
**TUCSON AIRPORT AUTHORITY | Audit Council Meeting
Monday, November 7, 2022 | 1:00 p.m. | Virtual Meeting**

Pursuant to A.R.S. § 38-431.02, notice is hereby given to the members of the Tucson Airport Authority (TAA) and to the public that the **Audit Council** will hold a meeting open to the public on **Monday, November 7, 2022, beginning at 1:00 p.m.** The meeting will be held by video and telephonically via the remote participation platform Microsoft Teams. The registration form may be accessed via the URL below. Upon submitting the registration form, attendees will receive an email confirmation containing the information to join the meeting virtually or by phone.

MICROSOFT TEAMS REGISTRATION FORM

The agenda for the meeting is as follows:

1. CALL TO ORDER | ROLL CALL

- David Smallhouse, Chair
- Tony Finley, Vice Chair
- Taunya Villicaña
- David Lyons
- Isaac Figueroa
- Cristina Baena
- John Parker

2. APPROVAL OF MINUTES

Approve the minutes of the Audit Council meetings held on August 18, 2022, and August 31, 2022.

3. PRESIDENT/CEO REPORT

- a. State of the Industry | Update

4. DISCUSSION | PRESENTATION

- a. **FY 2023 AUDIT PLANNING REVIEW:** Representatives from the independent audit firm BeachFleischman will give a presentation on their strategy and methodology for the FY 2023 financial statement audit and related items. Members of the Audit Council may provide feedback to TAA staff and the auditors regarding the FY 2023 audit process.

5. ADJOURN

**TUCSON AIRPORT AUTHORITY | Audit Council Meeting
Thursday, August 18, 2022 | 10:00 a.m. | Virtual Meeting**

THIS ADVISORY COUNCIL MEETING WAS HELD VIRTUALLY, WITH COUNCIL MEMBERS ATTENDING VIA MICROSOFT TEAMS OR TELEPHONICALLY. MEMBERS OF THE PUBLIC WHO COMPLETED A REGISTRATION FORM RECEIVED A LINK TO VIEW THE MEETING VIA MICROSOFT TEAMS OR TO LISTEN TELEPHONICALLY.

1. CALL TO ORDER | ROLL CALL

Chair Smallhouse called the meeting to order at 10:00 a.m.

Council Members Present: Chair David Smallhouse, Vice Chair Tony Finley, Council Member Taunya Villicaña, Council Member David Lyons, Council Member Isaac Figueroa, Council Member Cristina Baena, and Council Member John Parker

Others Present: Bruce Dusenberry, TAA Board Chair; Laura Randol, representing auditing firm HBL CPAs, PC; and Eric Maneval, representing auditing firm BeachFleischman, PLLC

Staff Present: President/Chief Executive Officer Danette Bewley, Vice President/General Counsel Christopher Schmaltz, Vice President/Chief Financial Officer Kirk Eickhoff, Deputy General Counsel Kim Ryan, Financial Controller Clark Wager, IT Customer Support Technician Randy Janek, and TAA Clerk Byron Jones

2. APPROVAL OF MINUTES

MOTION BY Vice Chair Finley, SECONDED BY Council Member Villicaña, to APPROVE the minutes of the Audit Council meeting held on November 16, 2021. The motion carried by the following vote:

Ayes 6 Chair Smallhouse, Vice Chair Finley, Council Member Villicaña, Council Member Lyons, Council Member Baena, and Council Member Parker

Nays 0

3. PRESIDENT/CEO REPORT

a. State of the Industry | Update

President/CEO Danette Bewley reported that the COVID-19 pandemic has devastated the airline industry, and a full recovery is not projected until 2024. The major challenges include pilot shortages and a backlog of check pilots. Sixty

airports have lost at least one of the major airlines since the pandemic began. TUS has retained all carriers except Allegiant and Avelo, but these ultra-low-cost carriers are likely to return in the future. Another challenge affecting the industry is the price of fuel, which is up over 73%. Fuel accounts for 40% of an airline's operating costs. TUS is in discussions with the airlines regarding the future, which includes adopting a new Airline Use Agreement (AUA) and terminal improvements to prepare for the projected increases in passengers in the next five-to-ten years.

Council Member Figueroa joined the meeting at 10:05 a.m.

4. FY 2020 EXTERNAL AUDIT UPDATE (RE-STATEMENT)

- a. Representatives from the independent audit firm HBL CPAs will update the Council on the progress of the FY 2020 financial statement re-statement and related items.

