ONTARIO
INTERNATIONAL AIRPORT

AUDITED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

ONTARIO, CALIFORNIA

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Years Ended June 30, 2020 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, 2020 and 2019, 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; 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 Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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, 2020 and 2019, and the respective changes in financial position and, where applicable, 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 January 28, 2021, 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.

Lance, Soll & Lunghard, LLP

Brea California
January 28, 2021

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, 2020 (FY 2020). Information for the previous fiscal years ended June 30, 2019 and 2018 (FY 2019 and FY 2018, respectively) 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.

Coronavirus (COVID-19)

On March 13, 2020, a national emergency was declared by the President of the United States in response to the novel coronavirus known as SARS-CoV-2 (COVID-19), which the World Health Organization announced on March 11, 2020 could be characterized as a pandemic. The Federal Government, along with State and local governments took extraordinary actions to prevent and slow the spread of the virus, which required essential businesses to close and stay-at-home orders were issued for all but essential workers. This national declaration and corresponding actions by Federal, State and local governments had an immediate and unprecedented impact on the commercial passenger aviation industry, including airports.

For the Ontario International Airport passenger levels decreased by 74.1% from March 1 – June 30, 2020 compared to the same period for 2019. Prior to March 1, 2020 passenger activity increased by 12.4% compared to 2019. As of June 30, 2020, one domestic carrier and two international carriers suspended air service at ONT. A substantial portion of airport revenues relate directly to passenger activity levels, including parking, rental cars and concessions (e.g. news and gifts, food and beverage). These revenues were experiencing fiscal year over year increases prior to the Declaration and after, concessions decreased significantly in relation to decreases in passenger activity.

Unlike many commercial service airports in the United States, cargo carrier activity makes up a substantial portion of airplane operations at ONT. As commercial passenger activity decreased Cargo carrier activity increased in response to substantial increases in e-commerce and the need for personal protective equipment (PPE). This resulted in a net total increase in landed weights and landing fees, as passenger carrier landed weights were offset by increases in cargo landed weights. Facility and land rent revenues were not significantly impacted by the Declaration, as the airline Operating Use and Lease Agreements (ULA) require that terminal rents be paid regardless of air service suspension. In addition, other non-terminal lessees were obligated to continue paying rents under similar lease terms.

Coronavirus (COVID-19) – continued

In April 2020 the United States Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. CARES provided financial assistance to United States commercial service air carriers and airports. The Authority received an award of approximately $22.2 million. The award was in the form of a grant to be used for any airport purpose allowed under existing law, including expenses, capital expenditures and debt service. CARES provides funding on a reimbursement basis, retroactive to January 21, 2020. The funding does not have an expiration date. As of June 30, 2020, the Authority had invoiced approximately $6.6 million for operating expenses, which was received subsequent to June 30, 2020.

Subsequent to June 30, 2020 national, regional and local economies as well as the commercial passenger carrier industry and the Authority experienced moderate recoveries as COVID-19 restrictions were lifted or eased. However, with recent accelerations in COVID-19 cases many State and local jurisdictions returned to more stringent business restrictions. On December 12, 2020 the Federal Food and Drug Administration (FDA) approved a COVID-19 vaccine that is eligible to the general public. The airport industry like many travel related industries will continue to be impacted until COVID-19 case levels are reduced to levels that substantially impact the spread of the disease through, vaccination of the public as well as preventive measures such as social distancing and use of masks.

The MD&A and the Authority's basic financial statements reflect the blend of pre, and post Declaration activities and financial results discussed above. They should be read and considered in light of the realized and continuing impact caused by COVID-19.

Airport Activities & Highlights

Ontario International Airport (ONT) passenger carrier activity, measured by enplaned and total passengers, decreased in FY 2020 by 17.6% and 17.7% over FY 2019 and increased by 9.8% and 9.6% for FY 2019 compared to 2018, respectively. Aircraft operations decreased .3% for FY 2020 and 14.4% FY 2019 compared to the previous year. Landed weight increased 9.0% in FY 2020 to 7,866,856 one-thousand-pound units compared to FY 2019 and increased by 8.7% in FY 2019.

Seven major domestic and two international passenger carriers served ONT during FY 2020 and 2019 compared to 6 domestic and two international carriers for FY 2018. Southwest Airlines and American Airlines have dominated both passenger activity and air carrier landed weight. These two carriers accounted for 66.7%, 69.7% and 73.4% of passenger traffic in FY 2020, 2019 and 2018, respectively. Four major cargo carriers operated at ONT in FY 2020 compared to two in FY 2019 and 2018. Each of the major passenger and cargo carriers serving ONT FY 2020 had signed signatory Operating Use and Lease Agreements.

Airport Activities & Highlights – continued

	FY 2020	FY 2019	FY 2018
Enplaned passengers	2,168,844	2,632,230	2,396,976
% increase	-17.6%	9.8%	N/A (1)
Total passengers	4,339,234	5,273,816	4,810,699
% increase	-17.7%	9.6%	N/A (1)
Aircraft operations	76,374	76,632	89,543
% increase	-0.3%	-14.4%	N/A (1)
Landed weight	7,866,856	7,219,155	6,640,772
% increase	9.0%	8.7%	N/A (1)

(1) Activity changes FY 2018 versus the prior fiscal year are not shown as FY 2018 was the first full year of ONT operations under the Authority.

Financial Highlights

Summary of Operations and Changes in Net Position

Total operating revenues increased $8.6 million (11.9%) in FY 2020 over 2019 and $1.6 million (2.3%) in FY 2019 over FY 2018. Increases in operating revenues for FY 2020 and FY 2019 were primarily related to increases in non-aeronautical revenues.

Total operating expenses FY 2020 increased by $1.3 million (1.9%) over 2019 primarily associated with increases in personnel and materials and supplies. Total operating expenses in FY 2019 decreased by $4.3 million (6.0%) over FY 2018, which were associated with reductions in personnel and public safety expenses.

Non-operating revenues decreased $6.6 million (34.4%) in FY 2020 compared to 2019. The decrease resulted primarily from decreased passenger and customer facility charges. Non-operating revenue in FY 2019 increased 35.4% 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. Nonoperating expenses increased $1.4 million in FY 2020 compared to FY 2019, as a result of increases in interest and bad debt expenses. Nonoperating expenses for FY 2019 were approximately the same as FY 2018.

The Authority's assets exceeded liabilities at the end of FY 2020 by $91.5 million, compared to $74.1 and $47.8 million FY 2019 and FY 2018, respectively. The Authority experienced increases in net position of $17.6 million FY 2020 compared to $26.3 million FY 2019 and $13.5 million for FY 2018.

	2020	2019	2018
Operating Revenues	$ 81,418,287	$ 72,780,724	$ 71,149,308
Operating Expenses	69,023,141	67,750,405	72,078,470
Operating income (Loss) before depreciation and amortization	12,395,146	5,030,319	(929,162)
Depreciation and amortization	6,053,898	3,453,639	2,075,266
Operating income (loss)	6,341,248	1,576,680	(3,004,428)
Non-operating revenues	12,690,771	19,339,233	14,279,882
Non-operating expenses	(3,915,631)	(2,516,835)	(2,194,625)
Income (loss) before capital contributions	15,116,388	18,399,078	9,080,829
Capital contributions	2,519,536	7,933,404	4,402,701
Increase in net position	17,635,924	26,332,482	13,483,530
Net Position - Beginning of the year	74,114,105	47,781,623	34,298,093
Net Position - End of the year	$ 91,750,029	$ 74,114,105	$ 47,781,623

Statement of Net Position

Current unrestricted assets decreased in FY 2020 over 2019 by $9.9 million (15.4%). The FY 2020 decrease resulted from a decrease in cash and cash equivalents of $16.4 million offset by increases in accounts receivable $2.6 million, grants receivable $3.8 million and prepaid expenses of $.4 million. Current restricted assets decreased by $13.8 million in FY 2020 compared to FY 2019. Cash and equivalents decreased $12.6 million (43.8%) as construction fund cash was drawn for project expenditures. Also, restricted receivables decreased $1.2 million (68.5%) as decreases in aviation and concession activities resulted in lower receivables from passenger facility and customer facility charges. Net capital assets increased by $16.6 million (14.1%) in FY 2020 compared to FY 2019 as the result of expenditures on several continuing projects, as well vehicles and equipment purchased, including $4.2 million in Airport Rescue Vehicles.

Current liabilities in FY 2020 decreased $14.8 million compared to FY 2019. This decrease included a decrease in accounts payable $3.4 million (38.3%) and accrued expenses $12.2 million (91.4%). The current portion of long-term debt increased by $.7 million and long-term debt decreased $10.1 million (8.5%) as a result of normal debt service, offset by the debt issued to acquire new vehicles and equipment in 2020.

The Authority's net position increased by $17.6 million for FY 2020 compared to FY 2019. The net investment in capital assets increased by $26.0 million and represented 31.9% of total net position FY 2020 versus 4.6% FY 2019. 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, $16.7 million for FY 2020 and $30.5 million for FY 2019, 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 $13.8 million year-over-year is primarily attributable to decreases in restricted cash expended on capital projects. The remaining unrestricted net position balances of $45.6 million for FY 2020 and $40.2 million for FY 2019 may be used for any lawful purpose of the Authority.

