



Audited Financial Statement  
Fiscal Year 2018 and 2019

Prepared by  
Ontario International Airport Authority

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**ONTARIO INTERNATIONAL AIRPORT AUTHORITY**

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**Audited Financial Statements  
Fiscal Year 2018 and 2019**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners  
Ontario International Airport Authority  
City of Ontario, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Ontario International Airport Authority (the Authority) as of and for the year ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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





To the Board of Commissioners  
Ontario International Airport Authority  
City of Ontario, California

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Ontario International Airport Authority, as of June 30, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

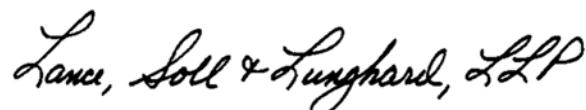
### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2019 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 solely 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 effectiveness of the Authority's 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.

A handwritten signature in black ink that reads "Lance, Soll & Lunghard, LLP". The signature is fluid and cursive, with "Lance, Soll & Lunghard" on the top line and "LLP" on the bottom line.

Brea, California  
December 23, 2019

## ONTARIO INTERNATIONAL AIRPORT AUTHORITY

# Management's Discussion and Analysis

The following discussion and analysis of the financial performance and activity of the Ontario International Airport Authority (Authority) provides an introduction to the Authority's financial statements for the fiscal year ended June 30, 2019 (FY 2019). Information for the previous fiscal year ended June 30, 2018 (FY 2018) has been included to provide a better insight into the overall financial position of the Authority.

The Authority is a business-type activity and, as such, the basic Financial Statements consists of Management's Discussion and Analysis (MD&A), the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, the Statements of Cash Flows, and the Notes to Financial Statements. This MD&A has been prepared by management and should be read and considered in conjunction with the Authority's basic financial statements.

## Airport Activities & Highlights

Passenger and air carrier activity in FY 2019 increased at the Ontario International Airport (ONT) compared to FY 2018. Total passengers increased by 9.6% for FY 2019.

Landed weight increased by 2.7% in FY 2019 from FY 2018 to 7,217,280, one thousand pound units. The change is a result of increases in both passenger carrier and cargo air service. Passenger carrier increases result from a combination of increases in the number of flights and the size of aircraft used.

Eight major domestic and two international passenger carriers served ONT as of June 30, 2019. American Airlines and Southwest Airlines have dominated in both passenger activity and landed weight. These two carriers accounted for 69.6% of passenger traffic in FY 2019 and 73.3% in FY 2018.

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**Management's Discussion And Analysis**  
Years Ended June 30, 2018 and 2019

## Financial Highlights

### Summary of Operations and Changes in Net Position

Total operating revenues increased \$1.5 million (2.2%) in FY 2019 over FY 2018. Increases in operating revenues in FY 2019 were primarily related to increases in Non-aviation revenues.

Total operating expenses in FY 2019 decreased by \$2.9 million (4.0%) over FY 2018, which were associated with reductions in personnel and police, fire and rescues expenses.

Non-operating revenue (expense) in FY 2019 increased 49.1% compared to FY 2018. This was mainly due to increases in passenger facility charge revenue, income on investments and gains on disposition of capital assets and other operating income.

The Authority's assets exceeded liabilities at the end of FY 2019 by \$74.1 million, compared to \$47.8 million FY 2018. The Authority experienced increases in net position of \$26.3 million and \$13.5 million for FY 2019 and FY 2018, respectively.

	2018	2019	Increase (Decrease)	%
Operating Revenues	\$ 70,592,798	\$ 72,117,684	\$ 1,524,886	2.2%
Operating Expenses	74,153,736	71,204,041	(2,949,695)	(4.0%)
Operating Income (Loss)	(3,560,938)	913,643	4,474,581	125.7%
Non-Operating Revenue (Expenses)	17,044,468	25,418,839	8,374,371	49.1%
Increase in Net Position	13,483,530	26,332,482	12,848,952	95.3%
Net Position - Beginning of the year	34,298,093	47,781,623	13,483,530	39.3%
Net Position - End of the year	\$ 47,781,623	\$ 74,114,105	\$ 26,332,482	55.1%

### Statement of Net Position

Current unrestricted assets increased in FY 2019 over FY 2018 by \$9.3 million. The FY 2019 increase was due mainly to an increase in cash and cash equivalents of \$9.1 million. Current restricted assets increased by \$22.4 million in FY 2019 compared to FY 2018. Net capital assets increased by \$25.4 million in FY 2019 over FY 2018 as the result of a significant number of projects in the Authority's capital improvement program.

Current liabilities in FY 2019 increased \$4.4 million compared to FY 2018. This increase was due to increases in amounts due from the City of Ontario of \$5.4 million offset by a decrease in amounts due to the airlines. The current portion of long-term debt increased by \$.7 million and long-term debt increased \$25.9 million in FYE 2019 over FY 2018. These increases were a result of the Authority issuing new debt totaling \$40.2 million in FY 2019.

The Authority's net position increased by \$26.3 million for FY 2019 versus FY 2018. The net investment in capital assets decreased by \$1.2 million (26.5%) and represented 9.8% and 4.6% of total Net position FY 2019 and FY 2018, respectively. Net investment in capital assets represents its investment in capital assets (e.g. land, buildings, machinery and equipment), less outstanding debt used to acquire those assets. The Authority uses these assets to provide services to its passengers, visitors and tenants that generate future revenue streams. Although the Authority's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from operations, since the capital assets themselves cannot be used to retire these liabilities.

An additional portion of the Authority's net position, 41.2% for FY 2019 and 16.9% for FY 2018, is restricted and represents resources that are subject to restrictions from government grantors, bond resolutions and government regulatory authorities on how they may be used. The changes in restricted net position of \$22.4 million year-over-year is primarily attributable to the increase in the Capital Asset Fund, which includes unspent bond anticipation note proceeds restricted for capital projects.

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The remaining unrestricted net position balances of \$35.0 million for FY 2018 and \$40.2 million for FY 2019 may be used for any lawful purpose of the Authority.

	2018	2019	Increase (Decrease)	
			\$	%
<b>Assets</b>				
Current unrestricted assets	\$ 54,663,668	\$ 63,981,490	\$ 9,317,822	17.0%
Current restricted assets	8,068,344	30,505,467	22,437,123	278.1%
Capital assets, net	85,245,953	110,629,176	25,383,223	29.8%
Intangible and other assets, net	7,374,462	7,524,943	150,481	2.0%
<b>Total Assets</b>	<b>\$ 155,352,427</b>	<b>\$ 212,641,076</b>	<b>\$ 57,288,649</b>	<b>26.9%</b>
<b>Liabilities</b>				
Current liabilities	19,619,341	23,971,613	4,352,272	22.2%
Liabilities payable from restricted assets	5,313,956	5,982,656	668,700	12.6%
Long-term liabilities	82,637,507	108,572,702	25,935,195	31.4%
<b>Total liabilities</b>	<b>\$ 107,570,804</b>	<b>\$ 138,526,971</b>	<b>\$ 30,956,167</b>	<b>28.8%</b>
<b>Net Position</b>				
Net Investment in Capital Assets	4,668,952	3,430,245	(1,238,707)	(26.5%)
Restricted	8,068,344	30,505,467	22,437,123	278.1%
Unrestricted	35,044,327	40,178,393	5,134,066	14.7%
<b>Total net position</b>	<b>\$ 47,781,623</b>	<b>\$ 74,114,105</b>	<b>\$ 26,332,482</b>	<b>55.1%</b>

## Revenues

In FY 2019, total revenues of \$100.1 million were greater than the prior fiscal year by 11.5%.

Operating revenues increased in FY 2019 over FY 2018 by \$1.5 million (5.1%). Operating revenue consists of Aviation and Non-Aviation Revenues. For FY 2019 compared to FY 2018 Aviation Revenues remained relatively flat, Non-Aviation revenues increased by \$1.8 million (5.7%) in FY 2019 compared to FY 2018.

While Aviation Revenues remained relatively flat there were significant changes within each of the Operating Revenue categories. Total landing fees decreased from the prior year by \$.5 million (3.6%). This decrease was attributable to a reduction in the landing fee rate from \$2.37 to \$1.98, a 16.5% decrease, although the effect of the decrease was mitigated by the increase in passenger and cargo carrier activity. Building rentals decreased as a result of the reduction in the per square foot rental rate for the terminal from \$110.79 to \$109.76 for FY 2019 as well from a reduction in non-terminal facility leases. Land rent increased by \$2.5 million (78.6%), which was primarily attributable to additional revenues from long-term as well seasonal truck parking leases. Gate Use and Plane Parking increased by \$.8 million (41.1%) and Other Aviation Revenue decreased by \$1.2 million (76.3%); changes in these revenue categories year over year were attributable to rate changes and non-signatory airline and passenger carriers converting from non-signatory to signatory status.

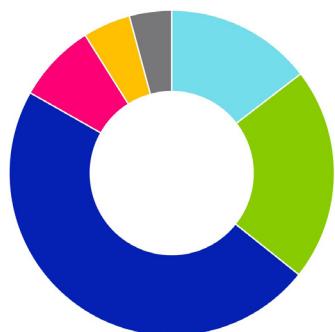
The increase in Non-Aviation Revenue was largely due to the increase in concession revenues (news and gifts and food and beverage) of \$1.6 million (50.8%) for FY 2019 versus FY 2018, as well as other non-aviation revenue of \$.9 million (100%). These increases were reduced by decreases in CONRAC and Parking revenues of \$.6 million (7.4%) and Auto Parking of \$.1 million (0.8%) year over year. Increases in concessions was due to the new concession program that established new retail and food and beverage outlets in each terminal. The decrease in CONRAC and Auto Parking was a result of growth in Transportation Network Companies (TNC's) that provided alternative transportation for customers using ONT.

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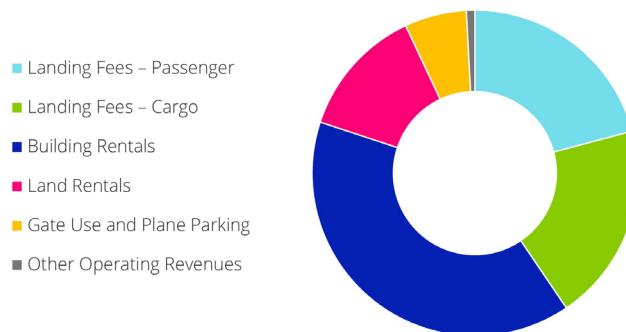
Non-operating revenues increased by \$8.8 million (46.1%) for FY 2019 compared to FY 2018. This increase was primarily a result of increases in the following Non-Operating Revenue Categories: Passenger Facility Charges increased \$1.2 million (12.6%), Grant Revenue increased \$3.8 million (78.4%), Gain on Disposal of assets increased \$.8 million (100%) and other Non-Operating Revenue increased \$2.4 million (100%). The Passenger Facility Charge revenue increase for FY 2019 was directly related to the increase in Commercial Passenger activity. Grant revenue increased due to OIAA's being awarded new discretionary Airport Improvement Grants for Capital Improvement Projects, as well new activities under previously awarded grants. The increase in Gain on Disposal of assets was a result of the sale and disposition of obsolete and end-of-life assets acquired from LAWA. The increase in Other Non-Operating Revenue resulted from a recovery of amounts previously expended by OIAA under the Staff Augmentation Agreement with LAWA.

