 6,460,027
Fuel sales	12,869,454
Filming revenues	135,242
Third party into-planes fees	1,407,433
Other FBO services	435,907
Other income (Note 13)	1,246,491
Landing fees	505,735
Fuel flowage fees	710,454
Lease option fees (Note 12)	2,688,000
	<hr/>
Total operating revenues	26,458,743
OPERATING EXPENSES	
General and administrative	4,164,139
Maintenance and operations	22,135,311
Other improvements	239,326
Depreciation	15,411,522
	<hr/>
Total operating expenses	41,950,298
	<hr/>
Operating loss	(15,491,555)
NON-OPERATING REVENUES (EXPENSES)	
Interest income	9,751
Interest expense	(105,762)
Other expenses	(35,155)
	<hr/>
Total non-operating revenues (expenses)	(131,166)
	<hr/>
Income (loss) before contributions	(15,622,721)
CONTRIBUTIONS	
Capital grants	669,000
	<hr/>
Total contributions	669,000
	<hr/>
Change in net position	(14,953,721)
	<hr/>
Net position, beginning of year, as restated (Note 14)	319,085,101
	<hr/>
Net position, end of year	\$ 304,131,380
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

**STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2020**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 26,981,899
Payments to employees	(5,902,068)
Payments to suppliers	<u>(21,555,001)</u>

Net cash used by operating activities (475,170)

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

Acquisition and construction of capital assets	(438,703)
Principal payments	(630,077)
Interest paid	(84,757)
Receipts from capital grants	<u>1,278,912</u>

Net cash provided by capital and related financing activities 125,375

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income received	<u>10,570</u>
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Net cash provided by investing activities 10,570

Net decrease in cash and cash equivalents (339,225)

Cash and cash equivalents, beginning of year 2,828,639

Cash and cash equivalents, end of year \$ 2,489,414

RECONCILIATION OF CASH TO THE STATEMENT OF NET POSITION

Cash and cash equivalents	\$ 2,439,414
Restricted cash and cash equivalents	<u>50,000</u>

Cash and cash equivalents \$ 2,489,414

The accompanying notes are an integral part of these financial statements.

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

**STATEMENT OF CASH FLOWS, CONTINUED
YEAR ENDED JUNE 30, 2020**

**RECONCILIATION OF OPERATING LOSS TO
NET CASH USED BY OPERATING ACTIVITIES**

Operating loss	\$ (15,491,555)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	15,411,522
Other non-operating revenue (expenses)	(35,155)
Prior period adjustment (Note 14)	(706,932)
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable, net	(791,670)
(Increase) decrease in due from related party	(501,179)
(Increase) decrease in fuel inventory	190,771
Increase (decrease) in accounts payable	(117,431)
Increase (decrease) in retentions payable	(66,146)
Increase (decrease) in other accrued liabilities	(229,132)
Increase (decrease) in unearned revenues	102,178
Increase (decrease) in due to related party	1,748,135
Increase (decrease) in deposits payable	847
Increase (decrease) in compensated absences	10,577
	<hr/>
Net cash used by operating activities	<u><u>\$ (475,170)</u></u>

The accompanying notes are an integral part of these financial statements.

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The San Bernardino International Airport Authority (Authority) is a joint powers authority created on May 12, 1992 primarily for the purpose of acquiring, operating, repairing, maintaining, and administering the aviation related portions of the former Norton Air Force Base property located in San Bernardino, California. The following are members of the Authority:

County of San Bernardino
City of San Bernardino
City of Colton
City of Highland
City of Loma Linda

Under the terms of an Authority agreement, each member agreed to be responsible for its respective percentage of all annual expenses of the Authority. Any party who fails to pay its respective share of such expenses for a 12-month period will be automatically expelled from the Authority with remaining members then responsible for the expelled members' share of expenses. In the event of the Authority's termination, the assets of the Authority together with debts owed at that time will be transferred to the Inland Valley Development Agency (IVDA), or such other entity as may be determined pursuant to Federal and State laws then in effect.