Statement of Net Position - continued

	2020	2019	Increase (Decrease) Dollar	Increase (Decrease) %
Assets				
Current unrestricted assets	$ 54,107,682	$ 63,981,491	$ (9,873,809)	-15.40%
Current restricted assets	16,724,867	30,505,467	(13,780,600)	-45.20%
Capital assets, net	134,583,439	117,985,602	16,597,837	14.10%
Other long-term assets	-	168,516	(168,516)	-100.00%
Total Assets	205,415,988	212,641,076	(7,225,088)	-3.40%
Liabilities				
Current liabilities	15,170,672	29,954,267	(14,783,595)	-49.40%
Long-term liabilities	98,495,287	108,572,704	(10,077,417)	-9.30%
Total liabilities	113,665,959	138,526,971	(24,861,012)	-17.90%
Net Position				
Net investment in capital assets	29,433,334	3,430,242	26,003,092	758.10%
Restricted	16,724,867	30,505,467	(13,780,600)	-45.20%
Unrestricted	45,591,828	40,178,396	5,413,432	13.50%
Total net position	$ 91,750,029	$ 74,114,105	$ 17,635,924	23.80%

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 $32.7 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 $13.7 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.

Restricted net position represents 41.2% and 16.9% of total net position FY 2019 and FY 2018, respectively. The $22.4 million increase in restricted net position year-over-year is associated with unexpended proceeds from bond anticipation notes issued in May 2019. The remaining unrestricted net position balances of $40.2 million for FY 2019 and $35.0 million for FY 2018 may be used for any lawful purpose of the Authority.

Statement of Net Position – continued

			Increase (Decrease)	
	2019	2018	Dollar	%
Assets				
Current unrestricted assets	$ 63,981,491	$ 54,663,668	$ 9,317,823	17.00%
Current restricted assets	30,505,467	8,068,344	22,437,123	278.10%
Capital assets, net	117,985,602	85,245,953	32,739,649	38.40%
Other long-term assets	168,516	7,374,462	(7,205,946)	-97.70%
Total Assets	212,641,076	155,352,427	57,288,649	36.90%
Liabilities				
Current liabilities	29,954,267	19,619,341	10,334,926	52.70%
Liabilities payable from restricted assets	-	5,313,956	(5,313,956)	-100.00%
Long-term liabilities	108,572,704	82,637,507	25,935,197	31.40%
Total liabilities	138,526,971	107,570,804	30,956,167	28.80%
Net Position				
Net investment in capital assets	3,430,242	4,668,952	(1,238,710)	-26.50%
Restricted	30,505,467	8,068,344	22,437,123	278.10%
Unrestricted	40,178,396	35,044,327	5,134,069	14.70%
Total net position	$ 74,114,105	$ 47,781,623	$ 26,332,482	55.10%

Revenues

Total FY 2020 revenues of $96.6 million decreased $3.4 million (3.4%) compared to FY 2019 total revenues of $100.1 million. The decrease was attributable to increases in operating revenues of $8.7 million offset by decreases in non-operating revenues of $6.6 million and capital contributions of $5.4 million.

Operating revenues increased in FY 2020 over FY 2019 by $8.6 million (11.9%). This increase was largely driven by an increase in Operating grants of $6.5 million, year over year, which was associated with CARES Act grant funding of $6.6 million. Total landing fees in FY 2020 increased from the prior year by $.6 million (4.0%). This increase was attributable to greater landed weights. Facility and land rentals increased by $.9 million (4.0%) as a result of additional non-terminal rents. Parking decreased by $.3 million (1.9%) due to decreases in passenger activity, mitigated by parking rate increases effective July 1, 2020. Concession revenues increased $.7 million (15.3%) despite decreases in passenger activity as contractually required Minimum Annual Guarantees (MAG) offset actual concessionaire sales decreases. Rental car privilege fees remained relatively flat FY 2020 compared to 2019. Other operating revenues increased $.3 (6.6%).

Non-operating revenues decreased by $6.6 million (34.4%) for FY 2020 compared to FY 2019. This decrease occurred across all non-operating revenue financial statement categories. Investment income decreased $.5 million (36.6%), passenger and customer facility charges decreased for FY 2020 over FY 2019 by $2.3 (21.9%) and $.7 million (17.3%). Passenger facility charge and customer facility charge decreases were a consequence of lower passenger activity. The decrease in FY 2020 gain on disposal of assets versus FY 2019 is attributed to a sale of vehicles to its airfield operations contractor. The decrease in other non-operating revenues of $2.4 million in FY 2020 resulted from a one-time settlement in 2019 on estimates for accrued expenses related to the LAWA settlement agreement.

Total Capital contributions of $2.5 million in FY 2020 was $5.4 million (78.2%) lower than FY 2019 capital contributions of $7.9 million. This decrease was attributable to decreases in Airport Improvement Program (AIP) grant revenues as eligible AIP projects were completed.

Revenues – continued

	2020	2019	Increase (Decrease) $	%
Operating revenues				
Landing fees	$ 14,710,660	$ 14,138,867	$ 571,793	4.0%
Facility and land rents	24,759,631	23,797,234	962,397	4.0%
Parking	17,600,660	17,937,975	(337,315)	-1.9%
Rental car privilege fees	7,383,170	7,378,129	5,041	0.1%
Concession revenue	5,160,614	4,477,220	683,394	15.3%
Operating grants	7,126,536	663,040	6,463,496	974.8%
Other operating revenues	4,677,016	4,388,259	288,757	6.6%
Total operating revenues	81,418,287	72,780,724	8,637,563	11.9%
Non-operating revenues				
Investment income	794,984	1,253,343	(458,359)	-36.6%
Passenger facility charges	8,448,989	10,814,570	(2,365,581)	-21.9%
Customer facility charges	3,360,085	4,061,658	(701,573)	-17.3%
Gain on disposal of assets	86,713	789,604	(702,891)	-89.0%
Other non-operating revenue	-	2,420,058	(2,420,058)	-100.0%
Total non-operating revenue	12,690,771	19,339,233	(6,648,462)	-34.4%
Capital contributions	2,519,536	7,933,404	(5,413,868)	-68.2%
Total revenue	$ 96,628,594	$ 100,053,361	$ (3,424,767)	-3.4%

In FY 2019, total revenues of $100.1 million were greater than the prior fiscal year by 11.4%. This increase included increases in operating revenues of $1.6 million, Non-operating revenues of $5.1million and capital contributions of $3.5 million.

Operating revenues increased in FY 2019 over FY 2018 by $1.6 million (2.3%). 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. Facility and land 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 as from a reduction in non-terminal facility leases, which was offset by an increase in land rents of $2.5 million (78.6%), which was primarily attributable to additional revenues from long-term as well seasonal truck parking leases. Parking revenues were relatively flat FY 2020 compared to FY 2019 as Transportation Network Companies (TNC's) provided an alternative to parking for customers using ONT. Increased passenger activity drove increases in rental car privilege fees and concessions in FY 2020 versus FY 2019 of $1.2 (19.8%) and $1.2 (36.4%), respectively. The concession revenue increases included increases in news and gifts and food and beverage revenues of $1.6 million (50.8%) for FY 2019 versus FY 2018.

Revenues – continued

Non-operating revenues increased by $5.1 million (35.4%) for FY 2019 compared to FY 2018. This increase was primarily a result of increases in the following non-operating revenue categories: Investment income $.5 million (69.9%), Passenger facility charges $1.4 million (14.3%), gain on disposal of assets increased $.8 million (100.0%) and other non-operating revenue increased $2.4 million (100.0%). The Passenger facility charge revenue increase for FY 2019 was directly related to the increase in commercial passenger activity. 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.

Capital contributions of $7.9 FY 2019 increased $3.5 million (80.2%) versus FY 2018 primarily due to the award of new Airport Improvement Program grants and revenues earned on those grants for eligible capital improvement project costs.

			Increase (Decrease)	
	2019	2018	$	%
Operating revenues				
Landing fees	$ 14,138,867	$ 14,667,511	$ (528,644)	-3.60%
Facility and land rents	23,797,234	24,973,918	(1,176,684)	-4.70%
Parking	17,937,975	18,075,732	(137,757)	-0.80%
Rental car privilege fees	7,378,129	6,156,834	1,221,295	19.80%
Concession revenue	4,477,220	3,283,404	1,193,816	36.40%
Operating grants	663,040	415,360	247,680	59.60%
Other operating revenues	4,388,259	3,576,549	811,710	22.70%
Total operating revenues	72,780,724	71,149,308	1,631,416	2.30%
Non-operating revenues				
Investment income	1,253,343	737,697	515,646	69.90%
Passenger facility charges	10,814,570	9,463,951	1,350,619	14.30%
Customer facility charges	4,061,658	4,078,166	(16,508)	-0.40%
Gain on disposal of assets	789,604	-	789,604	100.00%
Other non-operating revenue	2,420,058	-	2,420,058	100.00%
Total non-operating revenue	19,339,233	14,279,814	5,059,419	35.40%
Capital contributions	7,933,404	4,402,701	3,530,703	80.20%
Total revenue	$ 100,053,361	$ 89,831,823	$ 10,221,538	11.40%

Expenses

Total expenses for FY 2020 increased $5.3 million (7.2%) from FY 2019. This included increases in operating expenses of $1.3 million (1.9%), depreciation and amortization $2.6 million and non-operating expense of $1.4 million (55.6%).