	2018	2019	Increase (Decrease)			
			\$	%		
<b>Operating Revenues</b>						
<b>Aviation</b>						
Landing Fees- Passenger	\$ 5,982,255	\$ 5,373,498	\$ (608,757)	(10.2%)		
Landing Fees- cargo	8,685,256	8,765,369	80,113	0.9%		
Building Rentals	19,502,944	17,632,609	(1,870,335)	(9.6%)		
Land Rentals	3,227,486	5,764,625	2,537,139	78.6%		
Gate Use and Plane Parking	1,941,947	2,740,560	798,613	41.1%		
Other Aviation Revenue	1,584,953	375,972	(1,208,981)	(76.3%)		
Total Aviation Revenue	\$ 40,924,841	\$ 40,652,633	\$ (272,208)	(0.7%)		
<b>Non-Aviation</b>						
Concession	3,191,903	4,814,447	1,622,544	50.8%		
CONRAC	8,400,322	7,778,129	(622,193)	(7.4%)		
Auto Parking	18,075,732	17,937,975	(137,757)	(0.8%)		
Other Non Aviation Revenue	-	934,500	934,500	100.0%		
Total Non-aviation Revenue	29,667,957	31,465,052	1,797,095	5.7%		
Total Operating Revenue	\$ 70,592,798	\$ 72,117,684	\$ 1,524,886	5.1%		
<b>Non-Operating Revenue</b>						
Passenger Facility Charges	\$ 9,605,169	\$ 10,814,570	\$ 1,209,401	12.6%		
Customer Facility Charges	4,078,166	4,061,658	(16,508)	(0.4%)		
Investment Income	703,964	1,122,781	418,817	59.5%		
Grant Revenue	4,818,061	8,596,444	3,778,383	78.4%		
Bad Debts	(121,458)	-	121,458	(100.0%)		
Gain (Loss) on Disposal of Assets	-	789,602	789,602	100.0%		
Unrealized Gain (loss) on Investments	33,733	130,561	96,828	287.0%		
Other Non-Operating Revenue	-	2,420,058	2,420,058	100.0%		
Total Non-Operating Revenue	19,117,635	27,935,674	8,818,039	46.1%		
Total Revenue	\$ 89,710,433	\$ 100,053,358	\$ 10,342,925	11.5%		

**Operating Revenue 2018**



**Operating Revenue 2019**



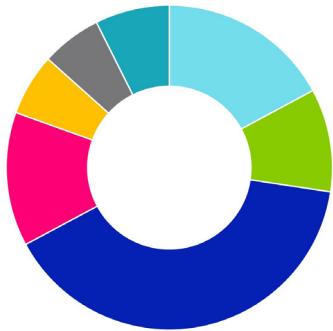
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## Expenses

Total expenses for FY 2019 decreased 5.8% from FY 2018 due primarily to lower operating expenses. Operating expenses decreased \$4.3 million (6.0%). Lower operating expenses was a result of lower personnel expense \$6.9 million (56.0%) and Police Fire and Rescue expenses \$3.8 million (13.3%) offset by increases in the following categories, Maintenance and Operations \$2.8 million (38.2%), and Other Operating Expenses \$3.9 million (73.1%) The operating expense increases (decreases) were associated with the final transition from the use of LAWA employees to Authority employees and contracted services. Non-operating expenses were relatively flat at \$2.5 million.

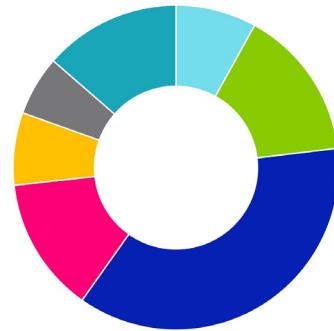
	2018	2019	Increase (Decrease)	
			\$	%
<b>Operating Expenses</b>				
Personnel	\$ 12,346,473	\$ 5,430,436	\$ (6,916,037)	(56.0%)
Maintenance and Operations	7,393,306	10,217,476	2,824,170	38.2%
Police, Fire and Rescue	28,665,975	24,860,305	(3,805,670)	(13.3%)
CONRAC Expenses	9,618,460	9,126,051	(492,409)	(5.1%)
Utilities	4,439,569	4,890,622	451,053	10.2%
Professional Services	4,298,762	4,024,389	(274,373)	(6.4%)
Other Operating Expenses	5,315,925	9,201,123	3,885,198	73.1%
Total Operating Expenses	\$ 72,078,470	\$ 67,750,402	\$ (4,328,068)	(6.0%)
<b>Non-Operating Expenses</b>				
Interest Expense	2,073,167	2,240,335	167,168	8.1%
Bad Debts	121,458	-	(121,458)	(100.0%)
Debt Issuance Costs	-	276,500	276,500	100.0%
Total Non-Operating Expenses	\$ 2,194,625	\$ 2,516,835	\$ 322,210	2.1%
Total Expenses	\$ 74,273,095	\$ 70,267,237	\$ (4,005,858)	(5.8 %)

**Operating Expenses 2018**



- Personnel
- Maintenance and Operations
- Police, Fire and Resque
- CONRAC Expenses
- Utilities
- Professional Services
- Other Operating Revenue

**Operating Expenses 2019**



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## Capital Assets

Net capital assets increased \$25.4 million (29.8%) in FY 2019 over FY 2018. The increase resulted from spending on capital improvement program projects being higher than current year depreciation expense. There was an increase in all Capital Asset categories except land, which remained the same year over year. The most significant FY 2019 CIP projects were for Taxiway S & W Reconstruction and the Northwest Cargo Development.

	2018	2019	\$	Increase (Decrease)
	2018	2019	\$	%
Land	\$ 56,503,866	\$ 56,503,866	\$ -	0.0%
Site Improvements	5,306,556	14,443,681	9,137,125	172.0%
Building and Improvements	15,791,616	19,410,708	3,619,092	22.9%
Construction In Progress	5,463,086	19,893,356	14,430,270	264.1%
IT Hardware and Software	3,817,395	4,593,000	775,605	20.3%
Furniture and Fixtures	35,149	72,723	37,574	106.9%
Machinery and Equipment	1,613,067	1,741,468	128,401	8.0%
Assets Under Capital Leases	-	463,464	463,464	100.0%
Accumulated Depreciation	(3,284,782)	(6,493,090)	(3,208,308)	97.7%
Total Capital Assets, Net	\$ 85,245,953	\$ 110,629,176	\$ 25,383,223	29.8%

Additional detailed information regarding long-term debt activity may be found in Note 5 to the financial statements.

## Debt Activity

At the end of FY 2019, the Authority had total long-term debt outstanding of \$114.5 million. The debt consists principally of bonds, \$38.4 million and Bond Anticipation Notes, \$34.4 million that are secured by airport revenues and/or were also secured by a pledge of passenger facility charge revenues. The increase of \$26.6 million (30.2%) for FY 2019 was primarily the issuance of the Subordinated Revenue Bonds of \$34.4 million in FY 2019, additional notes and capital leases offset by normal debt service.

Additional detailed information regarding long-term debt activity may be found in Note 6 to the financial statements.

	2018	2019	\$	Increase (Decrease)
	2018	2019	\$	%
Loan Payable Seller	\$ 42,724,167	\$ 34,715,282	\$ (8,008,885)	(18.7%)
Bonds payable	\$ 43,315,000	\$ 38,405,000	\$ (4,910,000)	(11.3%)
Notes payable and capital lease obligations	1,912,296	7,064,576	5,152,280	269.4%
Subordinated Revenue Notes	-	34,370,500	34,370,500	100.0%
	\$ 87,951,463	\$ 114,553,358	\$ 26,603,895	30.2%

## Debt Service Coverage

Debt service coverage is a covenant of the Authority's bond resolutions requiring that annual net airport system revenues be maintained in an amount expressed as a multiple of times annual principal and interest payments on the related debt. This coverage serves as an indicator to bondholders that funds are available for timely debt service payments. Net airport system revenue is calculated based on the airport use and lease agreement between the Authority and its signatory airlines, and includes several additions to and subtractions from revenue and expense amounts reported in the basic financial statements.

The Authority is required to maintain debt service coverage ratios for both the 2016 Revenue Bonds as well as the 2019 Subordinated Revenue Notes.

The required Debt Service Coverage ratio mandated for the 2016 Bonds payable is 125% of annual principal and interest payments. For the fiscal years ended 2018 and 2019 the calculated ratios amounted to 183.81% and 148.25%, respectively.

The 2019 Subordinated Revenue Notes are subordinate to the 2016 Revenue Bonds in terms of priority of claims. The required

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Debt Service Coverage ratio mandated for the 2019 Notes is 110% of annual principal and interest payments. For the fiscal years ended 2019 the calculated ratio amounted to 117.61%. As of June 30, 2019, the Authority was in compliance with all financial covenants.

Variances in the debt service coverage year-over-year are primarily attributable to normal debt service and changes in net airport system revenue.

## Airline Rates and Charges

The Authority has a residual cost airport use agreement with seven passenger airlines (signatory airlines) that expires June 30, 2024. This agreement provides a method for securing the financial stability of the Authority through a schedule of rates and charges. Following are some of the key rates and charges included in the agreement:

<b>Fee Type</b>	<b>2018</b>	<b>2019</b>	<b>Increase (Decrease)</b>	
			<b>\$</b>	<b>%</b>
Signatory landing fees per thousand pounds of gross landed weight	\$ 2.37	\$ 1.98	\$ (0.39)	(16.5%)
Signatory annual per square foot rental rate	\$ 110.79	\$ 109.76	\$ (1.03)	(0.9%)
Non-preferential gate use, per turn	\$ 280.00	\$ 280.00	\$ -	0.0%
Jet bridge utility per use	\$ 189.00	\$ 189.00	\$ -	0.0%

## Airline Cost Per Enplanement

Airline Cost Per Enplanement (CPE) is a measure used in the airline and airport industries to show the average cost an airline incurs to enplane one passenger at a given airport. This figure is derived by dividing total passenger airline revenues earned by the airport by the total number of enplaned passengers.

CPE decreased in FY 2019 over FY 2018 by \$1.92 per enplanement. This decrease was mainly a result of the increase in passenger enplanements of 9.8% for FY 2019.