On December 17, 1999, the Authority filed a quit claim deed, reservations and grants of easements, and CERCLA Section 120(h) notice (Deed) issued by the U.S. Department of the Air Force, for certain real property formerly a part of Norton Air Force Base for a consideration of one dollar. Included in the Deed are certain government-owned real properties which may not be sold, transferred, donated or otherwise disposed of by the Authority, nor may they be removed from the premises for use by the Authority elsewhere. The Authority has begun and intends to sub-lease facilities to various airport users including, but not limited to scheduled airlines, airplane mechanical services, and aircraft support services.

Under the Deed, the Authority received approximately 1,345 acres of land together with major hangar buildings, terminal facilities, runways, tower and equipment, and other buildings and facilities needed to operate the Airport. During the 2003-04 fiscal year, the land, infrastructure, land improvements, and buildings and structures acquired from the Air Force were appraised based upon fair market value at date of acquisition. These appraised properties are included in the financial statements.

Effective July 1, 1998, the U.S. Air Force and the IVDA entered into an agreement (Economic Development Conveyance #2) to transfer an additional 104 acres of property at no cost to the Authority. This is part of the public benefit transfer. All income and related expenses derived from these properties effective July 1, 1998 were transferred to the Authority.

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

These financial statements present the Authority and its component units, entities for which the Authority is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as part of the primary government. Discretely presented component units are reported in a separate column to emphasize that they are legally separate from the primary government. The Authority does not currently report any discretely presented component units.

Blended Component Unit – the San Bernardino International Airport, Inc. (SBIA, Inc.) is a nonprofit public benefit corporation for the purpose of lessening governmental burdens, by providing assistance to the San Bernardino International Airport Authority in its efforts to promote economic development at the former Norton Air Force Base. Although the Authority doesn't appoint a voting majority of SBIA, Inc.'s governing body, SBIA, Inc. is fiscally dependent on the Authority, and a financial benefit/burden exists as defined by applicable GASB pronouncements. In addition, SBIA, Inc. provides services entirely, or almost entirely, to the Authority or otherwise exclusively, or almost exclusively, benefits the Authority even though it may not provide services directly to it.

The following are condensed financial statements for the blended component unit:

Condensed Statement of Net Position June 30, 2020

ASSETS

Current assets:

Cash and cash equivalents	\$	53,363
Due from the Authority		<u>592,914</u>
Total assets		<u>646,277</u>

LIABILITIES

Current liabilities:

Due to related party		<u>2,048</u>
Total liabilities		<u>2,048</u>

NET POSITION

Unrestricted		<u>644,229</u>
Total net position	\$	<u><u>644,229</u></u>

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

**1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued**

**Condensed Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2020**

OPERATING EXPENSES

Maintenance and operations	<u>\$ 6,000</u>
Total operating expenses	<u>6,000</u>
Operating loss	<u>(6,000)</u>
Change in net position	(6,000)
Net position, beginning of year	<u>650,229</u>
Net position, end of year	<u><u>\$ 644,229</u></u>

**Condensed Statement of Cash Flows
Year Ended June 30, 2020**

CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ (6,000)</u>
Net decrease in cash and cash equivalents	(6,000)
Cash and cash equivalents, beginning of year	<u>59,363</u>
Cash and cash equivalents, end of year	<u><u>\$ 53,363</u></u>

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Accounting and Measurement Focus

The Authority's financial statements have been prepared using the economic resources measurement focus and the accrual-basis of accounting, in conformity with generally accepted accounting principles (GAAP) and the uniform system of accounts for airport districts as prescribed by the Controller of the State of California. Under this basis, revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows.

Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash on hand, demand deposits at financial institutions, investments in money market funds and government securities that are highly liquid and readily available with an original maturity of three months or less, and deposits in the State of California Local Agency Investment Fund (LAIF).

Inventory

Inventory is valued at cost and is accounted for using the first-in, first-out method.