Laura Randol, representing the auditing firm HBL CPAs, PC, presented.

Completion of the FY 2020 audit was delayed due to uncertainties regarding the reporting of funds that were received through the CARES Act. Additional guidance was issued after the reports were finalized. This required the auditors to reclassify some items that were in net capital assets but were initially classified as construction in progress for both FY 2019 and FY 2020. The reissued auditor's report still concludes that the financial statements are fairly stated in all material aspects.

FY 2019 Financial Statements:

There was a reclassification from assets not depreciated (construction in process) to depreciated, with a net change of \$400K. This resulted in a change of the net position from \$288.7M to \$288.3M. Depreciation expenses increased \$0.053m because of these changes.

FY 2020 Financial Statements:

The reclassification from assets not depreciated to depreciated rolled over from the prior year resulting in a net change of \$1.4M. The net position changed from \$303M to \$301.6M. The depreciation expense increased \$1.059M because of these changes.

The restatement to grants receivable (current assets) from \$9.3M to \$18.3M resulted in a net increase of \$9M in assets. These federal funds were tied to payroll expenses.

Summary of Changes:

- The net position (as stated) for FY 2019 and FY 2020 increased \$27.9M.
 - Net revenues (as stated) for FY 2019 and FY 2020 increased \$5.6M.
 - Total expenses (as restated) for FY 2019 and FY 2020 increased \$0.2M.
- b. The Audit Council will consider and may recommend to the Board of Directors that it accept the re-statement of the FY 2020 financial statements and the audit opinion expressed by HBL CPAs.

MOTION BY Vice Chair Finley, SECONDED BY Council Member Villicaña, to RECOMMEND to the Board of Directors that it accept the re-statement of the FY 2020 financial statements and the audit opinion expressed by HBL CPAs. The motion carried by the following vote:

Ayes 6 Chair Smallhouse, Vice Chair Finley, Council Member Villicaña, Council Member Figueroa, Council Member Baena, and Council Member Parker

Nays 0

Due to technical issues, Council Member Lyons was unable to participate in the vote.

Ms. Randol left the meeting at 10:27 a.m.

5. FY 2021 EXTERNAL AUDIT UPDATE

- a. Representatives from the independent audit firm BeachFleischman will update the Council on the progress of the FY 2021 financial statement audit, single audit, and related items.

Eric Maneval, representing auditing firm BeachFleischman, PLLC, presented preliminary results of the FY 2021 financial statement audit. They plan to finalize the audit within the next two weeks.

- Issuing an unmodified opinion on the financial statements.
- Single Audit:
 - Unmodified opinion on major programs.
 - Compliance over federal programs.
 - No findings.
 - Internal control over financial reporting.
 - One material weakness – Restatement.

- No significant deficiency in internal controls was reported.
 - Unmodified opinion on the Passenger Facility Charge Program Report.
 - There was a decrease in current assets (cash and investments) resulting from fully funding the Public Safety Personnel Retirement System pension liabilities in April 2021.
 - There was a decrease in operating revenues driven by the COVID-19 pandemic and rate concessions the airport made to its tenants and having to record the additional \$9M in grant revenues in FY 2020.
- b. The Audit Council will review and discuss the specific language presented in the single audit finding of a material weakness over internal controls as well as management's written response to that finding.

COUNCIL DISCUSSION:

- Requested clarification on how subsequent guidance requires a finding of material weakness in internal controls for a prior audit.
 - Mr. Maneval explained that the auditors worked closely with Association of International Certified Professional Accountants (AICPA) Government Audit Quality Center. Its position is that the guidance in place when the TAA issued its financial statements did not change; it was subsequent interpretations and clarifications of that guidance.
 - Recommended that language be added in the auditor's statement acknowledging why the material weakness is required but stating that auditor and the TAA made a good-faith effort to comply with the guidelines that were available at the time.
 - The auditor's statement and the TAA's response statement need to provide a clear record of facts and make it clear that the TAA does not accept the AICPA's rationale in reinterpreting the guidelines after the fact.
- c. The Audit Council will consider and may recommend to the Board of Directors that it accept the FY 2021 financial statements and the audit opinion expressed by BeachFleischman, PLLC.

The Council's consensus was to table a vote on this matter until it can review the final text of the auditor's statement and the TAA's response statement. TAA Clerk Byron Jones was directed to schedule another meeting of the Council prior to the September 7, 2022, Board of Directors meeting.

Mr. Maneval left the meeting at 11:00 a.m.

6. ADMINISTRATIVE UPDATES

There were no administrative updates.