Operating expenses FY 2020 of $69.0 million increased by $1.3 million (1.9%) compared to FY 2019. Personnel expenses FY 2020 increased by $1.7 million (31.0%) due to the increase in the number of Authority staff from FY 2019. Public safety expense of $22.4 million FY 2020 remained relatively flat year over year. Contractual expenses of $25.6 million and $25.4 million FY 2020 and 2019, respectively, increased $.2 million (.8%). Materials and supplies increase $1.4 million (74.9%) over FY 2019 and was primarily related to facility, security and information technology infrastructure replacements and improvements. Utilities and administration expense and other operating expenses decreased $.5 million (10.8%) and $1.4 million (18.2%) FY 2020 versus FY 2019, respectively. The decrease in utilities and administration resulted from decreases across all utility categories, including electric, gas and water. Marketing expense reductions in FY 2020 compared to FY 2019 accounted for a majority of the decrease in other operating expenses. Depreciation expense increased $2.6 million in FY 2020 over FY 2019 due to the acquisition of new capital assets and the completion of capital projects.

Nonoperating expenses for FY 2020 of $3.9 million increased by $1.4 million (55.6%) compared to 2019. This change resulted from an increase in interest expense, which was attributable to the issuance of new debt to finance capital projects, as well as an increase in bad debt expense associated with a corresponding increase in the allowance for uncollectable receivables.

			Increase (Decrease)	
	2020	2019	$	%
Operating Expenses				
Personnel	$ 7,116,113	$ 5,430,436	$ 1,685,677	31.0%
Public safety	22,377,074	22,423,975	(46,901)	-0.2%
Contractual services	25,560,455	25,366,236	194,219	0.8%
Materials and supplies	3,232,404	1,847,631	1,384,773	74.9%
Utilities and administration	4,360,637	4,890,622	(529,985)	-10.8%
Other operating expenses	6,376,458	7,791,504	(1,415,046)	-18.2%
Total operating expenses	69,023,141	67,750,404	1,272,737	1.9%
Depreciation and amortization	6,053,898	3,453,639	2,600,259	75.3%
Non-Operating Expenses				
Interest expense	3,296,292	2,240,335	1,055,957	47.1%
Bad debt expense	606,339	-	606,339	100.0%
Bond issuance costs	13,000	276,500	(263,500)	-95.3%
Total non-operating expenses	3,915,631	2,516,835	1,398,796	55.6%
Total expenses	$ 78,992,670	$ 73,720,878	$ 5,271,792	7.2%

Expenses – continued

Total expenses for FY 2019 decreased 3.1% 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%), Public Safety expenses $6.4 million (22.2%) and Materials and supplies $1.2 million (39.1%) offset by increases in the following categories, Contractual services $5.7 million (28.8%), Utilities and administration $.5 million (10.2%), and Other operating expenses $4.0 million (107.1%) 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.

	2019	2018	Increase (Decrease) $	Increase (Decrease) %
Operating Expenses				
Personnel	$ 5,430,436	$ 12,346,473	$ (6,916,037)	-56.0%
Public safety	22,423,975	28,810,842	(6,386,867)	-22.2%
Contractual services	25,366,236	19,687,386	5,678,850	28.8%
Materials and supplies	1,847,631	3,031,395	(1,183,764)	-39.1%
Utilities and administration	4,890,622	4,439,569	451,053	10.2%
Other operating expenses	7,791,504	3,762,738	4,028,766	107.1%
Total operating expenses	67,750,404	72,078,403	(4,327,999)	-6.0%
Depreciation and amortization	3,453,639	2,075,460	1,378,179	66.4%
Non-Operating Expenses				
Interest expense	2,240,335	2,073,167	167,168	8.1%
Bond issuance costs	276,500	-	276,500	100.0%
Bad debts	-	121,458	(121,458)	-100.0%
Total non-operating expenses	2,516,835	2,194,625	322,210	14.7%
Total expenses	$ 73,720,878	$ 76,348,488	$ (2,627,610)	-3.4%

Capital Assets

Net capital assets increased $16.6 million (14.1%) in FY 2020 over FY 2019. The increase resulted from spending on capital improvement program projects being higher than current year depreciation expense. Land improvements and buildings and improvements increased by $15.7 and $18.7 million, respectively, as long-term capital projects were completed and placed in service and are offset by a related decrease in construction in progress. In addition, machinery, equipment and vehicles increased by $4.9 million primarily from the replacement of Aircraft Rescue and Firefighting and airside operations vehicles. The most significant FY 2020 CIP projects were for the Airfield Marking and the Northwest Cargo Development.

	2020	2019	Increase (Decrease) Dollar	%
Land	$ 56,503,866	$ 56,503,866	$ -	0.0%
Air avigation easements	7,273,370	7,273,370	-	0.0%
Construction in progress	3,253,139	19,893,356	(16,640,217)	-83.6%
Land improvements	30,150,647	14,443,681	15,706,966	108.7%
Buildings and improvements	38,066,172	19,410,708	18,655,464	96.1%
Information technology hardware and software	4,659,526	4,593,000	66,526	1.4%
Furniture and fixtures	72,723	72,723	-	0.0%
Machinery, equipment and vehicles	7,199,098	2,336,102	4,862,996	208.2%
Accumulated depreciation	(12,595,102)	(6,541,204)	(6,053,898)	92.6%
Total Capital Assets, net	$ 134,583,439	$ 117,985,602	$ 16,597,837	14.1%

Net capital assets increased $25.4 million (27.4%) 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.

	2019	2018	Increase (Decrease) Dollar	%
Land	$ 56,503,866	$ 56,503,866	$ -	0.0%
Air avigation easements	7,273,370	7,273,370	-	0.0%
Construction in progress	19,893,356	5,463,086	14,430,270	264.1%
Land improvements	14,443,681	5,306,556	9,137,125	172.2%
Buildings and improvements	19,410,708	15,791,616	3,619,092	22.9%
Information technology hardware and software	4,593,000	3,817,395	775,605	20.3%
Furniture and fixtures	72,723	35,149	37,574	106.9%
Machinery, equipment and vehicles	2,336,102	1,744,237	591,865	33.9%
Accumulated depreciation	(6,541,204)	(3,314,860)	(3,226,344)	97.3%
Total Capital Assets, net	$ 117,985,602	$ 92,620,415	$ 25,365,187	27.4%

Additional detailed information regarding capital asset activity may be found in Note 5 to the financial statements.

Debt Activity

At the end of FY 2020, the Authority had total long-term debt outstanding of $105.2 million. The debt consists principally of revenue bonds, $33.4 million, Notes payable to LAWA, $28.0 million and Subordinated revenue notes $34.4 million. This debt is secured by airport revenues and/or by passenger facility charge revenues. The decrease of $9.4 million (8.2%) for FY 2020 was primarily related to the issuance of debt to finance vehicles and airport improvements offset by normal debt service.

			Increase (Decrease)	
	2020	2019	$	%
Revenue bonds Series 2016	$ 33,395,000	$ 38,405,000	$ (5,010,000)	-13.0%
Notes payable LAWA	28,046,542	34,715,284	(6,668,742)	-19.2%
Subordinated revenue notes	34,370,500	34,370,500	-	0.0%
Other notes and capital lease obligations	9,338,063	7,044,576	2,293,487	32.6%
	$ 105,150,105	$ 114,535,360	$ (9,385,255)	-8.2%

At the end of FY 2019, the Authority had total long-term debt outstanding of $114.5 million. The debt consists principally of revenue bonds, $38.4 million and Subordinated revenue 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 from the issuance of the Subordinated revenue notes of $34.4 in FY 2019, additional notes and capital leases offset by normal debt service.

			Increase (Decrease)	
	2019	2018	$	%
Revenue bonds Series 2016	$ 38,405,000	$ 43,315,000	$ (4,910,000)	-11.3%
Notes payable LAWA	34,715,284	42,724,167	(8,008,883)	-18.7%
Subordinated revenue notes	34,370,500	-	34,370,500	100.0%
Other notes and capital lease obligations	7,044,576	1,912,296	5,132,280	268.4%
	$ 114,535,360	$ 87,951,463	$ 26,583,897	30.2%

Additional detailed information regarding long-term debt activity may be found in Note 7 to the financial statements.

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 year ended 2020 the debt service coverage was 302.2%, compared to 179.4% and 190.1% for FY 2019 and 2018, respectively.

The 2019 Subordinated Revenue Notes are subordinate to the 2016 Revenue Bonds in terms of priority of claims. The required debt Service Coverage ratio mandated for the 2019 Notes is 110% of annual principal and interest payments. For the fiscal years ended 2020 and 2019 the calculated ratio amounted to 254.1% and 137.9%, respectively.