Capital Assets

Capital assets include property, plant, equipment, and infrastructure assets (e.g., roads, utility lines, sidewalks, and similar items). Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$10,000 (for improvements to land, structures, and equipment) and have an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are charged to operating expense. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Authority are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and structures	5 - 39
Furniture and fixtures	5 - 7
Machinery and equipment	5 - 10
Infrastructure	40 - 75

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue and Expenses

Revenues and expenses are distinguished between operating and non-operating items. Operating revenues generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges for rent, leases and storage, and fuel sales.

Operating expenses include administrative, maintenance, and operations costs of the Authority's facilities, along with depreciation of capital assets. All revenue and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Compensated Absences

In accordance with generally accepted accounting principles, an employee benefits payable liability is recorded for unused vacation and similar compensatory leave balances, with maximum unused balance caps for varying lengths of service with the Authority. The employee's entitlements to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time off or payments upon termination or retirement.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority currently has no items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority currently has no items that qualify for reporting in this category.

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Position

The difference between assets and liabilities is reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net investment in capital assets, consist of capital assets, net of accumulated depreciation and reduced by the outstanding principal of related debt. Restricted net position reflects the carrying value of assets less related liabilities that have external constraints placed on them by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions, or enabling legislation. Unrestricted net position represents the remaining fund equity balance.

Net Position Flow Assumption

The Authority will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted–net position and unrestricted–net position in the statement of net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority’s policy to consider restricted net position to have been depleted before unrestricted net position.

2. CASH AND INVESTMENTS

Cash and investments as of June 30, 2020 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and cash equivalents	\$ 2,439,414
Restricted cash and cash equivalents	<u>50,000</u>
Total cash and investments	<u>\$ 2,489,414</u>

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

2. CASH AND INVESTMENTS - Continued

Cash and investments as of June 30, 2020 consist of the following:

Deposits with financial institutions	\$	2,173,749
Investments in LAIF		<u>315,665</u>
Total cash and investments	<u>\$</u>	<u>2,489,414</u>

Investments Authorized by the Authority's Investment Policy

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage</u>	<u>Maximum Investment in One Issuer</u>
Local Government Bonds or Other Indebtedness	None	None	None
Certificates of Deposit	None	None	None
California Local Agency Investment Fund (LAIF)	N/A	None	\$75 Million
Securities of the U.S. Government or its Agencies	None	None	None
State Bonds or Other Indebtedness	None	None	None

Disclosures Relating 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, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market rates. One of the ways that the 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 so that a portion of the portfolio is maturing or coming close to maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the Authority's investments to market interest rate fluctuations is provided by the following table that shows the distribution of investments by maturity as of June 30, 2020:

<u>Investment Type</u>	<u>12 Months or Less</u>	<u>More than 12 Months</u>
LAIF	\$ 315,665	\$ -

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

2. CASH AND INVESTMENTS - Continued

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The investment policy of the Authority contains no limitation on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total District investments (other than external investment pools).

Custodial Credit Risk

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 California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2020, the Authority had deposits with bank balances of \$2,452,670. Up to \$250,000 is federally insured and the remaining balance is collateralized with accordance with the Code; however, the collateralized securities are not held in the Authority's name.

Investment in State Investment Pool

The Authority is a voluntary participant in the State of California Local Agency Investment Fund (LAIF), which is a part of the Pooled Money Investment Account that is regulated by the California Government Code under the oversight of the State Treasurer, Director of Finance, and State Controller. The Authority's investment in this pool is reported in the accompanying financial statements at cost, which approximates fair value at amounts based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. All investments with LAIF are secured by the full faith and credit of the State of California. Separate LAIF financial statements are available from the California State Treasurer's Office on the Internet at www.treasurer.ca.gov.

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

2. CASH AND INVESTMENTS - Continued

Restricted Cash and Cash Equivalents

The Authority holds a \$50,000 endowment from the County of San Bernardino Flood Control District as restricted cash. This endowment is to provide long-term conservation management over certain County property which was conveyed to the Authority in 2013.