### Airline Cost per Enplanement

	<b>2018</b>	<b>2019</b>
Passenger Airline Revenues	\$ 25,526,175	\$ 22,960,517
Enplaned Passengers	2,397,075	2,632,231
Cost per Enplanement	\$ 10.65	\$ 8.73

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## **Requests for Information**

This financial report is designed to provide a general overview of the Authority's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the ONTARIO INTERNATIONAL AIRPORT AUTHORITY, 1923 E. Avion St., Ontario, CA 91761

## ONTARIO INTERNATIONAL AIRPORT AUTHORITY

# Statements of Net Position

June 30, 2018 and 2019

Assets	2018	2019
<b>Current Unrestricted Assets:</b>		
Cash And Cash Equivalents (Note 2)	\$ 42,276,676	\$ 51,383,207
Accounts Receivable, Net of Allowance	4,670,517	6,505,298
Accrued Interest Receivable	226,438	202,441
Other Receivables (Note 3)	6,953,665	5,083,628
Current Portion of Note Receivable (Note 4)	-	181,039
Prepaid Expenses	536,372	625,877
Total Current Unrestricted Assets	<hr/> 54,663,668	<hr/> 63,981,490
<b>Current Restricted Assets:</b>		
Other Restricted Cash and Investments (Note 2):		
Cash Restricted for Capital Assets(Notes 2, 6)	-	23,715,587
Passenger Facility Charge Fund	497,188	2,902,334
Customer Facility Charge Fund	6,048,045	2,163,589
Total Restricted Cash and Investments	<hr/> 6,545,233	<hr/> 28,781,510
Passenger Facility Charge Receivables	1,192,145	1,373,813
Customer Facility Charge Receivables	330,966	350,144
Total Current Restricted Assets	<hr/> 1,523,111	<hr/> 1,723,957
Total Restricted Assets	<hr/> 8,068,344	<hr/> 30,505,467
<b>Non-Current Assets:</b>		
Capital Assets (Note 5):		
Land	56,503,866	56,503,866
Site Improvements	5,306,556	14,443,681
Buildings and Improvements	15,791,616	19,410,708
IT Hardware/Software	3,817,395	4,593,000
Furniture and Fixtures	35,149	72,723
Machinery and Equipment	1,613,067	1,741,468
Assets Under Capital Lease	-	463,464
Construction in Progress	5,463,086	19,893,356
Total Capital Assets	<hr/> 88,530,735	<hr/> 117,122,266
Less: Accumulated Depreciation	(3,284,782)	(6,493,090)
Total Capital Assets, Net	<hr/> 85,245,953	<hr/> 110,629,176
Intangible Assets, Net	7,374,462	7,356,427
Notes Receivable, Net of Current Portion	-	168,516
<b>Total Assets</b>	<hr/> <b>\$ 155,352,427</b>	<hr/> <b>\$ 212,641,076</b>

See accompanying notes to financial statements.

## ONTARIO INTERNATIONAL AIRPORT AUTHORITY

# Statements of Net Position

June 30, 2018 and 2019

Liabilities	2018	2019
<b>Current Liabilities:</b>		
Accounts Payable	\$ 9,085,162	\$ 9,517,129
Customer Deposits	449,772	933,409
Accrued Payroll, Taxes and Benefits	302,349	369,196
Accrued Interest Payable	188,190	290,744
Due to Related Party (Note 7)	7,137,698	12,524,213
Due to Airlines	2,456,170	336,922
Total Current Liabilities	<hr/> 19,619,341	<hr/> 23,971,613
<b>Current Portion of Long Term Debt: (Note 5)</b>		
Capital Lease Obligations	-	125,567
Terminal Improvement Financing	-	110,998
Notes Payable	403,956	736,091
2016 Bonds Payable	4,910,000	5,010,000
Total Current Portion of Long Term Debt	<hr/> 5,313,956	<hr/> 5,982,656
<b>Long-Term Debt, Net Of Current Portion: (Note 5)</b>		
Capital Lease Obligations, Net of Current	-	300,529
Terminal Improvement Financing	-	3,500,800
Notes Payable	1,508,340	2,290,591
Loans Payable	42,724,167	34,715,282
2016 Bonds Payable	38,405,000	33,395,000
Subordinated Revenue Notes, Series 2019	-	34,370,500
Total Long-Term Liabilities	<hr/> 82,637,507	<hr/> 108,572,702
Total Liabilities	<hr/> 107,570,804	<hr/> 138,526,971
<b>Net Position</b>		
Net Investment in Capital Assets	4,668,952	3,430,245
Restricted	8,068,344	30,505,467
Unrestricted	35,044,327	40,178,393
Total Net Position	<hr/> <b>\$ 47,781,623</b>	<hr/> <b>\$ 74,114,105</b>

See accompanying notes to financial statements.

# ONTARIO INTERNATIONAL AIRPORT AUTHORITY

## Statements of Revenues, Expenses and Changes in Net Position

Years Ended June 30, 2018 and 2019

	2018	2019
<b>Operating Revenues</b>		
Landing Fees	\$ 14,667,511	\$ 14,138,867
Building and Land Rentals	22,730,430	23,397,234
Auto Parking	18,075,732	17,937,975
Rental Car	8,400,322	7,778,129
Concessions	3,191,903	4,369,220
Other Operating Revenues	3,526,900	4,496,259
Total Operating Revenues	70,592,798	72,117,684
Operating Expenses:		
Personnel (Note 8)	12,346,473	5,430,436
Airport Maintenance Operations and Facility	7,393,306	10,217,476
Police, Fire and Rescue	28,665,975	24,860,305
CONRAC Expenses	9,618,460	9,126,051
Utilities	4,439,569	4,890,622
Professional Services	4,298,762	4,024,389
Other Operating Expenses	5,315,925	9,201,123
Total Operating Expenses Before Depreciation	72,078,470	67,750,402
Operating Income (Loss) Before Depreciation	(1,485,672)	4,367,282
Depreciation and Amortization (Note 5)	2,075,266	3,453,639
Operating Income (Loss)	(3,560,938)	913,643
<b>Non-Operating Revenues (Expenses):</b>		
Passenger Facility Charge Revenue	9,605,169	10,814,570
Customer Facility Charge Revenue	4,078,166	4,061,658
Grant Revenue	4,818,061	8,596,444
Provision for Doubtful Accounts	(121,458)	-
Gain/Loss on Disposal of Assets	33,733	789,602
Investment Income	703,964	1,122,781
Interest Expense	(2,073,167)	(2,240,335)
Other Non-Operating	-	2,420,058
Unrealized Gain on Investments	-	130,561
Debt Issuance Costs	-	(276,500)
Total Non-Operating Revenues, Net	17,044,468	25,418,839
Net Income (Loss)	13,483,530	26,332,482
Total Net Position – Beginning of Year	34,298,093	47,781,623
<b>Total Net Position – End of Year</b>	<b>\$ 47,781,623</b>	<b>\$ 74,114,105</b>

See accompanying notes to financial statements.

# ONTARIO INTERNATIONAL AIRPORT AUTHORITY

## Statements of Cash Flows

Years Ended June 30, 2018 and 2019

	2018	2019
<b>Cash Flows from Operating Activities</b>		
Cash Received from Airline Carriers, Tenants, Others	\$ 77,490,963	\$ 74,631,025
Cash Paid for Salaries & Benefits	(14,999,955)	(5,363,591)
Cash Paid to Suppliers for Goods and Services	(53,234,623)	(56,290,178)
Cash Paid for Parking Taxes to City	(2,173,667)	(2,551,616)
<b>Net Cash from Operating Activities</b>	<b>7,082,718</b>	<b>10,425,640</b>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Cash Paid for Capital Assets and Construction in Progress	(9,285,099)	(23,145,810)
Cash Received for Project Grants	415,360	9,048,308
Cash Received from Sale of Capital Assets	76,196	539,856
Cash Paid on Note Payable – Seller	(12,028,755)	(8,407,578)
Cash Paid for Principal on Bonds Payable	(4,805,000)	(4,910,000)
Cash Paid for Notes Payable	(104,641)	(491,429)
Cash Paid in Capital Leases	-	(38,770)
Cash Paid for Interest	(1,174,482)	(1,233,349)
Cash Paid for Bond Issuance Costs	-	(276,500)
Cash Received from Passenger Facility Charges	9,477,745	10,127,165
Cash Received from Customer Facility Charges	3,749,768	4,042,480
Cash Received from Subordinated Revenue Notes	-	34,370,500
<b>Net Cash from Capital and Related Financing Activities</b>	<b>(13,678,908)</b>	<b>19,624,873</b>
<b>Cash Flows From Investing Activities</b>		
Cash Received from Interest and Investments	569,825	1,277,339
Cash Received from Notes Receivable	-	14,956
<b>Net Cash from Investing Activities</b>	<b>569,825</b>	<b>1,292,295</b>
<b>Net Increase (Decrease) in Cash</b>	<b>(6,026,365)</b>	<b>31,342,808</b>
<b>Cash and Cash Equivalents – Beginning</b>	<b>54,848,274</b>	<b>48,821,909</b>
<b>Cash and Cash Equivalents – Ending</b>	<b>\$ 48,821,909</b>	<b>\$ 80,164,717</b>
<b>Operating Income (Loss)</b>	<b>\$ (1,485,672)</b>	<b>\$ 4,367,282</b>
Adjustments to Reconcile Net Income (Loss)		
Net Cash Provided by Operating Activities		
(Increase)/Decrease in Trade Accounts Receivable	4,997,824	(1,834,781)
(Increase)/Decrease in Other Receivables	(895,542)	1,210,316
(Increase)/Decrease in Prepaid Expenses	(287,640)	(89,504)
(Increase)/Decrease in Accounts Payable	4,693,293	3,379,442
(Increase)/Decrease in Accrued Expenses	(2,513,194)	(424,862)
Due to Related Party	3,840,142	3,267,267
Increase/(Decrease) in Customer Deposits	449,772	483,635
Increase/(Decrease) in Accrued Payroll Taxes and Benefits	(1,716,265)	66,845
Net Cash Provided by (used for) Operating Activities	\$ 7,082,718	\$ 10,425,640

See accompanying notes to financial statements.

# ONTARIO INTERNATIONAL AIRPORT AUTHORITY

## Statements of Cash Flows

Years Ended June 30, 2018 and 2019

### Supplemental Disclosure of Cash Flow Information:

	2018	2019
Interest Paid	\$ 1,174,482	\$ 1,233,349

### Supplemental Disclosure of Non-Cash Investing and Financing Activities:

Assets Acquired by Capital Leases	\$ -	\$ 457,523
Assets Acquired By Debt	\$ 2,016,937	\$ 6,020,172

See accompanying notes to financial statements.

**ONTARIO INTERNATIONAL AIRPORT AUTHORITY**  
**Notes to Financial Statements**  
Years Ended June 30, 2018 and 2019

## **Note 1: Summary of Significant Accounting Policies**

*Notes to Basic Financial Statements* – The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

### **a. Description of Entity**

The ONTARIO INTERNATIONAL AIRPORT AUTHORITY (“Authority”) was organized on August 27, 2012, under a joint powers agreement between the City of Ontario, CA and the County of San Bernardino, CA (together “Municipalities”) pursuant to California Government Code Section 6500. The purpose of the OIAA is to exercise such powers for the operation, maintenance, management, administration, development and marketing of the Ontario International Airport (“ONT”).

The Authority is governed by a commission of five members, each serving in his or her individual capacities. Two members are appointed from the City of Ontario Council, one member from the County Supervisorial District with the remaining two members prominent citizens of the community-at-large.

The debts, liabilities, and obligations of the Authority do not constitute debts, liabilities, or obligations of the Municipalities. The accompanying basic financial statements are not included in the reporting entity of any of the Municipalities.

### **b. Acquisition of Ontario International Airport**

On November 1, 2016, the Authority completed a transaction for the acquisition of Ontario International Airport (“ONT”) from Los Angeles World Airports (“LAWA”). Pursuant to the Settlement Agreement dated December 22, 2015, the Authority acquired substantially all assets and liabilities of ONT including accounts receivable, real property, equipment, vehicles, leases, contracts, agreements, accounts payable, accrued expenses and debt. Certain proprietary systems and other IT-related assets were excluded from the transaction as well as liabilities related to LAWA personnel.

