
**TUCSON AIRPORT AUTHORITY | Audit Council Meeting
Tuesday, November 16, 2021 | 9:30 a.m. | Virtual Meeting**

THIS ADVISORY COUNCIL MEETING WAS HELD BY REMOTE PARTICIPATION ONLY, WITH COUNCIL MEMBERS ATTENDING VIA THE REMOTE PARTICIPATION PLATFORM WEBEX. MEMBERS OF THE PUBLIC WERE PROVIDED A WEBEX LINK AND PHONE NUMBER/CODE INCLUDED IN THE PUBLIC MEETING NOTICE IN ORDER TO ATTEND.

1. CALL TO ORDER | ROLL CALL

Chair Urreiztieta called the meeting to order at 9:35 a.m.

Council Members Present: Chair Izaro Urreiztieta, Vice Chair David Smallhouse, Council Member Lisa Israel, Council Member Taunya Villicaña, Council Member Dave Lyons, Council Member Tim Overton, Council Member Ellen Wheeler, and Council Member Guillermo Figueroa

Council Members Absent: Council Member Bill Assenmacher, Council Member Steve Pagnucco, Council Member John Fendenheim, and Council Member Larry Cesare

Others Present: Eric Maneval, Engagement Shareholder, BeachFleischman; and TAA Chair Bruce Dusenberry

Staff Present: President/Chief Executive Officer Danette Bewley, Deputy General Counsel Kim Ryan, Financial Controller Clark Wager, IT Systems Administrator Matt Chandler, and TAA Clerk Byron Jones

2. APPROVAL OF MINUTES

MOTION BY Council Member Villicaña, SECONDED BY Council Member Israel, to APPROVE the minutes of the Audit Council meeting held on October 8, 2019. The motion carried by the following vote:

Ayes 7 Chair Urreiztieta, Council Member Israel, Council Member Villicaña, Council Member Lyons, Council Member Overton, Council Member Wheeler, and Council Member Figueroa

Nays 0

3. DISCUSSION | PRESENTATION

a. FY 2022 AUDIT PLANNING REVIEW:

Eric Maneval representing auditing firm BeachFleischman, presented.

Establish Engagement Objectives

1. Meet to understand expectations and business strategies – **Ongoing**
2. Work with management personnel regarding operating, accounting, and reporting matters – **Completed November 15, 2021**
3. Conduct other audit planning events with management – **Completed November 15, 2021**
 - Staff was in the field performing walkthrough reviews of the TAA's processes and controls. They will have internal discussions this week to develop the audit plan.
4. Audit Council review of planning/scope – **November 16, 2021 (today's meeting)**

Understanding the Business and Establish Audit Strategy

5. Obtain an understanding of internal control, including fraud controls – **Due October 19, 2021**

Perform Audit Procedures

6. Perform year-end Procedures – **Due December 31, 2021**
 - Staff will be onsite in early-to-mid December to complete as much of the year-end procedures as possible by Christmas. They will return after New Year's to wrap up any outstanding issues, including obtaining data regarding the TAA's pension plans.

Deliverables

7. Complete year-end fieldwork and issue draft financial statements to management – **Early Spring 2022**
 - Contingent upon receiving actuarial data from the Public Safety Personnel Retirement System (PSPRS) and the state auditors. Once management receives the data, BeachFleischman will work to prepare the final financial statement.
8. Submit financial statement to Audit Council – **March-April 2022**

Vice Chair Smallhouse joined the meeting at 9:50 a.m.

COUNCIL DISCUSSION

- **What impact does the “GASB 87” ([Statement No. 87 of the Governmental Accounting Standards Board](#)¹) implementation have on this year’s audit?**
Maneval explained that GASB 87 is an update to the accounting standards for leases. BeachFleischman is implementing the new standard. There will be additional assets and debts which appear on the balance sheet, but he does not anticipate significant changes in the reporting of revenues and expenses.