7. ADJOURN

There being no further business to discuss, Chair Smallhouse adjourned the meeting at 11:01 a.m.

PREPARED BY:

Byron M. Jones, CMC, TAA Clerk

Date: _____

DRAFT

**TUCSON AIRPORT AUTHORITY | Audit Council Meeting
Wednesday, August 31, 2022 | 10:00 a.m. | Virtual Meeting**

THIS ADVISORY COUNCIL MEETING WAS HELD VIRTUALLY, WITH COUNCIL MEMBERS ATTENDING VIA MICROSOFT TEAMS OR TELEPHONICALLY. MEMBERS OF THE PUBLIC WHO COMPLETED A REGISTRATION FORM RECEIVED A LINK TO VIEW THE MEETING VIA MICROSOFT TEAMS OR TO LISTEN TELEPHONICALLY.

1. CALL TO ORDER | ROLL CALL

Chair Smallhouse called the meeting to order at 10:00 a.m.

Council Members Present: Chair David Smallhouse, Vice Chair Tony Finley, Council Member Taunya Villicaña, Council Member Cristina Baena, and Council Member John Parker

Council Members Absent: Council Member David Lyons and Council Member Isaac Figueroa

Others Present: Eric Maneval, representing auditing firm BeachFleischman, PLLC

Staff Present: President/Chief Executive Officer Danette Bewley, Vice President/Chief Financial Officer Kirk Eickhoff, Deputy General Counsel Kim Ryan, Financial Controller Clark Wager, IT Customer Support Technician Randy Janek, and TAA Clerk Byron Jones

NOTE: Due to technical issues, Vice Chair Finley attended the meeting by phone. He was able to hear the discussion, but he was not able to be heard. His comments, including his motion to recommend that the Board of Directors accept the FY 2021 financial statements and the audit opinion expressed by BeachFleischman, PLLC, were made via text message with TAA Clerk Byron Jones. A copy of the exchange is included [as an attachment](#).

2. FY 2021 EXTERNAL AUDIT UPDATE

- a. Representatives from the independent audit firm BeachFleischman will update the Council on the progress of the FY 2021 financial statement audit, single audit, and related items.
- b. The Audit Council will review and discuss the specific language presented in the single audit finding of a material weakness over internal controls as well as management's written response to that finding.

- c. The Audit Council will consider and may recommend to the Board of Directors that it accept the FY 2021 financial statements and the audit opinion expressed by BeachFleischman, PLLC.

Eric Maneval, representing auditing firm BeachFleischman, PLLC, presented the revised auditor’s statement acknowledging a finding of material weakness in internal controls and the auditee’s response statement that the Council requested during the meeting on August 18, 2022.

Vice President/Chief Financial Officer Kirk Eickhoff pointed out that the finding of material weakness is only present in the Single Audit Report. It is not present in the standard financial statement package, so it will not show in the ACFR (Annual Comprehensive Financial Report) for this year. He stated that BeachFleischman’s language was benign and that it—along with TAA’s response—sheds the best possible light on the finding.

The discussion of the Council was support for the revised Single Audit Report.

TAA Clerk Byron Jones reported that Vice Chair Finley, who attended the meeting by phone, was able to hear the discussion, but was unable to participate in the discussion. Vice Chair Finley confirmed via text message that he was satisfied with the revisions and moved to recommend to the Board of Directors that it accept the FY 2021 financial statements and the audit opinion expressed by BeachFleischman, PLLC.

MOTION BY Vice Chair Finley, SECONDED BY Council Member Villicaña, to recommend to the Board of Directors that it accept the FY 2021 financial statements and the audit opinion expressed by BeachFleischman, PLLC. The motion carried by the following vote:

Ayes 5 Chair Smallhouse, Vice Chair Finley, Council Member Villicaña, Council Member Baena, and Council Member Parker

Nays 0

3. ADMINISTRATIVE UPDATES

- a. Next Meeting – November 2022

Vice President/Chief Financial Officer Kirk Eickhoff reported that he will work with TAA Clerk Byron Jones to schedule a meeting in November to review and to discuss the strategy for the FY 2022 financial statement audit and related items.

4. ADJOURN

There being no further business to discuss, Chair Smallhouse adjourned the meeting at 10:13 a.m.

PREPARED BY:

Byron M. Jones, CMC, TAA Clerk

Date: _____

DRAFT

ATTACHMENT

Text message exchange between Vice Chair Finley and TAA Clerk Jones during the Audit Council meeting held on August 31, 2022.