Fair Value Measurements

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments in the Local Agency Investment Fund are not subject to the fair value hierarchy, but are reported at the Net Asset Value (NAV).

3. RECEIVABLES

Accounts Receivable

Accounts receivable for lease revenues are reported net of uncollectible amounts. Accounts receivable reported for the Authority in the Statement of Net Position as of June 30, 2020, are net of an allowance for doubtful accounts of \$226,230.

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020 is presented as follows:

	Beginning Balance*	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 32,854,050	\$ -	\$ -	\$ 32,854,050
Construction in progress	211,583	345,662	(487,414)	69,831
Total capital assets, not being depreciated	33,065,633	345,662	(487,414)	32,923,881
Capital assets, being depreciated				
Infrastructure	131,007,421	36,869	-	131,044,290
Land improvements	63,046,987	133,194	-	63,180,181
Buildings and structures	360,561,105	354,220	-	360,915,325
Furniture and fixtures	89,524	-	-	89,524
Machinery and equipment	7,933,572	32,052	-	7,965,624
Vehicles	2,224,324	24,120	-	2,248,444
Total capital assets, being depreciated	564,862,933	580,455	-	565,443,388
Less accumulated depreciation				
Infrastructure	(99,067,322)	(2,920,425)	-	(101,987,747)
Land improvements	(52,471,589)	(982,810)	-	(53,454,399)
Buildings and structures	(109,415,740)	(10,920,670)	-	(120,336,410)
Furniture and fixtures	(36,066)	(13,365)	-	(49,431)
Machinery and equipment	(4,904,978)	(477,643)	-	(5,382,621)
Vehicles	(1,942,432)	(96,609)	-	(2,039,041)
Total accumulated depreciation	(267,838,127)	(15,411,522)	-	(283,249,649)
Total capital assets being depreciated, net	297,024,806	(14,831,067)	-	282,193,739
Total capital assets, net	\$ 330,090,439	\$ (14,485,405)	\$ (487,414)	\$ 315,117,620

* The beginning balance of accumulated depreciation has been decreased by \$2,650,736 to reflect a prior period restatement for the correction of an accounting error. See note 14 for additional details.

Depreciation expense for the year ended June 30, 2020 was \$15,411,522.

5. LONG-TERM DEBT

Long-term Debt activity for the year ended June 30, 2020 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
IVDA Loans	\$ 1,833,390	\$ -	\$ (630,077)	\$ 1,203,313	\$ 74,840
Hangar 795 Improvements	3,385,081	-	-	3,385,081	198,580
Total	\$ 5,218,471	\$ -	\$ (630,077)	\$ 4,588,394	\$ 273,420

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020

5. LONG-TERM DEBT - Continued

IVDA Loans

On both July 29, 2004 and February 23, 2005, the Inland Valley Development Agency (IVDA) loaned the Authority \$2,600,000. The proceeds were used to repay Member Agency Loans. The loans were to be repaid in ten years, fully amortized, at an interest rate of two percent or at the rate designated by LAIF, whichever is higher. The interest was to be paid annually. Minimum principal payments were required throughout the term of the agreements. At June 30, 2015, the amount outstanding was \$4,200,000.

In December 2014, the Authority entered into an agreement with IVDA to consolidate, restate and amend the above loans. The consolidated loan extension is in the principal amount of \$3,900,000, which amount is to be paid by the Authority to IVDA over a term of seven years, at two percent (2%) interest or at the rate designated by the Local Agency Investment Fund (LAIF), whichever is greater, compounded annually.

In May, the loan was restated and amended for a principal amount of \$1,836,090 to be paid semi-annually over a term of seven years at two percent (2%) interest per annum or at the rate designated by LAIF, whichever is greater, compounded semi-annually. Principal and interest payments of \$93,081 are payable semi-annually beginning April 1, 2021. Semi-annual loan payments include principal and interest without any balloon payments for repayment over the term of the loan. Pursuant to the terms of the loan agreement, the Authority is required to pledge as collateral certain revenues from the former landfill site and future proceeds from the Rialto Airport.