As of September 30, 2020, 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 September 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:

Fee Type	2020	2019	2018
Signatory landing fees per thousand pounds of gross landed weight	$ 1.98	$ 1.98	$ 1.98
Signatory annual per square foot terminal rental rate	$ 109.76	$ 109.76	$ 109.76
Non-preferential gate use, per turn	$ 280.00	$ 280.00	$ 280.00
Jet bridge utility per use	$ 189.00	$ 189.00	$ 189.00

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 increased in FY 2020 compared to FY 2019 by $2.40 per enplaned passenger. This increase was the result of an increase in passenger airline revenues and a decrease in total passengers. 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	**2020**	**2019**	**2018**
Passenger airline revenues	$ 24,102,471	$ 22,960,517	$ 25,526,175
Enplaned passengers	2,168,058	2,632,231	2,397,075
Cost per enplanement	$ 11.12	$ 8.72	$ 10.65

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, 2020 and 2019

	2020	2019
ASSETS		
Current assets:		
Unrestricted assets:		
Cash and cash equivalents - Note 3	$ 34,991,929	$ 51,383,206
Accounts receivable, net of allowance for doubtful accounts of $538,631 for 2020 and $121,458 for 2019	10,107,201	7,755,556
Grants receivable	7,858,834	4,014,411
Interest receivable	118,344	202,441
Prepaid expenses	1,031,374	625,877
Total unrestricted current assets	54,107,682	63,981,491
Restricted Assets:		
Cash and cash equivalents - Note 3	16,181,957	28,781,510
Accounts receivable	542,910	1,723,957
Total restricted current assets	16,724,867	30,505,467
Total current assets	70,832,549	94,486,958
Noncurrent assets:		
Notes receivable, net of current portion	-	168,516
Capital assets - Note 5		
Not depreciated	67,030,375	83,670,592
Depreciated, net of accumulated depreciation of $12,595,102 for 2020 and $6,541,204 for 2019	67,553,064	34,315,010
Net capital assets	134,583,439	117,985,602
Total unrestricted noncurrent assets	134,583,439	118,154,118
Total noncurrent assets	134,583,439	118,154,118
TOTAL ASSETS	**$ 205,415,988**	**$ 212,641,076**

ONTARIO INTERNATIONAL AIRPORT AUTHORITY
STATEMENTS OF NET POSITION
JUNE 30, 2020 and 2019

	2020	2019
LIABILITIES		
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable	$ 5,536,289	$ 8,972,172
Accrued expenses	1,146,001	13,391,526
Accrued payroll	615,564	383,760
Accrued interest	366,015	290,744
Current portion of long-term debt - Note 7	6,654,818	5,982,656
Unearned revenues - Note 6	851,985	933,409
Total unrestricted current liabilities	15,170,672	29,954,267
Total current liabilities	15,170,672	29,954,267
Noncurrent liabilities:		
Payable from unrestricted assets:		
Long-term debt - Note 7		
Bonds payable - Series 2016	28,250,000	33,395,000
Subordinated revenue notes	34,370,500	34,370,500
Notes payable - LAWA	28,046,542	34,715,284
Other notes and capital lease obligations	7,828,245	6,091,920
Total noncurrent liabilities	98,495,287	108,572,704
TOTAL LIABILITIES	**113,665,959**	**138,526,971**
NET POSITION		
Net investment in capital assets	29,433,334	3,430,242
Restricted	16,724,867	30,505,467
Unrestricted	45,591,828	40,178,396
Total net position	91,750,029	74,114,105
TOTAL LIABILITIES AND NET POSITION	**$ 205,415,988**	**$ 212,641,076**

ONTARIO INTERNATIONAL AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDING JUNE 30, 2020 AND 2019

	2020	2019
Operating revenues:		
Landing fees	$ 14,710,660	$ 14,138,867
Facility and land rents	24,759,631	23,797,234
Parking	17,600,660	17,937,975
Rental car privilege fees	7,383,170	7,378,129
Concessions	5,160,614	4,477,220
Operating grants	7,126,536	663,040
Other operating revenues	4,677,016	4,388,258
Total operating revenues	81,418,287	72,780,723
Operating expenses:		
Personnel	7,116,113	5,430,436
Public safety	22,377,074	22,423,975
Contractual services	25,560,455	25,366,236
Materials and supplies	3,232,404	1,847,631
Utilities and administration	4,360,637	4,890,622
Other operating expenses	6,376,458	7,791,504
Total operating expenses	69,023,141	67,750,404
Operating income before depreciation and amortization	12,395,146	5,030,319
Depreciation and amortization	6,053,898	3,453,639
Operating income	**6,341,248**	**1,576,680**
Nonoperating revenue and (expense):		
Investment income	794,984	1,253,343
Passenger facility charges	8,448,989	10,814,570
Customer facility charges	3,360,085	4,061,658
Interest expense	(3,296,292)	(2,240,335)
Bad debt expense	(606,339)	-
Bond issuance costs	(13,000)	(276,500)
Gain on disposition of assets	86,713	789,604
Other nonoperating revenues	-	2,420,058
Total nonoperating revenues	8,775,140	16,822,398
Net income before capital contributions	15,116,388	18,399,078
Capital contributions -		
Federal grants and other	2,519,536	7,933,404
Increase in net position	17,635,924	26,332,482
Total net position, beginning of year	74,114,105	47,781,623
Total net position, end of year	$ 91,750,029	$ 74,114,105

ONTARIO INTERNATIONAL AIRPORT AUTHORITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Receipts from airlines and tenants	$ 71,846,159	$ 72,079,410
Federal grants	3,282,113	663,040
Payments to suppliers	(77,993,933)	(56,290,178)
Payments for personnel services	(6,884,309)	(5,363,591)
Net cash provided (used) by operating activities	(9,749,970)	11,088,681
Cash flows from capital and related financing activities:		
Federal grants and other capital contributions	2,519,536	8,385,268
Acquisition of capital assets	(17,909,997)	(23,145,810)
Proceeds from sale of capital assets	86,713	539,856
Principal paid on long-term debt	(15,657,763)	(13,847,778)
Proceeds from issuance of long-term debt	-	34,370,500
Bond issuance costs	(13,000)	(276,500)
Passenger facility charges receipts	9,630,036	10,127,165
Customer facility charge receipts	3,360,085	4,042,480
Interest paid on long-term debt	(2,316,590)	(1,233,349)
Net cash provided (used) by capital and related financing activities	(20,300,981)	18,961,832
Cash flows from investing activities:		
Interest on investments	879,081	1,277,340
Collections of notes receivable	181,039	14,956
Net cash provided (used) by investing activities	1,060,120	1,292,296
Net increase (decrease) in cash and cash equivalents	(28,990,831)	31,342,809
Cash and cash equivalents, beginning of year	80,164,717	48,821,908
Cash and cash equivalents, end of year	$ 51,173,886	$ 80,164,717

ONTARIO INTERNATIONAL AIRPORT AUTHORITY
STATEMENTS OF CASH FLOWS - continued
Years ended June 30, 2020 and 2019

	2020	2019
Reconciliation of operating income to net cash provided by operating activities:		
	$ 6,341,248	$ 1,576,680
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	6,053,898	3,453,639
Effects of changes in operating assets and liabilities:		
Receivables	(2,364,168)	(1,834,781)
Other receivables	(3,844,423)	1,210,316
Prepaid expenses and other assets	(405,497)	(89,504)
Accounts payable	(3,435,883)	3,379,442
Accrued expenses	(12,245,525)	(424,858)
Accrued payroll	231,804	66,845
Due to related party	-	3,267,267
Unearned revenue	(81,424)	483,636
Net cash provided by operating activities	$ (9,749,970)	$ 11,088,681
<u>Noncash nonoperating, capital, financing and investing activities:</u>		
Assets acquired by issuance of debt	$ 5,217,959	6,477,695
Net appreciation/(depreciation) in fair value of investments	$ 105,097	$ 130,562

See Accompanying Notes To Financial Statements.

NOTE 1 – Organization and reporting 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 selected from the community at large.

The accompanying financial statements include the accounts of the Authority. There are no potential component units, nor has the Authority been determined to be a component unit of the Municipalities or any other entity.

Acquisition of ONT by the Authority

The Authority acquired substantially all assets and liabilities of ONT from the City of Los Angeles department known as Los Angeles World Airports ("LAWA") on November 1, 2016 (the "Transfer Date") pursuant to a Settlement Agreement (the "Settlement Agreement") executed on December 22, 2015. The Settlement Agreement provides for a schedule of payments by the Authority to LAWA as compensation for the transfer of ONT to the Authority, including from cash on hand and passenger facility charge revenues received or to be received by the Authority. All amounts due and owing LAWA under the Settlement Agreement have been paid except for approximately $28.0 million. See Note 7.

NOTE 2 – Summary of significant accounting policies

A summary of significant accounting policies follows:

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. All transactions are accounted for in a single enterprise fund. Enterprise funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

NOTE 2 – Summary of significant accounting policies – continued

Use of estimates in preparing financial statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make a number of estimates and assumptions, e.g., useful lives of capital assets that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities at the date of the financial statements. The most significant estimates recorded in the financial statements are the allowance for doubtful accounts and depreciation expense.

Measurement focus and basis of accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the Statements of Net Position. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* net position is displayed in three components – net investment in capital assets, restricted and unrestricted. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net position.