Vice President/Chief Financial Officer Kirk Eickhoff added that GASB 87 will require the TAA to significantly change its accounting practices. He explained that the TAA has over 150 tenants. Some of these tenants have multiple provisions in their leases, and staff must evaluate each provision separately. There will not be a change in revenues and expenses; however, under GASB 87, revenues collected from land and space rents will be reclassified as interest because they are considered sales/financing transactions.

Mr. Maneval left the meeting at 10:04 a.m.

b. INTERNAL AUDIT ACTIVITIES REPORT:

Vice President/CFO Kirk Eickhoff presented.

- The TAA has not had an internal audit function since the prior audit manager left in summer 2019. The position was not filled because of cost-saving measures implemented during the COVID-19 pandemic. The value of the position was diminished due to the significant decrease in revenues during the pandemic.
- The internal auditor performs two essential functions:
 1. Audits the revenue statements provided by the TAA’s tenants. This is important as the TAA relies on the tenants to self-report their revenues; and
 2. Ensures the TAA complies with its own policies and internal controls.
- The funding for this position has been restored in FY 2022, and staff anticipates hiring someone in or around April 2022. There will be future discussions internally and involving the Audit Council regarding the scope of this position as it relates to the extent it performs internal audits and its line of communication with the Audit Council.

¹ GASB 87 Full Text: <https://gasb.org/page/ShowDocument?path=GASBS87.pdf>

COUNCIL DISCUSSION

- **In the past, some tenants were allowed to accrue thousands of dollars in back rent. Having an internal auditor would help to curb this problem.** President/CEO Danette Bewley stated that uncollected rents have been an issue in the past, which was one of the primary reasons for creating the new Business and Commercial Development Department. They are evaluating all the current leases and developing processes to ensure rents are collected in a timely manner and that all tenants are treated alike and fairly. Additional processes are under consideration if it becomes necessary to evict a tenant. Staff intends to be as transparent as possible considering the sensitive nature and long-term relationships involved.

4. INFORMATION ITEMS

a. FY 2022 YTD FINANCIALS | FINANCIAL SUMMARY/AVIATION ACTIVITY REPORT:

Vice President/CFO Kirk Eickhoff presented an overview of operating statistics and unaudited revenues for FY 2021. A full report was included in the agenda packet.

FY 2021 Landed Weight

Began the year slightly over budget. A recovery from the COVID-19 economic slowdown started to be felt in March 2021. The TAA ended FY 2021 23% greater than budget but was still 27% lower than FY 2019.

FY 2021 Total Passengers

Passenger traffic was lower than budget at the beginning of the fiscal year but began to trend upwards towards the beginning of 2021. TUS ended the year 17% greater than budget, but still 40% lower than FY 2019.

FY 2021 Operating Revenues vs Operating Expenses

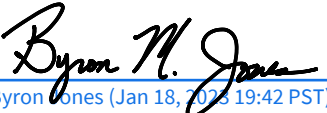
- Operating revenues were \$5.1M favorable to budget. This was due to the increase in passenger traffic driving up revenues from concessions, rental cars, landing fees, etc.
- Operating expenses were \$2.4M favorable to budget due to staff's efforts to control costs. Some vacant positions were frozen. Also, the TAA made the decision to fully fund its public safety pension liabilities.

- Staff forecasts that the TAA will use approximately \$5.5M in federal rescue funds to balance the airport system residual calculation compared to a budget of \$10.2M.
- The TAA is on pace to exhaust all rescue funds by FY 2025.
- It is anticipated that the TAA will receive an additional \$32M from the “Bipartisan Infrastructure Framework” recently passed by the United States Congress. These funds will be paid in equal installments over five years.

5. ADJOURN

There being no further business to discuss, Chair Urreiztieta adjourned the meeting at 10:34 a.m.

PREPARED BY:


Byron Jones (Jan 18, 2023 19:42 PST)

Byron M. Jones, CMC, TAA Clerk

Date: January 18, 2023