In the event of default, the lender may, at its option and in its sole and absolute discretion, do any or all of the following: (a) by written notice to borrower, declare the entire principal of this note and all other amounts owing under the loan documents, together with all accrued interest and other amounts owing in connection therewith, to be immediately due and payable, regardless of any other specified due date or payment schedule; (b) apply any payments received after event of default against interest and principal of this note and cost and other amounts owing under this note, the restated loan and any other loan document, in such order as lender may determine in its sole discretion; (c) in its own right, take possession of the collateral or any part thereof, and; (d) exercise any or all other of its right under the restated loan or the other loan documents and any rights provided by law or equity. During the year ended June 30, 2020, payments were made on principal and interest, and total principal outstanding is \$1,203,313.

The annual debt service requirements to maturity for the IVDA loans are as follows:

Year Ending June 30,	Principal	Interest	Total
2021	\$ 74,840	\$ 18,241	\$ 93,081
2022	164,391	21,770	186,161
2023	167,695	18,466	186,161
2024	171,066	15,095	186,161
2025	174,504	11,657	186,161
2026-2028	450,817	13,644	464,461
Total	<u>\$ 1,203,313</u>	<u>\$ 98,873</u>	<u>\$ 1,302,186</u>

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

5. LONG-TERM DEBT - Continued

Hangar 795 Improvements

On April 17, 2018, the Inland Valley Development Agency (IVDA) loaned the Authority \$3,000,000 and amended on September 12, 2018 for an amount not to exceed \$3,500,000, with actual liability recorded of \$3,385,081. The proceeds were used for construction of cargo handling improvements. The loan is to be paid off over 10 years, fully amortized, at an interest rate of 2% or at the rate designated by the Local Agency Investment Fund (LAIF), whichever is higher, compounded annually. SBIAA shall make semi-annual payments of principal and interest in the amount of \$120,000 commencing on November 1, 2019 with a final balloon payment of \$1,748,385 due and payable on November 1, 2028.

Pursuant to the terms of the loan agreement, SBIAA is required to pledge as collateral general lease revenues as well as future proceeds from the Rialto Airport to secure this loan. In the event of a default the lender may, at its option and in its sole and absolute discretion, do any or all of the following: (a) by written notice to borrower, declare the entire outstanding principal of the loan and all other amounts owing under the loan documents, together with all accrued interest and other amounts owing in connection therewith, to be immediately due and payable, regardless of any other specified due date or payment schedule; (b) apply any payments received after the event of default against interest and principal of the loan and cost and other amounts owing under the loan; (c) in its own right, take possession of the collateral or any part thereof and hold, use, manager and control such collateral and apply such collateral to payment; (d) any money expended or obligation incurred in doing so, including reasonable attorney fees and interest at the highest rate permitted by law; (e) exercise any of its right under loan documents and any rights provided by law or equity, foreclose on any security and exercise any other rights with respect to an security. As of June 30, 2020, no payments have been made on principal and interest and total principal outstanding is \$3,385,081.

The annual debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest	Total
2021	\$ 198,580	\$ 41,420	\$ 240,000
2022	176,092	63,908	240,000
2023	179,853	60,147	240,000
2024	183,518	56,482	240,000
2025	187,259	52,741	240,000
2026-2030	994,889	205,111	1,200,000
2031	1,464,890	14,974	1,479,864
Total	<u>\$ 3,385,081</u>	<u>\$ 494,783</u>	<u>\$ 3,879,864</u>

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

5. LONG-TERM DEBT - Continued

Compensated Absences

Accumulated vacation, holiday, sick pay and compensatory times are recorded as an expense and liability as these benefits are earned. The compensated absences liability is considered noncurrent and is included in noncurrent liabilities. Compensated absences activity for the 2019-2020 fiscal year is as follows:

Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
\$ 259,230	\$ 151,419	\$ (140,842)	\$ 269,807	\$ 134,904

