



SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
AUDIT COMMITTEE

Item No.
6

Meeting Date: **MAY 9, 2011**

Subject:

External auditor's Fiscal Year Ended June 30, 2010, Customer Facility Charge Compliance Report

Recommendation:

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

Background/Justification:

The external auditor, McGladrey & Pullen, LLP, performed the annual audit of the Authority's financial statements for the fiscal year ended June 30, 2010, which were presented to the Audit Committee on November 15, 2010; and subsequently forwarded to the Board on December 2, 2010.

The Schedule of Customer Facility Charge (CFC) Collections and Expenditures for the Fiscal Year Ended June 30, 2010, is provided as specified in California Civil Code Section 1936, and is not a required part of the basic financial statements. It was prepared by McGladrey & Pullen, LLP, on a modified cash basis, for the purpose of additional analysis information. The modified cash basis of accounting recognizes CFC collections when received, rather than when earned; and expenditures are recognized when the commitment is incurred.

The Customer Facility Charge Compliance Report (Attachment A) was subjected by McGladrey & Pullen to the same auditing procedures applied in the audit of the basic financial statements, and as a matter of their opinion, is fairly stated, in all material respects, as it relates to the basic financial statements taken as a whole.

In adherence to the oversight responsibilities of the Audit Committee, as specified in the Charter of the Audit Committee, the CFC report will be presented to the Committee at its May 9, 2011, meeting.

Fiscal Impact:

The action will not result in any additional costs to the Authority.

Environmental Review:

- A. This Board action is not a project that would have a significant effect on the environment as defined by the California Environmental Quality Act (CEQA), as amended. 14 Cal. Code Regs. Section 15378. This Board action is not a "project" subject to CEQA. Pub. Res. Code Section 21065.
- B. California Coastal Act Review: This Board action is not a "development" as defined by the California Coastal Act. Pub. Res. Code Section 30106.

Equal Opportunity Program:

Not applicable.

Prepared by:

MARK A. BURCHYETT
CHIEF AUDITOR

San Diego County Regional Airport Authority

**Customer Facility Charge
Compliance Report
June 30, 2010**

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Independent Auditor's Report on the Supplementary Schedule

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

We have submitted, under separate cover, the basic financial statements of the San Diego County Regional Airport Authority for the year ended June 30, 2010, and our report thereon, dated October 15, 2010, is as follows:

We have audited the accompanying basic financial statements of the San Diego County Regional Airport Authority (the Airport Authority) as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Airport Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport Authority as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2010 on our consideration of the Airport Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Customer Facility Charge (CFC) Collections and Expenditures, prepared on a modified cash basis, is presented for purposes of additional analysis, as specified in California Civil Code Section 1936, and is not a required part of the basic financial statements. It provides relevant information that is not provided by the basic financial statements, and is not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America or a complete presentation in accordance with the accounting basis used for modified cash basis purposes. Under the modified cash basis, CFC collections are recognized when received rather than when earned, and expenditures are recognized when the obligation is incurred. Such supplemental modified cash basis information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

San Diego, CA
October 15, 2010

San Diego County Regional Airport Authority

**Schedule of Customer Facility Charge (CFC) Collections and Expenditures
Year Ended June 30, 2010 and for Each Quarter During the Year Ended June 30, 2010**

Description	Beginning Balance, Unapplied CFC	CFC Revenues ¹	Interest Earned	Expenditures	Ending Balance, Unapplied CFC ²
Cash receipts and expenditures, quarter ended September 30, 2009	\$ 770,490	\$ 2,770,850	\$ 2,482	\$ 156,806	\$ 3,387,016
Cash receipts and expenditures, quarter ended December 31, 2009	3,387,016	2,700,510	17,573	187,338	5,917,761
Cash receipts and expenditures, quarter ended March 31, 2010	5,917,761	2,352,830	17,273	60,489	8,227,375
Cash receipts and expenditures, quarter ended June 30, 2010	8,227,375	2,647,440	5,903	39,333	10,841,385
Cash receipts and expenditures, year ended June 30, 2010		<u>\$ 10,471,630</u>	<u>\$ 43,231</u>	<u>\$ 443,966</u>	

¹ CFC revenues are reported when the cash is received.

² Unapplied CFCs are collections that have not been applied to approved CFC projects.

See Note to Schedule of Customer Facility Charge (CFC) Collections and Expenditures.