As a condition of the change in control of the operations of ONT, the Authority was required to obtain approval from the Federal Aviation Administration (“FAA”) in the form of a certificate authorizing the Authority to operate ONT pursuant to Title 14, Code of Federal Regulations Part 139. The Authority successfully obtained its Part 139 Certification prior to the acquisition on November 1, 2016.

The total purchase price of the net position of ONT was approximately \$242,015,000. Pursuant to the agreement, the purchase price was to be paid as follows:

Cash Due at Closing	\$ 30,000,000
Cash Payment at Closing from Unrestricted Cash of ONT	40,000,000
Payment Due on Fifth Anniversary	50,000,000
Payment Due on Tenth Anniversary	70,000,000
OIAA 2016 Revenue Bonds	52,015,000
<hr/>	
Total Cash Consideration	\$ 242,015,000
<hr/>	

### **c. Government Wide and Fund Financial Statements**

The basic financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles for government entities.

## ONTARIO INTERNATIONAL AIRPORT AUTHORITY

### Notes to Financial Statements

Years Ended June 30, 2018 and 2019

#### **d. Basis of Accounting**

The Authority reports its financial operations as a governmental enterprise activity, and as such, its financial statements are presented using the economic resources measurement focus and the accrual method of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. The measurement focus is on determination of changes in net position, financial position, and cash flows. Operating revenues include charges for services and tenant rent. Operating expenses include costs of services as well as materials, contracts, personnel, depreciation and amortization. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. The Authority maintains a fiscal year of June 30th and accordingly depict the operations of the Authority for the fiscal years ended June 30, 2018 and 2019 respectively.

#### **e. Description of Basic Financial Statements**

**Statements of Net Position** – The statements of net position are designed to display the financial position of the Authority including its assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. The Authority's equity is reported as net position which is classified into three categories defined as follows:

- **Net Investment in Capital Assets** – This component of net position consists of capital and intangible assets, net of accumulated depreciation and amortization and reduced by outstanding long-term debt related to capital acquisitions. Net Investment in Capital Assets amounted to \$4,668,952 and \$3,430,245 at June 30, 2018 and 2019, respectively.

Reclassifications have been made to Net Investment in Capital Assets for the year ended June 30, 2018 to conform to current year presentation. Specifically, the balance at June 30, 2018 has been reduced by the 2016 Bonds Payable in the amount of \$43,315,000 and Notes payable in the amount of \$1,912,296. The effect of the reclassification of \$45,227,296 resulted in a corresponding increase to Unrestricted Net Position as originally reported, \$(10,182,969) to a restated balance of \$35,044,327. The restatement had no effect on total net position, changes in net position or cash flows at June 30, 2018 and the year then ended.

The effects of the reclassifications on Net Investment in Capital Assets are as follows at June 30, 2018.

	<b>As Originally Reported</b>	<b>Restated</b>
Capital and Intangible Assets, Net	\$ 92,620,415	\$ 92,620,415
Less: Capital Related Borrowings	(42,724,167)	(87,951,463)
<b>Net Investment in Capital and Intangible Assets</b>	<b>\$ 49,896,248</b>	<b>\$ 4,668,952</b>

- **Restricted for Capital Projects** – This component of net position consists of assets on which constraints have been placed by external sources. The restrictions are imposed by regulatory agencies requiring funds be used for capital projects. Pursuant to the settlement agreement, PFCs are remitted to LAWA until the remaining purchase price is paid.

Net Restricted position at June 30, 2018 and 2019 consisted of the following:

	<b>2018</b>	<b>2019</b>
PFC Fund	\$ 1,689,333	\$ 4,276,147
CFC Fund	6,379,111	2,513,733
Cash Restricted for Capital Assets	-	23,715,587
<b>Total Restricted</b>	<b>\$ 8,068,444</b>	<b>\$ 30,505,467</b>

- **Unrestricted** – This component of net position, totaling \$35,044,327 and \$40,178,393 at June 30, 2018, and 2019, consists of net position that does not meet the definition of "restricted".

**ONTARIO INTERNATIONAL AIRPORT AUTHORITY**  
**Notes to Financial Statements**  
Years Ended June 30, 2018 and 2019

**Statements of Revenues, Expenses and Changes in Net Position** – The statements of revenues, expenses and changes in net position are the operating statements for the Authority. Revenues are reported by major source. This statement distinguishes between operating and non-operating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses before depreciation, and operating income.

**Statements of Cash Flows** – The statements of cash flows present information on the Authority's cash receipts and payments during the fiscal year. These cash flows are grouped into three categories: operating activities, capital and related financing, and investing activities.

**f. Operating and Non-Operating Revenues and Expenses**

The Authority distinguishes between operating revenues and expenses and non-operating items. Operating revenues and expenses generally result from providing goods and services to Airport users. The principal operating revenues of the Airport are parking fees, landing fees, concession charges, tenant rent, and fuel flowage fees. Operating expenses include contracted airport services, salaries and employee benefits, maintenance and operation of systems and facilities, administrative expenses including compliance with federal, state and local regulatory requirements, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**g. Restricted Reserves**

Certain assets are restricted based on constraints placed on the assets use through external constraints imposed by creditors (such as through debt covenants), grantors, leases, trust agreements, contributors, laws or regulations of other governments or enabling legislation. Restricted funds are nondiscretionary in terms of use and provide for payment of debt service on Authority bonds, reserves for outstanding bonds, and maintenance. The Authority, after necessary fund transfers have been made to comply with bond covenants, has discretion as to the use of the remaining unrestricted funds.

**h. Grant Revenue**

The Authority is eligible for grants under the Airport Improvement Program (AIP) from the U.S. Department of Transportation – Federal Aviation Administration (FAA) to finance certain future capital improvements.

**i. Capital Contributions**

The Authority was created in 2012 under a Joint Powers Agreement between the City of Ontario and the County of San Bernardino. From inception through November 1, 2016 (the date which the Authority acquired the revenue-generating operations of ONT), the City paid, on behalf of the Authority, all costs associated with acquiring control of ONT. Expenditures included legal and consulting fees, salary and benefits for Authority employees as well as other general and administrative costs.

The Authority incurred a total of \$11,017,637 expenses through June 30, 2016 which were paid by the City. The Authority also incurred an additional \$2,472,128 of expenses which were paid by the City, for the period from July 1, 2016 through October 31, 2016. Additionally, the City also directly provided approximately \$30,000,000 used as the initial installment credited toward the purchase price of ONT. The total amounting to \$43,489,765 was reflected as capital contributions at June 30, 2017.

**j. Passenger Facility Charge Revenues**

The Authority imposes a Passenger Facility Charge (PFC) of \$4.50 (net of \$.11 collection fee) per enplaned passenger, as approved by the FAA, to finance certain capital improvements. Cash and receivables from such revenues are maintained as separate reserves and are generally restricted for approved airport improvement projects. Revenues are recognized during the period earned and are recorded as non-operating revenues.

**ONTARIO INTERNATIONAL AIRPORT AUTHORITY**  
**Notes to Financial Statements**  
Years Ended June 30, 2018 and 2019

The Settlement Agreement required the Authority to make certain payments to LAWA prior to and following the acquisition as credits to the purchase price. As such, the Authority agreed to pay LAWA approximately \$70,000,000 on the tenth anniversary of the acquisition date. The agreement contemplated that the payment of the \$70 million would be funded from the collection of future PFC's from ONT operations and pledged to the repayment of the obligation until fully satisfied.

The Federal Extension, Safety and Security Act ("FAA Reauthorization Act") enacted on July 15, 2016 was intended, in part, to facilitate the change in control from LAWA to ONT. The FAA authorized PFC proceeds collected by ONT to be used to pay the required \$70,000,000 purchase price installment due LAWA.

In a letter dated September 14, 2016 ("Side Letter"), the parties agreed to modify the terms of the Settlement Agreement with respect to the repayment terms of the \$70 million purchase installment. In accordance with the Side Letter, the Authority would be required to pay LAWA an amount annually (beginning 11/1/19) as determined by the greater of \$2 per the number of enplaned passengers or \$1,000,000.

**k. Customer Facility Charge Revenues**

The Authority imposes a Customer Facility Charge (CFC) of \$10 per rental car contract to finance the planning, design and construction of a consolidated rental car facility (CONRAC), in accordance with California Civil Code Section I936(m) et seq. Cash and receivables from such revenues are maintained as a separate reserve and are restricted for the CONRAC project. Revenues are recognized during the period earned and are recorded as non-operating revenue.

Pursuant to the 2016 Revenue Bond Indenture, ("2016 Bonds") CFC's are eligible for use in making scheduled principal and interest bondholders payments.

**I. Revenues and Flow of Funds**

All revenues, except PFC's and CFC's, are deposited in the Airport Revenue Fund and are appropriated to the following reserves in priority order as mandated by resolution of the Authority and its bond indenture:

- **Maintenance and Operations Fund** – The amount in this fund is to be used for payment of operations and maintenance costs as they become due and payable. The funds appropriated to this reserve represent an amount equal to 1/12 of the maintenance and operation expenses budgeted for the then current fiscal year. The indenture further requires that the Authority establish a Maintenance and Operations Reserve Fund. The reserve required equals to 25% of the maintenance and operation expenses budgeted for the then current fiscal year.
- **Debt Service Fund** – The funds appropriated to this reserve represent an amount equal to 1/12 of the aggregate Principal amounts becoming due and payable on the next installment and 1/6 of the amount of interest becoming due and payable during the next ensuing six months.
- **Reserve Fund** – The Indenture establishes a Reserve Fund for the bonds issued or to be issued by the Authority pursuant to any Supplemental Indenture. Amounts appropriated to this reserve shall be available only to pay principal and interest on the 2016 Revenue Bonds and any additional bonds. The Required Reserve for the 2016 Bonds (and any Supplemental Bonds) shall be the lesser of: (i) the maximum annual debt services on the bonds or (ii) the amount permitted to be held in the Reserve Fund as permitted to be held under the arbitrage bond regulations prescribed by Section 148 of the Internal Revenue Code. Pursuant to the indenture, a Reserve Fund Surety Policy is acceptable in lieu of cash deposits to the fund. The Authority has obtained a Reserve Fund Surety Policy in the amount of \$5,201,500 to satisfy the deposit to the fund.
- **Surplus Revenue Fund** – After making appropriations to the maintenance and operation fund, debt service fund, and reserve fund, all moneys remaining in the Airport Revenue Fund may be used as directed by the Treasurer or Commission for any discretionary purposes.
- **Construction Fund** – Proceeds from bond issuances to be used for costs of a project shall be appropriated to this fund. The Authority did not use the proceeds from the bond issuance for construction projects.

**ONTARIO INTERNATIONAL AIRPORT AUTHORITY**  
**Notes to Financial Statements**  
Years Ended June 30, 2018 and 2019

**m. Other Reserves**

The Authority maintains the following additional restricted reserves:

- **Airport Discretionary Fund** – Pursuant to the Operating Use and Terminal Lease Agreement by and between the Signatory Airlines consortium, funds appropriated to this reserve represent amounts reserved under the agreement to fund capital projects not requiring “Majority in Interest” approval of the Signatory Airlines. The term Signatory Airlines is defined as any passenger or cargo airline that has signed the agreement. The agreement further defines Majority in Interest to generally mean...any combination of passenger or cargo carriers who together have landed more than 50% of the total landed weight at the airport.
- **Passenger Facility Charge Fund** – Cash from the PFC program is maintained as a separate reserve account and is pledged to repay amounts due to LAWA in connection with the acquisition.
- **Customer Facility Charge Fund** – Cash from the CFC program is maintained in a separate account and is restricted for planning, design, construction and financing of a consolidated rental car facility.