On proprietary fund financial statements, operating revenues are those that flow directly from the operations of that activity, (i.e., charges to customers or users who purchase or use the goods or services of that activity). Operating expenses are those that are incurred to provide those goods or services. Nonoperating revenues and expenses are items such as investment income and interest expense that are not a result of the direct operations of the activity.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. When both restricted and unrestricted resources are available for use, it is the Authority's practice to use restricted resources first, then unrestricted resources as they are needed.

NOTE 2 – Summary of significant accounting policies - continued

Cash and cash equivalents

Investments are categorized as cash equivalents if their maturity date is 90 days or less at the date of purchase. Those assets having a maturity of more than 90 days are classified as investments for statement of net position presentation. Cash equivalents include cash on hand, checking, savings, money market accounts and cash equivalent mutual funds.

Accounts and grants receivable

The Authority grants unsecured credit to certain of its tenants, the U.S. government and state and local agencies without interest. Receivables are reported at their gross value when earned as the underlying exchange transaction occurs. Receivables are reduced by an allowance for the estimated portion that is expected to be uncollectible. This estimate is made based on collection history, aviation industry trends and current information regarding the credit worthiness of the debtors. When collection activity results in receipt of amounts previously written off against the allowance, revenue is recognized for the amount collected.

Investments

Investments are stated at fair value. The Authority's policy is to invest in certificates of deposit, federal treasury and agency securities, cash equivalent mutual funds and repurchase agreements, and to hold such investments to maturity. In accordance with this policy, investments are purchased so that maturities will occur as projected cash flow needs arise in connection with daily operations, construction projects and bond debt service requirements.

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 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 fund 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/asked 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. For the year ending June 30, 2020 and 2019 unrealized gains totaled $105,097 and $130,562 respectively.

NOTE 2 – Summary of significant accounting policies – continued

Bond issuance costs

Costs of issuing general airport revenue bonds, except prepaid insurance, are expensed as incurred. Insurance is recorded as a prepaid asset and amortized over the life of the bonds using the effective interest method.

Capital assets

Capital assets are stated at cost or estimated historical cost if original cost is not available and include expenditures which substantially increase the useful lives of existing assets. Capital assets includes intangible assets, which are without physical substance that provide economic benefits through the rights and privileges associated with their possession, including aviation avigation easements and computer software. Gifts or contributions of capital assets are recorded at acquisition value as of the date of the acquisition. The Authority's policy is to capitalize assets with a cost of $5,000 or more. Routine maintenance and repairs are expensed as incurred.

Depreciation (including amortization of intangible assets) has been provided using the straight-line method over the following estimated useful lives of the related assets:

Land improvements	5 years
Buildings and improvements	20-33 years
Information technology hardware software	1-5 years
Furniture and fixtures	3-5 years
Machinery, equipment and vehicles	1-10 years

Depreciation of capital assets is recorded as an expense in the Statements of Revenues, Expenses and Changes in Net Position.

Interest incurred on debt obligations to finance construction projects is expensed as incurred during the construction period.

Capital assets are considered impaired if there is a significant unexpected decline in the service utility of the asset. Impaired capital assets that will no longer be used by the Authority are reported at the lower of carrying or fair value. Impairment losses on capital assets that will continue to be used by the Authority are measured using the method that best reflects the diminished service utility of the capital asset.

Restricted assets

Certain resources of the Authority are classified as restricted assets on the Statements of Net Position because their use is limited by applicable bond covenants, Federal Aviation Administration regulations or other legal requirements.

NOTE 2 – Summary of significant accounting policies – continued

Compensated absences

The Authority provides full-time employees with Paid Time Off ("PTO") in varying amounts and, at termination, an employee is paid for accumulated (vested) PTO. Accordingly, compensation for PTO leave is charged to expense as earned by the employee, and accumulated unpaid PTO is recorded as a current liability and reported in the accompanying financial statements under accrued payroll. Employees may make an annual election to have accumulated leave paid out in March and/or November of each calendar year.

Certain employees are provided an additional 48 hours of management leave each calendar year. The hours are credited at the beginning of the calendar year and any unused leave may not be carried over to the next calendar year and is not eligible to be paid out.

Net position

The Authority's policy is to restrict net position to the extent that assets restricted for bond debt service exceed the applicable debt service liabilities, and these assets are funded from operations rather than bond proceeds. Because these restricted assets do not exceed debt service liabilities at June 30, 2020 and 2019, no reservation of net position is required.

Passenger facility charges

In 1990, Congress approved the Aviation Safety and Capacity Expansion Act (Act), which authorized domestic airports to impose a Passenger Facility Charge (PFC) on enplaning passengers. In accordance with the PFC program, PFC collections may be used to pay eligible costs for approved airport projects which meet at least one of the following criteria: preserve or enhance safety, security or capacity of the national air transportation system; reduce noise or mitigate noise impacts resulting from an airport; or furnish opportunities for enhanced competition between or among carriers.

The maximum allowable fee is $4.50 per enplaned passenger. PFC charges are collected by Airlines and remitted to the Authority monthly, net of an administrative fee of $.11 per enplaned passenger. Total authorized collections and the time period for collections is established with each approved application. In accordance with the Act the Authority's AIP passenger entitlement apportionment is reduced by certain percentages.

At the present time, GASB has not released authoritative guidance on the accounting treatment of PFC's. The Authority's position is that PFCs should be treated as revenue because: 1) the Authority earns the PFCs due to a passenger's use of the Airport; 2) after receipt, the Authority has clear title to the funds and is not required to refund or return them; 3) the Authority is entitled to assess late charges on any payment not received by the deadlines specified in the Act; and 4) the fee is reserved for specific purposes as defined in the approval letter received from the FAA.

Since the Authority's applications for PFCs were approved as Impose and Use, it is the position of the Authority that revenue should be recognized immediately when PFCs are earned and are accounted for on an accrual basis. Due to their restricted use PFC program assets are presented as Current unrestricted assets and PFC' are categorized as nonoperating revenue in the accompanying financial statements.

NOTE 2 – Summary of significant accounting policies – continued

Customer facility charges

Under Section 1936 of the California Civil Code an Airport may require that rental car companies operating on the airport must impose a Customer Facility Charge (CFC) to:

(i) finance, design, and construct consolidated airport car rental facilities
(ii) finance, design, construct, and operate common-use transportation systems that move passengers between airport terminals and those consolidated car rental facilities, and acquire vehicles for use in that system
(iii) finance, design, and construct terminal modifications solely to accommodate and provide customer access to common-use transportation system

CFC's must be charged on a per contract basis and are limited to $10 per contract. Under certain circumstances an alternative fee may be imposed that exceeds this amount.

The Authority requires on-airport rental car operators to collect $10 per rental car contract, which are remitted to the Authority monthly. CFC revenues are recognized on an accrual basis when the rental car contract has been settled. Due to their restricted use CFC program assets are presented as Current unrestricted assets and re categorized as nonoperating revenue in the accompanying financial statements.

New Accounting Standards

Implementation of the following GASB statements was effective for fiscal year 2020 and 2019:

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations, or legally enforceable liabilities associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The Authority implemented this Statement in fiscal year 2019.

GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance.* The requirements of this Statement are effective immediately.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.* The requirements of this Statement are effective for reporting periods beginning after June 15, 2019. Earlier application is encouraged.

NOTE 2 – Summary of significant accounting policies – continued

New Accounting Standards – continued

The GASB issued pronouncements that may impact future financial presentations. Management has not currently determined what impact implementation of these statements may have on the financial statements of the Authority.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements.* The requirements of this Statement are effective for fiscal years beginning after June 15, 2022.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements.* The requirements of this Statement are effective for fiscal years beginning after June 15, 2022.

GASB Statement No. 93, *Replacement of Interbank Offered Rates.* The requirements of this Statement have multiple effective dates that are applicable based on specific identified paragraphs of the statement. The dates range from June 15, 2020 to June 15, 2021 with earlier application encouraged.

GASB Statement No. 92, *Omnibus 2020.* The requirements of this Statement are effective as follows (earlier application is encouraged and is permitted by topic):

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.
- The requirements related to the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

GASB Statement No. 91, *Conduit Debt Obligations.* The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61.* The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 87, *Leases.* The requirements of this Statement are effective for fiscal years beginning after June 15, 2021.

NOTE 2 – Summary of significant accounting policies – continued

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.

NOTE 3 – Cash, cash equivalents and investments

Deposits with Financial Institutions

At June 30, 2020, the carrying amount of the Authority's deposits was $18,580,990 and the bank balance was $19,418,599. At June 30, 2019, the carrying amount of the Authority's deposits was $48,422,539 and the bank balance was $52,361,970. The difference between the carrying amounts and the bank balances represents outstanding checks, deposits in transit and other reconciling items.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority's deposits may not be returned, or the Authority will not be able to recover collateral securities in possession of an outside party.

Interest Rate Risk

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

Custodial Risk (Deposits)

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Airport Authority maintains deposits at a financial institution, which are collateralized in accordance with California law. California Government Code requires that a financial institution secure deposits made by a state or local government by pledging securities in an undivided collateral pool held by a depository regulated under state law. The fair value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure Airport Authority deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured deposits.

Insurance through the Federal Deposit Insurance Corporation (FDIC) may be applicable to the first $250,000 of institutional deposit accounts, with any balance above this amount covered by the collateralization requirement.