6. NET POSITION

Restricted Net Position

The Authority received capital grant contributions from the Inland Valley Development Agency during the years ended June 30, 2008 through 2011. The capital grant contributions were received with restrictions for Building No. 56, Mt View Street, and Solar Power capital projects. As the Authority recognizes expenses related to these capital projects, restricted net position is reduced. Net position restricted as of June 30, 2020 is as follows:

Net Position Restricted For:	Amount at June 30, 2020
Endowment (Note 2)	\$ 50,000
Building No. 56	425,000
Mt. View - Right of Way	605,536
Solar Project	404,799
Total restricted net position	<u>\$ 1,485,335</u>

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020

6. NET POSITION - Continued

Net Investment in Capital Assets

Net Investment in Capital Assets:	Amount at June 30, 2020
Land	\$ 32,854,050
Construction in progress	69,831
Capital assets, net of accumulated depreciation	282,193,739
Less Hangar 795 improvements	<u>(3,385,081)</u>
Total net investment in capital assets	<u>\$ 311,732,539</u>

7. CAPITAL GRANTS

The Authority was awarded a grant in fiscal year 2009-10 totaling \$512,177 from the United States Department of Commerce Economic Development Administration for the Taxiways, Aprons and Ramps Repaving Design and \$4,560,000 for the Airport Pavement Rehabilitation Reconstruction. During fiscal year 2013-14, the scope for these grants was enhanced to add Hangar 763 improvements. Grant proceeds of \$0 were recognized during the year ended June 30, 2020.

The Authority was awarded a grant in fiscal year 2014-15 totaling \$3,110,400 from the United States Department of Commerce Economic Development Administration for the 3rd Street Roadway and Infrastructure Improvements. The Authority shares a non-federal matching share cost of \$345,600 with other state and local governments. Total Grant proceeds of \$69,000 were recognized during the year ended June 30, 2020.

During fiscal year 2007-08, the Authority, City of Rialto, the Federal Aviation Administration (the "FAA") and First American Title Insurance Company (the "Escrow Holder") entered into the Escrow Agreement for the Disbursement of Land Sale Proceeds, and acknowledged that the SBD Airport is the "Eligible Airport" under the Transfer Legislation, pursuant to which a portion of the land sale proceeds realized by Rialto from sales of the Airport Property shall be delivered to and disbursed by the Escrow Holder, a procedure acknowledged by the FAA that complies with the Transfer Legislation (the "FAA Escrow Agreement"), to the Authority. The proceeds realized during the year ended June 30, 2020 were \$0.

The Authority was awarded a grant in fiscal year 2019-20 totaling \$600,000 from the United States Department of Federal Aviation Administration for the airport development. Total Grant proceeds of \$600,000 were recognized during the year ended June 30, 2020.

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

8. PENSION PLAN AND CONTRACT STAFF

The Authority has not established any pension plans for its employees. Some of the Authority's staff receive pension benefits as employees of the Inland Valley Development Agency (IVDA). The Authority shares expenses for salaries and related benefits with the IVDA (see note 10 below). Disclosures regarding IVDA's pension plans are included in separately issued financial statements for the IVDA.

9. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance. Premiums are paid annually by the Authority. Claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. As of June 30, 2020, there were no such liabilities to be reported.

10. RELATED PARTY TRANSACTIONS

The Authority shares certain common expenses with the Inland Valley Development Agency (IVDA), a related party by virtue of common control. These expenses, which include salaries, benefits, services, and supplies, are appropriately allocated between the two governments. The Authority's allocable share of the expenses paid by the IVDA are reported as due to related party and the IVDA's allocable share of the expenses paid by the Authority are reported as due from related party, and are essentially short-term advances of working capital. The advances are non-interest bearing and due on demand. The net amount due to IVDA at June 30, 2020 was \$7,232,780.

11. COMMITMENTS AND CONTINGENCIES

Construction Commitments

The Authority has active construction projects as of June 30, 2020. At year-end, the Authority's outstanding construction commitments for these projects amounted to \$0.