**n. Allowance for Doubtful Accounts**

Accounts receivable arising in the ordinary course of operations include amounts due from airlines and concessions. The Authority recognizes an allowance for losses on accounts receivable in an amount equal to the estimated probable losses, net of recoveries. The allowance is based on an analysis of historical bad debt experience, current receivables aging, and expected future write-offs, as well as an assessment of specific identifiable customer accounts considered at risk or uncollectible. The expense associated with the allowance for doubtful accounts is recognized as a general and administrative expense. The Authority recorded an allowance of \$121,458 for the years ended June 30, 2018 and 2019.

**o. Concentrations of Credit Risk**

The Authority had certain customers whose revenue individually represented 10% or more of the Authority's total revenue, or whose accounts receivable balances individually represented 10% or more of the Authority's total accounts receivable, as follows:

	2018		2019	
	Revenue	Accounts Receivable	Revenue	Accounts Receivable
Customer A	\$ 3,336,372	\$ 529,360	\$ 3,765,629	\$ 872,929
Customer B	12,444,646	713,102	10,941,349	666,111
Customer C	2,392,569	1,038,074	2,443,804	179,029
Customer D	5,595,243	464,271	7,764,627	2,571,207
	\$ 23,768,830	\$ 2,744,807	\$ 24,915,409	\$ 4,289,276

**p. Intangible Assets**

The Authority recognizes intangible assets in accordance with GASB No. 51 Accounting and Financial Reporting for Intangible Assets (June 2007). Intangible assets acquired either individually or in connection with a business combination are capitalized provided certain criteria are met and are recorded at their relative fair values. Intangible assets with definite lives are capitalized and amortized over their contractual or determined lives. Intangible assets with indefinite lives are not amortized and periodically measured for impairment.

**ONTARIO INTERNATIONAL AIRPORT AUTHORITY**  
**Notes to Financial Statements**  
Years Ended June 30, 2018 and 2019

In connection with the acquisition of ONT from LAWA, the Authority recorded intangible assets with the following lives:

• ***Land Use/Airspace Rights***

The asset represents the estimated legal, financial, regulatory, operational, and environmental costs necessary to secure the requisite land use and airspace rights and other governmental approvals for a newly constructed airport. Estimates of costs generally range from 6%-12% of the land acquisition value. An independent valuation determined the fair value of the Land Use/Air Space rights at \$121 million. After giving effect to negative goodwill derived from the acquisition, the original carrying value was determined to be approximately \$7,273,370.

• ***In Place Lease Value***

The asset represents the estimated value inherent in existing leaseholds. The estimated costs associated with vacant space including lost rent, professional fees and other costs necessary to generate lease income over a three (3) month period. After giving effect to negative goodwill derived from the acquisition, the original carrying value was determined to be approximately \$66,987.

• ***Favorable Lease Value***

This asset represents existing leases that have contractual terms that are superior to the market rents at the time of acquisition. Leases consummated with a two-year period have been excluded as having no material favorable value. After giving effect to negative goodwill derived from the acquisition, the original carrying value was determined to be approximately \$64,183.

Amortization is computed on the straight-line basis over the following periods:

Land Use / Airspace Rights	Indefinite Life
In Place Lease Value	5 years
Favorable Lease Value	13 years

Indefinite lived assets are not amortized but periodically measured for impairment, at least annually, and whenever there is indication that the asset may be impaired. An impairment loss is recognized when the impairment is considered probable and can be reasonably measured. For the purpose of measurement, impairment is recognized when the carrying amount of the asset exceeds the recoverable amount. The recoverable amount of an asset is the higher of the fair value less cost to sell and value in-use. The total impairment loss is recorded as a reduction to the carrying amount of asset and an impairment loss is recognized as an expense.

**q. Capital Assets**

Capital assets are defined by the Authority as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets lives are not capitalized.

Depreciation is computed on a straight-line basis over the following periods:

Site Improvements	5 years
Buildings and Improvements	20-33 years
IT Hardware Software	1-5 years
Furniture for Fixtures	3-5 years
Machinery and Equipment	1-7 years
Vehicles	1-5 years

On disposal of a capital asset, the difference between the disposal proceeds and its carrying amount is recognized as a gain or loss.

**ONTARIO INTERNATIONAL AIRPORT AUTHORITY**  
**Notes to Financial Statements**  
Years Ended June 30, 2018 and 2019

**r. Compensated Absences**

All full-time employees are entitled to Paid Time Off ("PTO"). PTO may be used for vacation time or to accommodate sick time. The annual amounts are predetermined at the outset of employment and are accrued as earned during the year. Employees may carry over any unused PTO to future periods. Beginning in 2018, employees may also elect to convert any unused PTO hours to cash at specified dates during the calendar year. During the years ended June 30, 2018 and 2019, the Authority accrued \$219,757 and \$305,757 for compensated absences in the accompanying financial statements and are included under accrued expenses. Part time employees are not entitled to paid time off but are afforded a nominal amount of sick days per year. Unused sick days may not be carried over to future years.

Certain management employees are credited an additional 48 hours of personal leave which is credited at the beginning of the calendar year. Any unused personal leave may not be carried over to future periods.

**s. Retirement Plan Contribution**

The Authority established and maintains three retirement plan types for the benefit of employees:

**401A Plan- Defined Contribution Plan for Governmental Employees**

In March 2017, the Authority established the "Ontario International Airport Authority 401(a) Defined Contribution Plan", administered by Voya Retirement Insurance and Annuity Company. All full and part time employees are eligible to participate in the Authority's 401A Plan. Contributions amounting to 10% to 12% of the employee's eligible wage base are made to the plan by the Authority on behalf of the employees. Maximum permissible contributions for the plan year are \$40,000 per employee. All contributions made under this plan are fully vested. Amounts contributed to the plan for the years ended June 30, 2018 and 2019 amounted to approximately \$441,439 and \$415,758 respectively.

**457B Plan- Employee Deferred Compensation Plan**

In March 2017, the authority established the "Ontario International Airport Authority 457(b) Deferred Compensation Plan", administered by Voya Retirement Insurance and Annuity Company. The plan is an employee-funded retirement plan. All employee contributions are fully vested at the time of contribution. The Authority does not make any contributions or provide for matching under this plan.

**457F Plan**

In March 2017, the Authority established the "Ontario International Airport Authority 457(f) Deferred Compensation Plan", administered by Voya Retirement Insurance and Annuity Company. The plan is a non-qualified deferred compensation arrangement which provided supplemental retirement benefits to a select management group. The plan has no active participants and no plan assets at June 30, 2019.

**t. Fair Value Measurements**

For assets or liabilities that are required to be reported at fair value, the Authority uses valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or an income approach. The Authority categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy of inputs used to measure fair value consists of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs.

The Authority's assets subject to fair value measurement during the years ended June 30, 2018 and 2019, were investments held in the State Treasurer's Local Agency Investment Fund (LAIF). LAIF assets are considered Level 2 assets.

**u. Investments and Invested Cash**

In accordance with California Government Code (Code) Section 53600 et seq., the Authority adopts an investment policy annually for the Operating, PFC and CFC portfolios that, among other things, authorizes types of allowable investments, maximum maturities, maximum concentration of investments by type of investment and issuer, minimum ratings for

## ONTARIO INTERNATIONAL AIRPORT AUTHORITY

### Notes to Financial Statements

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certain types of investments, and how the investments may be held. These criteria on investments and invested cash related to the Authority's bonded debt are governed by the related Master Indenture of Trust. Authorized investments and invested cash include U.S. Treasury securities, corporate notes, federal agency securities, money market mutual funds, bankers' acceptances, commercial paper, negotiable and non-negotiable certificates of deposit, repurchase agreements, guaranteed investment contracts and funds deposited in the State Treasurer's Local Agency Investment Fund (LAIF). The restrictions in the Code mitigate the Authority's interest rate risk, credit risk, concentration of credit risk, and custodial credit risk related to its various investments.

The Authority's investments are carried at fair value. Fair value is determined based upon market closing prices or bid/ask prices for regularly traded securities. The fair value of money market mutual funds and other similar investments is stated at its share value. The fair value of the Authority's investment in the LAIF is based on the Authority's pro rata share provided by LAIF of the fair value of the entire LAIF portfolio. Certain money market mutual fund investments with initial maturities at the time of the purchase of less than one year are recorded at cost. The calculation of realized gains and losses on investments that had been held more than one fiscal year and sold during the current year may have been recognized as an increase or decrease in fair value of investments reported in the prior year. Unrealized gains and (losses) are included in investment income in the accompanying financial statements at June 30, 2018, and totaled to \$(23,192).

#### **v. Statements of Cash Flows**

For purposes of the statements of cash flows, the Authority considers its cash and investments in the LAIF, to be cash equivalents that function as a demand deposit account, whereby funds may be withdrawn or deposited at any time without prior notice or penalty. The Authority also considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents.

#### **w. Prepaid Expenses**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

#### **x. 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 disclosure of contingent liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **y. Income Taxes**

The Authority is a special district of the State of California. Accordingly, the Authority is not subject to federal or state income taxes.

#### **z. Pollution Remediation Liabilities**

The Authority implemented GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations, and currently does not believe it has any pollution remediation liabilities at June 30, 2018 or 2019.

#### **aa. Reclassifications**

Certain reclassifications have been made to prior year financial statements to conform to classifications used in the current year. These reclassifications have no impact on net position or cash flows as previously reported.

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***ab. Future Accounting Pronouncements***

The GASB has issued several pronouncements that have effective dates that may impact future presentations. The Authority is evaluating the potential impacts of the following GASB statements on its accounting practices and financial statements.

Issued in January 2017, GASB Statement No. 84, Fiduciary Activities establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Implementation of this statement is effective fiscal year 2020.

Issued in June 2017, GASB Statement No. 87, Leases is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Implementation of this statement is effective fiscal year 2021.

**Note 2: Cash and Cash Equivalents**

Cash and investments at June 30, 2018 and 2019 are classified in the accompanying statements of net position as follows:

	<b>2018</b>	<b>2019</b>
Deposits with Financial Institutions	\$ 8,154,241	\$ 48,422,539
Local Agency Investment Fund	40,667,668	31,742,178
<b>Total Cash and Cash Equivalents</b>	<b>\$ 48,821,909</b>	<b>\$ 80,164,717</b>

Investments funds are classified under the general headings of "restricted" or "unrestricted." The Authority has designated separate restricted reserves to carry on specific activities in accordance with special regulations, bond covenants, or enabling legislation. Restricted reserves are nondiscretionary in terms of use and provide for payment of debt service on Authority bonds, reserves for outstanding bonds, construction of long-term assets, and operations and maintenance. The Authority, after necessary fund transfers have been made to comply with bond covenants, has discretion as to the magnitude and use of the remaining unrestricted funds.