NOTE 3 – Cash, cash equivalents and investments - continued

Custodial credit risk (investments)

Custodial credit risk for investments is the risk that the Airport Authority will not be able to recover the value of its investments in the event of a counterparty failure. The Airport Authority uses third-party banks' custody and safekeeping services for its registered investment securities. Securities are held in custody at third-party banks registered in the name of the Airport Authority and are segregated from securities owned by those institutions or held in custody by those institutions.

Credit Risk (Investments)

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. California Government Code Section 53601 (as referenced previously in this note) limits the types of investment instruments that may be purchased by the Airport Authority.

Cash and cash equivalents comprised the following at June 30, 2020 and 2019:

	Cash and cash equivalents	
	2020	2019
Deposits with financial institutions	$ 18,580,990	$ 48,422,539
Local Agency Investment Fund (LAIF)	32,592,896	31,742,177
	$ 51,173,886	$ 80,164,716

Cash and cash equivalents are classified on the Statements of Net Position at June 30, 2020 and 2019 as follows

	Cash and cash equivalents	
	2020	2019
Unrestricted	$ 34,991,929	$ 51,383,206
Restricted:		
Construction fund	8,662,637	23,715,587
Customer facility charge fund	4,817,205	2,163,589
Passenger facility charge fund	2,702,115	2,902,334
	16,181,957	28,781,510
	$ 51,173,886	$ 80,164,716

NOTE 3 – Cash, cash equivalents and investments – continued

Investments authorized in accordance with California Government Code Section 53601 and under the provisions of the airport authority's investment policy: The table that follows identifies the investment types that are authorized by the Airport Authority's investment policy and State Government Code. The table also identifies certain provisions of the Airport Authority's investment policy that address interest rate risk, credit risk, and concentration of credit risk.

This table does not address investments of bond proceeds held by the bond trustee that are governed by provisions of debt agreements of the Airport Authority, in addition to the general provisions of the Airport Authority's investment policy and State Government Code.

Authorized Investment Type	Maximum Maturity	Minimum Quality Requirements	Maximum Percentage of Portfolio	Maximum Investment in One Issue
U.S. Treasury obligations	5 years	N/A	None	None
U.S. agency securities	5 years	N/A	None	None
Supranationals	5 years	AA	30 percent	10 percent
Bankers' acceptances	180 days	AAA/Aaa	40 percent	5 percent
Commercial paper	270 days	A-1; P-1; F-1	25 percent	5 percent
Negotiable certificates of deposit	5 years	A	30 percent	5 percent
Medium-term notes	5 years	A	20 percent	5 percent
Money market mutual funds	N/A	AAA/Aaa	20 percent	5 percent
Repurchase agreements	1 year	A	None	None
Local Agency Investment Fund	N/A	N/A	None	$65 million
Local Government Investment Pool	N/A	N/A	None	$65 million
U.S. State and California agency indebtedness	5 years	A	20 percent	5 percent
Placement service certificates of deposits	3 years	N/A	30 percent	5 percent
Time certificates of deposit	3 years	*	20 percent	5 percent
Bank deposits	N/A	*	None	None

Investment in State Investment Pools

The Airport Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Airport Authority's investments in this pool are reported in the accompanying financial statements at fair value based upon the Airport Authority's pro rata share of the amortized cost basis provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of each portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF.

NOTE 4 - Note receivable

Note receivable from sale of vehicles and equipment. Original amount $364,511 due in monthly installments of $14,956 including interest at 1.6%, due May 2021.

The balance outstanding at June 30, 2020 and 2019 was as follows:

	2020	2019
Note receivable balance	$ 168,516	$ 349,555
Less: current portion	168,516	181,039
Long-term portion	$ -	$ 168,516

NOTE 5 – Capital assets

Capital asset activity for the year ended June 30, 2020 follows:

	Balance June 30, 2019	Reclassifications	Additions	Deletions	Balance June 30, 2020
Capital assets, not depreciated					
Land	$ 56,503,866	$ -	$ -	$ -	$ 56,503,866
Air avigation easements	7,273,370	-	-	-	7,273,370
Construction in progress	19,893,356	(33,560,381)	18,151,506	1,231,342	3,253,139
Total	83,670,592	(33,560,381)	18,151,506	1,231,342	67,030,375
Capital assets, depreciated					
Land improvements	14,443,681	15,093,469	613,497	-	30,150,647
Buildings and improvements	19,410,708	18,466,912	188,552	-	38,066,172
Information technology hardware and software	4,593,000	-	66,526	-	4,659,526
Furniture and fixtures	72,723	-		-	72,723
Machinery, equipment and vehicles	2,336,102	-	4,862,996	-	7,199,098
Total	40,856,214	33,560,381	5,731,571	-	80,148,166
Less: accumulated depreciation					
Land improvements	3,384,808	-	2,472,977	-	5,857,785
Buildings and improvements	1,446,522	-	1,038,293	-	2,484,815
Information technology hardware and software	1,239,237	-	807,496	-	2,046,733
Furniture and fixtures	14,273	-	10,389	-	24,662
Machinery, equipment and vehicles	456,364	-	1,724,743	-	2,181,107
Total	6,541,204	-	6,053,898	-	12,595,102
Capital assets, depreciated - net	34,315,010	33,560,381	(322,327)	-	67,553,064
Capital assets, net	$ 117,985,602	$ -	$ 17,829,179	$ 1,231,342	$ 134,583,439

NOTE 5 – Capital assets – continued

Capital asset activity for the year ended June 30, 2019 follows:

	Balance June 30, 2018	Reclassifications	Additions	Deletions	Balance June 30, 2019
Capital assets, not depreciated					
Land	$ 56,503,866	$ -	$ -	$ -	$ 56,503,866
Air avigation easements	7,273,370	-	-	-	7,273,370
Construction in progress	5,463,086	(8,125,424)	22,555,694		19,893,356
Total	69,240,322	(8,125,424)	22,555,694	-	83,670,592
Capital assets, depreciated					
Land improvements	5,306,556	8,125,424	1,011,701	-	14,443,681
Buildings and improvements	15,791,616	-	3,619,092	-	19,410,708
Information technology hardware and software	3,817,395	-	775,605	-	4,593,000
Furniture and fixtures	35,149	-	37,574	-	72,723
Machinery, equipment and vehicles	1,744,237	-	828,623	236,758	2,336,102
Total	26,694,953	8,125,424	6,272,595	236,758	40,856,214
Less: accumulated depreciation					
Land improvements	1,618,133	-	1,766,675	-	3,384,808
Buildings and improvements	777,760	-	668,762	-	1,446,522
Information technology hardware and software	525,618	-	713,619	-	1,239,237
Furniture and fixtures	7,910	-	6,363	-	14,273
Machinery, equipment and vehicles	385,439	-	298,221	227,296	456,364
Total	3,314,860	-	3,453,640	227,296	6,541,204
Capital assets, depreciated - net	23,380,093	8,125,424	2,818,955	9,462	34,315,010
Capital assets, net	$ 92,620,415	$ -	$ 25,374,649	$ 9,462	$ 117,985,602

Depreciation expense was $6,053,898 and $3,453,639 for the years ended June 30, 2020 and 2019, respectively.

Net investment in capital assets as of June 30, 2020 and 2019 is as follows:

	2020	2019
Capital assets	$ 147,178,541	$ 124,526,805
Less accumulated depreciation	(12,595,102)	(6,541,204)
Less outstanding debt	(105,150,105)	(114,555,359)
Net investment in capital assets	$ 29,433,334	$ 3,430,242

NOTE 6 – Unearned revenues

At June 30, 2020 and 2019 the Authority had received security deposits as well as rent from certain tenants and certain other payments applicable to the subsequent year. Such amounts have been classified as unearned revenue, which totaled $851,985 at June 30, 2020 and $933,409 at June 30, 2019.

NOTE 7 – Long-term debt

Long-term debt at June 30, 2020 and 2019 follows:

Public Offering

On November 1, 2016, the Authority issued $52,015,000 of 2016 Airport Revenue Bonds ("2016 Bonds") at par, with effective interest rates ranging from 1.290% to 2.998%. 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 Authority's acquisition of the Ontario International Airport from LAWA and to pay bond issuance costs.

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, 2020 and 2019 was $33,395.000 $38,405,000, respectively. Interest expense for the years ended June 30, 2020 and 2019, amounted to $999,553 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. 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 required debt service payments for the Series 2016 Bonds for the fiscal years ending June 30 are as follows:

For the year ending June 30,	Principal	Interest	Total
2021	$ 5,145,000	$ 895,145	$ 6,040,145
2022	5,290,000	782,778	6,072,778
2023	5,455,000	651,375	6,106,375
2024	5,645,000	507,690	6,152,690
2025	5,820,000	349,743	6,169,743
2026	6,040,000	181,079	6,221,079
Total	$ 33,395,000	$ 3,367,810	$ 36,762,810

NOTE 7 – Long-term debt – continued

Direct Borrowings and Placements

Loans Payable – LAWA
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. Following is a summary of the outstanding balance at June 30.