Inland Valley Development Agency (IVDA) Funding

The Authority and IVDA entered into a written agreement dated January 19, 2011 entitled "Military Base Reuse and Airport Financing Agreement" (Financing Agreement). Pursuant to the Financing Agreement, the IVDA pledged tax increment revenues to the Authority to be utilized for "Airport Related Improvements" and "Other SBIAA Contractual Obligations" as defined in the Financing Agreement. Effective February 12, 2012, IVDA lost all authority to exercise its redevelopment powers under California ABX1 26. IVDA formed an approved Successor Agency to wind down its dissolved operations under its former redevelopment powers, which included the Financing Agreement. California Department of Finance's approved the payment of specific elements of the wind down process through the use of Recognized Obligation Payment Schedules (ROPS).

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

11. COMMITMENTS AND CONTINGENCIES - Continued

Inland Valley Development Agency (IVDA) Funding - Continued

Commencing with the January 1, 2012 Recognized Obligation Payment Schedule (ROPS) and continuing through the January 1, 2016 ROPS, funding was submitted under the Financing Agreement as an enforceable obligation and, subject to some reclassification of the amounts requested, received approval from the California Department of Finance (DOF) for Financing Agreement payments to the Authority

The 2016-2017 ROPS included a request for the Authority's projected airport operation expenses of \$5,587,738. Despite having previously approved the Financing Agreement as an enforceable obligation under multiple prior ROPS, the DOF determined the requested amount was not an enforceable obligation. On April 28, 2016 the Successor Agency and DOF met and conferred on the issue of the amount of enforceable payment under the Financing Agreement for the 2016-2017 ROPS. During the meet and confer, DOF requested additional documentation of the expenses requested by the Successor Agency under the Financing Agreement. The Successor Agency, through the IVDA and the Authority, provided the requested information to DOF, which then issued a determination letter dated May 17, 2016 that the Financing Agreement was an enforceable obligation but reduced the payment to zero because of inadequate documentation. Following the DOF's denial and administrative due process, the Successor Agency initiated legal action (First Petition) on June 15, 2016. The Court issued a ruling dated May 16, 2017 and ordered the DOF to "...engage in a meaningful meet and confer effort concerning the amount request in the IVDA's 2017- 2018 ROPS for Airport Operations.

On the 2017-18 ROPS, a request was included for the annual payment of \$23,777,672 to the Authority for airport operations under the Financing Agreement. The DOF disallowed the ROPS items related to this payment in May 2017. The Successor Agency initiated a second legal action (Second Petition), to enforce the court's earlier ruling on the enforceability of the Financing Agreement and determine the amounts payable to the Authority thereunder. As of June 30, 2020, the DOF has not issued any statement as to amounts payable under the Financing Agreement for either the First Petition or the Second Petition.

Subsequent to the date of the financial statements, the Court indicated its tentative ruling in advance of a September 4, 2020 hearing that the Successor Agency's entire requested payment of \$5,587,738 for airport operations, the First Petition, was an enforceable obligation, subject to further meet and confer procedure. With the tentative ruling in favor of the Successor Agency, the DOF entered into discussions with the Successor Agency to settle both the First Petition and Second Petition. The settlement dictates that DOF will approve the payment of \$5,587,738 and the Successor Agency will dismiss DOF with prejudice from both the First Petition and the Second Petition. Upon completion of the Settlement Agreement, the action in both the First Petition and Second Petition will be fully resolved.

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

11. COMMITMENTS AND CONTINGENCIES - Continued

COVID-19 considerations

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders for all but those deemed essential services. While the business disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and shelter in place orders. As a result, the outbreak has caused uncertainty in the financial markets. Although the Authority's services are considered essential, the administrative offices were temporarily closed to the public and access to other Authority facilities was limited, it is unlikely this matter will have significant impact on the Authority's future revenues. However, the ultimate financial impact and duration cannot be estimated at this time, and no adjustments have been made to these financial statements as a result of this uncertainty.