	<b>2018</b>	<b>2019</b>
Unrestricted Cash and Cash Equivalents	\$ 42,276,676	\$ 51,383,207
Restricted Cash:		
Capital Assets Fund	-	23,715,587
Passenger Facility Charge Fund	497,188	2,902,334
Customer Facility Charge Fund	6,048,045	2,163,589
<b>Total Restricted Cash and Cash Equivalents</b>	<b>6,545,233</b>	<b>28,781,510</b>
<b>Total Cash and Cash Equivalents</b>	<b>\$ 48,821,909</b>	<b>\$ 80,164,717</b>

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**a. Investments Authorized by the Code**

The Authority Investment portfolio is governed by the California Government Code, Section 53600. The table below identifies the investment types that are authorized for the Authority by the Code.

<b>Investment Type</b>	<b>Maximum Maturity</b>	<b>Maximum % of Portfolio</b>	<b>Minimum Rating</b>
U.S. Treasury Obligations	5 Years	None	None
U.S. Agency Securities	5 Years	None	None
Local Agency Investment Fund	N/A	None	None
Negotiable Certificates of Deposit	5 Years	30%	None
Non-Negotiable Certificates of Deposit	5 Years	None	None
Bankers' Acceptances	180 Days	40%	None

<b>Investment Type</b>	<b>Maximum Maturity</b>	<b>Maximum % of Portfolio</b>	<b>Minimum Rating</b>
Commercial Paper	270 Days	25% non-pooled funds 40% pooled funds	Highest letter and number rating by an NRS
Repurchase Agreements	1 Year	None	None
Mutual Funds and Money Market Mutual Funds	N/A	20%	Various
Medium-Term Notes	5 Years	30%	"A" rating Category or equivalent or better

**b. 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 interest rates. One of the ways that the Authority manages its exposure to interest rate risk is by purchasing a combination of shorter 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. None of the Authority's investments are considered highly sensitive to interest rate fluctuations.

**c. Investment in the State Treasurer's Local Agency Investment Fund**

The Authority is a voluntary participant in the LAIF that is regulated by the Code under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in this pool is reported in the accompanying basic financial statements at amounts based upon the Authority's pro rata share of the fair value of 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. As of June 30, 2019, the total amount invested by all California local governments and special districts in LAIF was \$22.5 billion.

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Investment Type	Fair Value	12 Months or Less	13 – 24 Months	25 – 60 Months
LAIF 6/30/2018	\$40,667,668	\$40,667,668	\$ -	\$ -
LAIF 6/30/2019	\$31,742,178	\$31,742,178	\$ -	\$ -

**d. Concentration of Credit Risk**

The Authority's investment policy limits the amount that can be invested in any one issuer in corporate notes, bankers' acceptances, commercial paper, negotiable certificates of deposit and time certificates of deposit to 5% of the applicable portfolio. The investment policy contains no other limitations on the amount that can be invested in any one issuer beyond that stipulated by the Code. The Authority's investment in LAIF was unrated.

**e. 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 deposit or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The 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 or investments, other than the following provisions for deposits: The Code requires that a financial institution secure deposits made by local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government 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 Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2018 and 2019, a portion of the Authority's deposits with financial institutions were uninsured and the collateral was held in accordance with the Code by the pledging financial institution in the Authority's name, as follows:

	2018	2019
Cash Deposits:		
Insured	\$ 250,000	\$ 250,000
Uninsured, Collateral Held in the Authority's Name	53,231,662	83,854,149
Total Cash Deposits	53,481,662	84,104,149
Add: Deposits in Transit	-	4,835
Less: Outstanding Checks	(4,659,753)	(3,944,267)
Carrying Amount of Cash Deposit	\$ 48,821,909	\$ 80,164,717

**Note 3: Other Receivables**

The Authority recorded other current receivables not related to operating activities and, therefore, not included in accounts receivable on the accompanying statements of net position. The other receivables at June 30, 2018 and 2019, consist of the following:

	2018	2019
Due from LAWA	\$ 250,564	\$ 250,564
Due from Airlines	2,300,400	-
Federal Grants	4,402,701	4,833,064
Total Other Receivables	\$ 6,953,665	\$ 5,083,628

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## Note 4: Note Receivable

In May, 2019, the Authority sold equipment to a company that performs maintenance functions for the terminals on behalf of the airline consortium. In connection with the sale, the Authority accepted a note with a principal amount of \$364,511. The terms of the note provide for monthly payments in the amount of \$14,956 including interest at 1.6% for a term of 24 months. The balance outstanding at June 30, 2019 was approximately \$349,555.

Future principal payments on the note are as follows:

FY 6/30/20	\$181,039
FY 6/30/21	168,516
Total	<hr/> \$349,555

## Note 5: Capital Assets

Capital assets for the years ended June 30, 2018 and 2019 were as follows:

	<b>June 30, 2018</b>				
	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Transfers</b>	<b>Ending Balance</b>
<b>Capital Assets, Not Being Depreciated:</b>					
Land	\$ 56,503,866	\$ -	\$ -	\$ -	\$ 56,503,866
Construction in Progress	-	5,463,086	-	-	5,463,086
<b>Total</b>	<b>\$ 56,503,866</b>	<b>\$ 5,463,086</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 61,966,952</b>
<b>Capital Assets, Being Depreciated:</b>					
Site Improvements	\$ 4,966,248	\$ 340,308	\$ -	\$ -	\$ 5,306,556
Building and Improvements	14,009,760	1,781,856	-	-	15,791,616
IT Hardware and Software	1,198,533	2,618,862	-	-	3,817,395
Furniture and Fixtures	35,149	-	-	-	35,149
Machinery and Equipment	589,740	1,067,925	(44,598)	-	1,613,067
<b>Total</b>	<b>\$ 20,799,430</b>	<b>\$ 5,808,951</b>	<b>\$ (44,598)</b>	<b>\$ -</b>	<b>\$ 26,563,783</b>
<b>Less Accumulated Depreciation for:</b>					
Site Improvements	\$ 644,674	\$ 1,309,714	\$ -	\$ -	\$ 1,954,388
Building and Improvements	283,292	158,217	-	-	441,509
IT Hardware and Software	133,495	392,121	-	-	525,616
Furniture and Fixtures	5,632	6,904	-	-	12,536
Machinery and Equipment	185,795	190,266	(25,328)	-	350,733
<b>Total</b>	<b>\$ 1,252,888</b>	<b>\$ 2,057,222</b>	<b>\$ (25,328)</b>	<b>\$ -</b>	<b>\$ 3,284,782</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>\$ 19,546,542</b>	<b>\$ 3,751,729</b>	<b>\$ (19,270)</b>	<b>\$ -</b>	<b>\$ 23,279,001</b>
<b>Capital Assets, Net</b>	<b>\$ 76,050,408</b>	<b>\$ 9,214,815</b>	<b>\$ (19,270)</b>	<b>\$ -</b>	<b>\$ 85,245,953</b>

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**June 30, 2019**

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Transfers</b>	<b>Ending Balance</b>
<b>Capital Assets, Not Being Depreciated:</b>					
Land	\$ 56,503,866	\$ -	\$ -	\$ -	\$ 56,503,866
Construction in Progress	5,463,086	22,555,694	(8,125,424)		19,893,356
Total	\$ 61,966,952	\$ 22,555,694	\$ -	\$ (8,125,424)	\$ 76,397,222
<b>Capital Assets, Being Depreciated:</b>					
Site Improvements	\$ 5,306,556	\$ 1,011,701	\$ -	\$ 8,125,424	\$ 14,443,681
Building and Improvements	15,791,616	3,619,092	-	-	19,410,708
IT Hardware and Software	3,817,395	775,605	-	-	4,593,000
Furniture and Fixtures	35,149	37,574	-	-	72,723
Machinery and Equipment	1,613,067	828,623	(236,758)	-	2,204,932
Total	\$ 26,563,783	\$ 6,272,595	\$ (236,758)	\$ 8,125,424	\$ 40,725,044
<b>Less: Accumulated Depreciation</b>					
Site Improvements	\$ 1,954,388	\$ 1,766,675	\$ -	\$ -	\$ 3,721,063
Building and Improvements	441,509	668,762	-	-	1,110,271
IT Hardware and Software	525,616	713,619	-	-	1,239,235
Furniture and Fixtures	12,536	6,363	-	-	18,899
Machinery and Equipment	350,733	280,185	(227,296)	-	403,622
Total	\$ 3,284,782	\$ 3,435,604	\$ (227,296)	\$ -	\$ 6,493,090
<b>Total Capital Assets Being Depreciated, Net</b>	<b>\$ 23,279,001</b>	<b>\$ 2,836,991</b>	<b>\$ (9,462)</b>	<b>\$ -</b>	<b>\$ 34,231,954</b>
<b>Capital Assets, Net</b>	<b>\$ 85,245,953</b>	<b>\$ 25,392,685</b>	<b>\$ (9,462)</b>	<b>\$ -</b>	<b>\$ 110,629,176</b>

Included in the machinery and equipment are assets capitalized under lease obligations with a carrying value of \$463,464 at June 30, 2019.

Depreciation expense amounted to \$2,057,222 and \$3,435,604 for the years ended June 30, 2018 and 2019 respectively.

Intangible assets consisted of the following at June 30, 2018 and 2019:

**June 30, 2018**

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Intangibles, not Being Amortized:</b>				
Land Use / Air Space Rights	\$ 7,273,370	\$ -	\$ -	\$ 7,273,370
<b>Intangibles, Being Amortized:</b>				
Lease Value	131,170	-	-	131,170
Less Accumulated Amortization	(12,032)	(18,046)	-	(30,078)
<b>Total Intangible Assets Being Amortized</b>	<b>119,138</b>	<b>(18,046)</b>	<b>-</b>	<b>101,092</b>
<b>Total Intangible Assets</b>	<b>\$ 7,392,508</b>	<b>\$ (18,046)</b>	<b>\$ -</b>	<b>\$ 7,374,462</b>

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	June 30, 2019			
	Beginning Balance	Increases	Decreases	Ending Balance
Intangibles, Not Being Amortized:				
Land Use / Air Space Rights	\$ 7,273,370	\$ -	\$ -	\$ 7,273,370
Intangibles, Being Amortized:				
Lease Value	131,170	-	-	131,170
Less Accumulated Amortization	(30,078)	(18,035)	-	(48,113)
Total Intangible Assets Being Amortized	\$ 101,092	\$ 18,035	\$ -	\$ 83,057
Total Intangible Assets	\$ 7,374,462	\$ 18,035	\$ -	\$ 7,356,427

Amortization expenses for the years ended June 30, 2018 and 2019 amounted to \$18,046 and \$18,035, respectively.

## Note 6: Long-Term Debt

### Loans Payable – LAWA (Direct Borrowing)

In connection with the acquisition of ONT from LAWA, a \$70 million noninterest-bearing loan was due LAWA on the tenth anniversary of the closing. Subsequently, the parties agreed to modify the payment provisions of the settlement agreement. The revised agreement requires repayment to commence on the third anniversary from closing (November 1, 2019) by remitting to LAWA on an annual basis the sum of \$2 per enplaned passenger (in excess of 2,082,721 passengers), a sum not less than \$1 million or 100% of PFCs collected. The Authority may prepay the loan at any time applying a discount of 1.1%.