San Diego County Regional Airport Authority

Notes to Schedule of Customer Facility Charge (CFC) Collections and Expenditures

Note 1. General

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

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

Note 2. Basis of Presentation

The accompanying Schedule of CFC Collections and Expenditures includes the CFC activity of the San Diego County Regional Airport Authority and is presented on the modified cash basis of accounting. The information in this schedule is presented for purposes of additional analysis, as specified in California Civil Code Section 1936. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CFC expenditures may consist of direct project costs, administrative costs, debt service costs and bond financing costs. The accompanying Schedule of CFC Collections and Expenditures includes the eligible expenditures that have been applied against CFCs collected as of June 30, 2010.



**Independent Auditor's Report on Compliance With Requirements That
Could Have a Direct and Material Effect on its Customer Facility
Charge Program and Internal Control Over Compliance**

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

Compliance

We have audited the compliance of the San Diego County Regional Airport Authority (the Airport Authority) with the compliance requirements described in California Civil Code Section 1936, for its customer facility charge (CFC) program for the year ended June 30, 2010. Compliance with the requirements of laws and regulations applicable to its CFC program is the responsibility of the Airport Authority's management. Our responsibility is to express an opinion on the Airport Authority's compliance based on our audit.

We conducted our audit of compliance 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 noncompliance with the types of compliance requirements referred to above could have a direct and material effect on the CFC program. An audit includes examining, on a test basis, evidence about the Airport Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Airport Authority's compliance with those requirements.

In our opinion, the Airport Authority complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its CFC program for the year ended June 30, 2010.

Internal Control Over Compliance

Management of the Airport Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws and regulations applicable to the CFC program. In planning and performing our audit, we considered the Airport Authority's internal control over compliance with requirements that could have a direct and material effect on the CFC program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Airport Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the CFC program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the CFC program will not be prevented, or detected and corrected, on a timely basis. Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board, management of the Airport Authority and the California State Controller's Office, and is not intended to be, and should not be, used by anyone other than these specified parties.

McGladrey & Pullen, LLP

San Diego, CA
January 31, 2011

**San Diego County Regional Airport Authority
Presentation to the Audit Committee
Customer Facility Charge Compliance Audit for the
Year Ended June 30, 2010**

**Presented By:
Christie Kubicek, Partner
Peter George, Director
McGladrey & Pullen, LLP
May 9, 2011**



Agenda

- Engagement Objectives
- Overview of Customer Facility Charge (CFC) program
- Audit Deliverables
- Questions and Answers

Engagement Objectives

- Perform a compliance audit of the Airport Authority's CFC program as of and for the year ending June 30, 2010.

Overview of Customer Facility Charge Program

- Assembly Bill 491 of the 2001-2002 California Legislature (as codified in California Civil Code Section 1936 et seq) passed in May 2009.
- Authorizes the Airport Authority to impose a user fee of \$10 per rental car contract from on airport rental car companies.
- For purposes of designing, financing and constructing a consolidated rental car facility and common use transportation system at the Airport Authority.

Overview of Customer Facility Charge Program (continued)

- Aggregate amount collected cannot exceed the reasonable costs to finance, design and construct those facilities as determined by a independent audit paid for by the Airport Authority.
- For the transportation system, the audit shall also consider the reasonable costs of providing the transit system or busing network.
- Cannot use these fees to pay for terminal expansion, gate expansion, runway expansion, change in hours of operation or changes in the number of flights arriving or departing from the Airport Authority.

Required Deliverables

- Issue an unqualified opinion on the Schedule of CFC Collections and Expenditures (a supplementary schedule to the Airport Authority's basic financial statements).
- Issue an unqualified opinion on compliance with requirements that could have a direct and material effect on its CFC program and internal control over compliance.

Schedule of CFC Collections and Expenditures for the Year Ended June 30, 2010

	Beginning Balance, Unapplied CFC	CFC Revenues	Interest Earned	Expenditures	Ending Balance, Unapplied CFC
Quarter ended September 30, 2009	\$770,490	\$2,770,850	\$2,482	\$156,806	\$3,387,016
Quarter ended December 31, 2009	3,387,016	2,700,510	17,573	187,338	5,917,761
Quarter ended March 31, 2010	5,917,761	2,352,830	17,273	60,489	8,227,375
Quarter ended June 30, 2010	<u>8,227,375</u>	<u>2,647,440</u>	<u>5,903</u>	<u>39,333</u>	<u>10,841,385</u>
Total receipts and expenditures		<u>\$10,471,630</u>	<u>\$43,231</u>	<u>\$443,966</u>	

Questions?

Thank you