12. LEASE REVENUES

The Authority enters into various leasing arrangements with tenants throughout each year for the use of airport facility buildings, hangars, vacant land and parking lots. The minimum future lease payments expected to be collected are as follows:

	Year Ending June 30,
2021	\$ 4,389,903
2022	3,871,094
2023	3,732,884
2024	3,685,406
2025	3,685,406
Thereafter	<u>46,310,147</u>
Total	<u>\$ 65,674,840</u>

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020

12. LEASE REVENUES - Continued

Eastgate Building 1 Facility

On December 31, 2019 the Authority entered into an agreement with a developer to construct an air cargo facility complex on approximately 100 acres of airport land. The developer paid the Authority a nonrefundable option fee of \$2,688,000 for a time limited right to terminate the agreement. The termination right expires the earlier of the receipt of a certificate of occupancy for the air cargo facility or December 31, 2021. If the termination right is not exercised, a 35 year ground lease with a lease incentive becomes operable upon receipt of a certificate of occupancy. The lease incentive is \$2,688,000 and will be amortized over the initial term of the lease.

13. OTHER INCOME

Other income presented on the Statement of Revenues, Expenses and Changes in Net Position vary from year to year, and thus are grouped as one line item. The components of other income as of June 30, 2020 include:

Tie down/parking fees	\$	211,667
Network services		59,492
Special event revenue		214,942
Security services		163,874
Other income		<u>596,516</u>
Total other income	\$	<u><u>1,246,491</u></u>

14. PRIOR PERIOD RESTATEMENT

Correction of an accounting error

During the current fiscal year, the Authority identified an accounting error in the carrying balances of the accumulated depreciation accounts. The identified errors were due to a mathematical error in the formula calculation of depreciation expense of capital assets that had reached the end of their estimated useful life. The Authority also identified expenses recorded in fiscal year 19/20 for service period fiscal year 18/19. Both cumulative effects of correcting these accounting errors have been reported as a restatement of beginning net position for the year ended June 30, 2020 in accordance with authoritative guidance as follows:

Net position, beginning of year, as previously reported	\$	317,141,297
Restatement: Correction to accumulated depreciation balances		2,650,736
Restatement: Correction to maintenance & operations paid in fiscal year 19/20 for services in fiscal year 18/19		<u>(706,932)</u>
Net position, beginning of year, as restated	\$	<u><u>319,085,101</u></u>

SUPPLEMENTARY INFORMATION

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

**SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES
YEAR ENDED JUNE 30, 2020**

General and administrative:	
Salaries and wages	\$ 785,001
Airport management salaries and wages	944,350
U.S. Customs	152,914
Directors' fees	19,050
Travel expense	53,520
Meetings and conferences	183,452
Dues and subscriptions	44,012
Office expense	46,567
Advertising and marketing	467,501
Professional services:	
Legal	295,264
Accounting	48,010
Other	488,621
Telephone	148,013
Software	57,215
Other expenses	<u>430,649</u>
Total	<u>\$ 4,164,139</u>

SAN BERNARDINO INTERNATIONAL AIRPORT AUTHORITY

**SCHEDULE OF MAINTENANCE AND OPERATIONS EXPENSES
YEAR ENDED JUNE 30, 2020**

Maintenance and operations:	
Salaries and benefits	\$ 3,311,278
Security	797,220
Professional services - other	40,500
Storm water monitoring	89,780
Hazardous waste removal	31,146
Janitorial	188,399
Meetings	4,528
Utilities/maintenance fees	1,318,315
Control tower	673,358
Communications	184,821
Fees	46,265
Gas/Diesel/Fuel	315,012
Other expenses	249,898
Advertising	67,661
Parts/supplies	102,909
Maintenance and repairs	1,668,275
Airshow expense	493,729
Special event expenses	28,683
Airline support	24,592
Cost of fuel sales	12,414,153
Lease Expense	78,789
SBIAA, Inc. expense	6,000
Total	<u>\$ 22,135,311</u>