The original loan for \$70 million was for a 10-year term and noninterest bearing. The loan was discounted to net present value using expected future cash flows at a weighted average discount rate of 1.83%. The discount rate reflects the yield on 10-year U.S. Treasury notes at the inception of the loan. Aggregate deferred interest in the amount \$9,044,321 was imputed and is amortized to operations over the life of the loan. There is no fixed amortization schedule.

Loans payable consists of the following for the years ended June 30, 2018 and 2019:

	June 30, 2018			
	Beginning Balance	Additions	Deletions	Ending Balance
	\$ 53,848,489	\$ -	\$ 11,124,322	\$ 42,724,167
June 30, 2019				
	Beginning Balance	Additions	Deletions	Ending Balance
	\$ 42,724,167	\$ -	\$ 8,008,885	\$ 34,715,282

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	<b>2018</b>	<b>2019</b>
Loan Payable – LAWA	\$ 70,000,000	\$ 70,000,000
Less: Deferred Interest	(9,044,321)	(9,044,321)
Carrying Value of Loan	60,955,679	60,955,679
Less: Payments on Loan	(19,738,899)	(28,652,214)
Amortization of Deferred Interest	1,507,387	2,411,817
Balances at June 30	<hr/> \$ 42,724,167	<hr/> \$ 34,715,282

**2016 Revenue Bond (Public Offering)**

On November 1, 2016, the Authority issued \$52,015,000 of 2016 Airport Revenue Bonds ("2016 Bonds") with effective interest rates ranging from 1.290% to 2.998% issued at par. The 2016 Bonds are special limited obligations of the Authority payable solely from, and secured solely by, a pledge of the net revenues and amounts in certain funds established under the Master Indenture of Trust, as amended, and the Debt Service Reserve Fund (provided through a surety). The 2016 Bonds are subject to redemption at the Authority's option prior to maturity, subject to a redemption premium. The 2016 Bonds were issued to extinguish LAWA 2006 Bonds as part of the Settlement Agreement.

Bonds Payable consisted of the following at June 30, 2018 and 2019:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
June 30, 2018	\$ 48,120,000	\$ -	\$ 4,805,000	\$ 43,315,000	\$ 4,910,000
June 30, 2019	<hr/> \$ 43,315,000	<hr/> \$ -	<hr/> \$ 4,910,000	<hr/> \$ 38,405,000	<hr/> \$ 5,010,000

The 2016 Bonds are due in principal installments on May 15th annually with interest installments due on May 15th and November 15th each year. In connection with the bond financing, the Authority secured a Reserve Surety Bond with a face value of \$5,201,500 to provide coverage for debt service. The balance outstanding as of June 30, 2018 and 2019 was \$43,315,000 and \$38,405,000, respectively.

Debt service payments through maturity are as follows at June 30, 2019:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
May 15, 2020	5,010,000	999,553	6,009,553
May 15, 2021	5,145,000	895,145	6,040,145
May 15, 2022	5,290,000	782,778	6,072,778
May 15, 2023	5,455,000	651,375	6,106,375
May 15, 2024	5,645,000	507,690	6,152,690
May 15, 2025	5,820,000	349,743	6,169,743
May 15, 2026	6,040,000	181,079	6,221,079
May 15, 2027			
Total	<hr/> \$ 38,405,000	<hr/> \$ 4,367,363	<hr/> \$ 42,772,363

Interest expense for the years ended June 30, 2018 and 2019, amounted to \$1,151,162 and \$1,088,817 respectively.

The 2016 Bonds are special obligations of the Authority payable solely from and secured solely by Pledged Revenues. Pledged Revenues is defined in the Master Indenture to mean all income, receipts, earnings, and revenues received by the Authority. The Authority covenants that, as long as the bonds are outstanding, that it will collect Pledged Revenues in amounts sufficient to provide for the flow of funds to the prescribed reserves. The Authority adheres to a regimen

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with respect to the flow of funds with cash receipts and cash disbursements. All receipts are deposited in the Airport Revenue Funds. Funds are then allocated and reserved for the following reserves: maintenance and operations, debt service, reserve, construction, and surplus (See Note 1). Net Pledged Revenues are defined to mean operating revenue plus investment income on operating funds less operating expenses before depreciation.

The Bond indenture contains various affirmative, negative and financial covenants. The primary financial covenant is a Debt Service Coverage Ratio defined as "net pledged revenues equal to at least 125% of aggregate annual debt service for that fiscal year". If the Authority violates the covenant, it will not constitute a default in the event the Authority cures violation within 120 days if its discovery. The Authority was in compliance with all covenants at June 30, 2018 and 2019.

#### **Subordinated Revenue Notes (Direct Borrowing)**

On May 22, 2019, The Authority executed a note purchase agreement with a financial institution. The credit facility titled *Subordinated Revenue Notes, Series 2019*, provided financing for specifically identified and airline approved capital projects (net of eligible third-party grants). The capital projects consisted of airfield runway rehabilitations, airfield lighting upgrades, non-airfield site clearing and demolition costs, terminal infrastructure improvements, terminal equipment, new fire and rescue equipment and general IT infrastructure and equipment.

Approved projects under the note purchase agreement are those to which the airline consortium have specifically approved through a vote under the Majority in Interest Provisions cited in the *Airline Operating Use and Terminal Lease Agreement*. Under that provision, all capital projects contemplated by the Authority, meeting certain thresholds, require approval by the majority of the Signatory passenger and cargo carriers. The Authority presented all projects to the airlines and received approval prior to closing with the exception of one project. The proceeds for the project in the amount of \$1,410,000 were placed in an escrow account at a separate financial institution until the Authority received airline approval on May 24, 2019.

As further contemplated by the agreement, the Authority intends and covenants to the lender to seek long term bond financing to ultimately retire the subordinated revenue notes described herein for those projects eligible for long term bond financing. The Authority seeks approval from the Federal Aviation Administration ("FAA") to use Passenger Facility Charges ("PFCs") collected by the airport as the cash source for repayment of a long-term bond used to finance capital acquisitions including those projects financed herein. Pursuant to the agreement, PFC approval from the FAA shall be in place by November 1, 2020.

The proceeds of the loan in the amount of \$34,370,500 (\$32,684,000 net of issuance costs) were received on May 22, 2019 and are held in a separate custodial account at the Authority's main financial institution. The proceeds of the loan are restricted for use to the projects specifically identified as part of the note purchase agreement.

The Authority may reimburse itself for approved costs incurred prior to closing and fund on a current basis all present and future costs. The Authority typically pays all costs on approved projects from its general operating account and periodically draws down on the custodial funds to reimburse itself. As of June 30, 2019, the Authority drew down approximately \$10,378,400 leaving a remaining balance in the custodial cash account of approximately \$23,715,600.

The Note purchase agreement is for a 2-year term and bears interest of 3.06% per annum calculated on 360-day basis. Interest is due and payable semi-annually on December 1 and June 1 each year.

The Note contains a 12-month call option which grants the Authority the option of redeeming or prepaying the note in whole or in part, at par, at any time after June 1, 2020. Prepayments can be made in a minimum increment of \$1,000,000 or \$100,000 multiple in excess thereof by written prior notice. In the event the note is not redeemed in full at the call date, the then outstanding balance will be converted to a term loan with a period of 24 months at the rate of 3.06% per annum. The balance outstanding at June 30, 2019 amounted to \$34,370,500 with interest accrued in the amount of \$116,860.

The note is secured by net pledged revenues, junior and subordinate to the 2016 Revenue Bonds. Net pledged revenues are defined as pledged revenues less maintenance and operating expenses.

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Years Ended June 30, 2018 and 2019

In addition to general affirmative and negative covenants, The Authority has agreed to maintain a Debt Service Coverage Ratio of at least 110% of Aggregate Annual Debt Service for that Fiscal Year. In the event of non-compliance with the financial ratio, the Authority has 120 days in which to cure the condition. The Authority is in compliance with all covenants at June 30, 2019.

The note has been classified as non-current in the accompanying financial statements as the credit facility permits the conversion to a term loan to a period extending beyond one year.

Future minimum payments that would be due assuming conversion to a fixed term loan on June 1, 2021 would be as follows:

FY 6/30/22	\$ 17,185,250
FY 6/30/23	\$ 17,185,250
Total	\$ 34,370,500

**Notes Payable – Equipment Financing (Direct Borrowing)**

Notes payable consisted of the following at June 30, 2018 and 2019:

	<b>2018</b>	<b>2019</b>
Note Payable – Lender in connection with the financing of ERP Software System. The Lease/Purchase Master Agreement effective September 29, 2017, extends a credit facility for one year with a maximum drawdown of \$2,051,649. The note contains interest at approximately 3.7% per annum. Drawdowns are made on a monthly basis with each drawdown then converting to a term note amortized over 60 months. Principal and Interest Payments are made semi-annually in April and October. The Note is secured by a first lien on the equipment financed under the agreement. The Note can be repaid without penalty at the option of the Authority.	\$ 1,912,296	\$ 2,214,661
Less: Current Portion	(403,956)	(564,821)
Balance- Long term	\$ 1,508,340	\$ 1,649,840
Principal Payments on Notes Payable are as follows:		
2020	\$ 564,821	
2021	586,699	
2022	610,152	
2023	382,750	
2024	70,239	
Total	\$ 2,214,661	

Interest expense for the years ended June 30, 2018 and 2019 was \$17,572 and \$68,471, respectively.

**Notes Payable – PCI**

The Authority entered into an agreement with Parking Concepts, Inc. ("PCI"), the parking management operator, to make certain capital improvements in the terminal parking areas. Pursuant to the agreement, PCI would engage in the construction, development or installation of the projects and finance the initial capital outlay. Upon completion of each project, the Authority would repay PCI the cost over a 5-year term including interest at 9.8% per annum.

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During the fiscal year 2019, capital projects were completed, and the related debt outstanding was as follows at June 30, 2018 and 2019:

	2018	2019
Signage and Wayfinding, original cost \$236,209 completed July 2018	\$ -	\$ 197,870
Safety Rails on Traffic Islands, original cost \$135,732 completed July 2018	- -	113,611
LED Lighting in Lots 2 & 4, original cost \$221,767, completed October 2018	- -	185,624
LED Lighting in Lots 3 & 5, original cost \$145,700, completed October 2018	- -	130,128
Signage and Wayfinding Stage 2, original cost \$117,037 completed April 2019	- -	113,117
LED Lighting in Lots 2 & 4, original cost \$73,920, completed April 2019	- -	71,671
Total	- -	812,021
Less: Current Portion	- -	(171,270)
Non-Current at June 30, 2019	\$ -	640,751

Principal Payments on Notes Payable for the next 5 years are as follows:

FY 2020	\$ 171,270
FY 2021	188,829
FY 2022	208,188
FY 2023	226,368
FY 2024	17,366
Total	\$ 812,021

Interest Expense for the year ended June 30, 2019 was \$66,085.

#### **Terminal Improvement Financing (Direct Borrowing)**

On June 19, 2018, the Authority entered into a Common Use Airport Lounge Concession Lease Agreement with the MAG US Lounge Management, LLC ("MAG"). The effective date of the agreement is July 1, 2018. The initial term is for a period of 10 years with an option to extend the term for an additional 3 years. The agreement can be terminated by either party without cause upon one year's written notice to the other party.