		2020		2019
Loan payable LAWA	$	33,774,610	$	41,347,784
Less: deferred interest		(5,728,070)		(6,632,502)
Outstanding balance	$	28,046,540	$	34,715,282

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 capital projects (net of eligible third-party grants) *approved in accordance with the Airline Operating Use and Terminal Lease Agreement*. The capital projects consisted of airfield rehabilitation and upgrades, airside site improvements and warehouses, terminal infrastructure improvements and various machinery, equipment and vehicles.

The Note purchase agreement is for a 2-year term and bears interest of 3.06% per annuum calculated on 360-day basis. Interest is due and payable semi-annually on December 1 and June 1 each year.
The balance outstanding at June 30, 2020 and 2019 was $34,370,500.

The proceeds of the loan in the amount of $34,370,500 ($32,684,000 net of issuance costs) were deposited in a separate custodial account (Construction Account) at the Authority's financial institution, less $1,410,000 placed in escrow for a project until approved in accordance with the *Airline Operating Use and Terminal Lease Agreement*.. These conditions were subsequently satisfied, and the escrow funds were released and deposited in the Construction Account.

The Authority made draws on the Construction Account as costs were incurred on eligible projects. Construction fund draws for the years ending June 30, 2020 and 2019 totaled $15,052,950 and $10,378,400, respectively. The Construction Account balance at June 30, 2020 and 2019 was $8,662,637 and $23,715,586, respectively.

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.

NOTE 7 – Long-term debt – continued

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. As further contemplated by the agreement, the Authority intends and covenants to the lender to obtain long term bond financing to retire the subordinated revenue bonds. In addition, the Authority is to submit a Passenger Facility Charge (PFC) application to seek approval from the Federal Aviation Administration (FAA) to use PFC's collected to repay that portion of the bond financing that is attributable to approved PFC eligible projects.

The required debt service payments for the note payable for the fiscal years ending June 30 are as follows:

For the year ending June 30,	Principal
2022	$ 17,185,250
2024	17,185,250
Total	$ 34,370,500

The note has been classified as non-current in the accompanying financial statements as the Authority intends to refinance the total outstanding debt by June 30, 2021.

Notes Payable – Enterprise Resource Planning System

In connection with the installation and implementation of its Enterprise Resource Planning (ERP) system the Authority entered into a Lease/Purchase Master agreement credit facility to finance the ERP system. Under the agreement, the Authority made drawdowns to cover ERP costs as they were incurred. Each drawdown converted to a 60-month term note, with interest at 3.7% per annum due in semi-annual installments of principal and interest ranging from $5,064 - $50,205. The notes mature beginning October 2022 and ending October 2023. Total cost of the ERP system financed was $2.8 million. The Note is secured by a first lien on the ERP system.

The required debt service payments for the note payable for the fiscal years ending June 30 are as follows:

For the year ending June 30,	Principal	Interest	Total
2021	$ 586,699	$ 60,766	$ 647,465
2022	610,152	37,313	647,465
2023	382,750	12,911	395,661
2024	70,239	1,692	71,931
Total	$ 1,649,840	$ 112,682	$ 1,762,522

NOTE 7 – Long-term debt – continued

Notes Payable – Parking Management Operator

The Authority entered into an agreement with its parking management operator (Operator), for the Operator to complete and incur costs for certain capital projects in the terminal parking area and to finance each project upon completion. Each note payable is for five-years, bears interest at 6% or 9.8% and is due in monthly installments of principal and interest ranging from $1,724 to $11,861. The notes mature from May 2023 to December 2024. The balance outstanding as of June 30, 2020 and 2019 was $1,200,826 and 811,822, respectively.

The required debt service payments for the note payable for the fiscal years ending June 30 are as follows:

For the year ending June 30,	Principal	Interest	Total
2021	$ 300,592	$ 85,006	$ 385,598
2022	326,845	58,753	385,598
2023	352,600	30,091	382,691
2024	150,911	8,913	159,824
2025	69,878	1,229	71,107
Total	$ 1,200,826	$ 183,992	$ 1,384,818

Terminal Improvement Financing

On June 19, 2018, the Authority entered into an agreement with a third-party to operate common use lounges in the airport terminals as well as certain online reservation car parking services (Pre-book). The agreement required MAG to construct and finance a lounge in Terminal 2 and 4. The total cost of the lounges was $3,611,798 and was to be repaid from concession fees earned under the agreement. The agreement required that 100% of concession fees earned under the agreement, less certain expenses, would be applied to the outstanding debt until paid in full. The balance outstanding at June 30, 2020 and 2019 totaled $1,654,012 and $3,611,798, respectively.

NOTE 7 – Long-term debt – continued

Note Payable – Airport Rescue and Firefighting (ARFF) Vehicles

The Authority executed a note payable with a financial institution for the acquisition of ARFF vehicles with a total cost of $4,234,887. The terms of the note are: 10 years, bearing annual interest of 1.799%, with annual principal and interest installments of $471,430, maturing October 2029. The note is secured by the vehicles. The outstanding balance at June 30, 2020 was $4,234,887.

The required debt service payments for the note payable for the fiscal years ending June 30 are as follows:

For the year ending June 30,	Principal	Interest	Total
2021	$ 410,891	$ 59,679	$ 470,570
2022	402,653	68,778	471,431
2023	409,897	61,534	471,431
2024	417,271	54,160	471,431
2025	424,777	46,654	471,431
2026	432,419	39,012	471,431
2027	440,198	31,233	471,431
2028	448,117	23,314	471,431
2029	456,179	15,252	471,431
2030	392,485	7,045	399,530
Total	$ 4,234,887	$ 406,661	$ 4,641,548

Capital Lease Obligations (Direct Borrowing)

The Authority leases various vehicles under capital lease obligations from two lenders. Lease payments are due monthly and range from approximately $2,100 to $6,700 and mature from July 2023 to September 2024. The outstanding balance at June 30, 2020 and 2019 was $598,498 and $426,096, respectively.

The required debt service payments for the capital lease obligations for the fiscal year ending June 30, are as follows:

For the year ending June 30,	Principal	Interest	Total
2021	$ 211,636	$ 38,377	$ 250,013
2022	217,310	22,600	239,910
2023	102,861	16,030	118,891
2024	62,108	3,296	65,404
2025	4,583	56	4,639
Total	$ 598,498	$ 80,359	$ 678,857

NOTE 7 – Long-term debt – continued

Long-term debt at June 30, 2020 and 2019 follows:

	For the year ending June 30, 2020				
	Sum of Beginning Balance	**Additions**	**Reductions**	**Sum of Ending Balance**	**Current Portion**
Bonds payable	$ 38,405,000	$ -	$ 5,010,000	$ 33,395,000	$ 5,145,000
Direct borrowings					
Notes payable - LAWA	34,715,284	-	6,668,742	28,046,542	-
Subordinated revenue notes	34,370,500			34,370,500	-
Other notes and capital lease obligations	7,044,576	5,348,076	3,054,587	9,338,065	1,509,818
Total	$ 114,535,360	$ 5,348,076	$ 14,733,329	$ 105,150,107	$ 6,654,818

	For the year ending June 30, 2019				
	Sum of Beginning Balance	**Additions**	**Reductions**	**Sum of Ending Balance**	**Current Portion**
Bonds payable	$ 43,315,000	$ -	$ 4,910,000	$ 38,405,000	$ 5,010,000
Direct borrowings					
Notes payable - LAWA	42,724,169	-	8,008,885	34,715,284	-
Subordinated revenue notes	-	34,370,500		34,370,500	-
Other notes and capital lease obligations	1,912,296	5,410,129	277,849	7,044,576	972,656
Total	$ 87,951,465	$ 39,780,629	$ 13,196,734	$ 114,535,360	$ 5,982,656

Note 8 - Related Party Transactions

The Authority has entered into agreements with the City of Ontario (City) for the City to provide public safety, information technology, human resources and other administrative services to the Authority. In addition, the Authority purchases water and waste utilities from the City. The authorities parking operations are subject to a City parking tax. These taxes are included in the daily parking rates and taxes paid are netted against parking revenues.

Amounts due to the City are included in accounts payable in the accompanying financial statements. The following summarizes the Authority's related party transactions for the years ending June 30, 2020 and 2019:

	2020	2019
Public safety	$ 22,377,074	$ 22,423,975
Utilities	947,368	1,318,834
Administrative services	1,586,854	846,297
Parking taxes	2,171,222	2,551,615
Total	$ 27,082,518	$ 27,140,721

The Authority is also charged for services from 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 services are for emergency communications systems totaling $68,774 and $157,576 for the year ended June 30, 2020 and 2019 respectively.

NOTE 9 – Operating leases with lessees

The Authority is the lessor of various land, facilities and equipment within the Airport System. Lease contracts are generally written with noncancelable terms of up to 30 years. Costs and related accumulated depreciation of property under leases are not practically determinable as the majority of the leases relate only to portions of buildings.

A summary of minimum noncancelable rentals under operating leases at June 30, 2020 follows:

For the fiscal year ending June 30,	2021	$	21,186,607
	2022		20,422,814
	2023		20,168,215
	2024		20,168,215
	2025		14,360,102
	Thereafter		2,617,455
		$	98,923,408

Several lease agreements have provisions for contingent rentals based on a percentage of the tenant's gross sales at ONT. Gross sales percentage amounts and minimum annual guarantees vary by type of tenant, as well as tenant products and services provided. The tenant is required to pay the greater of the amount calculated as a percentage of sales or the minimum annual guarantee based on the established annual contract period

NOTE 10 - Retirement Plans

The Authority established and maintains three defined contribution retirement plans for the benefit of employees. The Authority does not participate in the United States Social Security system. The plans are administered by an unrelated third party. Significant plan requirements are as follows:

401A Plan- Defined Contribution Plan for Governmental Employees

The Authority established the "Ontario International Airport Authority 401(a) Defined Contribution Plan", administered by an unrelated third-party. All full and part time employees participate in the Authority's 401A Plan. The Authority contributes 10% of the employee's eligible wages. Employee's may not contribute to the plan. All employer contributions are fully vested at the date of contribution. 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, 2020 and 2019 amounted to approximately $570,060 and $441,439 respectively.

NOTE 10 - Retirement Plans - continued

457B Plan- Employee Deferred Compensation Plan
The "Ontario International Airport Authority 457(b) Deferred Compensation 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
The "Ontario International Airport Authority 457(f) Deferred Compensation Plan" is a non-qualified deferred compensation arrangement which provides supplemental retirement benefits to a select management group. The plan has no active participants and no plan assets at June 30, 2020 and 2019.

NOTE 11 – Concentration of operating revenues

A significant portion of the Authority's earnings and revenues are directly or indirectly attributable to the activity of a number of major airlines, tenants and concessionaires. The Authority's earnings and revenues could be materially and adversely affected should any of these major customers discontinue operations and should the Authority be unable to replace those airlines with similar activity.

		2020		2019	
Customer	**Customer Type**	**Revenues**	**% of Operating Revenues**	**Revenues**	**% of Operating Revenues**
Customer A	Passenger carrier	10,495,956	12.9%	16,846,458	23.1%
Customer B	Cargo carrier	6,324,224	7.8%	8,232,149	11.3%
Customer C	Passenger carrier	4,244,758	5.2%	6,574,945	9.0%
Customer D	Rental car company	3,358,551	4.1%	5,463,462	7.5%
Customer E	Cargo carrier	3,020,717	3.7%	2,938,001	4.0%
Customer F	Rental car company	2,801,144	3.4%	3,869,745	5.3%
Customer G	Passenger carrier	2,280,720	2.8%	3,516,268	4.8%
Customer H	Passenger carrier	2,237,878	2.7%	3,151,940	4.3%
Customer I	Rental car company	1,548,761	1.9%	2,282,250	3.1%
Customer J	Passenger carrier	1,545,451	1.9%	2,110,231	2.9%
	Total operating revenues		$ 81,418,287		$ 72,780,724

NOTE 12 – Passenger Facility Charges

The passenger facility charge program for ONT was established under previous ownership by the City of Los Angeles, Los Angeles World Airports (LAWA). In accordance with the Settlement Agreement for the Authority's acquisition of ONT from LAWA a PFC application was submitted to the FAA to authorize use of PFC collections at ONT for a single project at the Los Angeles International Airport (LAX). On July 18, 2016, the FAA issued a Final Agency Decision approving this application (16-05-C-00-ONT), which approved the imposition of a $4.50 PFC at ONT for use on the LAX project. On September 16, 2016, the FAA approved amendment number 1 (16-05-C-01-ONT) to increase the approved amount for the project from $47,338,500 to $117,338,550. The Authority is required to remit ONT PFC collections directly to LAWA until it pays in full amounts due under its loan agreement with LAWA (see Note 7).

On April 17, 2020 the Authority submitted an amendment to the FAA to repay its current obligation to LAWA, in a lump sum payment through the issuance of new bonds. The application amendment (16-05-C-02-ONT) was approved by the FAA on May 15, 2020. This amendment represents the following changes:

	Previously Approved	Revised	Net Increase (Decrease)
LAX - project			
Pay-as-you-go	$ 117,338,500	$ 86,885,234	$ (30,453,266)
PFC bond capital	-	30,453,266	30,453,266
PFC bond financing and interest	-	41,973,708	41,973,708
Total	$ 117,338,500	$ 159,312,208	$ 41,973,708

On May 1, 2020 the Authority submitted a new application to impose and use $104,024,601 ($52,397,490 for bond capital and $51,657,111 for bond financing and interest) for 15 projects at the Authority to be financed through a new bond issue. On May 29, 2020 the FAA notified the Authority that the application (20-06-C-00-ONT) was determined to be substantially incomplete. On June 2, 2020 the Authority notified the FAA that it intended to provide a supplement to the application. This notification placed a hold on the FAA's requirement to approve or disapprove the application within120 days of its final submission. The application supplement has not been submitted to the FAA.

Passenger facility charge revenues for the years ending June 30, 2020 and 2019 totaled $8,448,989 and 10,814,570, respectively.

NOTE 13 – Customer Facility Charges

Customer facility charges on rental car contracts are used to pay debt service on the portion of Series 2016 Revenue Bonds attributable to Consolidated Rental Car Facility (CONRAC) capital costs and operating costs for shuttle services to transport passengers to and from the terminal and the CONRAC. The following summarizes allowable expenditures for the Customer Facility Charge program for the years ending June 30, 2020 and 2019.

	6/30/2020	6/30/2019
Debt service - Revenue Bonds Series 2016	$ 586,306	$ 585,032
Shuttle services	1,723,284	1,941,547
Total	$ 2,309,590	$ 2,526,579

NOTE 14 – Risk management

The Authority is exposed to various risks or losses related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Authority's risk management activities include purchase of commercial insurance with standard deductibles for all significant insurable risks. There have been no significant changes in insurance coverage in the last year. The amounts of settlements have not exceeded insurance coverage for the past three years. The financial statements do not include any liability for uninsured claims at June 30, 2020 and 2019.

Losses arising from claims and judgments are expensed when 1) it is probable that an asset has been impaired, or a liability has been incurred at the date of the financial statements; and 2) the amount of the loss can be reasonably estimated.

NOTE 15 – Commitments and Contingencies

Coronavirus (COVID-19)

On March 13, 2020, a national emergency was declared by the President of the United States in response to the novel coronavirus known as SARS-CoV-2 (COVID-19), which the World Health Organization announced on March 11, 2020 could be characterized as a pandemic. The Federal government, along with State and local governments took extraordinary actions to prevent and slow the spread of the virus, which required essential businesses to close and stay-at-home orders were issued for all but essential workers. This national declaration and corresponding actions by Federal, State, and local governments had an immediate and unprecedented impact on the commercial passenger aviation industry, including airports.

For the Ontario International Airport, passenger levels decreased by 74.1% from March 1 – June 30, 2020 compared to the same period for 2019. Prior to March 1, 2020 passenger activity increased by 12.4% compared to 2019. As of June 30, 2020, one domestic carrier and two international carriers suspended air service at ONT. A substantial portion of airport revenues related directly to passenger activity levels, including parking, rental cars, and concessions (e.g. news and gifts, food, and beverage).

NOTE 15 – Commitments and Contingencies – continued

Coronavirus (COVID-19) – continued

Subsequent to June 30, 2020 national, regional, and local economies as well as the commercial passenger carrier industry and the Authority experienced moderate recoveries. However, for the five months ending November 30, 2020 passenger activity had recovered to only 40.4% compared to passenger activity for the five months ending November 30, 2019. Passenger activity at ONT is expected to lag the general economic recovery. While the financial impact associated with the pandemic is partially mitigated by the residual airport agreement, long-term lease agreements and the growth of cargo activity at ONT, the Authority remains at substantial risk for the potential failure of one or more of its significant airport partner airlines, tenants or concessionaires. The possible financial impact to the Authority's asset values and future financial performance cannot be estimated. The Authority's Management Discussion and Analysis, Financial Statements and Notes to the Financial Statements should be read and considered in light of these extraordinary circumstances.

Construction Projects

Total commitments for contractual services for federally funded and other construction projects at June 30, 2020 totaled approximately $8,146,266. The remaining balance on these contracts at that date was $3,171,589. These commitments will be funded in whole or in part by federal grants of $ 2,059,522 and revenue bonds of $6,066,944.

Federal Grants

All federal grants are subject to audit by the granting agencies for compliance with applicable grant requirements. The Authority anticipates that the amount, if any, of disallowed grant expenditures in the event of granting agency audits would be immaterial.

Other Contingencies

The Authority is involved in other claims in the ordinary course of business. In the opinion of management, based on consultations with legal counsel, these matters are considered immaterial to the Authority or will be covered by insurance.

NOTE 16 – Restricted Net Position

Restricted net position includes restricted assets required to be set aside to repay principal and interest under debt covenants; and to comply with other legal or contractual requirements; less liabilities payable from these assets. For fiscal years June 30, 2020 and 2019 restricted net position is as follows:

	2020	2019
Restricted net position:		
Capital projects	$ 8,662,637	$ 23,715,588
Passenger facility charges	3,082,945	4,276,146
Customer facility charges	4,979,285	2,513,733
Total	$ 16,724,867	$ 30,505,467

The Authority's policy is to restrict net position to the extent that assets restricted for bond debt service exceed the applicable debt service liabilities, and these assets are funded from operations rather than bond proceeds. Because these restricted assets do not exceed debt service liabilities at June 30, 2020 and 2019, no reservation of net position is required.