Under the terms of the agreement, MAG was granted the non-exclusive rights to operate common use lounges in the airport terminals as well as certain car parking services. The Authority sought to enhance the Airport's overall concessions, improve passenger experience, provide greater appeal to the traveling public and provide comprehensive and convenient offerings. Under that premise, the Authority contracted with MAG to create, build and operate passenger lounges in Terminal 2 and Terminal 4 that are open to the public for a daily fee. Each lounge is approximately 2,800 square feet. The lounges have been branded as the Escape Lounges.

MAG was responsible for the construction and initial financing of the Escape Lounges with a budget for the 2 lounges of approximately \$4,800,000. Construction began on the Lounge in Terminal 2 approximately September 2018 and was substantially complete and operational in January 2019. Construction on the lounge in Terminal 4 began approximately January 2019 and was substantially complete and operational in May 2019. The combined cost of the Escape Lounges in Terminal 2 and terminal amounted to \$3,611,798.

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MAG was also granted the rights to certain car parking services including, but not limited to, pre-book parking reservations, trading and valet “drop & go” parking and other such services as the party’s desire.

In connection with the car parking services MAG and the authority have agreed to a revenue sharing arrangement. Under that arrangement, a baseline for parking revenue is established annually on July 1, determined by the total parking revenue for the immediately preceding 12 months. All revenues generated up to the established baseline are retained by the Authority. Incremental revenues in excess of the baseline are shared with 55% retained by the Authority and 45% paid to MAG. All revenues entitled to the Authority exceeding the baseline will be used to repay MAG the construction costs of the Escape lounges until fully repaid.

MAG will pay the Authority a “Percentage Lounge Rent” for the privilege of operating the Escape Lounges in Terminal 2 and Terminal 4. The rent is determined on a graduated basis of gross revenue derived from the Escape Lounges as follows:

Year 1 and until such time that gross revenues exceed \$900,000	0%
Thereafter, gross revenues from \$900,000-\$1,300,000	4%
Thereafter, gross revenues exceeding \$1,300,000	10%

The amount outstanding under the financing arrangement was \$3,611,798 at June 30, 2019.

**Capital Lease Obligations (Direct Borrowing)**

The Authority leases vehicles for use for both operations and general purposes. In general, a lease is capitalized when the lessee has obtained substantially all the benefits or assumed substantially all the risks of ownership of the asset. A capital lease for accounting purposes, is similar to the financed purchase of an asset.

During the fiscal year ended June 30, 2018 and 2019, capital lease obligations were as follows:

	<b>2018</b>	<b>2019</b>
Lease of 4 Light Duty Trucks for Operations; 60 Months; original aggregate cost \$236,209; imputed interest rates ranging from 8.905%-10.06% including aggregate monthly payments of principal and interest of \$2,797	\$ -	\$ 113,393
Lease of 8 general purpose vehicles; 60 Months; original aggregate cost \$329,392; imputed interest rates ranging from 6.43%-6.61% including aggregate monthly payments of principal and interest of \$10,105	- -	312,703
Total	- -	426,096
Less: Current Portion	- -	(125,567)
Non-Current at June 30, 2019	\$ -	300,529

Future minimum lease rentals on capital lease obligations for the next 5 years are as follows:

FY 2020	\$ -	\$ 125,567
FY 2021	134,735	
FY 2022	131,487	
FY 2023	29,593	
FY 2024	4,714	
Total	\$ -	\$ 426,096

Interest Expense for the year ended June 30, 2019 was \$11,304.

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## Note 7: Related Party Transactions

The Authority is charged for services from the City of Ontario that are categorized in the various expense line items in the statements of revenues, expenses, and changes in net position. The most significant are payments for parking tax, law enforcement, crash, fire and rescue, utilities and administrative services. Administrative services include resources for information technology and human capital management. Amounts due to related parties amounted to \$7,137,698 and \$12,524,213 at June 30, 2018 and 2019 respectively, and are included in Due to Related Parties on the accompanying financial statements.

The Authority incurred the following expenses from the City during the years ended June 30, 2018 and 2019:

	<b>2018</b>	<b>2019</b>
Parking Tax	\$ 2,173,667	\$ 2,551,615
Police, Fire and Dispatch	16,141,694	22,423,975
Utilities	642,854	1,318,834
Administrative Services	1,004,207	846,297
Total	\$ 19,962,422	\$ 27,140,721

The Authority is also charged for services from the County of San Bernardino departments that are categorized in the various expense line items in the statements of revenues, expenses and changes in net position. The most significant are payments for emergency communications systems totaling \$151,464 and \$157,576 during the year ended June 30, 2018 and 2019 respectively.

## Note 8: Commitments and Contingencies

### a. *Litigation and Claims*

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers' compensation; war risk and natural disasters for which the Authority carries commercial insurance, subject to deductibles ranging from \$10,000 to \$100,000. No settlements exceeded insurance coverage during the years ended June 30, 2018 or 2019.

The Authority from time to time is subject to various litigation, claims and assessments in the ordinary course of business. The Authority does not believe the outcome of any such matters will have any material adverse effect on the financial position or change in net position.

### b. *LAWA Staff Augmentation Agreement*

In connection with the acquisition of ONT from LAWA, The Authority entered into an agreement with LAWA to utilize existing ONT staff in order to ensure an effective and efficient transition. The Staff augmentation agreement which became effective with the closing remained in effect for 21 months with an additional 90 days to accommodate any transition period.

Under the agreement, the Authority was responsible for all aspects of the operations of ONT. However, to ensure continuity of services and safety, LAWA provided personnel in substantially the same number of employees, to perform key operations such as airfield operations, facilities maintenance and custodial services, security, aircraft rescue and firefighting services.

During the term of the staffing agreement, the Authority, at its option, can notify LAWA that one or more of the positions being filled by LAWA has become redundant to ONT's operation. Once notice of a redundant position had been given to LAWA, LAWA has 60 days to matriculate that employee back within its workforce. If LAWA admits the redundant position back within its workforce in a capacity that it otherwise was not looking to fill, the Authority will be liable to LAWA for an amount equal to 6 months of the employee's compensation.

**ONTARIO INTERNATIONAL AIRPORT AUTHORITY****Notes to Financial Statements**

Years Ended June 30, 2018 and 2019

The Authority was responsible for reimbursing LAWA for the base amount of salary and overtime for the employees working at ONT, as well as certain additional costs and administrative charges. Retirement and pension obligations of employees assigned to work at ONT remain the responsibility of LAWA. Amounts paid under the staff augmentation agreement amounted to \$19,547,968 and \$429,587 at June 30, 2018 and 2019 respectively, and is included under salary and benefits, and police, fire and rescue in the accompanying financial statements.

In accordance with the Authority's plan of operation, certain functions provided by LAWA were transitioned to other sources by both internally employed personnel and outsourced to third party providers. Beginning in May 2017, the Authority contracted with the City of Ontario for Police, Fire and Rescue services. After a transition period was completed in October 2017, Police, Fire and Rescue services previously provided by LAWA ceased.

Similarly, airfield maintenance functions previously provided by LAWA were transferred to a third party. In March 2018, the third-party contractor assumed all airfield maintenance operations. With that transition, all remaining services previously provided by LAWA ceased.

**c. Airline Rates and Methodologies**

Airline rates and charges methodologies refer to how airports charge airlines for the use of airport facilities and equipment. Airports typically set a landing fee for the use of an airfield, and a terminal rental rate for the use of terminal space. Implicitly, they determine how the costs of landside operations, such as parking, rental car operations, or ground transportation are recovered. Many airports also choose to set rates for other facilities and equipment such as common-use terminal space, equipment, jet bridges, etc.

The aviation industry typically classifies rate methodologies into 3 types: residual, compensatory, and hybrid. The residual methodology refers to an approach in which the airlines collectively assume significant financial risk by agreeing to pay any costs of running the airport that are not allocated to other users or covered by non-airline sources of revenue. The compensatory approach refers to the approach in which the airport assumes the major financial risk of running the airport and charges the airlines fees and rental rates to recover the actual costs of the facilities and services that they use.

The Authority operates under the residual methodology for rates and charges. As such, at the beginning of each fiscal year, the Authority projects its costs and revenues to determine how much net costs need to be recovered through charges to the airlines via landing fees and rental rates. During the fiscal year, the Authority will collect fees according to this rate schedule. At the conclusion of each fiscal year, the Authority will compare the actual revenues generated and costs incurred to those projected at the beginning of the year to determine whether the Authority collected an excess amount from the airlines or whether a shortage existed. If the Authority determined that an excess amount was collected the surplus will be returned to the airlines. Conversely, if a shortage was determined, the Authority would be entitled to recover the deficit.

Amounts due from airlines are recorded under Other Receivables while amounts due to airlines are recorded as Due from Airlines. Amounts recorded in the accompanying financial statements for the years ended June 30, 2018 and 2019 are as follows:

	<b>2018</b>	<b>2019</b>
Other Receivables	\$ 2,300,400	\$ -
Due from Airlines	\$ 2,456,170	\$ 336,922

Due from Airlines for the year ended June 30, 2018 and 2019 includes rebates credited to certain cargo airlines reflecting a retroactive change to signatory status.

**ONTARIO INTERNATIONAL AIRPORT AUTHORITY**  
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**d. Leases**

The Authority leases land, terminal, hangar, and administrative facilities to various entities under operating leases, airlines, concessions, and ground transportation companies. The cost of the Authority's leased property and the related accumulated depreciation by asset type is presented as of June 30, 2018 and 2019 as follows:

	2018		2019	
	Carrying Value	Accumulated Depreciation	Carrying Value	Accumulated Depreciation
Land	\$ 56,503,866	\$ -	\$ 56,503,866	\$ -
Buildings and Improvements	15,791,616	441,509	19,410,708	1,110,271
Site Improvements	5,306,556	1,954,388	14,443,681	3,721,063
	<b>\$ 77,602,038</b>	<b>\$ 2,395,897</b>	<b>\$ 90,358,255</b>	<b>\$ 4,831,334</b>

The leases on such properties expire at various times, and generally, terms are provided whereby lease terms may be extended.

Building and Land Rents are charged to Airlines for the use of the airfield, exclusive terminal use and an allocation of common use space. Fixed rental rates are set each year in accordance with the Use and Operating Agreement. Concession revenues are typically based as a percentage of gross receipts often subject to a minimum annual guaranty ("MAG").

Minimum future rental revenue on non-cancelable leases excluding future escalations, in effect at June 30, 2019, for the next 5 years is as follows:

<b>Lease revenue</b>	
Fiscal year ending June 30, 2019:	
2020	\$ 19,549,069
2021	19,549,069
2022	18,785,276
2023	18,530,677
2024	18,530,677
	<b>\$ 94,944,768</b>

**Note 9: Insurance**

The Authority maintains various insurance coverage as follows:

<b>Type</b>	<b>Limits</b>	<b>Deductibles</b>
Property and Equipment	\$250,000,000	All Property
	\$100,000,000	Equipment
General Liability	\$250,000,000	General
	\$100,000,000	Excess
Workers Compensation	\$5,000,000	Statutory Limits
Directors and Officers	\$2,000,000	Errors and Omissions

The Authority also maintains policies providing coverage for primary and excess earthquake events, underground storage tanks, foreign travel and automobile policies. The coverages on those policies range from \$250,000 to \$15,000,000 with deductibles from \$0 to \$100,000.





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**Administrative Offices**

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